

ECB clarification on ICAAPs and ILAAPs and respective package submissions

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1 Background

This document reminds banks of some of the ECB's main supervisory expectations on sound and effective capital and liquidity management in line with the ECB Guides on the internal **capital/liquidity** adequacy assessment processes (ICAAP / ILAAP) published in November 2018. It outlines some clarifications on the governance around the submissions and key content areas which should be reflected in ICAAP and ILAAP packages. Along with this, it should be noted in certain sections that wording will refer mostly to capital risk and management to improve readability, however, similar considerations apply to liquidity risk and management; this is a further reminder that much of the information is common within the ICAAP and ILAAP and as such an appropriate level of coherence is expected, as per the above guides and EBA guidelines.

It remains banks' responsibility to determine and apply the most appropriate approach to ensure sound capital and liquidity adequacy assessment processes tailored to their own specificities. Therefore, these clarifications focus on sound practices instead of setting additional expectations or requirements. Rather, they should be understood as additional clarifications to be considered by banks to refine or improve their capital and liquidity management practices.

Regarding the technical details around ICAAP and ILAAP package submissions, the note *"Technical implementation of the EBA Guidelines on ICAAP information collected for SREP purposes"* that was sent to banks in February 2017 remains applicable and is included in the annex to this document.

2 Governance around ICAAP/ILAAP information collection

It is expected that ICAAPs/ ILAAPs are continuous processes that are subject to strong internal governance arrangements which include sound approval and regular review processes throughout the year, independently from the ICAAP/ ILAAP information submissions to the ECB; these approval processes are sufficiently evidenced in the respective minutes and underlying meeting documentation.

This refers to the internal documentation of all relevant processes, methodologies, arrangements that form the ICAAP and the ILAAP and which form the bulk of the ICAAP/ILAAP packages submitted to Joint Supervisory Teams (JSTs). Banks should

ensure that the submitted documents are of sound quality but there is no general necessity to re-approve or review these documents before submitting them¹.

As an exception from this general approach, it is expected that the capital and liquidity adequacy statements are produced, agreed, and signed by the management body before their submissions².

3 Elements to be considered in capital and liquidity adequacy assessment processes

A sound and effective capital and liquidity planning is expected to address the following supervisory expectations and provide the respective information around the following elements.

3.1 Governance³ and risk inventory

For capital/ liquidity and funding plans, it is expected that banks describe: (i) the management body review and approval of the capital/liquidity and funding plan, (ii) the governance around the capital/liquidity and funding planning process outlining the functions responsible for the process and the functions contributing to it, (iii) the frequencies for regular comprehensive redesigns of capital/liquidity and funding plans based on revised underlying scenarios and assumptions and for more regular updates of capital/liquidity and funding plans. The frequency should be commensurate to the bank's business model, its risk profile, and the dynamics of changes in the external conditions under which the bank operates. Banks should update swiftly their capital/liquidity and funding plans in case of material unforeseen developments (referring, e.g. to [indicative and non-exhaustive list]: macro-financial and geopolitical developments, the ECB's operational framework, the interest rate environment). Banks should also provide evidence on how they use capital/liquidity and funding plans for their risk management and decision-making in general.

Banks also should submit their complete risk inventory⁴ and the underlying assessment of their risk profile, capturing the normative and the economic perspective.

¹ As a matter of example, a material change of a risk quantification methodology applicable since September 2021 should have been approved by the management body before September and it should be subject to review by the second and third lines of defence from September onwards. No additional approval or review of its documentation is needed when including it in the ICAAP package.

² Note that there is no general expectation that institutions produce a specific "ICAAP report" for supervisory purposes. Banks may produce such reports should they consider this meaningful.

³ Please refer to Principles 1 (Governance) and 7 (scenario updates) of the [ECB ICAAP Guide](#).

⁴ See Principle 4 of the [ECB ICAAP Guide](#) for the underlying expectations.

