BMA

BERMUDA MONETARY AUTHORITY

CONTENTS

I. INTRODUCTION

1. The Bermuda Monetary Authority (Authority or BMA) is committed to ensuring that its regulatory framework for banking is aligned with international standards whilst ensuring that it remains appropriate for the local banking sector to ensure that a bank is able to continue to operate prudently, competitively and sustainably.

2. To achieve this goal, the Authority seeks to adopt the Basel III reforms introduced within the Basel Committee on Banking Supervision's **(**Basel) December 2017 paper entitled "*Basel III: Finalising post-crisis reforms*".[1]

3. Included within these 2017 reforms is a revised methodology in which a bank is required to calculate its minimum capital requirements for operational risk exposures.

4. This consultation paper sets out the Authority's proposed adoption of Basel's revised operational risk standard, which was originally due to become effective on 1January 2022. However, due to the impact of the Covid-19 global pandemic, Basel has pushed back the timeline for implementation until 1st January 2023.

5. Once a final standard has been decided, the new requirements will be included in the Authority's *Basel III for Bermuda Banks – Final Rule* document. The new standard replaces the current operational risk capital charge calculation requirements as outlined in the Authority's 2008 issued Basel II framework, *The Revised Framework for Regulatory Capital Assessment*, as outlined in paragraphs 160 to 197.

6. As part of this review cycle, the Authority will also seek to adopt *the Principles for the Sound Management of Operational Risk (March 2021).* This is a set of eleven principles covering governance, risk management environment and the role of disclosure which provide a framework for the management of operational risk in line with sound industry practice. A separate consultation paper will be issued detailing proposed adoption of the revised Principles.

7. Industry and other stakeholders are invited to provide feedback to the proposals outlined in this paper and in its various attachments, by emailing their comments to banking@bma.bm by close of business on 31 March 2022.

II. CURRENT STANDARDISED APPROACH

8. The Authority adopted the Basel II operational risk framework as documented in our 2008 issued guidance.[2] Under this framework, three approaches to measure operational risk

[1] https://www.bis.org/bcbs/publ/d424.pdf
[2] https://www.bma.bm/viewPDF/documents/2018-12-29-03-55-26-The-Revised-Framework-for-Regulatory-Capital-Assessment.pdf

exposures were put forth: i) Standardised Approach (SA), ii) Basic Indicator Approach (BIA) and iii) Advanced Measurement Approach (AMA). Under these three Basel II approaches are minimum qualitative standards (e.g. data quality etc.) that must be adhered to in order to ensure full compliance.

9. As part of the jurisdictional implementation of the Basel II framework in 2008, the Authority required all local banks to calculate their operational risk capital charge using either using the SA or BIA based on what is most appropriate for their size and complexity. The Authority also chose not to include the AMA as a third option. This calculation is completed on an annual basis (year-end) with the resulting capital charge being maintained until the next year-end. These requirements are established within paragraphs 160 to 197 of the BMA's *The Revised Framework for Regulatory Capital Assessment*.[2]

10. Institutions using the BIA must hold capital for operational risk equal to the average over the previous three years of a fixed percentage (denoted alpha) of positive annual gross income. Figures for any year in which annual gross income is negative or zero should be excluded from both the numerator and denominator when calculating the average. Where negative gross income distorts the Pillar 1 capital charge, the Authority will take that into account as part of its Pillar 2 assessment process.

11. The SA requires banks to divide their activities into eight business lines: corporate finance, trading & sales, retail banking, commercial banking, payment & settlement, agency services, asset management and retail brokerage. Within each business line, gross income is a broad indicator that serves as a proxy for the scale of business operations and thus the likely scale of operational risk exposure within each of these business lines. The total capital charge is calculated as the three-year average of the simple summation of the regulatory capital charges across each of the business lines in each year.

