EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

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

Institution/Company
European Banking Federation

Contact person

Mr/Ms
Mr

First name
Saif

Surname
Chaibi

Email address
s.chaibi@ebf.eu

Telephone number

☐ Please tick here if you do not wish your personal data to be published.

General comments

The links between the normative and economic perspectives need to be clarified. Capital adequacy is expected to reflect both the • economic and the normative approaches. Both perspectives are expected to mutually inform each other in order to build a comprehensive view of institutions' capital adequacy. The ECB guides should provide more details on these interactions. It should also be noted that double .counting of risks should be avoided, in particular due to the potential overlaps between Pilar 1 and the economic approach

The level of conservatism of the guides is too high. The guides are focused towards the purpose of achieving an economic approach as a • second conservative measure of risks. We are of the opinion that the ICAAP should reflect a real/fair measure of risks. In addition, it must be the responsibility of banks to define the level of validation that will apply to the key elements of the ICAAP, depending on their .governance arrangements, but also on their size and complexity

The benefits of risk diversification should be better reflected into the guides. The guides should take into account the correlation between • .risks and the fact that the correlation of risks varies across jurisdictions or business activities

The introduction of the guides into the SREP should be postponed from 2019 to 2020. Considering the degree of complexity and ambiguity • of the Guide, the numerous dilemmas raised by the banking industry (particularly relating to the 3rd Principle) and last but not least, the shortage of time for implementation we believe that it would be beneficial for all stakeholders if the Guide would step into force one year .later

.Further clarification on the use of ICAAP outcomes by the ECB and their interactions with the SREP would be appreciated •

.More insight on how to capture possible links between liquidity and solvency stress tests would be appreciated •

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	1- Introduction	13	4	Clarification	We would welcome more specific definition of the proportionality principle; statements such as »it remains the responsibility of individual institutions to implement ICAAP in a proportionate and credible manner« and that »ICAAPs have to be proportionate to the nature, scale and complexity of the activities of the institution« are simply vague and institutions cannot be ensured a priori of what the ECB expects for each of them (considering the nature, scale and complexity of their activities).	As explained in the comment –to provide clear guidance concerning the expectations.	Chaibi, Saif	Publish
2	Scope and proportionality	1.2	4	Clarification	According to the statement "....a parent institution in a Member State and institutions controlled by a parent financial holding company or a parent mixed financial holding company in a Member State shall meet the ICAAP obligations set out in Article 73 CRD IV on a consolidated basis or on the basis of consolidated situation of that financial holding company or mixed financial holding company....", can we assume that, for an Holding Company operating under different jurisdictions, only one ICAAP at Group consolidated level will be required?	To better understand the scope of application of the ICAAP framework.	Chaibi, Saif	Publish
3	Scope and proportionality	1.2	4	Clarification	Although the guide is principally aimed at SI banks, as stated under “scope and proportionality”, the probability that national supervisors apply this guide to LSIs is high. In this sense, we recommend specifying that in this case, a level playing field must be ensured across the EU.	To ensure a level playing field in the potential application of the guide to LSIs.	Chaibi, Saif	Publish

