

## Chapter 5

# Operational risk



## 5.1 Application and purpose

### Application

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- 5.1.1 **R** ■ IFPRU 5 applies to a *full-scope IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*.

### Purpose

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- 5.1.2 **G** This chapter contains *guidance* to help a *firm* understand the *FCA's* expectations on the extent to which the Advanced Measurement Approach (AMA) should capture its *operational risks* where the *firm* has, or is about to, implement AMA.



## 5.2 Advanced Measurement Approach permission

- 5.2.1** **G** This is relevant where the AMA is applied across only part of a *firm's* operations and is used in conjunction with either the Basic Indicator Approach (BIA), or the Standardised Approach (TSA).
- 5.2.2** **G** A *firm* may use an AMA in combination with the BIA or TSA, provided it obtains permission from the *FCA*. In granting such permission, the *FCA* is required by article 314(3) of the *EU CRR* (Combined use of different approaches) to impose the following conditions when the AMA is used in combination with BIA or TSA:
- (1) on the date of first implementation of the AMA, a 'significant' part of the *institution's operational risk* are captured by that approach; and
  - (2) the *institution* to commit to apply the AMA across a 'material' part of its operations within a time schedule approved by the *FCA*.
- 5.2.3** **G** For the purposes of these conditions, the *FCA* considers that:
- (1) a "significant" part of *operational risk* shall be approximately 50% (or more); and
  - (2) a 'material' part of its operations shall be around 85% (or more).

