

Brussels, 24 October 2005

Uniform letter to credit institutions and stockbroking companies

Dear Madam,
Dear Sir,

With its letter of 3 June 2005 (PPB/56), the Banking, Finance and Insurance Commission (BFIC) informed credit institutions and stockbroking companies of the repercussions of the provisions of European Directive 2000/12 (hereinafter referred to as ‘the CRD’) relating to the introduction of the new agreement on capital (hereinafter referred to as ‘Basel II’): more particularly, to the timing and the procedure to be followed for institutions¹ that wish to make use of internal measurement systems for the calculation of the own funds requirement for the credit and/or the operational risk.

The BFIC’s intention with the present letter is – as announced – to go at greater length into the content and composition of the dossiers institutions are required to submit that relate to the measurement of the operational risk. This includes not only the dossier for the application to use an advanced measurement approach, but also the BFIC’s expectations regarding the procedure to be followed by institutions looking to make use of the simplified measurement approaches.

The nature and content of the information institutions are required to submit to the BFIC vary according to the measurement approach selected, and takes the form of simple notification of the method selected, the submission of a summary information dossier or the submission of an application dossier, detailed or otherwise.

The table below indicates the procedure to be used for the measurement approach selected.

Measurement approach for the operational risk (‘OPR’)	The procedure to be followed
Basic indicator approach (‘BIA’)	Simple notification
Standardized approach (‘TSA’)	Submission of information dossier
Variant regime for the business line ‘Trading and Sales’ under the standardized approach	Submission of application dossier
Alternative standardized approach (‘ASA’)	Submission of application dossier
Combined use of approaches	Submission of application dossier
Advanced measurement approach (‘AMA’)	Submission of detailed application dossier

¹ For the purposes of this application dossier, by ‘institution’ is meant the top-consolidated enterprise, established in Belgium, that, pursuant to its Articles of Association, is subject to the CRD, including all subsidiaries concerned.

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The dossiers in respect of the TSA, the ASA and the variant regime for the business line ‘Trading and Sales’ under the TSA are dealt with in Annex 1.

The application dossier in respect of the AMA is dealt with in Annex 2.

The combined use of approaches is dealt with in both Annex 1 and 2.

The expectations regarding form and content of the dossiers to be submitted apply to all institutions that, in Belgium, are subject to the solvency regulations, save those institutions of Belgian law that are subsidiaries of institutions of the law of another Member State of the European Union (EU) and that wish to make use of the AMA for the calculation of the own funds requirement for the operational risk. For those institutions, the requirements for the dossier will be set out by the consolidating supervisory authority, with account taken of Article 129 of the CRD. The provisions in the present letter apply to the subsidiaries and branches established in Belgium of non-EU institutions, the foreign supervisory authority of the home country (the home supervisory authority) of which cannot be considered as equivalent.

Institutions that, pursuant to Article 105 of the CRD, wish to make use of the AMA for calculation of the own funds requirement for the operational risk are required to submit a formal application to the BFIC on the basis of a detailed dossier. However, no official application dossier may be submitted and consequently no official approval can be given on the part of the BFIC as long as the CRD has not been transposed into national regulation. To ensure a smooth application process, institutions may submit a semi-official dossier. Once transposition into national regulation is complete, institutions that have already submitted a semi-official dossier are required to officialize their application by submitting a new letter of formal application (with reference to the semi-official dossier). Where the BFIC has already adopted positions on the basis of the semi-official dossier and no new information that could effect those positions is forthcoming from either the BFIC or the institution, they will be confirmed in the official decision.

The dossier is required to be submitted to the BFIC at least one year prior to the date of implementation of the AMA for the own funds requirement for the operational risk, or, in the case of implementation of the TSA or the ASA, or notification of implementation of the BIA, at least six months prior to the date of implementation. In each case, the date of implementation is the one indicated by the institutions themselves in the dossier.

Where it is applicable, institutions are required to make a clear distinction in the dossier between present and future practice. Indeed, the time limits laid down above of respectively one year and six months also apply to the gradual extension of use to additional subsidiaries, branches and/or business lines where the relevant information for that extension has not been included in full in the dossier. Where, within the context of the AMA, there are significant changes to the model, or new models are introduced, the relevant sections of the application dossier are required to be resubmitted (at least the sections concerning information for the model and the impact study). Mergers and acquisitions, or relevant changes in the organizational or business environment may also require a completely or partially amended application dossier (or, in the case of the TSA, information dossier) to be submitted. As the case may be, the supervisory authorities concerned will include the new situation in the treatment of the dossier, pursuant to Article 129 of the CRD.

