



ECB clarification on ICAAPs & ILAAPs and respective package submissions

1. Background

This document reminds banks of some of the ECB's main supervisory expectations on sound and effective capital and liquidity management in line with the ECB Guides on the internal [capital](#) / [liquidity](#) adequacy assessment processes (ICAAP / ILAAP) published in November 2018. It outlines some clarifications on the governance around the submissions and key content areas which should be reflected in ICAAP and ILAAP packages. Along with this it should be noted in certain sections that wording will refer mostly to capital risk & management to improve readability, however, similar considerations apply to liquidity risk & management; this is a further reminder that much of the information is common within the ICAAP & ILAAP and as such an appropriate level of coherence is expected, as per the above guides and EBA guidelines.

It remains banks' responsibility to determine and apply the most appropriate approach to ensure sound capital and liquidity adequacy assessment processes tailored to their own specificities. Therefore, these clarifications focus on sound practices instead of setting additional expectations or requirements. Rather, they should be understood as additional clarifications to be considered by banks to refine or improve their capital and liquidity management practices.

Regarding the technical details around ICAAP & ILAAP package submissions, the note "*Technical implementation of the EBA Guidelines on ICAAP information collected for SREP purposes*" that was sent to banks in February 2017 remains applicable and is included in the annex to this document.

2. Governance around ICAAP/ILAAP information collection¹

It is expected that ICAAPs/ILAAPs are continuous processes that are subject to strong internal governance arrangements which include sound approval and regular review processes throughout the year, independently from the ICAAP/ILAAP information submissions to the ECB; these approval processes are sufficiently evidenced in the respective minutes and underlying meeting documentation.

This refers to the internal documentation of all relevant processes, methodologies, arrangements that form the ICAAP & the ILAAP and which form the bulk of the ICAAP/ILAAP packages submitted to Joint Supervisory Teams (JSTs). Banks should ensure that the submitted documents are of sound quality but there is no general necessity to re-approve or review these documents before submitting them².

As an exception from this general approach, it is expected that the capital and liquidity adequacy statements are produced, agreed, and signed by the management body before their submissions³.

¹ As already described in the 2021 Note on *ECB expectations towards banks' ICAAP packages for SREP 2022*.

² As a matter of example, a material change of a risk quantification methodology applicable since September 2021 should have been approved by the management body before September and it should be subject to review by the second and third lines of defence from September onwards. No additional approval or review of its documentation is needed when including it in the ICAAP package.

³ Note that there is no general expectation that institutions produce a specific "ICAAP report" for supervisory purposes. Banks may produce such reports should they consider this meaningful.

3. Elements to be considered in capital and liquidity adequacy assessment processes

A sound and effective capital and liquidity planning is expected to address the following supervisory expectations and provide the respective information around the following elements.

3.1 Governance⁴ and risk inventory

For capital / liquidity & funding plans, it is expected that banks describe: (i) the management body review and approval of the capital/ liquidity & funding plan, (ii) the governance around the capital / liquidity & funding planning process outlining the functions responsible for the process and the functions contributing to it, (iii) the frequencies for regular comprehensive redesigns of capital / liquidity & funding plans based on revised underlying scenarios and assumptions and for more regular updates of capital/ liquidity & funding plans. The frequency should be commensurate to the bank's business model, its risk profile and the dynamics of changes in the external conditions under which the bank operates. Banks should update swiftly their capital / liquidity & funding plans in case of material unforeseen developments (indicative and non-exhaustive list: outbreak of a war or pandemic; TLTRO III wind down, central banks' review of lending conditions notably the ACC (additional credit claims) framework where relevant, new rates environment). Banks should also provide evidence on how they use capital / liquidity & funding plans for their risk management and decision-making in general.

Banks also should submit their complete risk inventory⁵ and the underlying assessment of its risk profile, capturing the normative and the economic perspective.