3.2 Forward looking capital and liquidity⁵ adequacy

The ECB expects that banks conduct forward-looking capital adequacy assessments considering the normative and the economic perspective for at least the next three years. This includes in the normative perspective the assessment of the projected fully loaded and transitional figures (capital, eligible liabilities, risk-weighted assets, leverage ratio), and should also include future changes in the legal, regulatory, and accounting frameworks. For the normative perspective and economic perspective, both baseline and adverse scenarios should be applied. The assumptions underlying the scenarios should be clearly described and justified and they should reflect the firm's complexity, risk profile, business model and external conditions under which it operates. More specifically, banks are expected to demonstrate the credibility and robustness of the macroeconomic scenarios underpinning the forward-looking capital adequacy assessments, explaining to which extent macroeconomic assumptions are consistent with official consensus forecasts.

As part of their capital planning process, banks should also identify the most material risk drivers impacting the forward-looking normative and economic capital ratios, including an explanation of the rationale behind the materiality assessment. The capital plan should include a granular analysis on the sensitivity of the capital positions to certain variables (e.g. probability of default of specific credit exposures) underlying these material risk drivers and key scenario assumptions. Reflecting the effect of a variation in the assumptions on the entity's capital projections is important to assess how sensitive a bank's capital position is to changes in forecasted developments and to identify the specific vulnerabilities of its capital position.

When it comes to stress testing⁶, the design of adverse scenarios should reflect the entity's own risk identification, its key vulnerabilities, and severe developments in relevant external conditions⁷. In particular, the underlying macroeconomic assumptions need to reflect an economic downturn that is at least as severe as official consensus downside forecasts. In case of uncertainty, banks should consider various outcomes and take a conservative approach. Banks should also explain in detail the methodologies used for translating scenarios into regulatory and economic capital effects, how these methodologies are calibrated and what are the contributions of the different drivers in the projections (e.g. net interest income, provisioning, risk weights, risk materialisations per risk type and material portfolios/exposures). Banks should be able to demonstrate the credible translation of macroeconomic forecasts into financial and risk metrics and vice versa.

While the normative perspective is more commonly established⁸, the ECB expects that banks implement a sound and reliable economic perspective to manage risks and capital based on economic value considerations and use it in their capital and

⁵ In this section, the wording refers mostly to capital management to improve readability. However, similar considerations apply to liquidity management.

⁶ Please refer to Principle 7 of the [ECB ICAAP Guide](#).

⁷ "External conditions" comprise all relevant conditions under which the bank operates, including the economic, political, regulatory, financial environment (e.g. GDP and unemployment rates, real estate prices, share and bond prices, refinancing sources and conditions, inflation rate, interest rate curves, regulatory / legal environment and changes, market competition and market trends).

⁸ See conclusions on page 5 of the [ECB's report on banks' ICAAP practices](#).

liquidity management including in operational and strategic decisions, e.g. regarding capital distributions. Banks should provide relevant information on short- and medium-term key drivers and vulnerabilities also for economic capital and liquidity adequacy. The economic perspective is also expected to inform the normative perspective projections and vice versa, including e.g. the risk that unrealised losses observed in the economic perspective could materialise also in the normative perspective.

Regarding internal capital, the ECB reminds banks of its expectation to conduct and document an eligibility analysis for each component of internal capital, thoroughly considering the two key criteria “continuity” and “economic value considerations”⁹. For instance, Additional Tier 1 (AT 1) instruments usually do not pass this eligibility test and, thus, are considered problematic if they are included in internal capital¹⁰. The ECB reminds banks that including only Common Equity Tier 1 (CET1) instruments into internal capital does not automatically ensure that the quantified amount of capital is adequate, given the fact that book values do not systematically reflect the economic value of assets and liabilities. Indeed, banks should actively manage their economic substance, including a regular assessment of unrealised losses that may stem e.g. from under-provisioning of credits or decreases of the market value of bonds not booked at fair value. As part of their ICAAP packages, banks should demonstrate how this is ensured.

