

## REPORTING GUIDE FOR OPERATIONAL RISK UNDER GUIDELINES ON RISK WEIGHTED ASSETS

### 1.0 General Instructions

- 1.1 This reporting guidance is applicable to Labuan banks licensed under Part VI of the Labuan Financial Services and Securities Act 2010 (LFSSA) adopting the basic indicator approaches for operational risk under the *Guidelines on Risk Weighted Assets*. When completing the reporting forms, reference should be made to the instructions contained in the reporting manual as well as the detailed methodologies and calculations described in the *Guidelines on Risk Weighted Assets*.
- 1.2 Labuan banks are required to complete the relevant forms in the softcopy format as provided by Labuan Financial Services Authority (Labuan FSA) on a quarterly basis for both entity and consolidated reporting. The reporting forms have to be submitted no later than 15 days after the quarter-end reporting date.
- 1.3 The cells are shaded to denote the requirement/function of the cell.
- i. All cells shaded in yellow must be filled. Where not relevant, a value of '0' shall be keyed-in.
  - ii. Cells shaded in green have been pre-programmed with formulae.
  - iii. Cells shaded in blue refer to other cell from different tab.
- 1.4 All amounts are to be reported and rounded up to the nearest US Dollar (USD).
- 1.5 Labuan FSA places significant emphasis on the quality of information submitted to Labuan FSA. In this regard, the Principal Officer of the Labuan bank is responsible and will be held accountable for the quality of the

information submitted in all reporting forms to Labuan FSA under this framework.

## 2.0 Components of the Reporting Forms for Operational Risk

2.1 The reporting forms as follows:

	<b>Title</b>	<b>Form</b>	<b>Tab</b>
1	Summary of Operational Risk Capital Charge and Risk-weighted Assets for 'Conventional Banking Operations' and 'Islamic Windows Operations'	<ul style="list-style-type: none"> <li>Form OR-01: (CC&amp;RWA) Operational Risk Capital Charge and Risk-weighted Assets Equivalent</li> </ul>	OR-01
2	Basic Indicator Approach for Operational Risk	<ul style="list-style-type: none"> <li>Form OR-02: (BIA) BIA Capital Charge Computation</li> <li>Form ORi-01: (BIA) BIA Operational Risk Capital Charge Computation</li> </ul>	<ul style="list-style-type: none"> <li>OR-02</li> <li>ORi-01</li> </ul>
3	Gross Income and Loans and Advances Computation	<ul style="list-style-type: none"> <li>Form OR-03: (GI and LA Computation) Gross Income and Loans and Advances Computation</li> <li>Form ORi-02: (GI and FA Computation) Gross Income and Financing, Advances and Other Loan Computation for Islamic Windows Operations</li> </ul>	<ul style="list-style-type: none"> <li>OR-03</li> <li>OR-04</li> <li>ORi-02</li> <li>ORi-03</li> </ul>
4	Operational Risk Management	<ul style="list-style-type: none"> <li>Form OR.7: (ORM) Operational Risk Management Environment and Risk Management Processes</li> </ul>	OR.7: (ORM) (RE Profile)

### **3.0 Operational Risk Capital Charge and Risk-Weighted Assets**

#### **FORM OR-01: (CC&RWA) OPERATIONAL RISK CAPITAL CHARGE AND RISK-WEIGHTED ASSET (RWA)**

- 3.1 This form provides a summary of the total capital and risk-weighted assets equivalent for operational risk. The form should be completed after having calculated the capital charge for 'conventional banking operations'.
- 3.2 The capital required for operational risk is derived from the respective forms.
- 3.3 The total operational risk capital required for the Labuan banks will be the sum of operational risk capital charge for conventional banking operations.
- 3.4 The RWA amount is computed by multiplying the minimum capital required with a multiplier of 12.5 (reciprocal of 8%).

#### **FORM OR-02: (BIA) BIA CAPITAL CHARGE COMPUTATION AND FORM ORi-01: (BIA) BIA OPERATIONAL RISK CAPITAL CHARGE COMPUTATION**

- 3.5 This form is only applicable to Labuan banks that adopt the basic indicator approach.
- 3.6 Under this approach, the OR capital charge is calculated as the average over the previous three years of a fixed percentage [denoted ( $\alpha$ )] of 15 percent of positive annual gross income.
- 3.7 Gross income figures are categorised into 12 quarters (equivalent to 3 years). Annual gross income is calculated by aggregating the gross income of the last four financial quarters. Similar manner of aggregation for the calculation of the annual gross income for the two years preceding the most recent year.