4	Principle 1		5	Clarification	We understand that a “regular review” refers to an audit risk-assessment based approach to plan ICAAP audit activities. Therefore based on the risk assessment results the audit activities on ICAAP would be planned over a multi-year horizon both on qualitative and quantitative aspects.	To better understand the approach to be followed by the Audit to review regularly ICAAP activities.	Chaibi, Saif	Publish
5	Principle 1		5	Clarification	The current Technical Implementation Guidelines require a limited number of pages for the CAS, while the Draft ECB Guidelines ask for an extensive range of information to be covered (risk identification, measurement, methodologies, etc.). Do you expect the CAS to be a succinct summary with all the topics covered in the additional documentation, or do you expect the CAS to become a fully-fledged document covering all the required topics?	To better understand the content of the CAS.	Chaibi, Saif	Publish
6	Principle 1	other	5	Amendment	We suggest replacing the following sentence in the principle: "In view of the major role of the ICAAP for the institution, all of its key elements are expected to be approved by the management body." by: "In view of the major role of the ICAAP for the institution, all of its key elements are expected to be approved by the management body according to the governance arrangements of the institution.”	Our view is that the "governance arrangements of the institution" should be mentioned in the principle itself.	Chaibi, Saif	Publish
7	Principle 2	17	6	Clarification	The content of footnote 7 would be better placed within the text of point 17 rather than as footnote.	The expectation of a three-level internal review is a relevant point that should not be relegated in a footnote.	Chaibi, Saif	Publish
8	Principle 2	19	6	Clarification	We would welcome clarification of the back-testing and performance measurement exercise envisaged under this paragraph (e.g. which parameters should be tested).	Further clarification would be welcomed.	Chaibi, Saif	Publish
9	Principle 2	26	8	Clarification	We suggest clarifying in greater detail what is meant by "management reporting" in order to avoid any possible misunderstanding. Does it refer (only) to reporting to the management body or to the broader management of the institution? In addition, we would welcome clarification on whether ICAAP outcomes which are expected to be included in the management reports include also internal calculation of capital requirements / management buffer. Considering the examples provided in the current wording of this paragraph (i.e. material evolution of risks, key indicators etc.) and the fact that internal management buffers take into account also estimation of capital needs under stressed conditions which should be conducted on a yearly basis in accordance with Principle 7 we understand that these calculations/estimates are not required to be included in the quarterly report.	As explained in our comment.	Chaibi, Saif	Publish

10	Principle 2	26	8	Amendment	We suggest replacing the following sentence: "The ICAAP is an ongoing process. Institutions should integrate ICAAP-related outcomes (such as material evolution of risks, key indicators, etc.) into its internal management reporting at an appropriate frequency. This frequency of the reporting is expected to be at least quarterly, but, depending on the size, complexity, business model and risk types of the institution, reporting might need to be more frequent to ensure timely management action." by: "The ICAAP is an ongoing process. Institutions should integrate ICAAP-related outcomes into their internal management reporting at an appropriate frequency. This frequency of the reporting is expected to be quarterly, but, depending on the institution, its business model and risk types; it could be adapted by the institution to ensure timely management action when needed."	Our view is that a monthly frequency is not appropriate for capital monitoring. The appropriate frequency should be defined by the institution according to its steering needs and specificities. Of course, ad-hoc analyses can be performed in addition to the regular reporting if needed (impact of a new acquisition on the bank's solvency for instance).	Chaibi, Saif	Publish
11	Principle 2	33	10	Clarification	We seek clarification on the definition of "relevant entities" in the sentence "The ICAAP is expected to ensure capital adequacy at relevant levels of consolidation and for relevant entities within the group, as required by Article 108 CRD IV."	The ICAAPs’ scope (at solo level, sub-consolidated level) should be clarified, taking into account that the Group performs an ICAAP. This request may be linked to #1 of this document.	Chaibi, Saif	Publish
12	Principle 3	35	11	Amendment	There should be no obligation to set an addition management buffer within the economic perspective as this would not be meaningful in our view.	An addition management buffer within the economic perspective would not have an additional effect on management decisions.	Chaibi, Saif	Publish
13	Principle 3	38	12	Clarification	In the normative perspective, all material risks that are not taken into account in Pillar I are assumed primarily through the consideration of P2R. A simulation of the development of this important capital component via a three-year period is not possible in all scenarios due to the lack of transparency in determining this capital requirement. We therefore suggest in a footnote to point out the consideration of other material risks in the P2R and to explicitly mention the assumption of a stable quota in the scenarios.	Needs to be clarified that P2R could remain stable in the stressed scenario.	Chaibi, Saif	Publish
14	Principle 3	39	13	Amendment	We understand that the notion to take into consideration the impact of upcoming changes in legal, regulatory and accounting framework is limited only to known final changes for which clear established rules are already published.	Only certain and well-known changes should be considered.	Chaibi, Saif	Publish

