



Operational Risk

Effective from 20 September 2025

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Objective of the examination

The objective of the examination is to ensure that candidates have an introduction to Operational Risk.

The examination will test candidates' knowledge and understanding of the following elements:

- Risk Basics
- Other Major Risks
- The Nature of Operational Risk
- The Causes and Impacts of Operational Risk
- Operational Risks Arising in the Trade Cycle
- The Support and Control Functions
- Operational Risk in the Regulatory Environment

Syllabus structure

The unit is divided into **elements**. These are broken down into a series of **learning objectives**. Each learning objective begins with one of the following prefixes: **know**, **understand**, or **apply**. These words indicate the different levels of skill to be tested.

Learning objectives prefixes:

- **know** requires the candidate to recall information such as facts, rules and principles
- **understand** requires the candidate to demonstrate comprehension of an issue, fact, rule or principle
- **apply** requires the candidate to demonstrate or employ existing principles in a given situation

Candidate Update

Candidates are reminded to check the 'Candidate Update' area of the Institute's website (cisi.org) on a regular basis for updates that could affect their examination as a result of industry change.

Examination Specification

Each examination paper is constructed from a specification that determines the weightings that will be given to each unit. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element should not change by more than plus or minus 2.

Examination specification		
50 multiple choice questions		
Element number	Element	Questions
1	Risk Basics	3
2	Other Major Risks	7
3	The Nature of Operational Risk	20
4	The Causes and Impacts of Operational Risk	4
5	Operational Risks Arising in the Trade Cycle	5
6	The Support and Control Functions	7
7	Operational Risk in the Regulatory Environment	4
Total		50

Assessment Structure

A 1-hour examination of 50 multiple choice questions.

Candidates sitting the examination by Computer Based Testing may have, in addition, up to 10% additional questions as trial questions that will not be separately identified and do not contribute to the result. Candidates will be given proportionately more time to complete the test.

Summary Syllabus

Element 1 Risk Basics

- 1.1 Risk in the Financial Services Industry
- 1.2 Enterprise Risk Management

Element 2 Other Major Risks

- 2.1 The Nature of Credit Risk
- 2.2 Measuring Credit Risk
- 2.3 Credit Risk Management and Reporting
- 2.4 The Nature of Market Risk
- 2.5 Measuring Market Risk
- 2.6 Value-at-Risk (VaR)
- 2.7 Market Risk Management and Reporting
- 2.8 The Nature of Liquidity Risk
- 2.9 Measuring Asset Liquidity Risk
- 2.10 Liquidity Risk Management Function

Element 3 The Nature of Operational Risk

- 3.1 Definition of Operational Risk and Operational Risk Categories
- 3.2 Culture
- 3.3 The Operational Risk Management Process
- 3.4 The Policy for Managing Operational Risk
- 3.5 Risk Identification / Classification
- 3.6 Setting Risk Appetite
- 3.7 Risk and Control Measurement and Assessment
- 3.8 Risk Response
- 3.9 Risk Monitoring and Reporting
- 3.10 Operational Resilience

Element 4 The Causes and Impacts of Operational Risk

- 4.1 Operational Risk: Causes and Events
- 4.2 Operational Risk: Impacts

- 4.3 The Links Between Causes, Events and Impacts of Operational Risk
- 4.4 Near Miss Identification and Reporting

Element 5 Operational Risks Arising in the Trade Cycle

- 5.1 Set-up
- 5.2 Execution
- 5.3 Pre-settlement phase
- 5.4 Settlement phase
- 5.5 Post-settlement phase
- 5.6 Asset Servicing

Element 6 The Support and Control Functions

- 6.1 Risk Governance
- 6.2 Middle / Back Office
- 6.3 Compliance
- 6.4 Financial Reporting and Regulation
- 6.5 HR
- 6.6 Internal Audit
- 6.7 IT
- 6.8 Legal
- 6.9 Product Development and Marketing
- 6.10 Project Management and Change Management

Element 7 Operational Risk in the Regulatory Environment

- 7.1 Achieving Common Standards and Protection
- 7.2 Basel Accords

Element 1 Risk Basics

1.1 Risk in the Financial Services Industry

On completion, the candidate should:

1.1.1 *know* the following major risk categories:

- credit risk
- market risk
- operational risk
- liquidity risk

1.1.2 *understand* simple examples of risk in the financial services industry

1.1.3 *understand* the operational risk issues linked with recent major risk related events in the financial services industry, such as:

- Invesco (2014)
- PPI
- LIBOR
- HSBC (2016)
- Central Bank of Bangladesh (2016)
- Wells Fargo (2016)
- TSB (2018)
- GAM (2018)
- Raphael's Bank (2018)