- 3.8 Gross income computation for each quarter i.e. Q1 to Q12 are derived from Form OR-03: (GI and LA Computation) for conventional banking operations and Q1 to Q12 are derived from ORi-02: (GI and FA Computation) for Islamic windows operations.
- 3.9 The positive annual gross income will then be multiplied with a fixed percentage [denoted ( $\alpha$ )] of 15 percent.
- 3.10 The aggregate total of operational risk capital charge of the positive annual gross incomes will then be divided by the number of years with positive annual gross income to arrive at the operational risk capital charge for BIA.

### FORM OR-03: (GI AND LA COMPUTATION) GROSS INCOME AND LOANS AND ADVANCES COMPUTATION

- 3.11 Gross income is calculated by adding the net interest income plus net non-interest income. A summary guide for the gross income computation is as follows:

	USD	USD
Interest Income	X	
Less: Interest Expense	X	
<b>Net Interest Income</b>		<b>A</b>
Fees and Commission Income	X	
Less: Fees and Commission Expenses	X	
Net Fees and Commission Income		X
Gains/losses arising from Sale of Trading Book Securities		X
Gains/losses arising from Dealing in Foreign Currency		X
Dividend Income from Investment in Securities		X
Unrealised gains/losses from Fair Value Changes of Trading Book Securities		X
Intra-Group Income		X
Other Income (Please Specify)		X
<b>Net Non-Interest Income</b>		<b>B</b>
<b>Gross Income</b>		<b>A+B</b>

3.12 Labuan banks are required to specify other income that are not stipulated in the data items provided and record zero for data items that the bank does not have any exposure.

**FORM ORI-02: (GI AND FA COMPUTATION) GROSS INCOME AND FINANCING, ADVANCES AND OTHER LOANS COMPUTATION**

3.13 Gross income is calculated from Labuan bank’s Islamic windows operations as the sum of its net income from financing activities, net income from investment activities and other income less the income attributable to depositors and investment account holders. A summary guide for the gross income computation is as follows:

	<b>USD</b>	<b>USD</b>
Net Income from Financing Activities		X
Net Income from Investment Activities		X
Other Income:		X
Net Fees and Commission Income	X	
Gains/losses arising from Sale of Trading Book Securities	X	
Gains/losses arising from Dealing in Foreign Currency	X	
Dividend Income from Investment in Securities	X	
Unrealised gains/losses from Fair Value Changes of Trading Book Securities	X	
Intra-Group Income	X	
Income from non-Shariah compliant sources	X	
Other Income (Please Specify)	X	
Less: Income Attributable to Depositors and Investment Account Holders		(X)
<b>Gross Income</b>		<b>XX</b>

3.14 Labuan banks are required to specify other income that are not stipulated in the data items provided and to record zero value for data items that the bank does not have any exposure.

## 4.0 Operational Risk Management

### FORM OR.7: (ORM) OPERATIONAL RISK MANAGEMENT ENVIRONMENT AND RISK MANAGEMENT PROCESSES

4.1 This form are divided into two parts as follows:

- Risk management environment; and
- Risk management processes

4.2 The form on risk management environment requires Labuan banks to describe its:

- Mission and strategic objectives;
- Role of the board of directors and senior management in the management of operational risk;
- Structure and organisation of the operational risk management function;
- Operational risk management framework including a firm-wide definition of operational risk and principles for the identification, assessment, monitoring and control/mitigation of risk; and
- Role and scope of internal audit and external auditors.

4.3 Whilst the form on risk management processes requires Labuan banks to describe its:

- Policies and procedures for identification and assessment of operational risk in existing and new products, activities, processes and systems;
- Process for monitoring operational risk profiles and material exposures to losses;
- The nature and scope of operational risk reporting;
- Strategies, processes and procedures for the control/mitigation of material operational risks; and
- Scope of business continuity plans and procedures for the review of business continuity plans.

4.4 Labuan banks are required to provide the above information annually or as and when there are material changes.