



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

Institution/Company

French Banking Federation

Contact person**Mr/Ms****First name****Surname****Email address****Telephone number**

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General comments

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers

General comments

The French Banking Federation welcomes the opportunity to comment on the ECB's consultation on the guide to the internal capital adequacy assessment process ("hereafter "the ICAAP Guide)

Indeed, the ICAAP Guide provides banks a better understanding of ECB's expectations on Institutions' ICAAPs. In our view, the ICAAP Guide should set an adapted generic framework in which Banks can develop internal methodologies. As a consequence, we generally concur with the implementation of economic internal perspectives based on internal models consistent with the regulatory framework

Even so, we would like to take the opportunity of this response to highlight 3 key topics for which our views are significantly different from the ones developed in the ICAAP Guide

The economic internal perspective should remain consistent with the objective of the ICAAP to maintain Institutions' solvency on an ongoing basis

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	4	2	Amendment	Sentence: It "feeds" into the SREP assessment...	It should be explicitly described how the ICAAP outcomes are used for the purposes of the SREP assessment and in what manner the Pillar 2 Requirements and Pillar 2 Guidance are calibrated.	,	Don't publish
2	Principle 1	Other	5	Amendment	We suggest to replace 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. Indeed, it is the responsibility of the Institutions to define the level of validation applicable to the key elements of the ICAAP, depending on its governance arrangements, but also depending on its size and complexity.	,	Don't publish

3	Principle 1	Other	5	Deletion	<p>We suggest to delete section 15.</p> <p>"The management body approves key elements of the ICAAP</p> <p>15. The management body is expected to produce and sign the CAS, and approve the key elements of the ICAAP, for example:</p> <ul style="list-style-type: none"> • 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). 	<p>The list of the ICAAP key elements and associated documentation has to be defined internally by each institution. Depending on its governance arrangements, each institution will define the level of approval that should apply.</p> <p>Indeed, the form and content of the ICAAP key elements that will be directly approved by the Management Body vary depending on the size and complexity of the considered institution.</p>	,	Don't publish
4	Principle 2	26	8	Amendment	<p>We suggest to replace the following sentence:</p> <p>"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.."</p> <p>by:</p> <p>"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."</p>	<p>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).</p> <p>In addition, it is the responsibility of the institution to define the form and content of the ICAAP reporting that are presented to the Management Body. Indeed, the design of the ICAAP reporting framework largely depends on the Institutions' specific ICAAP methodologies.</p>	,	Don't publish
5	Principle 2	28 to 31	9	Deletion	<p>There is a real need to have a clear definition of the RAF and RAS as there is no European guidelines. But the RAF and RAS should be detailed in a specific document not within the ICAAP guidelines.</p>	<p>Need of a RAF and RAS guidelines</p>	,	Don't publish
6	Principle 2	33	10	Clarification	<p>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."</p>	<p>The ICAAPs' scope (at solo level, sub-consolidated level) should be clarified, taking into account that the Group performs an ICAAP.</p>	,	Don't publish

7	Principle 3	Other	11	Amendment	<p>We suggest to replace the following sentence:</p> <p>"The ICAAP plays a key role in maintaining the continuity of the institution by ensuring its adequate capitalisation. In order to ensure this contribution to its continuity, the institution is expected to implement a proportionate ICAAP that is prudent and conservative and integrates two complementary internal perspectives."</p> <p>by:</p> <p>"The ICAAP plays a key role in maintaining the continuity of the institution by ensuring its adequate capitalisation. In order to ensure this contribution to its continuity, the institution is expected to implement a proportionate ICAAP that is prudent and integrates two complementary internal perspectives."</p>	<p>Although we agree that the normative perspective should provide a conservative framework for managing Institutions' solvency, our view is that the ICAAP should focus on providing an economical view of Institutions' solvency that should be useful for steering purposes.</p> <p>In order to be useful for steering purposes, the ICAAP should not consider conservatism as a objective in itself. The ICAAP should indeed be cautious, cover all material risks, and provide the Management body with an economical - risk sensitive - view on capital adequacy.</p>	,	Don't publish
8	Principle 3	43	16	Deletion	<p>We suggest to delete the following sentence:</p> <p>"[...] taking into account fair value considerations for its current assets, liabilities and risks."</p>	<p>Our view is that the ICAAP should present an economical perspective, but should not divert from accounting principles e.g. by changing the asset valuation rules. Otherwise, the normative and the economic perspective will not be comparable anymore, and ICAAP outcomes will consequently become useless for internal solvency steering purposes.</p>	,	Don't publish
9	Principle 3	52	19	Amendment	<p>Management of the capital adequacy cannot be both from the economic perspective and from the normative perspective when the internal model method is used for the normative perspective. One can be derived from the other one to calibrate the management buffer.</p>	<p>It is not possible to manage risks with the implementation of two perspectives and keep a good level of data quality.</p>	,	Don't publish