3.3 Distributions and other capital management actions

A robust capital planning process should focus on how, under baseline and adverse conditions, banks can meet supervisory and economic capital needs, taking into account minimum regulatory capital ratios and internal capital management thresholds. In particular, banks should describe key management actions¹¹ embedded in their capital plans that are needed to maintain capital adequacy (e.g. capital raising, deleveraging, securitisation), elaborate for each scenario and action on the credibility and the feasibility of such actions (including an assessment of signalling effects) and quantify their individual impact on capital ratio projections (capital, eligible liabilities, risk-weighted assets, leverage ratio).

Banks are also expected to maintain and describe a robust governance framework and have effective processes in place to trigger and effectively apply management actions in case of deterioration of their capital position. Banks should list management actions that could be activated while sustainably following their strategy, quantify their impacts and assess their feasibility under different scenarios. Here also there should be a continuum in the respective escalation procedures

⁹ The [ECB ICAAP report](#) (page 46) concluded on this that “there are clear deficiencies in terms of how banks justify the inclusion of capital components in their internal capital.”.

¹⁰ Note that the ECB has expressed its concerns regarding the inclusion of AT 1 instruments in several publications: see Principle 5 of the [ECB ICAAP Guide](#), Chapter 2.5 of the [ECB's report on banks' ICAAP practices](#), the ECB reply to comment number 208 in the [feedback statement in the public consultation of the ICAAP Guide](#), the email on ECB expectations towards ICAAP package submission sent out in February 2021.

¹¹ Please refer to para 47 of the ECB ICAAP Guide for a description of management action-related expectations.

between management actions under the capital planning framework and available recovery plan options.

As part of their ICAAP packages, it is expected that banks provide **evidence on the use of the ICAAP outcomes** (taking into account the normative and the economic perspectives) in concrete management decisions, e.g. in remuneration schemes and decisions, capital allocation across business lines or entities, defining and managing risk appetite, pricing of products, concrete credit decisions.

This also includes evidence on how current and future capital positions, both from the normative and the economic perspective, for baseline and severe adverse scenarios are taken into account in setting shareholder distribution policies and decisions.

- Capital distribution policies and respective decisions on dividend payments or share-buybacks should be well governed and commensurate with forward-looking capital adequacy. This implies that banks should engage with their JSTs about any material change in their distribution policies or about specific distribution plans before any publication.
- The ECB expects that banks that intend to distribute formalise and document distribution policies that are approved by the management body and that are included in their documentation submitted as part of the ICAAP packages.
- Distribution policies should ensure that distributions do not impact banks' capital positions in a way that could impede their ability to sustainably conduct their business strategies taking into account sound capital targets.
- When designing and communicating profit distribution policies banks are expected to express the ordinary amount to be distributed via cash dividends or share buy backs exclusively as percentage of profits - supervised entities should abstain from indicating absolute amounts. This is in line with the new EBA Q&A 2023_6887.
- With reference to cases of reducing, redeeming or repurchasing own funds instruments different from those under the point above, banks are reminded to refrain from announcing own fund reductions without replacement to the holders of the instruments before the institution has obtained the prior permission of the competent authority, as laid out in Article 28 of the Commission delegated regulation 241/2014.

Banks should remain particularly cautious when distributing interim profits, both limiting the amounts distributed and delaying the pay-outs, as such profits may prove volatile before the closing of the financial year. Distribution plans should be commensurate with forward-looking capital positions both under credible baseline as well as severe institution-specific adverse developments, reflected in a comprehensive set of scenarios, and take into account their impact on the normative as well as the economic perspectives.

On 3/11/2016, the EBA published the final Guidelines (EBA/GL/2016/10) on the collection of information related to the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) (hereafter: “EBA guidelines”). The present document is setting out – where necessary – the technical specifics banks need to follow to ensure a smooth collection of ICAAP/ILAAP information by the joint supervisory teams (JSTs), thus facilitating a consistent approach to assessing institution’s ICAAPs and ILAAPs as part of the supervisory review and evaluation process (SREP).

