EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

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

Institution/Company
German Banking Industry Committee (GBIC)

Contact person

Mr/Ms
Mr

First name
Jörg

Surname
Friedberg

Email address
joerg.friedberg@dsgv.de

Telephone number

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

General comments
The German Banking Industry Committee (GBIC) is pleased to participate in the ECB's Public Consultation on the draft ECB Guide to the Internal Capital Adequacy Assessment Process

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	Introduction	2	2	Clarification	"Adequate" vs. "prudent": section 2 refers to Article 73 of CRD IV in order to substantiate the "prudent" general direction. However, Article 73 of CRD IV only requires "sound, effective and comprehensive" procedures for assessing internal capital. In our view, CRD IV does not provide the basis for the conservative approach required in this section and throughout the remainder of the guideline. Instead, Article 73 refers to adequate risk cover (cf. footnote 3). The text of the guideline should be adapted accordingly.	In our opinion, this also provides scope for a fundamental discussion as to whether the balance between "correct" and "prudent" should be interpreted "according to the actual impact on the balance sheet". This would render the concepts more suitable for the purposes of bank management. A more detailed discussion is required for each specific issue; in particular, this should focus on the aspect of consistency (also refer to the discussion on hidden burdens and reserves).	Friedberg, Jörg	Publish
2	Principle 1	15	5	Clarification	According to the guideline, the ECB expects a method for assessing capital adequacy to be established and approved. However, the exact scope of the concept "method" is unclear. Presumably, this is supposed to refer to a comparison of capital and risk, and that the concept of methodology is being interpreted too broadly. Said comparison is seen as part of the ICAAP.	A clarification would provide a clearer picture of the efforts required for implementation – moreover, this would facilitate a more targeted approach.	Friedberg, Jörg	Publish
3	Principle 1	15	5	Clarification	The wording "... the management body is expected to produce […] the CAS, ..." might give rise to misunderstandings. In fact, it is not intended that the Management Board produces the document – merely that it knows the content of the CAS and assumes responsibility for it.	This clarification is necessary because a false expectation might arise regarding the Management Board's involvement in preparing the CAS. After all, it is not intended that the Management Board is actively involved in preparation of the document.	Friedberg, Jörg	Publish
4	Principle 1	17, footnote 7	6	Clarification	Footnote 7 refers to the concept of the three lines of defence, which we welcome in principle. In particular, we believe it is right to orient internal reviews upon the respective tasks of the internal control functions. It is also clear that the first line of defence (the business units) must also fulfil certain tasks within the scope of this concept. Having said that, we cannot imagine which tasks exactly the business units should be assigned in connection with internal ICAAP reviews. Against this background, we suggest restricting the required checks to the internal control functions.	The existing wording might be misunderstood as a new requirement for the distribution of tasks within the framework of the three lines of defence concept – which, presumably, was not intended in this form.	Friedberg, Jörg	Publish
5	Principle 1	19	6	Deletion	In connection with the requirement that ICAAP results and assumptions must be analysed retrospectively, we request that the "capital planning" be deleted from the examples stated. Whilst backtesting is an established statistical validation method for scenarios and the quantification of risk (PDs, VaR models), backtesting of the entire capital planning process (including scenarios, projections, business development, ...) is not an adequate method. Only sensibly selected planning input factors (such as scenarios) should be subject to backtesting. Likewise, performance measurement is not a suitable method for capital planning, but for measuring performance or success. Looking at the capital planning process as a whole, institutions should be left free to choose the method for target/actual comparison, together with corresponding causal analysis – which are undoubtedly necessary.	Clarification or removal, due to a lack of availability of adequate procedures.	Friedberg, Jörg	Publish
6	Principle 2	(iii)	7	Clarification	We believe that the requirement for consistency and coherence refers to the inclusion of a consolidated group perspective. Especially where conglomerates covering different jurisdictions and sectors are concerned, the structure of the ICAAP at the single-entity level may, and – and depending on the legal situation – must, differ from the consolidated group view.	Prevention of methodological limitations within groups of institutions.	Friedberg, Jörg	Publish
7	Principle 2	23	8	Amendment of the German version	In the sentence "ICAAP-based risk-adjusted performance indicators ...", a translation error needs to be rectified in the German version: the word "risikogewichtete" (risk-weighted) needs to be removed and replaced by "risikoadjustierte" (risk-adjusted; in line with the English text). The term "risk-weighted" is typically used in the context of RWAs. The proposed amendment helps avoid confusion.	Rectification of a translation error in the German version.	Friedberg, Jörg	Publish