10	Principle 3	Figure 6	19	Deletion	<p>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)"</p>	<p>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.</p> <p>On the one hand, it would be contradictory with the aim to maintain capital adequacy on an ongoing basis. On the other hand, it would raise important technical issues for credit institutions because such requirement would be too complex to implement in the IT systems.</p>		Don't publish
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11	Principle 3	Other	20	Deletion	<p>We suggest to delete the following sections:</p> <p>"Another example is hidden losses. While assets are conceptually taken into account at fair value/net present value under the economic perspective, the normative perspective is based on accounting and prudential values. Hidden losses become apparent when comparing accounting values and fair values. Having determined the total volume of hidden losses, the institution needs to decide the extent to which those hidden losses may also materialise in the balance sheet/P&L account, and this is expected to be taken into account in the normative perspective."</p> <p>If, for example, an institution has a government bond portfolio that is subject to total hidden losses of 100, it is expected to determine what part of those hidden losses would affect its projected regulatory own funds, subject to the respective underlying medium-term scenarios. In this example, the institution may conclude that accounting losses of 10 and 20 would occur in years 1 and 2, respectively, owing to haircuts on the nominal value of the underlying bonds. These losses would need to be taken into account in the projections produced under the normative perspective.</p>	<p>The aim of capital is to cover the unexpected loss that could arise at a 1 year horizon at a 99,9% confidence interval on a going concern basis.</p> <p>The "hidden loss" concept is contradictory with this definition of capital, and with the objective of the ICAAP, that is to maintain Institutions' solvency on an on-going basis (going concern).</p> <p>Indeed, assets are accounted for within accounting classifications that reflect the management intention. Within a given accounting category, if the value of assets is not determined according to the market fair value, but determined on the basis of the amortised cost, it is because the intention of the institution is to keep the asset in its balance sheet until maturity date.</p> <p>Therefore, within a going concern perspective, assets will be kept within the balance sheet and will not be sold, which is finally a gone concern situation.</p> <p>ECB specifies in principle 2 that the ICAAP should be realised under a going-concern perspective. Gone-concern and fair value considerations are consequently outside from the scope of the ICAAP.</p> <p>As a general principle, our view is that the ICAAP should contribute to management decisions based on adequate information. Therefore, the ICAAP should remain consistent with accounting principles and do not drift towards an alternative concept that would be irreconcilable with the accounting and prudential frameworks.</p>		Don't publish
12	Principle 3	Example 3.2	21	Amendment	<p>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.</p>	<p>The so called hidden losses should be used only to provide an example.</p>		Don't publish

13	Principle 4	Other	24	Deletion	<p>We suggest to delete the following sentence:</p> <p>"[...] in order to look beyond the accounting values and risk exposure amounts. In particular, the institution is expected to apply proportionate methodologies to identify whether the operations and exposures of the subsidiary pose risks exceeding its accounting value or participation risk."</p>	<p>Article 60 states that the Risk Identification process should "look beyond participation risks and identify, understand and quantify significant underlying risks, and take them into account in its internal risk taxonomy, regardless of whether the entities concerned are included in the prudential perimeter or not".</p> <p>Indeed, the Risk ID should by nature cover the full perimeter of the institution. Among the identified material risks, some will be managed in the ICAAP, or for example in the ILAAP, or, in the case of insurance risks, within the framework of Solvency II.</p> <p>To ensure consistency across the prudential perimeter both at the Bank, Insurance, and Conglomerate levels, our view is that the ICAAP should stick to the defined prudential perimeter.</p>		Don't publish
14	Principle 4	56	22	Deletion	These guidelines are supposed to be only generic principles.	These principles should remain principles and provide high level overview. They should not include detailed mention of such specific subjects.		Don't publish
15	Principle 4	59	24	Deletion	These guidelines are supposed to be only generic principles.	These principles should remain principles and provide high level overview. They should not include detailed mention of such specific subjects.		Don't publish
16	Principle 4	Example 4.4	25	Deletion	These guidelines are supposed to be only generic principles.	These principles should remain principles and provide high level overview. They should not include detailed mention of such specific subjects.		Don't publish
17	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.		Don't publish

