EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

ECB Guide to the internal capital adequacy assessment process (ICAAP)

Institution/Company

EACB - European Association of Co-operative Banks

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General comments

Template for comments

ECB Guide to the internal capital adequacy assessment process (ICAAP)

Please enter all your feedback in this list.
When entering feedback, please make sure that:
- **each comment deals with a single issue only;**
- **you indicate the relevant article/chapter/paragraph, where appropriate;**
- **you indicate whether your comment is a proposed amendment, clarification or deletion.**

Deadline:	4 May 2018

ID	Chapter	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data
1	Principle 2	23	8	Clarification	We understand the aim to make ICAAP a central element of the overall management of the institutions. What should be further elaborated and clarified is however what is meant by and how the ECB expects the ICAAP to ensure the ongoing effectiveness of the Risk Appetite Framework.		,	Don't publish
2	Principle 2	29	9	Clarification	We understand that the “intended actions with regard to its risk” only relate to ex-ante actions such as the once mentioned and not to ex-post actions (e.g. what specific actions are taken once risks materialize and/or RA limits are breached). We would appreciate a clarification in this respect.		,	Don't publish
3	Principle 2	30	9	Amendment	It is unclear which “management buffers” are meant here. It seems that the reference would be to the buffer between the regulatory requirement and the Risk Appetite Limit. If (also) the buffer between the Target and the Risk Appetite limit is meant, we do not see the logic in the ECB’s expectation that this management buffer is to be set as part of the RAF.		,	Don't publish

4	Principle 3	35	11	Amendment	We believe that redundant coverage of capital needs should be avoided. In the SREP process the ICAAP calculations are part of the determination of additional own funds to cover unexpected losses. Also, the P2G as defined in the CRD V proposal is intended to be a “buffer” to avoid any breach of own funds requirements (Pillar 1 and Pillar 2). Obliging institutions to hold an additional management buffer above the P2G would lead to an unnecessary and disproportionate double fail-safe where the P2G is used as a safety buffer for the P2R and the management Buffer as a safety buffer to the P2G. We rather suggest that if the institution comes to a situation where a higher management buffer than the P2G is needed, it should determine the buffer to an extent and quality appropriate to the capital needs.	Institutions currently face enormous capital expectations from the SREP, capital buffers and the MREL. Any further additional burden should be avoided to enable the smooth functioning of credit provision. Also, the above mentioned own funds safeguards should be considered as already sufficient.	,	Don't publish
5	Principle 3	i	11	Amendment	We believe it is necessary to elaborate further on the criteria used by the ECB to determine the proportionality of the ICAAP to allow institutions to have a comprehensive outlook on whether/how their internal processes would meet supervisory expectations.		,	Don't publish
6	Principle 3	37	12	Amendment	It is still unclear how the P2R and P2G are determined by the ECB. Thus it is difficult for the banks to perform appropriate projection for the P2R & P2G for the remaining part of the 5 year horizon. The ECB should provide more details on this to allow banks to better forecast.		,	Don't publish

7	Principle 3	43-52	18	Amendment	We understand that it is prudent/reasonable to take certain material fair value/mark-to-market losses into account in the negative scenarios of the normative perspective as these losses may materialize in these scenarios. Therefore these losses should be made transparent and appropriately taken into account in the normative approach. However, we do not agree that a fully fledged economic value perspective of the complete balance sheet is necessary to achieve that goal. Furthermore, currently the definition of “economic perspective” remains unclear, leading to (a lot of) uncertainty in the calculation of the economic perspective, which in turn makes it difficult to come up with a consistent economic view for the total balance sheet. Our proposal would therefore be to avoid a full economic view on the balance sheet, but instead let banks focus on those portfolios for which the fair value/mark-to-market losses may have a material impact on the capital adequacy under the negative scenarios that are being run in the normative approach. In relation to this, in example 3.3, how can e.g. management actions and dividend payments be taken into account in the “forward looking view of the economic internal perspective”?		,	Don't publish

8	Principle 5	64	27	Amendment	We believe that there should not be any strict limitation for institutions with regard to the decision of the quality of capital with which to comply with the internal capital need. The expectation of fulfilling this requirement to a large extent with CET1 is too burdensome and disproportionate for several reasons. Firstly, AT1 capital is potential CET1 capital, which is automatically written-down or converted into CET 1 in a situation of capital needs according to the level defined in the final terms or at least when the CET1 of the institution falls below 5,125%. Therefore, this form of capital must also be appropriate for ICAAP purposes. Also, we understand that Tier 2 is not considered as adequate for internal capital purposes. The guide specifies that only capital with a loss-absorption capacity not limited to a non-continuation of the institution should qualify as internal capital. According to Art. 59 of the BRRD relevant capital instruments (including Tier 2) can be written down or converted into other own funds instruments if the institution is considered as likely to fail. In this vein, a loss-participation is also possible if the institution continues to exist. Therefore, we believe that this category should also be considered for internal capital purposes. Additionally, the Pillar 1 minimum requirements which are determined in Article 92(1) (a) to (c) include CET1, AT1 and Tier 2. Moreover, the current P2R provisions as well as the proposed P2R requirements in the CRD V proposal enable institutions to comply with the regulations through all capital instruments (subject to restriction). This flexibility should be retained as it is convenient for both supervisors and institutions. Especially, in the adverse scenario it should be possible to define other own funds items as possible management buffers.	It is necessary to consider the requirements arising from the BRRD in a prudent manner to avoid any discrepancies between the regime for going concern and gone concern. The BRRD and the ongoing developments in this area lead to a new regulatory environment which firstly has to be evaluated for considering the following steps in a second phase. In light of BRRD our formal understanding of loss-absorbing instruments has become broader since it can also affect instruments which were considered as gone concern loss-absorbing, e.g. Tier 2 instruments. This has to be reflected in several regulatory areas. Also, any excessive need of own funds and eligible liabilities has to be avoided due to its costs and their potential superabundance on the capital markets.	,	Don't publish
9	Principle 5	Example 5.1	27	Amendment	We do not see that goodwill cannot be deemed available to cover losses assuming the continuation of the institution. In case specific parts of the institution (incl. subsidiaries) are being sold, the goodwill will be part of the sale price.		,	Don't publish
10	Principle 5	Example 5.2	28	Clarification	It should be clarified whether this means that the bank’s own rating can not be taken into account when determining the value of the liabilities.		,	Don't publish
11	Principle 6	70	29	Clarification	The ECB could clarify and elaborate with further examples what would be considered/expected as a “high level of conservatism”.		,	Don't publish
12	Principle 7	83	33	Amendment	While we agree that stress testing should be part of the normative approach, stress testing and the economic perspective do not seem to be appropriately connected. Stress testing will require the definition of a scenario over time whereas the economic perspective is a point-in-time exercise as indicated in item 44.		,	Don't publish