15	Principle 3	40/41	14/15	Clarification	From our point of view, it is not clear enough which capital requirements or expectations are to be met and in which perspective, and what role the management buffer plays in this. Therefore, it should first be made clear that the subject of paragraph 41 is the consideration of scenarios within the framework of the normative perspective. In our understanding, the management buffer, if defined, could in principle be breached. This is also shown in Figs. 3 and 4: Here the absolute minimum is characterized as a red line above the OCR plus P2G (baseline scenario) or TSCR (adverse scenarios). The Draft Guidelines on institution's stress testing (EBA/CP/2017/17; para. 191) also only require compliance with the TSCR for stress. With regard to the consistency of the EBA Guidelines and the ECB Guide, it should be clarified that the management buffer in the baseline scenario (para. 40) and in the adverse scenario (para. 41) can be breached. In addition, we doubt the need for a management buffer in the baseline scenario. Insofar as institutions prepare their planning with due care, it is planned that all regulatory requirements, including capital expectations (P2G), will be met for the planned three subsequent periods, at least in terms of projections. A management buffer could then only be relevant for the adverse scenario - and only if this is desired from aspects of the risk appetite. It should therefore not be expected that a management buffer must also be adhered to in the plan scenario.	Clarification necessary which ratios have to be met in which scenarios and perspectives. A management buffer should not be mandatory in the baseline scenario.	Chaibi, Saif	Publish
16	Principle 3	44	16	Amendment	The requirement to take into account also expected losses for credit risk should be deleted as these losses are not meant to be covered by internal capital – its function is to cover the institution against unexpected losses.	As explained in our comment.	Chaibi, Saif	Publish
17	Principle 3	42	16	Clarification	We request clarification on how to read Figure 4. From the figure it is not clear what the starting point of the capital numbers are. Is it the current level or the capital planning target? The size of the management buffer seems to vary during the stress horizon. It will be useful to provide more insights on how to interpret this information.	Clarification on how to read Figure 4 will avoid misinterpretation of the information it provides.	Chaibi, Saif	Publish
18	Principle 3	49	18	Clarification	The expectation that institutions must assess the extent to which the risks identified and quantified under the economic perspective may impact on its own funds and total risk exposure amount (TREA) under the normative perspective in the future is confusing and not clearly defined. It may also be redundant with P2R.	This paragraph needs to be clarified. The suggested approach would make banks create alternative normative calculations whose implications are not clear. Other risks not considered in Pillar 1 are already being considered in the regulatory view through the P2R.	Chaibi, Saif	Publish

19	Principle 3	49, 51	18	Clarification	When discussing the interaction between the normative and economic perspective, we would welcome further guidance on the application of results of both perspectives which are different when using the same scenario (e.g. under the IRRBB exercise a simulation of the shift in interest rates can lead to positive effects under one perspective and negative effects under another perspective, and vice versa; increase of interest rate curve has positive effect on net interest income under normative perspective and negative effects under economic perspective as it reduces the economic value of capital). How we should consider positive effects in any of these scenarios, or how we should argue different scenarios in different perspectives to aim for negative effect in both scenarios?).	As explained in the comment and example – to provide clear guidance concerning the expectations.	Chaibi, Saif	Publish
20	Principle 3	figure 6	19	Deletion	We suggest to delete the following point in the economic internal perspective: "Capital adequacy concept based on fair value considerations (e.g. net present value approach)".	If we consider credit portfolios calculated on amortised cost, it does not make sense to calculate them on fair value for the capital adequacy purposes. It would be contradictory with the aim to maintain capital adequacy on an ongoing basis.	Chaibi, Saif	Publish
21	Principle 3	3.2	20	Deletion	The so-called hidden losses cannot be taken into account if they lead to a third calculation. If neither the accounting point of view nor the prudential regulation give a proper view and measurement of the risk, there will be no efficient data quality when a third valuation is required.	To avoid another layer of complexity, a third calculation should be avoided.	Chaibi, Saif	Publish
22	Principle 3	3.3	20	Clarification	The section should report examples that clarify how the normative internal perspective is expected to inform the economic perspective, but it is not very clear from the example reported; maybe further examples could help to understand.		Chaibi, Saif	Publish
23	Principle 3	36	12	Clarification	Under the normative perspective it is stated "to cope with other external financial constraints".	This paragraph needs to be clarified, as it is not clear what "other financial constraints" refers to.	Chaibi, Saif	Publish
24	Principle 3	37	12	Clarification	"the institution is expected to take into account, in particular, Pillar 1 and Pillar 2 capital requirements, the CRD IV buffer framework and the Pillar 2 capital guidance". However, P2R and P2G are set on an annual basis. How are these elements expected to be included in a forward looking manner?	Given that ICAAP / ILAAP is a forward-looking process, it is important to clarify if the capital requirements are to be understood dynamically, i.e., should banks make their own estimation of P2R and P2G for the 3 years horizon or simply consider the buffers established by the supervisor static during that period.	Chaibi, Saif	Publish