3.2 Forward looking capital and liquidity⁶ adequacy

The ECB expects that banks conduct forward-looking capital adequacy assessments considering the normative and the economic perspective for at least the next three years. This includes in the normative perspective the assessment of the projected fully loaded and transitional figures (capital, eligible liabilities, risk-weighted assets, leverage ratio), and should also include future changes in the legal, regulatory, and accounting frameworks. For the normative perspective and economic perspective, both baseline and adverse scenarios should be applied. The assumptions underlying the scenarios should be clearly described and justified and they should reflect the firm's complexity, risk profile, business model and external conditions under which it operates. More specifically, banks are expected to demonstrate the credibility and robustness of the macroeconomic scenarios underpinning the forward-looking capital adequacy assessments, explaining to which extent macroeconomic assumptions are consistent with official consensus forecasts.

As part of their capital planning process, banks should also identify the most material risk drivers impacting the forward-looking normative and economic capital ratios, including an explanation of the rationale behind the materiality assessment. The capital plan should include a granular analysis on the sensitivity of the capital positions to certain variables (e.g., probability of default of specific credit exposures) underlying these

⁴ Please refer to Principles 1 (Governance) and 7 (scenario updates) of the [ECB ICAAP Guide](#).

⁵ See principle 4 of the [ECB ICAAP Guide](#) for the underlying expectations.

⁶ In this section, the wording refers mostly to capital management to improve readability. However, similar considerations apply to liquidity management.

material risk drivers and key scenario assumptions. Reflecting the effect of a variation in the assumptions on the entity's capital projections is important to assess how sensitive a bank's capital position is to changes in forecasted developments and to identify the specific vulnerabilities of its capital position.

When it comes to stress testing⁷, the design of adverse scenarios should reflect the entity's own risk identification, its key vulnerabilities, and severe developments in relevant external conditions⁸. In particular, the underlying macroeconomic assumptions need to reflect an economic downturn that is at least as severe as official consensus downside forecasts. In case of uncertainty, banks should consider various outcomes and take a conservative approach. Banks should also explain in detail the methodologies used for translating scenarios into regulatory and economic capital effects, how these methodologies are calibrated and what are the contributions of the different drivers in the projections (e.g., net interest income, provisioning, risk weights, risk materialisations per risk type and material portfolios / exposures)., banks should be able to demonstrate the credible translation of macroeconomic forecasts into financial and risk metrics and vice versa.

While the normative perspective is more commonly established⁹, the ECB expects that banks implement a sound and reliable economic perspective to manage risks and capital based on economic value considerations and use it in their capital and liquidity management including in operational and strategic decisions, e.g., regarding capital distributions. Banks should provide relevant information on short- and medium-term key drivers and vulnerabilities also for economic capital and liquidity adequacy. The economic perspective is also expected to inform the normative perspective projections and vice versa, including e.g. the risk that unrealised losses observed in the economic perspective could materialise also in the normative perspective.

Regarding internal capital, the ECB reminds banks of its expectation to conduct and document an eligibility analysis for each component of internal capital, thoroughly considering the two key criteria "continuity" and "economic value considerations"¹⁰. For instance, Additional Tier 1 (AT 1) instruments usually do not pass this eligibility test and, thus, are considered problematic if they are included in internal capital¹¹. The ECB reminds banks that including only Common Equity Tier 1 (CET1) instruments into internal capital does not automatically ensure that the quantified amount of capital is adequate, given the fact that book values do not systematically reflect the economic value of assets and liabilities. Indeed, banks should actively manage their economic substance, including a regular assessment of unrealised losses that may stem e.g., from under-provisioning of credits or decreases of the market value of bonds not booked at fair value. As part of their ICAAP packages, banks should demonstrate how this is ensured.

⁷ Please refer to Principle 7 of the [ECB ICAAP Guide](#).

⁸ "External conditions" comprise all relevant conditions under which the bank operates, including the economic, political, regulatory, financial environment (e.g., GDP and unemployment rates, real estate prices, share and bond prices, refinancing sources and conditions, inflation rate, interest rate curves, regulatory / legal environment and changes, market competition and market trends).

⁹ See conclusions on page 5 of the [ECB's report on banks' ICAAP practices](#).

¹⁰ The [ECB ICAAP report](#) (page 46) concluded on this that "*there are clear deficiencies in terms of how banks justify the inclusion of capital components in their internal capital.*".