It is not about setting or prescribing a specific ICAAP/ILAAP approach as it is in the institution’s responsibility to determine and apply appropriate approaches to ICAAP and ILAAP. Moreover, it does not require institutions to produce a specific ICAAP report for supervisory purposes. Accordingly, institutions shall submit the ICAAP and ILAAP information determined by the EBA Guidelines, but taking into account the specifications below concerning the delivery dates, formats and contents with regard to that information. We consider harmonisation in the delivery of ICAAP and ILAAP documentation necessary in order to fulfil the tasks related to the SREP, but the ICAAP and ILAAP are and should remain internal processes of the institution itself. Accordingly, the information items to be covered are prescribed, but the exact format of the documents is generally not¹², thus allowing the use of already existing internal documents.

4.1 Specifications regarding dates and format

ICAAP and ILAAP information shall be provided electronically via the established communication channels to the relevant joint supervisory team (JST).

The information should be provided in accordance with the levels of application of ICAAP and ILAAP set out in Articles 108 and 109 of Directive 2013/36/EU, considering the level of application of SREP as specified in Article 110 of Directive 2013/36/EU and recognising waivers applied pursuant to Articles 7, 8, 10 and 15 of Regulation (EU) 575/2013 and Article 21 of Directive 2013/36/EU.¹³

Starting with SREP 2025, the submission process consists of two legs:

- Annual submission of key documents on 15 March
- Continuous submission of new or updated internal documents
- Institutions are responsible for ensuring that the information provided to the relevant JST is complete and up-to-date by the annual submission date of 15 March.

¹² Exceptions are the EBA and the STE templates for collecting banks’ risk and internal capital figures as well as financial and capital projections.

¹³ For subsidiaries, institutions are invited to contact their JST Coordinator for further operationalisation on a case-by-case basis.

4.1.1 Annual submission of key documents

Banks shall submit annually by 15 March¹⁴ the following key documents to JSTs:

- A capital/liquidity adequacy statement, reflecting the management body's view on capital/liquidity adequacy at the time of submission
- The latest available bank internal capital and funding plan
- A reader's manual (including completeness confirmation)
- For the ICAAP:
 - (i) ICAAP template (submitted via STE, with the preceding year end as the reference date)
 - (ii) Pillar 1 – ICAAP reconciliation document for the ICAAP template data
 - (iii) Financial and capital projections (submitted via STE, with the preceding year end as the reference date)
- For the ILAAP:
 - (iv) ILAAP template (submitted via STE, with the preceding year end as the reference date).
 - (v) EBA funding plan

The reader's manual is intended to facilitate the assessment of the ICAAP and the ILAAP. This manual should provide:

- an overview of the documents available on the annual submission date and their status (new, unchanged, minor changes, major changes), highlighting, where relevant, material changes since their last submission;
- a confirmation by the bank that the documents submitted throughout the year and at the annual submission date are up-to-date and complete;
- an index linking the information items referred to in the EBA Guidelines and in the specifications below to the documents provided by the institution (e.g. a link to a specific document and, where relevant, a reference to specific chapters or pages within the document) or, if information items are not included, an explanation of why the item is not relevant, taking into account proportionality;
- references to ICAAP and ILAAP information publicly disclosed by the institution.

¹⁴ Notes:

a) If 15 March is a weekend day or a public holiday, then the submission date is the first working day after 15 March.

b) For significant institutions where the ECB is the host supervisor, a different submission date may be agreed within the supervisory colleges.

4.1.2 Continuous submission of new or revised internal documents

Throughout the year, banks should submit any relevant new or significantly revised¹⁵ internal ICAAP/ILAAP-related documents (e.g. policy documents, validation reports, stress test documents, risk quantification methodology descriptions, etc.) as soon as these documents become applicable internally. Banks agree with their JSTs whether they should submit some or all documents directly after their inception or whether they submit batches of documents, e.g. on a monthly basis. The continuous submission of documents throughout the year enables a more proactive and effective assessment of banks' ICAAPs and ILAAPs.