18	Principle 5	64	26-27	Amendment	<p>We would like to amend the following sentence:</p> <p>"[...] it is expected that a large part of internal capital components will be expressed in Common Equity Tier 1 (CET1) own funds."</p> <p>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.</p>	The economic capital definition should be entity specific and composed of all types of own funds (CET1, AT1 and T2).	,	Don't publish
19	Principle 5	Example 5.1	28	Amendment	<p>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 and debts are included into an economic capital.</p>	The economic capital definition should be entity specific.	,	Don't publish
20	Principle 6	Other	29	Deletion	<p>We suggest to delete the following sentence:</p> <p>"The institution is expected to apply a high level of conservatism under both perspectives."</p>	<p>The aim of the ICAAP is to provide the Management Body with an economical view of Institution's current and medium-term solvency. In order to be useful for steering purposes, the ICAAP should not mechanically seek for a high level of conservatism as a goal in itself.</p> <p>Indeed, the most conservative view is not obviously the most accurate / relevant one from an economical point of view, and may even lead to inappropriate decisions.</p>	,	Don't publish
21	Principle 6	70	29	Amendment	<p>The highest level of conservatism is not necessarily the most relevant.</p>	The level of conservatism should be rather defined by the credit institution itself.	,	Don't publish
22	Principle 6	70	29	Deletion	<p>We suggest to delete the following sentence:</p> <p>"In the view of the ECB, in a sound ICAAP the overall level of conservatism under the economic perspective is generally at least on a par with the level underlying the risk quantification methodologies of the Pillar 1 internal models."</p>	The overall level of conservatism should be aligned with the Institution's steering needs.	,	Don't publish
23	Principle 6	72	30	Clarification	<p>Sentence: "In order to facilitate the comparison between Pillar 1 and ICAAP quantification"</p>	It should be reminded that Pillar 1 rules cannot be overruled. The Pillar 2 deals with risks uncovered by the Pillar 1, or risks insufficiently covered by Pillar 1 (concentration).	,	Don't publish

24	Principle 6	77	31	Amendment	Sentence: "Supervisors as a matter of principle will not take into account risk diversification. The institution is expected to take this into account, and be cautious when applying inter-risk diversification in its ICAAP".	The term "cautious" should be more detailed. The responsibility should be left with banks to define the most relevant level of conservatism for them. By nature, the economic perspective should reflect inter-risk diversification, notably for insurance risks that are particularly diversifying compared to banking risks.	,	Don't publish
25	Principle 6	81	32	Deletion	We suggest to delete the following sentence: "[...] i.e. the independent validation is expected to not be conducted by the internal audit function."	It is the responsibility of the Institution to design the permanent and periodic control framework surrounding the ICAAP.	,	Don't publish
26	Principle 7	83	33	Amendment	The terminology "stress test" should not be used for the purposes of the economic perspective but only for the normative one.	Taking into account the fact that banks have already to comply with different stress test exercises (EBA, internal and regulatory stress tests), we consider that the terminology 'stress-testing programme' should exclusively concern the normative perspective.	,	Don't publish
27	Principle 7	Other	33	Amendment	We suggest to replace 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.	,	Don't publish
28	Principle 7	89	34	Amendment	We suggest to replace the following sentence: "In addition to stress-testing activities that assess the impact of certain assumptions on capital ratios, the institution is expected to conduct reverse stress-testing assessments." by: "In addition to stress-testing activities that assess the impact of certain assumptions on capital ratios, the institution is expected to progressively conduct reverse stress-testing assessments."	The implementation of reverse stress testing is a challenging issue. Additional time should be provided to the institutions to implement their target operating model.	,	Don't publish
29							,	Don't publish
30							,	Don't publish
31							,	Don't publish
32							,	Don't publish