12. The 2008 financial crisis revealed that many of the Basel II capital and liquidity requirements and measurements were inadequate in relation to the actual risk exposures faced by institutions. In terms of these deficiencies, and from an operational risk perspective, Basel noted the following in their 2014 operational risk consultation paper:

    "Despite an increase in the number and severity of operational risk events during and after the financial crisis, capital requirements for operational risk have remained stable or even fallen for the standardised approaches. This indicates that the existing set of simple approaches for operational risk – the Basic Indicator Approach and The Standardised Approach, including its variant the Alternative Standardised Approach – do not correctly estimate the operational risk capital requirements of a wide spectrum of banks."[3]

13. The primary weakness of the three approaches introduced as part of the Basel II framework, was the overreliance on Gross Income (GI) as a proxy indicator for operational risk

[3] https://www.bis.org/publ/bcbs291.pdf

exposure and therefore incorrectly assuming that such exposures increase linearly in proportion to revenue. For instance, this assumption results in a scenario in which a bank's operational risk capital declines when they experience a decline in its GI because of systemic or bank-specific events (including operational risk events). In such circumstances, one would expect the bank to maintain or increase its operational risk capital resources.

III. REVISED STANDARDISED APPROACH

14. To address these weaknesses, Basel has revised how a bank calculates their Pillar 1 operational risk capital charge. The Revised Standardised Approach (RSA) replaces all three operational risk capital measurement methods in Basel II, and must be utilised by a bank no matter its size and/or complexity of its operations.

15. To address the current SA shortcomings, the RSA methodology is based on the following components:

    i. the Business Indicator (BI)
    ii. the Business Indicator Component (BIC)
    iii. the Internal Loss Multiplier (ILM)

A. BUSINESS INDICATOR

16. The RSA replaces GI as the proxy with the BI, as the latter is viewed as being the factor that best addresses the weaknesses of the current Basel II approaches. The BI is viewed as being better positioned to capture a bank's exposure to operational risk inherent within their various business units. It also includes items sensitive to operational risks that are omitted from the GI definition.

17. The BI encompasses the three macro-components of a bank's income statement:[4]

    i. the interest, leases and dividend component (ILDC);
    ii. the services component (SC) and;
    iii. the financial component (FC).

18. The formula for calculating a bank's BI, using the three aforementioned components, is as follows:

$$\mathbf{BI = ILDC + SC + FC}$$

19. As bank may request Authority approval to exclude divested activities from the calculation of the BI. Such exclusions must be disclosed in accordance with the Pillar 3 requirements.

[4] See Appendix III for details

20. The scope of losses and BI items used to calculate the operational risk capital requirements must include acquired businesses and merged entities over the period prior to the acquisition/merger that is relevant to the calculation of the standardised approach (ten years for losses and three years for BI).

B. BUSINESS INDICATOR COMPONENT

21. Once the BI is determined, the next step is to calculate the BIC which is done by multiplying the BI by marginal coefficients which increase with the size of the BI. The below table highlights the marginal coefficients as prescribed by Basel:

BI ranges and marginal coefficients (Basel Standard)		
Bucket	**BI range (in €bn)**	**BI marginal coefficients**
1	≤1	12%
2	1 < BI≤ 30	15%
3	>30	18%

22. **The Authority proposes to apply a national discretion to the above BIC scaling as the BI ranges are designed for large internationally active banks with revenues in the billions of Euros. The below table highlights the Authority's proposed BI ranges and marginal coefficients:**

BI ranges and marginal coefficients (BMA National Discretion)		
Bucket	**BI range (in BM$m)**	**BI marginal coefficients**
1	≤100	12%
2	100 < BI ≤ 250	15%
3	>250	18%

23. The application of the marginal coefficients is on a tiered basis. See Appendix I for BIC calculation examples.

24. For a bank that falls only into bucket 1 of the BIC, internal loss data will not be included for operational risk capital calculation purposes. In other words such a bank's ILM is equal to 1.[5] However, the Authority may allow the inclusion of internal loss data into the framework for a bank in bucket 1, subject to these banks meeting the loss data collection requirements. The bank is required to make a formal application to the Authority for the inclusion of loss data for operational risk capital calculation purposes.

25. When BI figures for a solo or subsidiary bank reaches bucket 2, these banks are required to use loss experience in standardised approach calculations. A solo or subsidiary bank uses only losses it has incurred in the standardised approach calculations (and does not include losses incurred by other parts of the bank holding company).

