



**Federal Deposit Insurance Corporation**  
550 17th Street NW, Washington, D.C. 20429-9990

**Financial Institution Letter**  
**FIL-41-2011**  
**June 3, 2011**

## Advanced Measurement Approach: Supervisory Guidance

**Summary:** The FDIC, with the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision, is issuing guidance to clarify supervisory expectations and to highlight key considerations to implement an effective advanced measurement approach (AMA) framework. The guidance focuses on the combination and use of the four required AMA data elements: internal operational loss event data, external operational loss event data, business environment and internal control factors (BEICFs), and scenario analysis. Given some of the unique challenges with scenario analysis as it relates to the AMA, this data element is discussed in greater detail. Governance and validation also are discussed given their importance in ensuring the integrity of a bank's AMA framework.

**Statement of applicability to institutions with total assets less than \$1 billion:** Not applicable.

**Suggested Distribution:**

FDIC-Supervised Banks (Commercial and Savings)

**Suggested Routing:**

Chief Financial Officer  
Chief Information Officer  
Chief Risk Officer

**Related Topics:**

*Supervisory Insights* – “Operational Risk” (Summer 2006 – Volume 3, Issue 1 )

<http://www.fdic.gov/regulations/examinations/supervisor/insights/sisum06/sisum06.pdf>

**Attachment:**

Interagency Supervisory Guidance on the Advanced Measurement Approaches for Operational

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**Note:**

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**Highlights:**

- An effective AMA management framework requires effective governance, risk capture and assessment, and quantification of operational risk exposure. Verification and validation of the advanced systems, including the data elements and quantification models, are critical to the integrity of the AMA framework.
- Banks should institute operational risk data and assessment systems that capture the operational risks to which the firm is exposed. These systems must include credible, transparent, systematic, and verifiable processes that incorporate the four required AMA data elements.
  - (1) Internal operational loss event data – Banks should use at least five years of data, support collection thresholds, and include legal losses in the quantification process no later than the date the legal reserve is established.
  - (2) External operational loss event data – Banks should have sound practices for sourcing, selecting, scaling, and modeling of external data.
  - (3) Scenario analysis – To ensure integrity of the process, banks should have a process that is clearly defined, repeatable, and transparent.
  - (4) BEICFs – Banks should have sound practices to ensure a systematic assessment of risk across the organization.
- To ensure credible estimates of operational risk exposure, the risk quantification system must include a credible, transparent, systematic, and verifiable approach for weighting each of the four data elements.