When submitting revised documents, banks are required to provide the JST with a description of how the revised document relates to previous versions, including a description of key changes. The reader's manual will enable JSTs to maintain an overview of the full ICAAP/ILAAP package, including the updates of policy and methodology documents.

Where internal documents or the reader's manual refer to both the ICAAP and the ILAAP, it is sufficient to send them just once – in either the ICAAP or ILAAP package – and to explain in the reader's manual(s), where to find the relevant documents.

4.2 Specifications regarding contents

Institutions are expected to provide all information items mentioned in the EBA Guidelines or explain why the items are not relevant to them, taking into account the size, complexity and business model of the institution. As a reminder, institutions are requested to state explicitly in the reader's manual which documentation and information items are not, or only marginally, covered, owing to the application of proportionality with respect to the size, business model and complexity of the institution.

Institutions are responsible for submitting sufficiently granular information to allow JSTs to assess their ICAAPs and ILAAPs.

4.2.1 ICAAP-specific information

Specifications regarding Section 6.2 of the EBA Guidelines – Information on risk measurement, assessment and aggregation

The descriptions of the main differences between Pillar 1 quantification approaches and risk measurement methodologies used for ICAAP purposes (see paragraph 31(c) of the EBA Guidelines) should, as far as possible, be complemented by a quantitative reconciliation between Pillar 1 own funds requirements for risks and

¹⁵ "Significantly revised" means that substantial changes have occurred. Merely editorial changes such as a name change of a department or persons, or a change in the version number of an existing document following a formal re-confirmation, are not regarded as significant revisions requiring a re-submission.

respective ICAAP estimates. Institutions should provide in a separate document a reconciliation that should in particular comprise differences in the scopes and definitions of risks captured and material differences in major parameters (like confidence levels and holding periods) and assumptions (e.g. regarding diversification effects).

The reconciliation is the internal responsibility of the institution and can be done, for example, in two steps:

- First, differences in Pillar 1 vs ICAAP quantifications that result from differences in scope should be explained and quantified. This should cover, for example, differences in the legal entities, exposures and risk types included.
- Second, starting with ICAAP quantifications that are based on the same scope as Pillar 1 quantifications, institutions are expected to perform a risk-by-risk reconciliation at least in a compound way (starting from ICAAP and showing step-by-step the effects of key differences by type of underlying reason for differences (e.g. confidence level), up to the Pillar 1 quantifications).

Institutions are requested to use the STE template (*"ICAAP template"*) to annually provide information on their risk categories and sub-categories (see paragraphs 32(a) and (b) of the EBA Guidelines). Institutions are expected to fill in the template using the numbers they have produced for internal purposes and in line with their internal risk taxonomy. No numbers should be changed or produced as a consequence of the need to fill in the template provided. When filling in the template, banks should take into account the guidance provided in the template under the tab "instructions" and provide the definitions internally used to define the risk categories and subcategories.

Specifications regarding Section 6.3 of the EBA Guidelines – Information on internal capital and capital allocation

The description of the main differences between internal capital element/instruments and regulatory own funds instruments should be complemented by a quantitative reconciliation between internal capital and regulatory own funds (see paragraph 33(b) of the EBA Guidelines). Institutions should include this capital-related reconciliation into the document on the risk-related reconciliation mentioned in the first paragraph of this section.

4.2.2 ILAAP-specific information

Specifications regarding Sections 5.4 and 7.6 of the EBA Guidelines – Information on stress testing framework and programme

Institutions are requested to annually provide information on the internal stressed assumptions (ILAAP template) used for the quantification of liquidity adequacy by 15 March following the STE (short term exercise) rules for submission.

4.2.3 ICAAP and ILAAP conclusions and quality assurance

Specifications regarding Section 8 of the EBA Guidelines – ICAAP and ILAAP conclusions and quality assurance¹⁶

Capital Adequacy Statement (CAS) and Liquidity Adequacy Statement (LAS)

Institutions should include in their ICAAP and ILAAP packages two separate documents (“Capital Adequacy Statement” and “Liquidity Adequacy Statement”) containing **concise** statements about the view of the management body of the institution’s capital/liquidity adequacy, supported by analysis of the ICAAP/ILAAP set-up and outcomes. These documents should comprise indicatively about fifteen pages each, allowing for the inclusion of sufficient substantiating evidence for the institution’s capital/liquidity adequacy, while being concise and limited to key aspects and, thus, ensuring full accountability of all management body members.