¹¹ Note that the ECB has expressed its concerns regarding the inclusion of AT 1 instruments in several publications: see principle 5 of the [ECB ICAAP Guide](#), chapter 2.5 of the [ECB's report on banks' ICAAP practices](#), the ECB reply to comment number 208 in the [feedback statement in the public consultation of the ICAAP Guide](#), the email on ECB expectations towards ICAAP package submission sent out in February 2021.

3.3 Capital and liquidity¹² management buffers

As part of their ICAAP and ILAAP packages, it is expected that banks provide documentation on their capital and liquidity management buffers. A clear rationale for their calibrations including the underlying analysis as well as how they are integrated and used in practice consistent with other thresholds such as risk appetite limits and recovery plan triggers in the bank's overall capital and liquidity adequacy management should be included in ICAAP and ILAAP packages. Any changes in these thresholds should be described and justified.

Management buffers should be calibrated for both baseline and adverse scenarios in such a way that the institution is adequately capitalised and funded to sustainably operate under its intended business model. Banks should implement management buffers in their internal risk management frameworks, ensuring that they are maintained when baseline or adverse developments materialise respectively. Banks meet these levels to be able to sustainably follow their business model. Where feasible management actions are already considered in the projections, breaching internally defined capital and liquidity needs signals that the sustainability of the bank's business model is threatened. As such, management buffers are also a natural starting point for reverse stress tests and a hand-over point to recovery.

Accordingly, banks should ensure consistency between their ICAAPs/ILAAPs and their recovery plan arrangements, as the ICAAP & ILAAP and the recovery plan are expected to be part of a risk management continuum that is implemented consistently with the bank's risk appetite.

Continuum between capital/ liquidity management thresholds

ICAAP / ILAAP, recovery framework and risk appetite are strongly interconnected as they are all about capital / liquidity management. Accordingly, there should be a continuum between the indicators and thresholds used, the governance arrangements and the management actions taken between these three concepts¹³. More specifically, capital & liquidity targets should be set above ICAAP/ILAAP early warning levels which should be higher than capital/ liquidity limits taking into account the management buffers in the risk appetite framework. Capital & liquidity limits, on the other hand, are expected to be higher than or equal to recovery indicator thresholds under the recovery plan.

Aspects informing capital and liquidity management buffers

Based on observed good practices, six different dimensions have been identified as elements that were considered for the calibration of management buffers. Those elements, detailed further below, encompass both internal and external components. Banks are encouraged to assess the relevance of these dimensions or any additional criteria and document how these elements or any other elements not listed below have been used in the calibration of their management buffers. Observed good practices included:

- Stakeholder expectations: Banks set management buffers based on external expectations from among others investors, shareholders, depositors, rating agencies, clients or market analysts.

¹² In this section, the wording refers mostly to capital management to improve readability. However, the similar considerations apply to liquidity management, respectively.

¹³ For the continuum between ICAAP and recovery plan, please refer to paragraphs 35 and 36 and to example 2.1 of the ECB ICAAP Guide for the expectations regarding the consistency between the ICAAP and recovery plans.

- Indicative examples: In practice, potential counterparts such as other banks and investors such as insurance companies or pension funds duly analyze the bank's creditworthiness before entering or deciding to continue a business relation or investment. For example, a pension fund will usually have internal restrictions - e.g. in terms of a minimum rating of A-, on bonds they may buy. If it is part of the bank's business model to attract pension funds' investments, it should consider which capital levels need to be maintained to get an external rating of A and use it for the holistic assessment of all relevant stakeholders' expectations. Another consideration refers to refinancing costs which also depend on the bank's external rating and capital ratios. Banks should consider which maximum refinancing costs they can afford to sustainably be able to generate profits, given their business models.
- Risk appetite: Banks' management board consciously decided on a set of management buffers, considering their business strategy and operating environment. These levels may be a function of the capital /liquidity needs perceived as being suitable to execute the bank's business strategy under different circumstances.
- Internal stress tests: Banks set their baseline management buffers on the basis of internal stress test results under adverse scenarios. This approach ensures that the capital levels with which banks enter stress are high enough to sustain adverse conditions and aims at making sure that banks' business models remain sustainable even after having experienced material depletions.
- Supervisory requirements: Banks set their management buffers for the normative perspective ratios in relation to all relevant supervisory requirements (e.g., Pillar 2 capital guidance (P2G), maximum distributable amount (MDA) trigger level, leverage ratio & LR-P2R/P2G, where applicable).
- Capital management actions available: Banks managed capital levels in relation to their management buffers depending on the availability of capital management actions. Banks with a wider set of capital management actions available may decide to operate closer to their management buffers factoring in the effectiveness of the governance arrangements pertaining the activation of capital management actions.
- Uncertainty around capital planning: The larger the uncertainty around the calculation and the projections of capital & liquidity figures, the higher the management buffers are calibrated. For liquidity, for example, such uncertainties may include external factors increasing funding vulnerabilities (e.g. transition to the wind down of the TLTRO III, central banks' review of lending conditions notably the ACC framework where relevant, changes in the rate environment).