25	Principle 3	38	12	Clarification	It is necessary to further specify how the economic and Normative capital are linked, in particular: a. What are the risks that are to be included in each one of the approaches? Is it correct to say that only “material” risks are to be taken into account on both perspectives (e.g “normative perspective is expected to take into account all material risks affecting the relevant regulatory ratios”)? b. If a Pillar 1 risk is non-material should it still be considered? c. Some risks may be neither Pillar 1 nor assessed as material. If their quantification is “requested/recommended” by the competent supervisor, should these be considered? “When assessing its capital adequacy under the normative perspective, the institution is expected to take into account all relevant risks it has quantified under the economic perspective and assess to what extent those risks may materialise over the planning period, depending on the scenarios applied”, does it mean the economic perspective merely acts as a complement to the normative perspective through the inclusion of additional risks/fair value approach (economic = normative at point in time/fair value concept underlying the economic perspective.)? If so, is such an approach proportional (i.e.ie, considering “economic” risks but not the economic capital)?	The “economic” and “normative” perspectives are cornerstones in the new Guide and should therefore be totally clarified.	Chaibi, Saif	Publish
26	Principle 3	39	13	Amendment	The intention to incorporate legal, regulatory and accounting upcoming changes should be restricted to known / established future implementation changes. All the rest should be left to buffer determination.	Limiting changes to “changes that are certain (ex: final version of guidelines)” reduces uncertainty and volatility in capital requirements.	Chaibi, Saif	Publish
27	Principle 3	41	15	Clarification	“to fulfil, for example, market expectations even under adverse conditions over the medium-term horizon” is a highly subjective concept, what are “market expectations” / Analysts’ consensus under adverse conditions, as recognised in example 3.1 (page 21) – buffers will be institution specific, external environment, time dependent... Such buffer needs to be in conjunction to any RWA capital add on that the institution may use to account for unknown/miscalculated risk.		Chaibi, Saif	Publish

28	Principle 3	48-51	18	Clarification	The difference between normative and economic seems very blurred as "the projections of the future capital position under the normative perspective are expected to be duly informed by the economic perspective assessments", once again raising the abovementioned issue of proportionality / consistency between risks considered and capital considered. As stated on §51, "the normative and economic perspectives are expected to mutually inform each other", seems to show no clear cut existence between the two perspectives. In the end, the ICAAP modelling exercise corresponds to an "enlarged normative", considering the inclusion of additional risks and fair value assessment.	The "economic" and "normative" perspectives are cornerstones in the new Guide and, as such, they should be made totally clear. Some (more) examples of this mutual information would help.	Chaibi, Saif	Publish
29	Principle 3	Example 3.2	20	Clarification	Determination of hidden losses may overlap with the Expected Loss/NPE backstop deductions. Hidden losses cannot be taken into account if they lead to a third calculation. If neither the accounting point of view nor the prudential regulation give a proper view and measurement of the risk, there will be no efficient data quality when a third valuation is required.	Need to avoid double counting of capital deductions. The difference between the market value and the BV is, in a sense, already captured in the expected loss, which is already deducted from capital. Hidden losses should be used only to provide an example.	Chaibi, Saif	Publish
30	Principle 3	figure 6	19		We suggest informing banks, in the context of the SREP letter, explicitly about the amount of the P2R component for each risk type. In case this is rejected, we see the danger of potential double counting (e.g. IRRBB, credit spread risks) when transferring risks from the economic perspective into the normative perspective.	We believe that a normative and an economic perspective in the context of risk bearing capacity concepts is fundamentally meaningful. The concept can't be entirely implemented though due to the practice of the ECB. In order to put all capital components consistently in perspective to the single risks and valuation types, banks would need transparency on the exact amounts and constituents of P2R for all risks. Otherwise a double counting of risks can't be ruled out: On the one side in form of a SREP capital requirement (P2R), based on the regulatory assessment of risks not covered in Pillar I and at the same time through transfer of a risk quantified within the economic internal perspective into the normative perspective (e.g. when determining management buffers or assessing the impact of adverse scenarios).	Chaibi, Saif	Publish

