

AMA: Home-Host Principles

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AMA Should be Consistent with the Scope of Application

- Applies to internationally active banks as well as to the entire banking group.
- Home and host supervisors must be satisfied that capital reflects the operational risk profile.

BOD & Management Responsible for Appropriate Capital

- BOD and management of legal entity must ensure that capital is commensurate with the risks.
- Risk management is a responsibility of BOD and management of the legal entity.

Each Bank Must be Adequately Capitalized on a Stand-Alone Basis

- Capital is generally not freely transferable within a banking group.
- Banking groups are allowed to recognize benefits of group-wide diversification at the group level.

Supervisors Should Strive to Minimize the Cost of AMA Cross-Border Implementation

- Institutions can leverage group resources at the subsidiary level.
- Subsidiaries can rely on data, parameters and experts at the parent company – with consideration of specific circumstances of the legal entity.

Supervisors Should Strive to Minimize the Cost of AMA Cross-Border Implementation Continued...

- Group-wide diversification benefits cannot be applied to significant banking subsidiaries.
- Non-significant bank subsidiaries may be limited by host supervisor in applying diversification benefits.

Home/Host Observations

- Large subsidiary banks likely to already get significant benefits from diversification permitted within the subsidiary.
- Double leverage is permitted. Operational risk capital at the holding company may be less than the sum of the subsidiaries operational risk capital.

Home/Host Observations Continued...

- Principles reflect good governance – BOD must be fully satisfied that capital is commensurate with the risk of the legal entity.
- Some host supervisors may require basic or standardized approach while the parent is applying AMA.

How Best to Leverage Parameters of Parent AMA?

- Must understand how risks of parent differ from that of the legal entity.
- Parent parameter estimates can be used, when appropriate.
- Are controls and risks of subsidiary similar to that of the parent?

How Best to Leverage Data From Parent AMA?

- Subsidiaries can utilize data from parent, where appropriate.
- Similar to use of external data, given risks and controls, could losses experienced elsewhere in the organization occur at the subsidiary.

How Should Supervisors Coordinate?

- Home supervisor will lead the coordination effort.
- Banks should contact home country supervisors first, before raising issues with host country supervisors.

How Should Supervisors Coordinate?

Continued...

- Host supervisors will need to be comfortable with the bank capital in host country.
 - Coordination between home/host countries will be critical.
 - Allocations will need to be mutually acceptable.

Questions?

- FRB – Boston website – more information on op risk issues
- <http://www.bos.frb.org/bankinfo/oprisk>