[5] BI*12% marginal coefficient

26. In case a subsidiary of a bank belonging to bucket 2 or higher does not meet the qualitative standards for the use of the LC, this subsidiary must calculate the standardised approach capital requirements by applying 100% of the BI Component. In such cases the Authority may require the bank to apply an ILM which is greater than 1.

C. INTERNAL LOSS MULTIPLIER (ILM) AND LOSS COMPONENT

27. The RSA uses the ILM to incorporate the bank's internal operational risk loss experience, or loss component (LC) into the determination of the operational risk capital (ORC) requirement.

28. The ILM is calculated using the formula below;

$$\mathbf{ILM = Ln(exp(1) - 1 + \left(\frac{LC}{BIC}\right)^{0.8})}$$

29. LC is equal to 15x the average annual operational risk losses incurred over the previous 10 years.

30. The RSA notes that a bank which does not have 10 years of high quality loss data may use a minimum of 5-years data to calculate the LC. General and specific criteria for loss identification, collection and treatment are outlined in sections D and E below.

31. **The Authority proposes to issue a national discretion regarding the loss data set to be used in to calculate the LC. Upon implementation of the RSA a bank is permitted to use 5 years of high-quality loss data which will be built up to a 10-year high-quality loss data set between 2023 to 2028.**

32. A bank that does not have 5 years of high quality loss data is required to calculate the capital requirement based solely on the BIC (e.g. ILM = 1).

33. The Authority may, however, require a bank to calculate capital requirements using fewer than 5 years of losses if there is evidence to show that the ILM is greater than 1 and the Authority believes the losses are representative of the bank's operational risk exposure.

34. The Authority may also set the value of ILM equal to 1 for a bank if deemed appropriate. If this discretion is utilised, a bank would still be subject to the full set of disclosure requirements provided for under the RSA.

35. A bank may request Authority approval to exclude certain operational loss events that are no longer relevant to the banking organisation's risk profile. The exclusion of internal loss events should be rare and supported by strong justification. In evaluating the relevance of operational loss events to the bank's risk profile, the Authority will consider whether the cause of the loss event could occur in other areas of the bank's operations. The total loss

amount and number of exclusions must be disclosed in accordance with the Pillar 3 requirements with appropriate narratives, including total loss amount and number of exclusions.

36. A request for loss exclusions is subject to a materiality threshold to be set by the Authority (for example, the excluded loss event should be greater than 5% of the bank's average losses). In addition, losses can only be excluded after being included in a bank's operational risk loss database for a minimum period (for example, three years), to be specified by the Authority. Losses related to divested activities will not be subject to a minimum operational risk loss database retention period.

D. GENERAL CRITERIA ON LOSS DATA IDENTIFICATION, COLLECTION AND TREATMENT

37. The proper identification, collection and treatment of internal loss data are essential prerequisites to capital calculation under the RSA.

38. Internal loss data are most relevant when clearly linked to a bank's current business activities, technological processes and risk management procedures. Therefore, a bank must have documented procedures and processes for the identification, collection and treatment of internal loss data. Such procedures and processes must be subject to validation before the use of loss data for ORC calculation purposes.

39. For risk management purposes, and to assist in supervisory validation and/or review, the Authority requires banks to map their historical internal loss data into the relevant supervisory categories as outlined in Appendix II.

40. A bank's internal loss data must be comprehensive and capture all material activities and exposures from all appropriate subsystems and geographic locations. The minimum threshold for including a loss event in the data collection and calculation of average annual losses is set at €20,000.

41. **The Authority proposes to adopt a materiality threshold of losses of ≥BM$10,000 for operational risk calculation purposes. This materiality threshold is a continuation of the Authority's current operational risk guidance.[6]**

42. Banks must collect information about the reference dates of operational risk events, including:

    a. the date when the event happened or first began (date of occurrence);

[6] Paragraph 12: https://www.bma.bm/viewPDF/documents/2018-12-29-03-52-40-The-Management-of-Operational-Risk.pdf

b. where available; the date on which the bank became aware of the event (date of discovery);
c. the date (or dates) when a loss event results in a loss, reserve or provision against a loss being recognised in the bank's income statement or profit and loss (P&L) accounts (date of accounting); and
d. in addition, the bank must collect information on recoveries of gross loss amounts as well as descriptive information about the drivers or causes of the loss event. The level of detail of any descriptive information should be commensurate with the size of the gross loss amount.