8	Principle 2	23	8	Deletion	In our view, the blanket inclusion of risk-adjusted performance indicators required at this point is not sufficiently specific, and too far-reaching in the context of determining variable remuneration. Each SSM institution must adhere to the requirements of the EBA Guidelines on Sound Remuneration Policies (EBA/GL/2015/22): any further determination is an internal decision of the respective institution. The addition "and, for example, when determining variable remuneration" should therefore be deleted.	Avoidance of implementation issues.	Friedberg, Jörg	Publish
9	Principle 2	27	8	Deletion	The provision proposed in this section constitutes an intervention into the internal management power of any given institution. Institutions should be free to decide whether to apply performance benchmarks – and if so, which ones – for specific business units: for instance, there is little point in calculating RAROC for the promotional business. We therefore propose to delete section 27.	Given its general nature, the requirement cannot be viably implemented for all of a bank's business units.	Friedberg, Jörg	Publish
10	Principle 2	29	9	Deletion	Section 29 requires the risk appetite statement to contain statements on the "types of risk, products or regions" to be avoided. We consider this to be clearly too detailed for the risk appetite statement; such detail would be found in the specific risk strategy, or in limit systems.	Deleting the wording "... for taking on or avoiding certain types of risks, products or regions" would avoid unnecessary detail in the risk appetite statement to be issued by the Management Board.	Friedberg, Jörg	Publish
11	Principle 2	32	9-10	Amendment	Whilst section 32 requires potential management actions to be reflected in the recovery plan "without delay", German legislation restricts amendments to the recovery plan during the course of the year to cases which have a material impact upon the recovery plan. We therefore propose to include a materiality clause. Amendments to the recovery plan during the course of a year should clearly remain an exception.	Incorporating a materiality clause would avoid unnecessary effort.	Friedberg, Jörg	Publish
12	Principle 3	35	11-12	Amendment	As shown in figures 2 to 4 and in example 3.1, an additional and general requirement for a management buffer should be left out, from an economic point of view. For instance this could not be viable in combination with the confidence level used in risk measurement. In this context, we request a review of the entire guideline with regard to the management buffer from a normative perspective.	An additional buffer in economic perspective may lead to effects which are no longer relevant for management purposes.	Friedberg, Jörg	Publish
13	Principle 3	38	12-13	Clarification	Here the term “risks” is used quiet often. In our opinion, apart from the adverse scenario, this is not a question of (calculated) risks but of expected values regarding material risks otherwise taken into account. Rather, the concept of risk is associated with the economic perspective – or is methodically defined there. An impression should be avoided that risks (as defined in the economic perspective) are expected to be transferred to the normative perspective.	A clarification is required that the base scenario is an 'expected' scenario – and that risks (as seen in the economic perspective) are not expected to be transferred. Failing that, we see a logical break in this context.	Friedberg, Jörg	Publish
14	Principle 3	38	12-13	Amendment	The interaction from the internal to the normative perspective remains partly unclear. Our understanding of section 38 is that RWAs can only be calculated in the scenario on the basis of the regulatory requirements as stipulated in the CRR. Moreover, the scenario does not require any changes to the regulatory methodology, the definition of risk, and the scope of the risks to be covered. In the scenario, however, RWAs may be influenced by economic exposures. For example, a reduction in market values of properties has a reducing effect on property-related RWAs in the scenario. Risks quantified economically can also influence regulatory ratios in the scenarios via equity. In this connection, risks take effect via loss allowance, changes in net interest income, exchange rate losses, etc.	The provisions set out in section 38 require a high degree of interpretation. We therefore propose to provide clarification, by way of a footnote, that the choice of scenario does not affect the methodology of Pillar 1 calculations.	Friedberg, Jörg	Publish
15	Principle 3	38	12-13	Amendment	In the normative perspective, all material risks that are not sufficiently covered by Pillar 1 are primarily incorporated through the consideration of P2R. However, it is not possible to simulate the development of this key capital component over the three-year period, across all scenarios, due to the lack of transparency in determining this capital requirement. We therefore suggest to refer to the inclusion of other material risks in the P2R, by way of a footnote, and to explicitly mention the assumption of a stable ratio in the scenarios.	Facilitating interpretation of the text – clarifying a key issue.	Friedberg, Jörg	Publish
16	Principle 3	39, footnote 14	13	Clarification	Footnote 14 requires that even changes which are unlikely to occur in the future but which, if they do occur, have such an impact that contingency measures are necessary, should be taken into account in the normative perspective. Any changes (e.g. SA-CCR) should only be taken into account in the capital plan when they have binding effect – especially as it is very difficult to implement a probability analysis of regulatory changes. Moreover, any such changes should be material. On a general note, inclusion would only be possible by way of a flat-rate add-on, and would thus not correctly incorporate the new regulations.	Clarification regarding the relevant amendments to the legal, regulatory, and accounting framework.	Friedberg, Jörg	Publish