Further guidance on expected CAS contents

It is expected that the CAS at least addresses the following aspects (not in order):

- discuss how the ICAAP outcomes are embedded in the overall management and (risk) management processes (including, for example, in reporting, capital allocation, decision-making, limit setting, budgeting, strategy setting, remuneration, and dividend distribution);
- identify actions needed to achieve/maintain capital adequacy and describe key management actions planned that affect capital adequacy (e.g. capital raising, deleveraging, risk reduction) and describe any major changes in the ICAAP, both compared to the previous year and planned for the future (e.g. fundamental methodological changes);
- includes a definition of what adequate capitalisation means from the perspective of the institution, including relevant capital targets, risk appetite, and minimum capitalisation;
- includes an explanation of how this predefined capitalisation, spelled out in all relevant metrics and dimensions, allows the institution to sustainably operate under its intended business model;
- includes the figures for key metrics applied, including relevant capital targets and risk limits for normative and economic internal perspectives over the short and medium term for baseline and adverse scenarios;
- explains the broad concept of the internal capital and describes the risks that are material for the institution, given its current and future business activities, and the main risk quantifications methodologies;

¹⁶ Note: In the SSM, the CAS and the LAS are the documents institutions submit in accordance with paragraph 10(e) of the EBA Guidelines (“summary of main conclusions from ICAAP and ILAAP and quality assurance information as specified in Section 8 of these Guidelines”)

- elaborates on the perspectives that are taken into account, also discussing expected changes in regulatory/legal/accounting frameworks (e.g. impact of IFRS 9) and their meaningful combination into a holistic assessment of the capital adequacy;
- explain the key stress testing activities and conclusions, including in terms of management actions;
- highlight main weaknesses of the ICAAP and how they are being addressed.

Further guidance on expected LAS contents

It is expected that the LAS at least addresses the following aspects (not in order):

- includes a definition of what an adequate liquidity and funding position means from the perspective of the institution, including relevant buffer targets, risk appetite, minimum level of stable funding;
- includes an explanation of how this predefined buffer and stable funding position, spelled out in all relevant metrics and dimensions, allows the institution to sustainably operate under its intended business model;
- includes the figures for key metrics applied, including relevant liquidity and funding targets and risk limits for legal and internal liquidity and funding perspectives over the short and medium term for baseline and adverse scenarios;
- explains the broad concept of the internal buffer and stable funding definition and elaborate on the risks that are material for the institution, given its current and future business activities, and on the concepts of the main risk quantifications methodologies;
- elaborates on the perspectives that are taken into account, also discussing expected changes in regulatory/legal/accounting frameworks (e.g. impact of the LCR phase-in) and their meaningful combination into a holistic assessment of the liquidity and funding adequacy;
- explains the key stress testing activities and conclusions, including in terms of management actions;
- discusses how the ILAAP is embedded in the overall (risk) management process leading to: (i) regular stress testing and regular contingency funding plan assessment; (ii) consistency between business limits, risk appetite statement and ILAAP stress testing; (iii) the funds transfer pricing being used as an effective way to steer the business; (iv) the ILAAP outcomes being discussed when (funding) strategy is discussed; and (v) regular monitoring and update of the collateral management framework and intraday liquidity risk management framework;
- identifies actions needed to achieve/maintain liquidity and funding sustainability adequacy, describe key management actions planned that affect liquidity and

stable funding adequacy (e.g. fundraising, deleveraging, risk reduction), and describe any major changes in the ILAAP, both compared to the previous year and planned for the future (e.g. fundamental methodological changes);

- highlights main weaknesses of the ILAAP and how they are being addressed.

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