3.4 Distributions and other capital management actions

A robust capital planning process should focus on how, under baseline and adverse conditions, banks can meet supervisory and economic capital needs, taking into account minimum regulatory capital ratios and internal capital management thresholds. In particular, banks should describe key management actions¹⁴ embedded in their capital plans that are needed to maintain capital adequacy (e.g., capital raising,

¹⁴ Please refer to para 47 of the ECB ICAAP Guide for a description of management action-related expectations.

deleveraging, securitisation), elaborate for each scenario and action on the credibility and the feasibility of such actions (including an assessment of signalling effects) and quantify their individual impact on capital ratio projections (capital, eligible liabilities, risk-weighted assets, leverage ratio).

Banks are also expected to maintain and describe a robust governance framework and have effective processes in place to trigger and effectively apply management actions in case of deterioration of their capital position. Banks should list management actions that could be activated while sustainably following their strategy, quantify their impacts and assess their feasibility under different scenarios. Here also there should be a continuum in the respective escalation procedures between management actions under the capital planning framework and available recovery plan options.

As part of their ICAAP packages, it is expected that banks provide **evidence on the use of the ICAAP outcomes** (taking into account the normative and the economic perspectives) in concrete management decisions, e.g., in remuneration schemes and decisions, capital allocation across business lines or entities, defining and managing risk appetite, pricing of products, concrete credit decisions.

This also includes evidence on how current and future capital positions, both from the normative and the economic perspective, for baseline and severe adverse scenarios are taken into account in setting shareholder distribution policies and decisions.

- Capital distribution policies and respective decisions on dividend payments or share-buybacks should be well governed and commensurate with management buffers and forward-looking capital adequacy. This implies that banks should engage with their JSTs about any material change in their distribution policies or about specific distribution plans before any publication.
- The ECB expects that banks that intend to distribute formalise and document distribution policies that are approved by the management body and that are included in their documentation submitted as part of the ICAAP packages.
- Distribution policies should ensure that distributions do not impact banks' capital positions in a way that could impede their ability to sustainably conduct their business strategies taking into account sound capital targets based on properly calibrated management buffers.
- When designing and communicating profit distribution policies banks are expected to express the ordinary amount to be distributed via cash dividends or share buy backs exclusively as percentage of profits - supervised entities should abstain from indicating absolute amounts. This is in line with the new EBA Q&A 2023_6887.
- With reference to cases of reducing, redeeming or repurchasing own funds instruments different from those under point above banks are reminded to refrain from announcing own fund reductions without replacements to the holders of the instruments before the institution has obtained the prior permission of the competent authority, as laid out in Article 28 of the Commission delegated regulation 241/2014.

Banks should remain particularly cautious when distributing interim profits, both limiting the amounts distributed and delaying the pay-outs, as such profits may prove volatile before the closing of the financial

year. Distribution plans should be commensurate with forward-looking capital positions both under credible baseline as well as severe institution-specific adverse developments, reflected in a comprehensive set of scenarios, and take into account their impact on the normative as well as the economic perspectives.

Annex – Technical implementation of EBA/GL/2016/10

On 3/11/2016, the EBA published the final Guidelines (EBA/GL/2016/10) on the collection of information related to the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) (hereafter: “EBA guidelines”). The present document is setting out – where necessary – the technical specifics banks need to follow to ensure a smooth collection of ICAAP/ILAAP information by the joint supervisory teams (JSTs), thus facilitating a consistent approach to assessing institution’s ICAAPs and ILAAPs as part of the supervisory review and evaluation process (SREP).

