

## **Response to feedback received**

# **Capital Adequacy Framework (Operational Risk)**

### **Introduction**

The Bank issued today the policy document on *Capital Adequacy Framework (Operational Risk)* for financial institutions. This policy document incorporates feedback received during the consultation period to refine the proposals from the exposure draft issued on 30 November 2022.

The Bank received feedback from 56 respondents during the consultation period. Respondents were broadly supportive of the proposed requirements in the exposure draft.

This document comprises the Bank's responses to key feedback received during the consultation period. Other comments and suggestions for clarification, where relevant, have been incorporated in the policy document.

**Bank Negara Malaysia**

**15 December 2023**

## A. Internal Loss Multiplier

### 1. Utilising historical operational risk loss data to compute the Internal Loss Multiplier (ILM)

#### Feedback received

Most respondents supported the proposal to disapply the ILM component by setting ILM to 1, as it promotes simplicity, consistency, and comparability between financial institutions. However, a number of respondents also highlighted that allowing the utilisation of historical operational risk loss data would incentivise financial institutions to improve their operational risk management and may better reflect their operational risk profiles.

#### The Bank's response

- 1.1 The Bank is cognisant of ongoing initiatives by individual financial institutions and the industry at large to improve operational risk management and operational risk loss data reporting, which in turn would support the implementation of the ILM.
- 1.2 The Bank is however of the view that the building blocks for high quality operational risk loss data reporting need to be further strengthened before the ILM is implemented. In this regard, the Bank will monitor the progress of these initiatives (including the implementation of the new Operational Risk Reporting system by financial institutions which was launched on 1 November 2023) alongside the implementation of other Basel III reforms (e.g. credit and market risk frameworks), and will review the applicability of ILM thereafter.