31	Principle 4	56	22	Deletion	These guidelines are supposed to be only principles. Why to mention shadow banking and EBA guidelines? It is too much detailed for principles. We propose deletion of this paragraph as it depicts only one aspect, i.e. EBA guidelines relating to shadow banking, from the myriad of risk segments that should also be and are taken into account under ICAAP of each institution (e.g. connected persons, outsourcing providers, exposures associated with particular high risk etc.).	These principles should remain principles and provide high level overview. They should not include detailed mention of specific subjects.	Chaibi, Saif	Publish
32	Principle 4	(iv), Example 4.4, 68	22, 25, 29	Deletion	We suggest deleting paragraph 68 and footnote 23. Principle 4 (iv) states that institutes are "expected either to allocate capital to cover the risk or to document the justification for not holding capital." These guidelines are supposed to be only principles. Why to focus specifically on the risk of outsourcing? It is too much detailed for principles.	Paragraph 68 is misleading or at least unclear in the necessity of risk quantification and we want to clarify that institutions can exclude (material) risks from allocating capital as set out in principle 4 (iv) and that institutes can set adequate materiality thresholds to exclude risks from a risk quantification. These principles should remain principles and provide high level overview. They should not include detailed mention of specific subjects.	Chaibi, Saif	Publish
33	Principle 4	(iv), 66- example 5.1, 68	22, 27, 29	Amendment	Example 5.1 indicates that in general, goodwill cannot be deemed as available to cover losses. We agree that this may be the case for banks that are just located in one geography / legal entity. However internationally diversified banks may have the option of selling one or more of their subsidiaries and thus obtaining value from the goodwill of that subsidiary without putting at risk the continuity of the banking group as a whole.	In the case of diversified international banks, the goodwill located in the different subsidiaries represents a real economic value that may be tapped into in case of need. This could be considered by the economic capital model. Paragraph 68 is misleading or at least unclear in the necessity of risk quantification and we want to clarify that institutions can exclude (material) risks from allocating capital as set out in principle 4 (iv) and that institutions can set adequate materiality thresholds to exclude risks from a risk quantification.	Chaibi, Saif	Publish
34	Principle 5	Example 5.1	27	Clarification	The example is related to the adjustments made to regulatory capital in order to obtain the internal capital; at the end of the section reference is made to some items (goodwill, DTAs, etc.) that typically are deducted from regulatory own funds. It is not clear if a similar deduction is expected to be applied to internal capital too or if those deduction might be avoided in the internal capital calculation. Moreover it is not clear the reference to Tier 2 capital instruments among the elements that that are expected to be deducted from own funds, since Tier 2 capital is part of own funds. A clarification would be appreciated. Example 5.1 indicates that in general, goodwill cannot be deemed as available to cover losses.	Some of the items indicated are typical adjustments made to regulatory capital in order to achieve internal capital, therefore the example should be very clear in indicating what are the ECB expectations are about how those adjustments should affect internal capital. In the case of diversified international banks, the goodwill located in the different subsidiaries represents a real economic value that may be tapped into in case of need. This could be considered by the economic capital model.	Chaibi, Saif	Publish