43. Operational loss events related to credit risk, and accounted for in credit risk-weighted assets (RWA), should not be included in the loss data set. However, credit risk related operational loss events that are not accounted for in credit RWA should be included.

44. Operational risk losses related to market risk are treated as part of operational risk for the purposes of calculating minimum regulatory capital under this framework and will therefore be subject to the standardised approach for operational risk.

E. SPECIFIC CRITERIA ON LOSS DATA IDENTIFICATION, COLLECTION AND TREATMENT

45. Building an acceptable loss data set from available internal data requires that the bank develop policies and procedures to address several features, including gross loss definition, reference date and grouped losses.

46. Banks must be able to identify the gross loss amounts, non-insurance recoveries, and insurance recoveries for all operational loss events. Banks should use losses net of recoveries (including insurance recoveries) in the loss dataset. However, recoveries can be used to reduce losses only after the bank receives payment.

47. Gross loss is a loss before recoveries of any type. Net loss is defined as the loss after taking into account the impact of recoveries. The recovery is an independent occurrence, related to the original loss event, separate in time, in which funds or inflows of economic benefits are received from a third party.

48. Items to be included or excluded from the gross loss computation of the loss data set can be found in Appendix IV.

F. OPERATIONAL RISK CAPITAL REQUIREMENT

49. The operational risk capital (ORC) requirement is the product of the BIC and ILM as shown by the formula below:

$$\mathbf{ORC = BI * ILM}$$

50. Risk weighted assets for operational risk are equal to ORC * 12.5 multiplier, which represents no change from the Basel II framework.

51. As is the case now, banks will be required to recalculate their operational risk charge based on their audited year-end results with any changes reflected in the next quarterly Prudential Information Return.[7]

IV. LEVEL OF APPLICATION

52. At a consolidated level, the revised standardised approach calculations use fully consolidated BI figures, which net all intragroup income

53. At a solo level, the calculations use BI figures for the banks consolidated at that particular subsidiary level.

V. IMPLEMENTATION DATE

54. The Authority proposes to implement the RSA effective 1 January 2023.

[7] E.g. 31st December year-end would see new ORC reported in next 31st March PIR

APPENDIX I – EXAMPLE OF BIC CALCULATIONS

For a bank with revenues of $400m BIC is calculated as follows:

BI ranges and marginal coefficients (BMA National Discretion)				BIC (in BM$m)
Bucket	**BI range (in BM$m)**	**Revenue (in BM$m)**	**BI marginal coefficients**	
1	≤100	100	12%	12.0
2	100 < BI ≤ 250	150	15%	22.5
3	>250	150	18%	27.0
Total		**400**		**61.5**

- The first $100m of revenue is multiplied by the 12% marginal coefficient;
- The following $150m of revenue is multiplied by the 15% marginal coefficient; and
- The remaining $150m of revenue is multiplied by the 18% marginal coefficient.
- Summing up the three buckets results in a BIC of $61.5m.

For a bank with revenues of $75m BIC is calculated as follows:

BI ranges and marginal coefficients (BMA National Discretion)				BIC (in BM$m)
Bucket	**BI range (in BM$m)**	**Revenue (in BM$m)**	**BI marginal coefficients**	
1	≤100	75	12%	9.0
2	100 < BI ≤ 250	-	15%	-
3	>250	-	18%	-
Total		**75**		**9.0**

- The bank's total revenue of $75m falls into bucket 1 and thus is multiplied by 12%.
- The total BIC is $9m.
- A bank which falls into bucket 1 only does not consider historical loss experience and the ILM is set at 1.

