

Appendix CA-9

Mapping of Business Lines

Level 1	Level 2	Activity Groups
Corporate Finance	Corporate Finance	Mergers and acquisitions, underwriting, privatisations, securitisation, research, debt (government, high yield), equity, syndications, IPO, secondary private placements
	Municipal/Government Finance	
	Merchant Banking	
	Advisory Services	
Trading & Sales	Sales	Fixed income, equity, foreign exchanges, commodities, credit, funding, own position securities, lending and repos, brokerage, debt, prime brokerage
	Market Making	
	Proprietary Positions	
	Treasury	
Retail Banking	Retail Banking	Retail lending and deposits, banking services, trust and estates
	Private Banking	Private lending and deposits, banking services, trust and estates, investment advice
	Card Services	Merchant/commercial/corporate cards, private labels and retail
Commercial Banking	Commercial Banking	Project finance, real estate, export finance, trade finance, factoring, leasing, lending, guarantees, bills of exchange
Payment and Settlement ¹	External Clients	Payments and collections, funds transfer, clearing and settlement
Agency Services	Custody	Escrow, depository receipts, securities lending (customers) corporate actions
	Corporate Agency	Issuer and paying agents
	Corporate Trust	
Asset Management	Discretionary Fund Management	Pooled, segregated, retail, institutional, closed, open, private equity
	Non-Discretionary Fund Management	Pooled, segregated, retail, institutional, closed, open
Retail Brokerage	Retail Brokerage	Execution and full service

¹ Payment and settlement losses related to a bank's own activities would be incorporated in the loss experience of the affected business line.

Principles for business line mapping²

- (a) All activities must be mapped into the eight level 1 business lines in a mutually exclusive and jointly exhaustive manner.
- (b) Any banking or non-banking activity which cannot be readily mapped into the business line framework, but which represents an ancillary function to an activity included in the framework, must be allocated to the business line it supports. If more than one business line is supported through the ancillary activity, an objective mapping criteria must be used.
- (c) When mapping gross income, if an activity cannot be mapped into a particular business line then the business line yielding the highest charge must be used. The same business line equally applies to any associated ancillary activity.
- (d) Banks may use internal pricing methods to allocate gross income between business lines provided that total gross income for the bank (as would be recorded under the Basic Indicator Approach) still equals the sum of gross income for the eight business lines.
- (e) The mapping of activities into business lines for operational risk capital purposes must be consistent with the definitions of business lines used for regulatory capital calculations in other risk categories, i.e. credit and market risk. Any deviations from this principle must be clearly motivated and documented.
- (f) The mapping process used must be clearly documented. In particular, written business line definitions must be clear and detailed enough to allow third parties to replicate the business line mapping. Documentation must, among other things, clearly motivate any exceptions or overrides and be kept on record.
- (g) Processes must be in place to define the mapping of any new activities or products.
- (h) Senior management is responsible for the mapping policy (which is subject to the approval by the board of directors).
- (i) The mapping process to business lines must be subject to independent review.

² Supplementary business line mapping guidance

There are a variety of valid approaches that banks can use to map their activities to the eight business lines, provided the approach used meets the business line mapping principles. Nevertheless, the Committee is aware that some banks would welcome further guidance. The following is therefore an example of one possible approach that could be used by a bank to map its gross income:

Gross income for retail banking consists of net interest income on loans and advances to retail customers and SMEs treated as retail, plus fees related to traditional retail activities, net income from swaps and derivatives held to hedge the retail banking book, and income on purchased retail receivables. To calculate net interest income for retail banking, a bank takes the interest earned on its loans and advances to retail customers less the weighted average cost of funding of the loans (from whatever source — retail or other deposits).

Similarly, gross income for commercial banking consists of the net interest income on loans and advances to corporate (plus SMEs treated as corporate), interbank and sovereign customers and income on purchased corporate receivables, plus fees related to traditional commercial banking activities including commitments, guarantees, bills of exchange, net income (e.g. from coupons and dividends) on securities held in the banking book, and profits/losses on swaps and derivatives held to hedge the commercial banking book. Again, the calculation of net interest income is based on interest earned on loans and advances to corporate, interbank and sovereign customers less the weighted average cost of funding for these loans (from whatever source).

For trading and sales, gross income consists of profits/losses on instruments held for trading purposes (i.e. in the mark-to-market book), net of funding cost, plus fees from wholesale broking.

For the other five business lines, gross income consists primarily of the net fees/commissions earned in each of these businesses. Payment and settlement consists of fees to cover provision of payment/settlement facilities for wholesale counterparties. Asset management is management of assets on behalf of others.

An example of allocating gross income to business lines

Business lines	Gross income
Retail Banking	<p>Net interest income on loans and advances to retail customers and SMEs treated as retail.</p> <p>Fees related to traditional retail activities.</p> <p>Net income from swaps and derivatives held to hedge the retail banking book.</p>
Commercial Banking	<p>Net interest income on loans and advances to corporate and SMEs treated as corporate, interbank and sovereign customers.</p> <p>Fees related to traditional commercial banking activities including commitments, guarantees, and bills of exchange.</p> <p>Net income on securities held in the banking book.</p> <p>Profits/losses on swaps and derivatives held to hedge the commercial banking book.</p>
Trading and Sales	<p>Profits/losses on instruments held for trading purposes, net of funding cost.</p> <p>Fees from wholesale broking.</p>
Payment and Settlement / Agency Services / Brokerage	<p>Net fees/commissions earned.</p> <p>Fees to cover provision of payments/settlement facilities for wholesale counterparties.</p>
Corporate Finance / Agency Services / Asset Management / Retail Brokerage	<p>Net fees/commissions earned in each business.</p>