35	Principle 5	Example 5.1	27	Deletion	This example gives a definition of the economic capital, with a given starting point which is the regulatory one. The entity should choose which kind of equity.	The economic capital definition should be entity specific.	Chaibi, Saif	Publish
36	Principle 5	64	26-27	Deletion	These guidelines should not supersede the European regulation. The definition of the internal capital from an economic point of view should be entity specific. The normative perspective already provides a definition of the regulatory own funds, no additional regulation should describe what economic capital is.	The economic capital definition should be entity specific.	Chaibi, Saif	Publish
37	Principle 5	64	26-27	Amendment	[…] "it is expected that a large part of internal capital components will be expressed in Common Equity Tier 1 (CET1) own funds." The EBA enables credit institutions to have internal capital components expressed in all types of own funds (CET1, AT1 and T2), so credit institutions should not be required such restriction in the ICAAP ECB guide.	The internal capital definition should be entity specific and composed of all types of own funds (CET1, AT1 and T2). In fact, representing Own Funds the starting point for Internal Capital calculation, the fulfillment of the Overall Capital Requirement will ensure the relevance of CET1 component vs. AT1 and T2 components (in alignment with regulatory requirements). In addition, internal capital definition should be tailored to risk quantification methodology adopted by each institution. As an example, if a conservative approach is adopted, and the confidence interval level used to calculate economic capital is set at high level (i.e. 99.96%-99.99%), regardless of the going concern approach of the ICAAP, it is assumed that the institution evaluates its risk profile close to its insolvency situation, therefore allowing T2 capital other than T1 being part of the Internal Capital definition. The economic capital definition should be entity specific and composed of all types of own funds (CET1, AT1 and T2).	Chaibi, Saif	Publish
38	Principle 5	66	27	Clarification	We would welcome further clarification of the statement that the institution should reconcile own funds under the normative perspective and internal capital under the economic perspective insofar as possible.	Isn't it legitimate and economically justified to derive to different amounts and why both categories should converge?	Chaibi, Saif	Publish
39	Principle 6	(i)	29	Deletion	We propose deleting the sentence "the institution is expected to apply a high level of conservatism under both perspectives". The measurement of risks in both perspectives must not be conservative but correct. The institutions want to understand how high their risks really are. The instrument to bring conservativism into consideration is not the measurement, but the risk appetite framework. Here the institution must determine the degree of conservatism. This should be clarified in the document.	The supervisory approach should be to measure risks correct. It should be on the discretion of the institutions to determine the level of conservatism by means of the RAF.	Chaibi, Saif	Publish

40	Principle 6	(ii)	29	Amendment	In accordance with the principle of proportionality, we disagree with the ECB's expectation that all risk quantification methodologies are subject to internal validation.	Explicit expectation to validate all methodologies simply does not fit into the principle of proportionality.	Chaibi, Saif	Publish
41	Principle 6	68	29	Clarification	We recommend introducing further explanation about the ECB's expectation concerning the adequacy and consistency in the institution's choice of risk quantification methodologies for types of risks which are difficult or practically impossible to quantify (e.g. conduct risk, reputational risk, "unknown unknowns" etc.).	Expectation is legitimate but the tools for implementation of the quantification methodologies are not developed for certain types of risks.	Chaibi, Saif	Publish
42	Principle 6	77	31	Amendment	Paragraph 77 of the guidelines indicates that "supervisors as a matter of principle will not take into account inter-risk diversification in the SREP. Institutions are expected to take this into account, and be cautious when applying inter-risk diversification in their ICAAP". Additionally paragraph 78 indicates that "The institution is expected to be fully transparent about assumed risk diversification effects and, at least in the case of inter-risk diversification, report gross figures in addition to net figures". Regarding these two paragraphs we would like to comment the following: Inter-risk diversification is also related to geographic diversification. Two different risks may be correlated in a given country but that correlation may weaker across geographies. For example credit and operational risk in the EU may be somehow correlated but credit risk in the EU is weakly correlated with operational risk in Latin America. Likewise, the correlation between wholesale credit risk and market risk is expected to be higher than the correlation between retail credit risk and market risk given the different nature of these activities.	We agree with the principle of transparency and conservatism regarding diversification. However we consider that not taking into account any type of inter-risk diversification in the SREP may discourage geographic and business diversification of EU banks.	Chaibi, Saif	Publish
43	Principle 6	68	29	Clarification	The point highlights the ECB expectation of a quantification also of those relevant risks that are difficult to assess. In this regard it would be very useful to explicitly indicate if there are some particular widespread risks, hard to be quantified, that the ECB expects to be generally quantified.	The assessment of risks difficult to quantify is a very challenging challenging issue, a more clear understanding of what risks are considered by the ECB as essential to be quantified would be very important.	Chaibi, Saif	Publish
44	Principle 7	(iii)	33	Clarification	In relation to the stress testing update it is not clear if it is always necessary to perform a quarterly complete re-running of the stress test exercise (with a formal approval of the governing body), or if it is necessary only when relevant changes have occurred that require a new adverse scenario to be applied, in all other circumstances being satisfactory an assessment that "no new relevant circumstances require an update of the stress test". In this regard a clarification would be appreciated.	Running a complete institution wide stress test is a process that absorbs a consistent amount of time and many resources; it would be important to understand if ECB expects always a quarterly stress test re-running, that otherwise may often not be strictly necessary.	Chaibi, Saif	Publish