1.2 Enterprise Risk Management

On completion, the candidate should:

1.2.1 *understand* Enterprise Risk Management (ERM)

- objectives
- challenges

Element 2 Other Major Risks

2.1 The Nature of Credit Risk

On completion, the candidate should:

2.1.1 *know* the basic terms used in the subject of credit risk:

- counterparty risk
- issuer risk

2.1.2 *be able to apply* the concept of credit risk to simple, practical situations

2.2 Measuring Credit Risk

On completion, the candidate should:

2.2.1 *know* the basic techniques for measuring credit risk:

- credit exposure management
- credit risk premium
- credit ratings
- modern measurement techniques

2.3 Credit Risk Management and Reporting

On completion, the candidate should:

2.3.1 *understand* the role of the credit risk management function

2.3.2 *understand* the following examples of credit risk mitigation:

- asset securitisation
- central counterparties
- clearing houses
- collateral and margin
- credit derivatives
- credit limits
- diversification
- loan sales
- netting
- underwriting standards

2.4 The Nature of Market Risk

On completion, the candidate should:

2.4.1 *know* the basic features of market risk:

- price level risk
- volatility risk
- liquidity risk
- basis risk

2.4.2 *be able to apply* the basic features of market risk to simple, practical situations

2.5 Measuring Market Risk

On completion, the candidate should:

2.5.1 *understand* the measures of central tendency and dispersion:

- mean
- median
- mode
- standard deviation
- distribution analysis

2.6 Value-at-Risk (VaR)

On completion, the candidate should:

2.6.1 *understand* the meaning of VaR and its constituents

2.6.2 *understand* the meaning of back testing

2.6.3 *understand* the meaning of stress testing

2.6.4 *know* the limitations of using VaR for market risk management

2.7 Market Risk Management and Reporting

On completion, the candidate should:

2.7.1 *understand* the following techniques for mitigating market risk:

- hedging
- market risk limits
- diversification

2.7.2 *understand* the role of the market risk management framework

2.8 The Nature of Liquidity Risk

On completion, the candidate should:

2.8.1 *know* the basic terms used in the subject of liquidity risk:

- asset and liability management
- maturity ladders
- actual and contractual cash receipts
- asset liquidity risk
- funding liquidity risk
- fund liquidity risk
- liquidity coverage ratio
- net stable funding ratio

2.8.2 *be able to apply* the concept of liquidity risk to simple, practical situations

2.9 Measuring Asset Liquidity Risk

On completion, the candidate should:

2.9.1 *know* the key measures of asset liquidity risk:

- bid-offer spread
- market depth
- immediacy
- resilience

2.10 Liquidity Risk Management Function

On completion, the candidate should:

2.10.1 *understand* the role of the liquidity risk management function from the perspective of the firm

Element 3 The Nature of Operational Risk

3.1 Definition of Operational Risk and Operational Risk Categories

On completion, the candidate should:

- 3.1.1 *know* the basic Bank for International Settlements' definition of operational risk
- 3.1.2 *understand* that operational risk is present across the organisation in all departments and activities

3.2 Culture

On completion, the candidate should:

- 3.2.1 *understand* the importance of effective leadership and the role of senior management in sustaining a robust risk and control culture
- 3.2.2 *know* the main factors determining a firm's risk and control culture:
 - strategy / objectives
 - clear roles and responsibilities
 - risk appetite
 - selection, training and development
 - values and behaviours
 - communication
 - incentivisation and remuneration
- 3.2.3 *know* the organisational areas where positive behaviours are necessary to ensure a continuing robust risk and control culture
- 3.2.4 *understand* the contribution of the risk officers in maintaining a robust risk and control culture
- 3.2.5 *understand* the UK regulators' expectations of risk control and culture

3.3 The Operational Risk Management Process

On completion, the candidate should:

3.3.1 *know* the following terms in relation to operational risk management:

- inherent (gross) risk
- residual (net) risk

3.3.2 *understand* the role of operational risk management

3.3.3 *understand* the key aims of operational risk management:

- identification and assessment of risks
- management of operational risk exposure within appetite

3.3.4 *know* the stages of the operational risk management process:

- policy
- setting operational risk appetite and/or tolerance
- identification / classification
- risk and control measurement and assessment
- response
- monitoring
- reporting and escalation
- planning and change

3.3.5 *understand* the practical constraints of implementing an operational risk management framework

3.4 The Policy for Managing Operational Risk

On completion, the candidate should:

3.4.1 *understand* the following areas required by an operational risk policy:

- board-level sponsorship
- identification of key officers
- cross divisional involvement and agreement
- clearly defined roles and responsibilities
- definition and communication of the risk management framework
- segregation of duties
- consistency of approach firm wide
- co-ordination
- documentation of acceptable risk levels
- definition and communication of the control standards framework

3.4.2 *understand* the three lines of defence model

3.5 Risk Identification / Classification

On completion, the candidate should:

3.5.1 *understand* the purpose of identifying risks

3.5.2 *know* the Basel operational risk event types

3.5.3 *be able to apply* risk classification in accordance with Basel II categories

3.5.4 *understand* the following methods for identifying operational risk:

- risk and control self-assessment
- reviews and audits
- focus workshops

- risk event analysis
- management information

3.5.5 *understand* the practical problems of risk identification:

- changes to business operating models
- changes to business environment
- firm-wide engagement
- differing individual perception of risk

3.6 Setting Risk Appetite

On completion, the candidate should:

3.6.1 *understand* the following:

- the meaning of the term risk appetite
- the meaning of the term risk capacity
- the importance of documenting a firm's risk appetite
- the content and target audience for a risk appetite statement

3.7 Risk and Control Measurement and Assessment

On completion, the candidate should:

- 3.7.1 *know* the basic terms used in the assessment and measurement of operational risk
- 3.7.2 *understand* the main reasons for assessing and measuring operational risk
- 3.7.3 *understand* the ranking method of assessing operational risk
- 3.7.4 *understand* the risk and control self-assessment (self-certification) method of assessing operational risk
- 3.7.5 *understand* the scenario analysis method of assessing operational risk
- 3.7.6 *understand* the top-down risk assessment process
- 3.7.7 *understand* the uses and limitations of internal risk event data in assessing operational risk
- 3.7.8 *understand* the difficulties involved in measuring operational risk
- 3.7.9 *understand* the benchmarking method of measuring operational risk
- 3.7.10 *know* the sources and uses of external loss data
- 3.7.11 *understand* the limitations of using external loss data
- 3.7.12 *be able to apply* the following methods of risk assessment and risk measurement to simple, practical examples:
 - rating and ranking
 - risk and control self-assessment
 - scenario analysis
 - benchmarking
 - risk event analysis

3.8 Risk Response

On completion, the candidate should:

3.8.1 *understand* the type of risk response:

- risk acceptance
- reducing the likelihood and the impact
- risk avoidance
- risk transfer

3.8.2 *understand* the use of the following examples of operational controls in reducing the impact or likelihood of operational risk:

- supervision and segregation of duties
- business continuity and contingency planning
- information and physical security
- risk awareness training

3.8.3 *understand* how the following examples can be used to transfer operational risk:

- insurance
- outsourcing

3.9 Risk Monitoring and Reporting

On completion, the candidate should:

3.9.1 *understand* the main activities that comprise the risk monitoring of the risk management process:

- measurement
- assessment

3.9.2 *understand* the importance of risk monitoring in the risk management process

3.9.3 *understand* how indicators can be used as a method of monitoring operational risk

3.9.4 *understand* the main functions of operational risk reporting to internal and external stakeholders

3.10 Operational Resilience

On completion, the candidate should:

3.10.1 *understand* the difference between operational risk and operational resilience and the significance placed upon operational resilience by the regulators

Element 4 The Causes and Impacts of Operational Risk

4.1 Operational Risk: Causes and Events

On completion, the candidate should:

4.1.1 *know* the four causes of operational risk events

4.1.2 *understand* why knowledge of causes is important in operational risk management

4.1.3 *understand* the operational risk events in simple, practical examples:

- incorrect data
- delayed processing and documentary omissions
- regulatory non-compliance

- project mismanagement
- fraud and theft
- unforeseen litigation
- information technology failures

4.2 Operational Risk: Impacts

On completion, the candidate should:

4.2.1 *understand* direct and indirect financial loss

4.2.2 *understand* the following examples of financial and non-financial impacts of an operational risk event

- potential loss of earnings
- regulatory censure / closure and reputational damage
- staff demotivation
- poor conduct risk outcomes
- remedial and litigation costs

4.3 The Links Between Causes, Events and Impacts of Operational Risk

On completion, the candidate should:

4.3.1 *understand* the links between, causes, events and impacts of operational risk

4.4 Near Miss Identification and Reporting

On completion, the candidate should:

4.4.1 *understand* the concept and importance of near miss identification and reporting as a result of an operational risk event

Element 5 Operational Risks Arising in the Trade Cycle

5.1 Set-up

On completion, the candidate should:

5.1.1 *understand* what tasks must be completed during set-up:

- marketing and sales
- Know Your Customer
- international sanctions
- suitability
- account set-up
- reference data
- credit assessment
- standard settlement instructions
- legal contract negotiation
- client and counterparty agreements

5.1.2 *understand* the key risks, controls and indicators associated with the set-up phase

5.2 Execution

On completion, the candidate should:

5.2.1 *understand* the role and responsibilities of the Front Office

5.2.2 *understand* the nature of the key risks, controls and indicators in the Front Office:

- transaction capture
- exchange of transaction instructions
- monitoring position and credit limits

5.3 Pre-settlement phase

On completion, the candidate should:

5.3.1 *understand* the components of the pre-settlement phase:

- transaction capture
- trade confirmation
- asset and cash positioning
- centralised clearing
- calculation of collateral

5.3.2 *understand* the key risks, controls and indicators associated with the pre-settlement phase

5.4 Settlement phase

On completion, the candidate should:

5.4.1 *understand* the components of the settlement phase:

- payment instructions
- payment receipts
- securities transfers and custody

5.4.2 *understand* the key risks, controls and indicators associated with the settlement phase

5.5 Post-settlement phase

On completion, the candidate should:

5.5.1 *understand* the components of the post-settlement phase:

- reconciliation
- inventory management
- margin / collateral monitoring

5.5.2 *understand* the key risks, controls and indicators associated with the post-settlement phase

5.6 Asset Servicing

On completion, the candidate should:

5.6.1 *know* the main types of corporate action:

- dividend and coupon payments
- redemption of fixed income securities
- rights issues
- stock buy-backs
- takeovers and mergers
- conversion of convertible bonds
- proxy voting

5.6.2 *understand* the main risks associated with corporate action processing:

- missed announcements
- complex structure of information and instruction flows between participants
- late election
- incomplete or incorrect information or instructions

Element 6 The Support and Control Functions

6.1 Risk Governance

On completion, the candidate should:

6.1.1 *understand* how risk governance is established in financial institutions

- the role of the Board of Directors
- the role of the Board Risk Committee
- the role of the Chief Risk Officer

6.2 Middle / Back Office

On completion, the candidate should:

6.2.1 *understand* the role and responsibilities of the middle and back office functions in managing operational risk

6.3 Compliance

On completion, the candidate should:

6.3.1 *understand* the role and responsibilities of the compliance function in relation to operational risk

6.3.2 *understand* the impacts of compliance risk

6.4 Financial Reporting and Regulation

On completion, the candidate should:

6.4.1 *understand* the role of the financial reporting and regulatory function in the context of the operational risk environment

6.5 HR

On completion, the candidate should:

6.5.1 *understand* the role of the HR function in the context of the operational risk environment

6.6 Internal Audit

On completion, the candidate should:

6.6.1 *understand* the role of the internal audit function in relation to operational risk

6.6.2 *know* the requirements of the MiFID Directive in respect of the internal audit function

6.7 IT

On completion, the candidate should:

6.7.1 *understand* the role of the IT function in the context of the operational risk environment

6.8 Legal

On completion, the candidate should:

6.8.1 *understand* the role of the legal function in the context of the operational risk environment

6.8.2 *know* the common legal areas where operational risk issues arise

6.9 Product Development and Marketing

On completion, the candidate should:

6.9.1 *understand* the role of the product development and marketing function in the context of the operational risk environment

6.10 Project Management and Change Management

On completion, the candidate should:

6.10.1 *understand* the role of the project management and change management function in the context of the operational risk environment

Element 7 Operational Risk in the Regulatory Environment

7.1 Achieving Common Standards and Protection

On completion, the candidate should:

7.1.1 *know* how the following directives, regulations, codes, and regimes impact operational risk:

- Corporate governance
- Sarbanes-Oxley
- MiFID, MiFID II, MiFIR
- Dodd-Frank
- Foreign Account Tax Compliance Act (FATCA)
- Conduct Risk
- General Data Protection Regulation (GDPR)
- Sustainable Disclosure Regulation (SFDR)
- Digital Operational Resilience Act (DORA)
- Senior Certification Managers Regime (SM&CR)
- Consumer Duty

7.2 Basel Accords

On completion, the candidate should:

7.2.1 *know* the basic requirements of the operational risk aspects of:

- Basel Accords
- the Capital Requirements Directive

7.2.2 *understand* the main operational risk features of the Basel Accords

7.2.3 *understand* the differences between Pillars 1, 2 & 3 of the Basel Accords relating to operational risk

7.2.4 *understand* the three measurement approaches for operational risk capital requirements under Basel:

- Basic Indicator Approach
- Standardised Approach
- Advanced Measurement Approach (AMA)