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Framework / Risk Management / Other

Basel Committee on Banking Supervision – Revisions to the Principles for the Sound Management of Operational Risk (March 2021)

The Basel Committee's twelve revised Principles for the Sound Management of Operational Risk set the supervisory baseline for how banks govern, identify, control, and report the risk.



What it is

The Revisions to the Principles for the Sound Management of Operational Risk (PSMOR) were published by the Basel Committee on Banking Supervision on 31 March 2021. The document restates the Committee's twelve principles for operational risk management, which it first introduced in 2003 and revised in 2011 after the Great Financial Crisis, and defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk but excluding strategic and reputational risk.

The Basel Committee is the primary global standard setter for the prudential regulation of banks, and its member authorities implement the principles through national supervisory rules and examinations. The principles cover governance, the risk management environment, information and communication technology, business continuity planning, and the role of disclosure, and the Committee recommends that banks apply them in proportion to the nature, size, complexity, and risk profile of their activities.

At a glance

PUBLISHER
Basel Committee on Banking Supervision (BCBS)

TYPE
Guidance

VERSION
March 2021 revision (supersedes the 2011 Principles)

EFFECTIVE
March 31, 2021

DOMAIN
Risk Management

FAMILY
Other

REGION
Global (Basel Committee)

INDUSTRY
Financial Services

ADOPTION MODEL
Regulatory Compliance

IMPLEMENTATION COMPLEXITY
High

Source: bis.org/publications/202103-guidelines-revisions-principles-sound-management-operational-risk

Why it matters

- **Meet supervisory expectations** Align the operational risk management framework with the Committee's principles, which member authorities implement through national rules and supervisory expectations.
- **Strengthen risk identification** Use risk and control self-assessments, key risk indicators, loss data, and business process mapping to understand operational exposures before they crystallize.
- **Control change** Assess new products, activities, processes, and systems for operational risk before launch and monitor them afterward.
- **Manage ICT and continuity risk** Run an ICT risk management program and business continuity plans that are linked to the operational risk management framework.

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How SmartSuite supports BCBS PSMOR 2021

Principles and Control Library

Hold the twelve principles as requirements with linked policies, controls, and the operational risk taxonomy in one structured record set.

Ownership, Cadence, and Accountability

Assign first, second, and third line owners to each principle and control, set review cycles, and track board approval of the framework and risk appetite statement.

Evidence Collection and Audit Trail

Attach RCSA results, loss event records, key risk indicator readings, and change assessments with timestamps and reviewers for supervisory review.

Control Testing and Continuity Exercises

Plan control tests and business continuity exercises, document results, and track remediation to closure.

Risk and Third-Party Alignment

Connect operational risks, ICT risks, and outsourced services to the principles and critical processes they affect.

Board and Supervisory Reporting

Produce operational risk profile dashboards and reports by principle, business line, and open issue for senior management, the board, and supervisors.

Common framework mappings

BCBS Operational Resilience Principles · Basel III · IIA Three Lines Model · APRA CPS 230 · PRA SS1/21 · FCA SYSC 15A (PS21/3) · EU DORA · ISO 31000:2018 · ISO 22301 · COSO ERM 2017 · NIST CSF 2.0 · ISO 27001:2022

Official resources

BIS: Revisions to the Principles for the Sound Management of Operational Risk

The Basel Committee publication page for the March 2021 revision, with the summary and the PDF download.

bis.org/publications/202103-guidelines-revisions-principles-sound-management-operational-risk

PSMOR 2021 full text (PDF)

The 23-page document setting out the twelve principles for governance, the risk management environment, ICT, business continuity, and disclosure.

bis.org/publications/202103-guidelines-revisions-principles-sound-management-operational-risk.pdf

BIS: Principles for Operational Resilience

The companion March 2021 publication whose seven principles build on the revised PSMOR.

bis.org/publications/202103-guidelines-principles-operational-resilience

Basel Committee on Banking Supervision overview

The Committee's overview page describing its role as the global standard setter for the prudential regulation of banks.

bis.org/committees/bcbs/overview

Frequently asked questions

What are the Principles for the Sound Management of Operational Risk?

They are twelve principles published by the Basel Committee on Banking Supervision that describe sound practice for governing, identifying, assessing, controlling, and reporting operational risk in banks. The Committee first issued them in 2003, revised them in 2011, and published the current revision on 31 March 2021.

How does the Basel Committee define operational risk?

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The definition includes legal risk but excludes strategic and reputational risk.

What changed in the March 2021 revision?

The Committee aligned the principles with the finalized Basel III operational risk framework, updated the guidance on change management and information and communication technologies, and improved the overall clarity of the principles. The revision responds to gaps found in the 2014 implementation review.

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Who has to apply the PSMOR?

The principles are addressed to banks supervised by Basel Committee member authorities, which implement them through national rules and supervisory review. The Committee considers them sound practice for all banks and expects proportionate application based on size, complexity, and risk profile.

How do the PSMOR relate to the Principles for Operational Resilience?

The Basel Committee published both documents on the same day in March 2021. The operational resilience principles build on the PSMOR, treating sound operational risk management as the foundation for delivering critical operations through disruption.

What tools do the principles expect banks to use?

The principles refer to risk and control self-assessments, key risk indicators, internal and external loss data, business process mapping, scenario analysis, comparative analysis, and monitoring of action plans, along with a formal change management process and business continuity planning.

How does SmartSuite support the PSMOR?

SmartSuite holds the twelve principles as a requirement set with linked controls, RCSAs, loss events, key risk indicators, change assessments, and continuity tests, each with owners, due dates, and an audit trail. Operational risk teams use it to assemble the operational risk profile and report to senior management, the board, and supervisors.

License included / downloadable: Yes The principles are published free of charge by the Bank for International Settlements at bis.org. The text is not included with the platform.

Full framework page and mappings: smartsuite.com/frameworks/bcbs-principles-for-the-sound-management-of-operational-risk