

Operational Risk

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Operational Risk: Gathering Loss Data

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December 3, 2008

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Loss Incident Data Capture: What?

- Economic loss as a result of failed or inadequate people, process, systems and external events
- Over a threshold determined by Management
 - Events over threshold must be recorded
 - Events below threshold may be recorded if lessons can be learnt or if the event could reoccur with a larger impact
- Enough detail to allow for OR management and measurement including, a description of the event, actions taken or to be taken in the futures to prevent or minimized recurrence of event, loss event categories, and amount of loss
- OR department should be consulted with prior to entering an event that is sensitive in nature
- Treatment of boundary events

Loss Data Standards: Example

- All direct losses or gains over \$10,000 that meet the definition of ‘a loss resulting from failed or inadequate people, processes, systems or external events’ must be collected.
- Events under the \$10,000 threshold should be collected where:
 - the loss could have been over the threshold but for fortuitous circumstances or there is a risk of recurrence at a loss over the threshold
 - the indirect costs result in a total loss over the threshold
 - e.g. legal expenses
 - there was a significant non-financial impact to the firm
- Legally sensitive events should be entered only by Legal, or with Legal’s approval.
- For every event the following must be provided:
 - Event Name
 - Event type: defines the nature of the event and is consistent with Level 1 of the Basel risk categories
 - Unit: business units where the event occurred or have an involvement in the event.
 - Event Description: a narrative which describes the event. Should be limited to the critical facts surrounding the event.
 - Cause: describes all factors that caused or contributed to the event. (i.e. External, Human, Process or System.)
 - Financial Effect: the economic loss if any of the event.
 - Non-Financial Effect: records the reputational and/or regulatory consequences of the event, if any.
 - Action items
 - Recovery: This is required to understand how the loss was recovered and for how long Nomura lost control of the funds where applicable or how the loss was mitigated
 - Strategic solution: This is required to understand how the loss will be prevented in future
 - Tactical: If the solution is not strategic then what is the short term workaround that seeks to close the gap
 - Where applicable, define both a strategic (long term) and tactical (short term) solution.

Loss Incident Data Capture: Why?

- To learn from OR events that occur in order to prevent them recurring.
- To identify areas of weakness that require control enhancement.
- To prioritize action plans to mitigate risk.
- To better understand the OR profile of the firm.
- The Basel II Revised Capital Accord allows companies to take advantage of the Advanced Measurement Approach (AMA) for calculating their capital and one of the required inputs to an AMA model is three years of internal loss data.

Loss Data Capture: Who?

- The entire organization must participate in the operational risk event reporting process.
- Operational Risk Department
 - Establishment of policy, standards, processes and procedures for the effective identification, assessment, monitoring/control and mitigation of operational risk.
 - Design, development, training and maintenance of loss data collection program.
 - Design, consolidation, preparation and validation of OR reporting to Management.
 - Facilitation and assistance for OR reporting by business areas and support functions.
 - Partner with, and provide support, education and facilitation to stakeholders as required.
- Key Stakeholders
 - Oversee the reporting of OR events as appropriate in the loss event database.
 - Facilitate OR reporting as required.
 - Facilitate the implementation of the Op Risk Framework within their respective areas
 - Monitor progress of identified mitigating actions.
- Management
 - Approves OR policy and procedures.
 - Reviews consolidated OR reporting and addresses OR items that have been escalated for resolution.
 - Sets threshold for loss data capture
- All Employees
 - To report op risk events

Loss Incident Data Capture: Where?

- Web based loss database
- Manual spreadsheet collection
- Online access

Loss Incident Data Capture: How?

- Web based application
- Access restricted to authorized users
- Open access to all, with limited read and write privileges
- As events occur or on a periodic basis?
- Workflow for sign off before submission