It is not about setting or prescribing a specific ICAAP/ILAAP approach as it is in the institution’s responsibility to determine and apply appropriate approaches to ICAAP and ILAAP. Moreover, it does not require institutions to produce a specific ICAAP report for supervisory purposes. Accordingly, institutions shall submit the ICAAP and ILAAP information determined by the EBA Guidelines, but taking into account the specifications below concerning the delivery dates, formats and contents with regard to that information. We consider harmonisation in the delivery of ICAAP and ILAAP documentation necessary in order to fulfil the tasks related to the SREP, but the ICAAP and ILAAP are and should remain internal processes of the institution itself. Accordingly, the information items to be covered are prescribed, but the exact format of the documents is generally not, thus allowing the use of already existing internal documents.

I. Specifications regarding dates and format

ICAAP and ILAAP information shall be provided electronically via the established communication channels to the relevant joint supervisory team (JST) by 31 March, with the preceding year-end as the reference date.¹⁵

The information should be provided in accordance with the levels of application of ICAAP and ILAAP set out in Articles 108 and 109 of Directive 2013/36/EU, considering the level of application of SREP as specified in Article 110 of Directive 2013/36/EU and recognising waivers applied pursuant to Articles 7, 8, 10 and 15 of Regulation (EU) 575/2013 and Article 21 of Directive 2013/36/EU.¹⁶

For ICAAPs, the package to be sent by institutions comprises three¹⁷ or four separate documents (capital adequacy statement, ICAAP template, reader’s manual, P1-ICAAP reconciliation document) plus one folder containing internal documentation. This folder shall be named “<YYYY>_<JSTcode>_ ICAAP internal documentation”¹⁸.

¹⁵ Exceptions:

- a) For institutions with a fiscal year differing from the calendar year, please use the most recent fiscal year-end before the calendar year-end as the reference date.
- b) For significant institutions where the ECB is the host supervisor, a different submission date may be agreed within the supervisory colleges.

¹⁶ For subsidiaries, institutions are invited to contact their JST Coordinator for further operationalisation on a case-by-case basis.

¹⁷ Three if a common reader’s manual for ICAAP and ILAAP is submitted in the ILAAP package.

¹⁸ For example “2017 EUECB - ICAAP internal documentation”

The ILAAP package sent by institutions comprises one¹⁹ or two separate documents (liquidity adequacy statement and reader's manual) plus one folder containing all other internal documentation. This folder shall be named "<YYYY>_<JSTcode>_ - ILAAP internal documentation".

For both, ICAAP and ILAAP packages, institutions should create the following sub-folders within the folder for internal documents and store their documents accordingly:

1. Framework, policies, regulations on

- 1.1 Governance
- 1.2 Business Model and Strategies
- 1.3 Risk identification
- 1.4 Risk quantification methodologies
- 1.5 Stress testing and capital/liquidity planning
- 1.6 Risk data, data aggregation and relevant IT
- 1.7 Any other relevant aspect

2. Risk reports, capital plans and funding plans²⁰

3. Review and validation (including, e.g., validation reports, internal audit reports)

If one document refers to several items, please select the one that suits best and give a clear indication in the reader's manual on where to find relevant documents.

Where internal documents or the reader's manual refer to both the ICAAP and the ILAAP, it is sufficient to send them just once – in either the ICAAP or ILAAP package – and to explain in the reader's manual(s), where to find the relevant documents.

The information provided by institutions needs to be complete and up-to-date with respect to the remittance date (regardless of the approval date of the documents).

The reader's manual²¹ is intended to facilitate the assessment of the ICAAP and the ILAAP. This manual should provide:

- an overview of the documents and their status (new, unchanged, minor changes, major changes), highlighting, where relevant, material changes since their last submission;
- an index linking the information items referred to in the EBA Guidelines and in the specifications below to the documents provided by the institution (e.g. a link to a specific document and, where relevant, a reference to specific chapters or pages within the document) or, if information items are not included, an explanation of why the item is not relevant, taking into account proportionality;
- references to ICAAP and ILAAP information publicly disclosed by the institution.