APPENDIX II – LOSS EVENT TYPE CLASSIFICATION

Event-type category (Level 1)	Definition	Categories (Level 2)	Activity Examples (Level 3)
Internal fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or company policy, excluding diversity/ discrimination events, which involves at least one internal party.	Unauthorised activity	• Transactions not reported (intentional) • Transaction type unauthorised (with monetary loss) • Mismarking of position (intentional)
		Theft and fraud	• Fraud / credit fraud / worthless deposits • Theft / extortion / embezzlement / robbery • Misappropriation of assets • Malicious destruction of assets • Forgery • Check kiting • Smuggling • Account takeover / impersonation etc. • Tax non-compliance / evasion (wilful) • Bribes / kickbacks

			• Insider trading (not on firm's account)
External fraud	Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.	Theft and fraud	• Theft / robbery • Forgery • Check kiting
		Systems security	• Hacking damage • Theft of information (with monetary loss)
Employment practices and workplace safety	Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity / discrimination events.	Employee relations	• Compensation, benefit, termination issues • Organised labour activity
		Safe environment	• General liability (slip and fall etc.) • Employee health and safety rules events • Workers compensation
		Diversity and discrimination	• All discrimination types

Clients, products and business practices	Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product.	Suitability, disclosure and fiduciary	• Fiduciary breaches / guideline violations • Suitability / disclosure issues (know-your-customer etc.) • Retail customer disclosure violations • Breach of privacy • Aggressive sales account churning • Misuse of confidential information • Lender liability
		Improper business or market practices	• Antitrust • Improper trade / market practices • Market manipulation • Insider trading (on firm's account) • Unlicensed activity • Money laundering
		Product flaws	• Product defects (unauthorised etc.) • Model errors

		Selection, sponsorship and exposure	• Failure to investigate client per guidelines • Exceeding client exposure limits
		Advisory activities	• Disputes over performance of advisory activities
Damage to physical assets	Losses arising from loss or damage to physical assets from natural disaster or other events.	Disasters and other events	• Natural disaster losses • Human losses from external sources (terrorism, vandalism)
Business disruption and system failures	Losses arising from disruption of business or system failures.	Systems	• Hardware • Software • Telecommunications • Utility outage / disruptions
Execution, delivery and process management	Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.	Transaction capture, execution and maintenance	• Miscommunication • Data entry, maintenance or loading error • Missed deadline or responsibility • Model / system misoperation • Accounting error / entity attribution error • Other task misperformance • Delivery failure • Collateral management failure

			• Reference data maintenance
		Monitoring and reporting	• Failed mandatory reporting obligation Inaccurate external report (loss incurred)
		Customer intake and documentation	• Client permissions / disclaimers missing • Legal documents missing / incomplete
		Customer / client account management	• Unapproved access given to accounts • Incorrect client records (loss incurred) • Negligent loss or damage of client assets
		Trade counterparties	• Non-client counterparty misperformance • Miscellaneous non-client counterparty disputes
		Vendors and suppliers	• Outsourcing • Vendor disputes

APPENDIX III – BI COMPONENTS

BI Component	Business Indicator formulas	P&L or balance sheet item	Description	Typical sub-items
Interest, leases and dividend	Min[Absolute value (Interest Income – Interest Expense); 2.25% Interest Earning Assets] + Dividend Income	Interest Income	Interest income from all financial assets and other interest income (includes interest income from financial and operating leases and profits from leased assets).	• Interest income from loans and advances, assets available for sale, assets held to maturity, trading assets, financial leases and operational leases • Interest income from hedge accounting derivatives • Other interest income • Profits from leased assets
		Interest expense	Interest expenses from all financial liabilities and other interest expenses (includes interest expense from financial and operating leases, losses, depreciation and impairment of operating leased assets).	• Interest expenses from deposits, debt securities issued, financial leases, and operating leases • Interest expenses from hedge accounting derivatives • Other interest expenses • Losses from leased assets • Depreciation and impairment of operating leased assets

		Interest earning assets	Total gross outstanding loans, advances, interest bearing securities (including government bonds), and lease assets measured at the end of each financial year.	
		Dividend income	Dividend income from investments in stocks and funds not consolidated in the bank's financial statements, including dividend income from non-consolidated subsidiaries, associates and joint ventures.	
Services	Max[Other Operating Income; Other Operating Expense] + Max[Fee Income; Fee Expense]	Fee and commission income	Income received from providing advice and services. Includes income received by the bank as an outsourcer of financial services.	• Securities (issuance, origination, reception, transmission, execution of orders on behalf of customers) • Clearing and settlement; • Asset management; • Custody; • Fiduciary transactions; Payment services; • Structured finance; Servicing of securitisations; • Loan commitments and guarantees given; and • foreign transactions
		Fee and commission expenses	Expenses paid for receiving advice and services. Includes outsourcing fees paid by the bank for the supply of financial services, but not outsourcing fees paid	• Clearing and settlement; Custody; • Servicing of securitisations; Loan commitments and guarantees received; and