17	Principle 3	40 and 41	14-15	Clarification	From our point of view, provisions are not sufficiently clear as to which capital requirements or expectations are to be met, and from which perspective, and what role the management buffer plays in this context. Therefore, it should first be made clear that section 41 refers to a scenario analysis within the framework of the normative perspective. In our understanding, the management buffer (if defined) in principle does not have to be met at all times – this is also shown in figures 3 and 4, where the absolute minimum is shown as a red line above OCR plus P2G (baseline scenario) or TSCR (adverse scenarios). The "Draft Guidelines on Institutions' Stress Testing" (EBA/CP/2017/17; section 191) also only require compliance with the TSCR for the stress scenario. With regard to the consistency of the EBA Guidelines and the ECB Guide, it should be clarified that a shortfall below management buffer in the baseline scenario (section 40) and in the adverse scenario (section 41) will be tolerated. In addition, we doubt the need for a management buffer in the baseline scenario within the framework of the normative perspective. Assuming that institutions prepare their planning with due care, it is envisaged – at least for the purposes of projections – that all regulatory requirements, including capital expectations (P2G), will be met for the three subsequent periods planned. In that case, a management buffer would only be relevant for the adverse scenario (where possible deviations from the plan are outlined), and only if this is desired for risk appetite purposes. This means that there should be no expectation that a management buffer is to be adhered to, without exception, in the baseline scenario.	Clarification of requirements – avoiding contradiction to the EBA Guideline.	Friedberg, Jörg	Publish
18	Principle 3	46, figure 5	17	Amendment	The last sentence under figure 5 reads: "Most importantly, the quantifications of risks and available internal capital are expected to feed into the projections under the normative perspective". If this sentence was to be interpreted in detail, the P2R requirement would need to be changed in the projections. Given that this is impossible due to the lack of methodological transparency, we propose to delete this sentence, and to replace it by: "The projections of the future capital position under the normative perspective are expected to be duly informed by the economic perspective assessments".	Clarification concerning the limits of adjustments to the normative perspective, based on the results of the economic perspective.	Friedberg, Jörg	Publish
19	Principle 3	46, figure 5	17	Amendment	The term „Observed internal capital ratio" in figure 5 (identifying the blue line) is misleading as there is no mentioning of a capital ratio in the economic perspective. There is rather a likelihood of confusion with the normative perspective. Suggestion: "observed internal capital (coverage of risks)" as used in the beginning of Section 46.	Changes to avoid a misunderstanding .	Friedberg, Jörg	Publish
20	Principle 3	51, footnote 20, example 3.3	18, 20-21	Deletion	The interaction from the normative to the economic perspective remains unclear. In particular, larger capital changes, acquisitions or planned growth are supposed to be taken into account here. It should be noted that only shock-like scenarios are calculated for the purposes of the economic assessment. It is unclear whether regulators expect a methodological effect upon the economic perspective, beyond the application of the scenario. In fact, we cannot think of any meaningful effects here. The reference in footnote 20 that "this is particularly relevant for risks that are more difficult to quantify" is also difficult to understand. If the intention is to adopt results of Pillar 1 in doubtful cases, we would ask for clarification. In our view, risks must be adequately determined within the economic perspective. This is within the institution's sphere of responsibility.	For the very reason that the economic assessment differs from the periodic perspective, it is not possible to sensibly transfer methodological aspects in the direction described.	Friedberg, Jörg	Publish
21	Principle 3	Example 3.2	20	Clarification	The entire document fails to clearly show whether economic risks are already taken into account in the normative view, in the baseline scenario, or 'only' in the adverse scenarios. We ask for clarification in the document. Example 3.2 (page 22) deals with hidden losses: does the requirement only apply to adverse scenarios or also to the baseline scenario?	Clear harmonisation (which therefore prevents misinterpretations) required between the baseline and adverse scenarios.	Friedberg, Jörg	Publish
22	Principle 3	Example 3.2	20	Clarification	Due to the different effects of burdens in both perspectives, we believe that risks determined economically should not have to flow directly into the adverse scenarios of the normative perspective. Rather, the focus is on findings from the economic risk assessment, which have to be incorporated into the definition of adverse scenarios.	Clarification required that risks from the economic perspective do not have to be taken over 1:1 into the normative perspective.	Friedberg, Jörg	Publish