45	Principle 7	90	34	Clarification	How do you expect reverse stress testing to challenge the comprehensiveness and conservatism of the ICAAP framework assumptions? Would it be sufficient to use ICAAP scenarios as a starting point for developing Recovery Plan scenarios, and analyze the difference between the two scenarios?	To better understand the role of reverse stress test within the ICAAP.	Chaibi, Saif	Publish
46	Principle 7	(iii)	33	Clarification	“The impact of the scenarios is expected to be updated regularly (e.g. quarterly). In the case of material changes, the institution is expected to assess their potential impact on its capital adequacy over the course of the year.” Not clear the definition of “materiality” and how the “impact of the scenarios” in the sentence above differs from the concept “of its potential impact on its capital adequacy”. Running a full set of scenarios for each quarterly update does not seem proportional. A two-step approach would seem more appropriate: assess on potential changes on the scenarios, if relevant, then run the exercise to assess impact on capital adequacy.		Chaibi, Saif	Publish
47	Principle 7	83 and 86	33, 34	Clarification	“When defining the set of internal stress scenarios and sensitivities” and “the range of adverse scenarios is expected to adequately cover severe economic downturns and financial shocks, relevant institution-specific vulnerabilities, exposures to major counterparties, and plausible combinations of these” point to the running of several plausible adverse scenarios. The scenarios are expected to cover at least 3 years. Scenario building and analysis is a very resource consuming exercise. The exercise should only be comprised of baseline + adverse scenario that already addresses the most relevant risks the institution faces.		Chaibi, Saif	Publish
48	Principle 7	83	33	Clarification	There is no further need for a separate economic stress-testing programme and it should be the institutes choice whether to implement one.	There is no significant need for a separate economic stress-testing programme reflecting principle 3, e.g. as potential impacts from the economic perspective are considered in the normative perspective (paragraph 48 ff.).	Chaibi, Saif	Publish
49	Principle 7	83	33	Amendment	It is not possible to have two or more sets of stress testing, one from a normative perspective and the other one from an economic perspective. If so, what to manage with the results? The capital buffer is based upon the stress test results.	There should not be a multiple set of stress test in this principle. The EBA guidelines should be sufficient to deal with stress test subject.	Chaibi, Saif	Publish
50	Principle 7	other	33	Amendment	We suggest replacing the following sentence: "In addition, institutions are expected to conduct reverse stress testing in a proportionate manner." by: "In addition, institutions are expected to conduct progressively reverse stress testing in a proportionate manner."	The implementation of reverse stress testing is a challenging issue. Additional time should be provided to the institutions to implement their target operating model.	Chaibi, Saif	Publish