			for the supply of non-financial services (e.g. logistical, IT, human resources).	• Foreign transactions
		Other operating income	Income from ordinary banking operations not included in other BI items but of similar nature (income from operating leases should be excluded).	• Rental income from investment properties • Gains from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37)
		Other operating expenses	Expenses and losses from ordinary banking operations not included in other BI items but of similar nature and from operational loss events (expenses from operating leases should be excluded).	• Losses from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (IFRS 5.37) • Losses incurred as a consequence of operational loss events (e.g. fines, penalties, settlements, replacement cost of damaged assets), which have not been provisioned/reserved for in previous years • Expenses related to establishing provisions/reserves for operational loss events

<table>
<tr>
<td rowspan="2">Financial</td>
<td rowspan="2">Absolute value (Net P&L on Trading Book) + Absolute Value (Net P&L on Banking Book)</td>
<td>Net profit (loss) on the trading book</td>
<td>Net profit/loss on trading assets and trading liabilities (derivatives, debt securities, equity securities, loans and advances, short positions, other assets and liabilities)
Net profit/loss from hedge accounting
Net profit/loss from exchange differences</td>
</tr>
<tr>
<td>Net profit (loss) on the banking book</td>
<td>Net profit/loss on financial assets and liabilities measured at fair value through profit and loss
Realised gains/losses on financial assets and liabilities not measured at fair value through profit and loss (loans and advances, assets available for sale, assets held to maturity, financial liabilities measured at amortised cost)
Net profit/loss from hedge accounting
Net profit/loss from exchange differences</td>
</tr>
</table>

The following P&L items **do not contribute to any of the items of the BI:**

- Income and expenses from insurance or reinsurance businesses
- Premiums paid and reimbursements/payments received from insurance or reinsurance policies purchased
- Administrative expenses, including staff expenses, outsourcing fees paid for the supply of nonfinancial services (e.g. logistical, IT, human resources), and other administrative expenses (e.g. IT, utilities, telephone, travel, office supplies, postage)
- Recovery of administrative expenses including recovery of payments on behalf of customers (e.g. taxes debited to customers)
- Expenses of premises and fixed assets (except when these expenses result from operational loss events)
- Depreciation/amortisation of tangible and intangible assets (except depreciation related to operating lease assets, which should be included in financial and operating lease expenses)
- Provisions/reversal of provisions (e.g. on pensions, commitments and guarantees given) except for provisions related to operational loss events
- Expenses due to share capital repayable on demand
- Impairment/reversal of impairment (e.g. on financial assets, non-financial assets, investments in subsidiaries, joint ventures and associates)

- Changes in goodwill recognised in profit or loss
- Corporate income tax (tax based on profits including current tax and deferred).

APPENDIX IV – INCLUSIONS AND EXCLUSIONS IN GROSS LOSS COMPUTATION

Items to be included in gross loss computation	Items to be excluded from gross loss computation
Direct charges, including impairments and settlements, to the bank's P&L accounts and write-downs due to the operational risk event.	Costs of general maintenance contracts on property, plant or equipment;
Costs incurred as a consequence of the event including external expenses with a direct link to the operational risk event (e.g. legal expenses directly related to the event and fees paid to advisors, attorneys or suppliers) and costs of repair or replacement, incurred to restore the position that was prevailing before the operational risk event.	Internal or external expenditures to enhance the business after the operational risk losses: upgrades, improvements, risk assessment initiatives and enhancements;
Losses stemming from operational risk events with a definitive financial impact, which are temporarily booked in transitory and/or suspense accounts and are not yet reflected in the P&L ("pending losses"). Material pending losses should be included in the loss data set within a time period commensurate with the size and age of the pending item.	Insurance premiums
Negative economic impacts booked in a financial accounting period, due to operational risk events impacting the cash flows or financial statements of previous financial accounting periods (timing losses"). Material "timing losses" should be included in the loss data set when they are due to operational risk events that span more than one financial accounting period and give rise to legal risk.	