¹⁹ One if a common reader's manual for ICAAP and ILAAP is submitted in the ICAAP package.

²⁰ For the ILAAP, this folder should also include a contingency funding plan.

²¹ Named "<YYYY>_<JSTcode>_ - ICAAP Reader's manual" and "<YYYY>_<JSTcode>_ - ILAAP Reader's manual" or "<YYYY>_<JSTcode>_ - ICAAP & ILAAP Reader's manual", depending on whether institutions provide separate reader's manuals or a common one.

II. Specifications regarding contents

Institutions are expected to provide all information items mentioned in the EBA Guidelines or explain why the items are not relevant to them, taking into account the size, complexity and business model of the institution. As a reminder, institutions are requested to state explicitly in the reader's manual which documentation and information items are not, or only marginally, covered, owing to the application of proportionality with respect to the size, business model and complexity of the institution.

Institutions are responsible for submitting sufficiently granular information to allow JSTs to assess their ICAAPs and ILAAPs.

III. ICAAP-specific information

Specifications regarding Section 6.2 of the EBA Guidelines – Information on risk measurement, assessment and aggregation

The descriptions of the main differences between Pillar 1 quantification approaches and risk measurement methodologies used for ICAAP purposes (see paragraph 31(c) of the EBA Guidelines) should, as far as possible, be complemented by a quantitative reconciliation between Pillar 1 own funds requirements for risks and respective ICAAP estimates. Institutions should provide in a separate document (named "<YYYY>_<JSTcode>_- ICAAP - Pillar 1 reconciliation") a reconciliation that should in particular comprise differences in the scopes and definitions of risks captured and material differences in major parameters (like confidence levels and holding periods) and assumptions (e.g. regarding diversification effects).

The reconciliation is the internal responsibility of the institution and can be done, for example, in two steps: First, differences in pillar 1 vs. ICAAP quantifications that result from differences in scope should be explained and quantified. This should cover, for example, differences in the legal entities, exposures and risk types included.

Second, starting with ICAAP quantifications that are based on the same scope as Pillar 1 quantifications, institutions are expected to perform a risk-by-risk reconciliation at least in a compound way (starting from ICAAP and showing step-by-step the effects of key differences by type of underlying reason for differences (e.g. confidence level), up to the Pillar 1 quantifications).

Institutions are requested to use the attached Excel template ("*ICAAP template*") to annually provide information (in a document named "<YYYY>_<JSTcode>_- ICAAP template"²²) on their risk categories and sub-categories (see paragraphs 32(a) and (b) of the EBA Guidelines). Institutions are expected to fill in the template using the numbers they have produced for internal purposes and in line with their internal risk taxonomy. No numbers should be changed or produced as a consequence of the need to fill in the template provided. When filling in the template, banks should take into account the guidance provided in the template under the tab "instructions" and provide the definitions internally used to define the risk categories and subcategories.

²² For example "2016 EUECB - ICAAP template"

Specifications regarding Section 6.3 of the EBA Guidelines – Information on internal capital and capital allocation

The description of the main differences between internal capital element/instruments and regulatory own funds instruments should be complemented by a quantitative reconciliation between internal capital and regulatory own funds (see paragraph 33(b) of the EBA Guidelines). Institutions should include this capital-related reconciliation into the document on the risk-related reconciliation mentioned in the first paragraph of this section.

IV. ILAAP-specific information

Specifications regarding Sections 5.4 and 7.6 of the EBA Guidelines – Information on stress testing framework and programme

Institutions are requested to annually provide information on the internal stressed assumptions (ILAAP template) used for the quantification of liquidity adequacy by 31 March following the STE (short term exercise) rules for submission.