23	Principle 4	55	22	Deletion	The identification or risks should not be based on a 'gross' approach, as this would prevent a focus on actual, material risks. It is conceivable, for example, that unauthorised access (intrusion) is identified as a significant risk without taking security mechanisms into account. An assessment of the materiality of risks is only reasonably possible on the basis of a 'net' approach.	This serves to generate realistic risk assessments.	Friedberg, Jörg	Publish
24	Principle 3, Principle 5:	5: (ii), 61, 63, 65	26-27	Amendment	The wording concerning the economic perspective is inconsistent: (ii) states that the continuity of operations has to be ensured. This can be interpreted in a way that minimum capital requirements have also to be fulfilled in the economic perspective. In this case, figure 5 should resemble figure 3 and 4 (Principle 3). Fair value considerations of assets and liabilities and the resulting risk-bearing capacity according to Section 61 are only useful if the institution is liquidated. If operations continue most assets and liabilities cannot be transformed into liquidity to cover risks. According to Section 65 the internal capital definition can be disconnected from the regulatory own funds, but is still expected to be generally consistent with the loss-absorbing capacity of CET 1 capital. This requirement is not in line with the wording in Section 63 as well as with a fully developed net present value concept. The requirement in Section 65 can hardly be fulfilled with regard to components of own funds besides CET 1 as well as components of a net present value concept. As a consequence, but in contrast to various Sections in Principles 3 and 5, these components could not be considered as risk-bearing capacity.	Changes are necessary. At present a reasonable design of the economic perspective is not possible due to various inconsistencies in the wording.	Friedberg, Jörg	Publish
25	Principle 4	56	22-23	Deletion	An explicit requirement regarding shadow banking entities appears unnecessary and redundant, given the existing explicit regulation: there is no obvious added value within the scope of the ICAAP.	Unnecessary administrative expenditure	Friedberg, Jörg	Publish
26	Principle 4	Example 4.2	24	Clarification	Gross approach: if a fixed hedge via derivatives/swaps is in place, this should of course be taken into account, and the net position should remain relevant – the relevant decisions have already been taken in this case. Of course, residual risks such as counterparty credit risks etc. must be considered. The same applies to credit collateral (collateral in rem and personal collateral), which has been contractually agreed upon, and proven risk mitigation measures. In our opinion, potential defaults of contractual collateral should be considered via scenarios, rather than in the risk inventory. In any case, a distinction should be made – where viable – between hedges already contractually agreed upon, and hypothetical management actions (in what may be critical market situations), for each type of risk.	Following clarification, the proposal is expected to be more in line with currently viable banking practice.	Friedberg, Jörg	Publish
27	Principle 4	Example 4.4	25	Deletion	We do not perceive any direct connection between the ICAAP and existing requirements for outsourcing management. Separate regulations are in place governing requirements for a risk analysis of outsourcing arrangements. Risks from outsourcing are managed as part of operational risk; a separate quantification is not useful, also from a methodological point of view.	The example is not suitable to illustrate Principle 4.	Friedberg, Jörg	Publish
28	Principle 5	66	27	Deletion	The capital definitions in both perspectives are based on a different measurement approach (balance sheet-oriented vs. value-oriented), with different horizons (reporting-date view vs. net present value view). A comparison between regulatory capital and value-oriented internal capital is therefore difficult to represent, primarily due to the different horizon (reporting date vs. future view).	This requirement does not add value for capital management; in practice, it is hardly (if at all) possible to implement.	Friedberg, Jörg	Publish
29	Principle 5	Example 5.1	27	Amendment	The required present-value assessment of assets and liabilities (cf. section 61) implies recognition of hidden losses and hidden reserves. We request that the restriction "if at all" in example 5.1 be deleted. In addition, the example mixes up the methodological effects upon capital and risk.	Avoiding a contradiction within Principle 4: the type of capital should depend upon the risk shield, particularly in the economic perspective – this is no longer given in the example.	Friedberg, Jörg	Publish