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The BFIC expects institutions themselves to include the requisite information in the dossier. Additionally, the dossier is required to contain a list of what internal documentation is available regarding implementation of Basel II. A reference in the dossier to the supplementary documentation mentioned on that list is permissible, but may serve only by way of supplementing the answer. In an initial phase, solely the documentation list is submitted, but the BFIC may at all times request the supplementary information. As the case may be, institutions are expected to make this information available without delay. The dossier and the documentation list are required to be submitted to the BFIC in both manuscript and electronic form. The documentation that institutions are required to add by way of annex to the dossier is to be submitted only in electronic form.

With a view to limiting as much as possible the costs to institutions of assembling the dossier, use may be made – where possible – of internal documentation already available. However, any information already submitted to the BFIC in the past is required to be included anew in the dossier, given that this last will be treated as an independent collection of documents.

In order to expedite the international treatment of the application dossier, institutions are required to ensure that the components of the dossier clearly indicate the name of the host supervisory authority of the host country (the host supervisory authority) involved. This will permit any information in the dossier that is relevant to such host supervisory authorities to be passed to them.

Where there are no foreign host supervisory authorities within the group, the dossier may be drawn up in the customary language of the country. Where there are foreign host supervisory authorities, however, the dossier is required to be drawn up in English, save for the formal letter introducing the information or application dossier, which is required to be drawn up in the customary national language.

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Annex 3 contains a diagrammatic representation of the ‘Time-line Implementation – Operational Risk’, indicating how the BFIC views the concrete timing of the periods preceding and following implementation of the new regulation, in respect of the various regimes and calculation methods for the operational risk.

For institutions wishing to make use of the BIA with effect from 1 January 2007, this implies notification of the selected choice to the BFIC by 30 June 2006 at the latest.

For institutions wishing to make use of the TSA with effect from 1 January 2007, this implies submission of the information dossier to the BFIC by 30 June 2006 at the latest.

For institutions wishing to make use of the variant regime for the business line ‘Trading and Sales’ under the TSA, of the ASA or of a combined use of the TSA with other approaches with effect from 1 January 2007, this implies submission of the application dossier to the BFIC by 30 June 2006 at the latest.

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For institutions wishing to make use of the AMA (combined or not with other approaches) with effect from 1 January 2008, this implies:

- submission of the application dossier to the BFIC by 31 December 2006 at the latest;
- meeting the qualitative and quantitative AMA requirements ('broadly compliant') by 31 December 2006 at the latest (by means of, among other things, integration of the system within day-to-day risk management);
- internal validation prior to submission of the dossier, therefore prior to 31 December 2006 (at least the methodology requires to be validated);
- resolution by the institution's Management Committee regarding commencement of use of the internal system, after internal validation and prior to submission of the dossier, therefore before 31 December 2006;
- a 'parallel run' period of at least one year (more particularly, during 2007 and even before);
- insofar as any completion of internal validation is necessary after the system has been running for a sufficient period, that completion is required to take place by 31 May 2007 at the latest;
- availability of a conclusions review of the internal validation by the internal audit by 31 May 2007 at the latest;
- submission by 31 May 2007 at the latest of any documents supplementing the dossier;
- with effect from 1 January 2008 (provided there is BFIC approval), commencement of use of the systems for calculation of the regulatory requirement for the operational risk.

Institutions that, in 2007, intend to remain wholly within Basel I for calculation of the regulatory requirement for the credit risk, and consequently will not be having recourse to a Basel II calculation method, are required to notify the BFIC of that intention by 30 June 2006 at the latest. During 2007, those institutions will enjoy a 100% reduction of the OPR requirement (Article 152, §§ 7 and 10 of the CRD) and are therefore, *de facto*, not subject to a specific OPR requirement. In those circumstances, those institutions will not be required during 2007 to submit any operational risk calculations according to one of the simplified approaches for determining the own funds requirement. Should they wish to make use of the TSA, the variant regime for the business line 'Trading and Sales' under the TSA, the ASA or a combined use of the TSA with other approaches with effect from 1 January 2008, institutions are required to submit their information or application dossier by 30 June 2007 at the latest.

A copy of the present letter is being sent to your company's auditor(s) and accredited auditor(s).

Yours faithfully,

Peter Praet,
Member of the Management Committee

Rudi Bonte,
Member of the Management Committee

[Annexes:](#) [Annex 1](#)
 [Annex 2](#)
 [Annex 3](#)