V. ICAAP and ILAAP conclusions and quality assurance

Specifications regarding Section 8 of the EBA Guidelines – ICAAP and ILAAP conclusions and quality assurance²³

Capital Adequacy Statement (CAS) and Liquidity Adequacy Statement (LAS)

Institutions should include in their ICAAP and ILAAP packages two separate documents (named “<YYYY>_<JSTcode>_- Capital Adequacy Statement”²⁴, “<YYYY>_<JSTcode>_- Liquidity Adequacy Statement”) containing concise statements about the view of the management body of the institution’s capital/liquidity adequacy, supported by analysis of the ICAAP/ILAAP set-up and outcomes. These documents should comprise indicatively about fifteen pages each, allowing for the inclusion of sufficient substantiating evidence for the institution’s capital/liquidity adequacy, while being concise and limited to key aspects and, thus, ensuring full accountability of all management body members.

Further guidance on expected CAS contents

It is expected that the CAS at least addresses the following aspects (not in order):

- discuss how the ICAAP outcomes are embedded in the overall management and (risk) management processes (including, for example, in reporting, capital allocation, decision-making, limit setting, budgeting, strategy setting, remuneration, and dividend distribution);

²³ Note: In the SSM, the CAS and the LAS are the documents institutions submit in accordance with paragraph 10(e) of the EBA Guidelines (“summary of main conclusions from ICAAP and ILAAP and quality assurance information as specified in Section 8 of these Guidelines”)

²⁴ For example “2016 EUECB - Capital Adequacy Statement”

- identify actions needed to achieve/maintain capital adequacy and describe key management actions planned that affect capital adequacy (e.g. capital raising, deleveraging, risk reduction) and describe any major changes in the ICAAP, both compared to the previous year and planned for the future (e.g. fundamental methodological changes);
- includes a definition of what adequate capitalisation means from the perspective of the institution, including relevant capital targets, risk appetite, and minimum capitalisation;
- includes an explanation of how this predefined capitalisation, spelled out in all relevant metrics and dimensions, allows the institution to sustainably operate under its intended business model;
- includes the figures for key metrics applied, including relevant capital targets and risk limits for normative and economic internal perspectives over the short and medium term for baseline and adverse scenarios;
- explains the broad concept of the internal capital and describes the risks that are material for the institution, given its current and future business activities, and the main risk quantifications methodologies;
- elaborates on the perspectives that are taken into account, also discussing expected changes in regulatory/legal/accounting frameworks (e.g. impact of IFRS 9) and their meaningful combination into a holistic assessment of the capital adequacy;
- explain the key stress testing activities and conclusions, including in terms of management actions;
- highlight main weaknesses of the ICAAP and how they are being addressed.

Further guidance on expected LAS contents

It is expected that the LAS at least addresses the following aspects (not in order):

- includes a definition of what an adequate liquidity and funding position means from the perspective of the institution, including relevant buffer targets, risk appetite, minimum level of stable funding;
- includes an explanation of how this predefined buffer and stable funding position, spelled out in all relevant metrics and dimensions, allows the institution to sustainably operate under its intended business model;
- includes the figures for key metrics applied, including relevant liquidity and funding targets and risk limits for legal and internal liquidity and funding perspectives over the short and medium term for baseline and adverse scenarios;
- explains the broad concept of the internal buffer and stable funding definition and elaborate on the risks that are material for the institution, given its current and future business activities, and on the concepts of the main risk quantifications methodologies;
- elaborates on the perspectives that are taken into account, also discussing expected changes in regulatory/legal/accounting frameworks (e.g. impact of the LCR phase-in) and their meaningful combination into a holistic assessment of the liquidity and funding adequacy;
- explains the key stress testing activities and conclusions, including in terms of management actions;
- discusses how the ILAAP is embedded in the overall (risk) management process leading to: (i) regular stress testing and regular contingency funding plan assessment; (ii) consistency between business limits,

risk appetite statement and ILAAP stress testing; (iii) the funds transfer pricing being used as an effective way to steer the business; (iv) the ILAAP outcomes being discussed when (funding) strategy is discussed; and (v) regular monitoring and update of the collateral management framework and intraday liquidity risk management framework;

- identifies actions needed to achieve/maintain liquidity and funding sustainability adequacy, describe key management actions planned that affect liquidity and stable funding adequacy (e.g. fundraising, deleveraging, risk reduction), and describe any major changes in the ILAAP, both compared to the previous year and planned for the future (e.g. fundamental methodological changes);

- highlights main weaknesses of the ILAAP and how they are being addressed.