



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

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

Institution/Company

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General comments

The Spanish Banking Association welcomes the ECB's publication of the draft Guide to the Internal Capital Adequacy Assessment Process, and the opportunity to comment on it (ICAAP)

We see this Guide as part of the ECB's ongoing efforts to provide transparency on its expectations on the ICAAP and on ICAAP requirements, following from Article 73 CRD IV, and to assist institutions in strengthening their ICAAP and at encouraging the use of best practices. Therefore, our members appreciate the ECB's efforts to improve the ICAAP framework and for our part, and fully commit to work together with supervisors to make ICAAP play a key role in the risk management of institutions and also in the supervisory practices, as it feeds into the Supervisory Review and Evaluation Process (SREP). Before going into the template with detailed comments, our general assessment of this Guide is very positive, since we consider it incorporates the supervisor point of view (as compared to the narrower regulatory vision of the EBA Guidelines of February 2017), which brings it much closer to our members' management approach. Specifically we quite sympathize with concepts such as i) ICAAP-based risk-adjusted performance indicators (para. 23), ii) ICAAP as an ongoing process (para. 26), iii) consistency and coherence between ICAAP and recovery planning (para. 32), iv) capital adequacy at relevant levels of consolidation and for relevant entities within the group (para. 33) or v) aiming for sufficient management buffers over the medium-term horizon (para. 35).

We also want to draw attention to the principles included in the guide on economic calculation. In particular and responding to the model of some of our members, the particularity of the diversified banks, in which the goodwill located in the different subsidiaries represents a real economic value that may be tapped into in case of need

Template for comments

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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	3	2	Clarification	According to this introductory paragraph "In the ECB's view, a sound, effective and comprehensive ICAAP is based on two pillars: the economic and the normative perspectives". Both perspectives are expected to complement and inform each other".	We sympathize with this, however, paragraphs 38 and following, in our opinion, tend to blur both perspectives; in particular, it seems to us that the economic perspective could end up being contaminated by certain normative requirements, jeopardizing the credibility of the model and limiting its usefulness for internal capital management.	Rizo, Carmen	Publish
2	Principle 1	15&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."	Rizo, Carmen	Publish

3	Principle 1	15	5	Deletion	<p>“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).”</p>	<p>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.</p> <p>In our opinion, some of the elements listed as examples of those matters expected to be approved by the management body (such as the “internal documentation requirements” or the “risk identification process”) cannot be considered “key” or strategic elements of the ICAAP. Instead, they are part of the day-to-day capital management and, as such, within the remit of the senior management.</p> <p>In particular, we suggest the following amendments / deletions:</p> <ul style="list-style-type: none"> • 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. 	Rizo, Carmen	Publish
4	Principle 1	17	6	Clarification	<p>“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”.</p>	<p>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.</p>	Rizo, Carmen	Publish

5	Principle 2	33	10	Clarification	<p>"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 scope of the ICAAP as foreseen in this paragraph is not clear. We understand that the reference to "relevant entities" should be interpreted as "applicable entities" (i.e. those entities individually falling under the scope of Article 108 CRD IV). This understanding is in line with paragraph 11 of the guide ("[...] a parent institution in a Member State [...] shall meet the ICAAP obligations set out in Article 73 CRD IV on a consolidated basis").</p> <p>The current wording of this paragraph could also be interpreted as a requirement that parent institutions' ICAAPs should also cover "significant" (relevant) subsidiaries' ICAAPs. However, this interpretation would not be consistent with the scope of Article 108 CRD IV and disregards the fact that subsidiaries may be subject to their own individual ICAAP requirements under local regulations.</p> <p>We suggest replacing "relevant entities" with "applicable entities".</p>	Rizo, Carmen	Publish
6	Principle 3	38	12	Clarification	<p>The statement that "the normative perspective is not limited to the Pillar 1 risks recognised by the regulatory capital requirements. 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" seems to blur normative and economic perspectives.</p>	<p>In our opinion, normative perspective should stick to Pillar 1 risks; other risks are considered within P2R. Current wording hybridizes normative perspective with economic perspective, leading to confusion.</p>	Rizo, Carmen	Publish
7	Principle 3	49	18	Clarification	<p>The expectation "to assess under the normative perspective 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) in the future. Hence, the projections of the future capital position under the normative perspective are expected to be duly informed by the economic perspective assessments" again, seems to blur normative and economic perspectives.</p>	<p>In our opinion, normative perspective should be independent from economic perspective. The current wording hybridizes normative perspective with economic perspective, leading to confusion.</p> <p>This paragraph requires clarification. 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.</p>	Rizo, Carmen	Publish

8	Principle 5	66 (ex. 5.1)	27	Clarification	<p>"Example 5.1: internal capital definition starting from regulatory own funds" suggests that the internal capital definition should dismiss the value of certain items, which are expected to be deducted from regulatory own funds (eg. goodwill). Again, we think the model is somewhat perverted by hybridizing normative and economic perspectives.</p>	<p>In our opinion, normative perspective should be independent from economic perspective. Why should we consider that goodwill is economically worth zero by default, specially when having a diversified footprint? As regards DTAs, unlike the recovery, the ICAAP process is an exercise made under going-concern situation, in which case this type of items may very well have positive economic value.</p>	Rizo, Carmen	Publish
9	Principle 5	66 (ex. 5.1)	27	Amendment	<p>Example 5.1 indicates that in general, goodwill cannot be deemed available to cover losses.</p> <p>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.</p>	<p>In diversified 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.</p>	Rizo, Carmen	Publish
10	Principle 6	77	31	Amendment	<p>Paragraph 77 of the guidelines indicates that "supervisors as a matter of principle will not take into account inter-risk diversification in the SREP. Institution are expected to take this into account, and be cautious when applying inter-risk diversification in its 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".</p> <p>Regarding these two paragraphs we would like to comment the following:</p> <ul style="list-style-type: none"> - Inter-risk diversification is also related with geographic diversification. Two different risks may be correlated in a given country but that correlation is 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. 	<p>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.</p>	Rizo, Carmen	Publish
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