51	Principle 2	28-30	9	Clarification	§28-30 refer to"institution", but also of "group-wide". Are "institution" and "group" used here interchangeably or is there a difference?		Chaibi, Saif	Publish
52	Glossary		38	Amendment	The main text speaks of the "normative perspective", while the economic perspective uses "internal capital" to cover risks. The Glossary doesn't mention the "normative perspective", but instead speaks of the "normative internal perspective".		Chaibi, Saif	Publish
53	Principle 3	39-42	14-16	Clarification	Page 14 refers to management buffers in plural, suggesting various management buffers may exist. Figure 2 shows a management buffer above P2G under normal circumstances and another one above the TSCR under stress and figures 3 and 4 seem to show a different development of the management buffer. So should there be a single management buffer (per entity) or should there be several different ones?		Chaibi, Saif	Publish
54	Principle 3	40-42	15-16	Clarification	Figures 3 and 4 seem to suggest banks should operate significantly above the management buffer. We are of the opinion, that once the management buffer is set, we should manage capital at that level, not above.		Chaibi, Saif	Publish
55	Principle 3	48	18	Clarification	Under the economic perspective, the ECB Guide seems to only allow for the application of economic value as basis for the calculation of internal capital (see e.g. page 18 where it is stated that 'under the economic perspective, economic risks and losses affect internal capital immediately and to their full extent', and where they also refer to the EBA guidelines for IRRBB). This probably means that internal capital for e.g. capital investments should be based on the potential value change if rates/spreads go up, thereby possibly limiting the ability of banks to invest long term and reduce earnings volatility. Has this consequence been considered?		Chaibi, Saif	Publish
56	Principle 1	15 and 21	5, 6	Amendment	According to the guide, "The management body is expected to produce and sign the CAS […]". "The authority to sign the CAS on behalf of the management body is expected to be decided by the institution in light of national regulations and relevant prudential requirements and guidelines…"	Please note that the formal execution of the CAS would not increase the stringent diligence duty the management body has to comply with in each and all of its decisions, and it would add more operational complexity. Additionally, the expectation that the document is signed on behalf of the management body is a mere formality which is not consistent with the decision-making process of the management bodies (through voting majorities) foreseen in national regulations. Therefore, we suggest amending the wording as follows: "the management body is expected to produce and approve the CAS."	Chaibi, Saif	Publish

57	Principle 1	15	5	Amendment	"The management body is expected to […] approve the key elements of the ICAAP, for example: the governance framework; internal documentation requirements; the perimeter of entities captured, the risk identification process, and the internal risk inventory and taxonomy, reflecting the scope of material risks; risk quantification methodologies, including high-level risk measurement assumptions and parameters (e.g. time horizon, diversification assumptions, confidence levels, and holding periods), supported by reliable data and sound data aggregation systems; methodologies used to assess capital adequacy (including the stress-testing framework and a well-articulated definition of capital adequacy)."	The management body defines and oversees the implementation of the strategy, key policies and governance arrangements to ensure effective and prudent management of the institution (EBA guidelines on internal governance, Title II, section 1). The operational implementation of these strategies on a day-to-day basis, on the other hand, corresponds to the senior management. In particular, we suggest the following amendments / deletions: Delete "internal documentation requirements" for its minor relevance; Amend the reference that the management body is expected to approve "the risk identification process and the internal risk inventory and taxonomy"; as it is not consistent with paragraph 57, stating that the management body is also responsible for deciding which types of risk are material and to be covered with capital. Amend the paragraph regarding "risk quantification methodologies", including a reference to the governance framework and the role and responsibilities of the management body regarding risk quantification methodologies and ICAAP established in other ECB Guides and supervisory guidelines, to ensure consistency.	Chaibi, Saif	Publish
58	Principle 1	17	6	Clarification	"According to Article 73 CRD IV, the ICAAP shall be subject to regular internal review Both qualitative and quantitative aspects, including, for example, the use of ICAAP outcomes, the stress-testing framework, risk capture and the data aggregation process, are expected to be considered by this regular internal review,7 including proportionate validation processes for internal risk quantification methodologies used. For this purpose, the institution is expected to have in place adequate policies and processes for internal reviews".	We would like to have further clarification on the expectation about this point, mainly regarding roles and responsibilities of second and third lines of defense.	Chaibi, Saif	Publish
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