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

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 3	35	11	Amendment	We believe that a situation of redundant covered capital needs should be avoided. In the SREP process the ICAAP calculations are part of the determining process 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-safety-situation where the P2G is used as a safety buffer for the P2G and the management Buffer as a safety buffer to the P2G. Therefore, we call for amending this proposal in a way as follows: If the institution comes to an outcome that a higher management buffer compared to the P2G is needed, it should determine the buffer to an extent and quality appropriate to the capital needs.	Currently institutions are faced with enormous capital expectations resulting from the SREP, capital buffers and the MREL. We believe that any further additional burden should be avoided to enable the functioning of banks. Also, the above mentioned own funds safeguards are considered as already sufficient.	Rudorfer, Franz	Publish

2	Principle 5	64	27	Amendment	We believe that there should not be any strict limitations for institutions regarding the decision of quality of capital to comply with the internal capital. 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, Tier 2 is not considered as adequate for internal capital. 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. Also, the current P2R provisions as well as the proposed P2R requirements in the CRD IV Review 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 and then any further reactions have to be taken. In the light of the 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.	Rudorfer, Franz	Publish
3	Principle 6	70	29	Clarification	We would like to ask for confirmation that it is acceptable for ECB to potentially result in a lower RWA amount in Pillar 2 (both total RWA and per risk type), compared to Pillar 1, when a more risk sensitive approach (e.g. IRB-A approach in credit risk instead of IRB-F, wider scope of OpRisk AMA in Pillar 2) is applied in Pillar 2.	The information provided in paragraph 70 ("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") may be seen as being in conflict with the footnote 25 ("The Pillar 1 capital requirements are, however, not expected to be regarded as a floor in the internal risk quantifications of the institution.").	Rudorfer, Franz	Publish
4							Rudorfer, Franz	Publish
5							Rudorfer, Franz	Publish
6							Rudorfer, Franz	Publish
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