



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

Institution/Company

Združenje bank Slovenije (The Bank Association of Slovenia)

Contact person

Mr/Ms

First name

Surname

Email address

Telephone number

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

General comments

Please refer to our cover letter. In addition, we express our concern over the level of (over)conservatism (with references to the paragraphs 2, 34, 35, 70, 77-78 etc. of the Guide) and point out the fact that outcome of the ICAAP should be a realistic and objective measure of risks faced by the bank which should than be challenged by the supervisor in a constructive dialogue during the SREP process

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 too vague and institutions cannot be assured a priori what the expectations of the ECB for each of them are (considering the nature, scale and complexity of their activities).	As explained in the comment – to provide clear guidance concerning the expectations.	,	Don't publish
2	Principle 1	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.	,	Don't publish
3	Principle 1	20	6	Clarification	We would ask for a sample / draft of the Capital Adequacy Statement (despite our full understanding that such statement is specific to each individual institution and that no uniform solution could be »prescribed«); we also think that CAS should be a concise and relatively short statement which provides key information of the capital adequacy and not a document containing 15+ pages, as requested in some instances from banks by the regulators.	Providing an illustrative example would assist banks in preparing their CAS.	,	Don't publish
4	Principle 2	v	7	Amendment	Would it not be more appropriate to use the term »return« instead of »rewards«? If not, please clarify.	"Reward" is a generic term; in financial management term "return" seems to be more appropriate.	,	Don't publish

5	Principle 2	26	8	Clarification	We suggest to clarify 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.	,	Don't publish
6	Principle 2	28-31	9	Amendment	We would welcome further clarification of the interaction and hierarchy between RAF/RAS and ICAAP (perhaps in a separate guideline, given the complexity of the RAF/RAS concept; interconnectedness and/or interdependence (e.g. is ICAAP part of RAF or vice versa) is not clear from the current wording). Alternatively, it might be better to exclude the existing paragraphs of the Guide which relate to RAF/RAS (i.e. paragraphs 28-31 and references in other paragraphs, e.g. 67) from this Guide as they do not sufficiently clarify the relations with ICAAP, and to publish a separate Guide on the subject of RAF/RAS.	As explained in our comment.	,	Don't publish
7	Principle 3	(ii)	11	Clarification	We understand that the baseline scenario which the institution applies in its multi-year assessment of the ability to fulfil its capital-related regulatory and supervisory requirements/demands under the normative perspective is the same as the baseline scenario which is used in its multi-year capital planning and budgeting exercise (referred to in paragraph 39) and ask you for your confirmation. In addition, we question why are more adverse scenarios necessary and not only one. Namely, this causes the challenge of selecting the most appropriate one with no clear selection criteria. Please comment.	As explained in our comment.	,	Don't publish
8	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 in published (as you are well aware, most of upcoming regulatory changes are in the form of drafts and therefore not final as such, also the time of implementation is not clear in many instances).	Only certain and well known changes should be considered.	,	Don't publish

9	Principle 3	43	16	Clarification	<p>In terms of economic capital adequacy, it should be clarified into more methodological details how the fair value of the institution's capital should be estimated (e.g. the net present value concept or other possible approaches), including the criteria for selection of the institution's adequate discount factor. Any practical examples of such calculations would be highly appreciated.</p> <p>In addition, the proposed discount factor for IRRBB in the footnote 16 is not consistent with IFRS9. Namely, in EPA's Guidelines on the management of IRRBB on p. 30 it is stipulated that "When assessing IRRBB, institutions are encouraged to use different types of yield curve, including instrument/credit-specific yield curves, for their own internal calculations of IRRBB. The set of calculations should always include a measurement of the IRRBB using a 'risk-free' yield curve that does not include instrument-specific or entity-specific credit risk spreads or liquidity risk spreads." and in BCBS's Standards for Interest rate risk in the banking book (April 2016) on p. 15 it is stipulated that "Cash flows should be discounted using either a risk-free rate or a risk-free rate including commercial margins and other spread components", while for IFRS9 it is strictly requested to use effective interest rate (EIR) to discount the expected cash flows.</p>	As explained in our comment.	,	Don't publish
10	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.	,	Don't publish
11	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.	,	Don't publish

12	Principle 4	54	22	Clarification	Should the wording »any concentrations within and between those risks (...)« be replaced with »any concentrations within and correlations between those risks (...)« as the term »concentrations between risks« might be unclear, or, alternatively, deserves further clarification/elaboration.	As explained in our comment.	,	Don't publish
13	Principle 4	56	22	Deletion	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.).	As explained in our comment.	,	Don't publish
14	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?	,	Don't publish
15	Principle 6	ii	29	Amendment	In accordance with the principle of proportionality, we strongly 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.	,	Don't publish
16	Principle 6	68	29	Clarification	We seek further explanation of 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.	,	Don't publish
17	Principle 6	78	31	Clarification	We would welcome further clarification of the terms »gross« and »net figures«. Do we understand correctly, in accordance with paragraph 55, that gross figures relate to quantification of risks without taking into account specific risk mitigation techniques and net figures relate to quantification of risks after taking into account these mitigation actions.	As explained in our comment.	,	Don't publish
18	Principle 6	footnote 26	30	Clarification	Confidence level below 99.9% means that the institution would accept higher risk (lower economic capital for unexpected losses). How is that explanation consistent with expectations about conservatism?	As explained in our comment.	,	Don't publish
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