30	Cross-sectional issue / consistency across principles	Example 5.1; 43; Principle 5 (i) in conjunction 64/65	16, 26-27	Amendment	According to example 5.1, an orientation of the internal capital definition to CET1 capital is required and in example 5.1.Tier 2/subordinated capital instruments are to be deducted from the internal capital because – according to the explanations given – they only fulfil its loss-absorbing function in the event of liquidation, whereas the ICAAP is based on long-term viability. However, Principle 5 (i) correctly requires consistency between capital definition and quantification methods: this constitutes a logical break, since paragraph 43 requires a full fair-value perspective for the purposes of risk quantification. Various risk components (such as credit spread risk in the banking book), large portions of migration risk (except for stage migration under IFRS 9), risks from own property holdings, etc. exhibit significant risk exposures when taking a fair value view. However, these will never affect a bank's equity during ongoing operations ("hold" category). Losses from these risks (e.g. from an asset sale prior to maturity) only occur in the event of liquidation – in which case they could be covered by losses sustained by subordinated creditors, in accordance with the liquidation perspective. Furthermore, it should be noted that tier 2 instruments are not per se homogeneous in their loss-absorption capacity, and regarding the timing of when they materialise. For this reason alone, a more differentiated approach is required than the complete exclusion of these instruments. Conversely, the new, symmetrical treatment of hidden burdens and reserves is consistent with the fair-value concept in example 5.1: an explicit reference is provided that the inclusion of hidden reserves in capital must be accompanied by a corresponding risk calculation. In contrast to previous German practice (asymmetrical deduction of burdens), this leads to a viable, basic present value concept; after all, the risk calculation is based on the current present value of the instrument.	Consistency between risk calculation and aggregate risk cover is fundamentally important; it determines the usability of the overall concept in bank management. In the interests of consistency, the new ICAAP methodology should decide whether: a. a full fair value-related risk view is desired, including risks materialising in the event of liquidation (in that case, including subordinated capital as well as hidden burdens/reserves, plus the associated extended risk position); or b. a going-concern view excluding subordinated capital is preferred, but then restricted to the risks directly affecting capital (in accordance with IFRSs). This clear separation is also important for the "Pillar 1+" concept: already today, economic risks are juxtaposed to regulatory risks, and the economic surplus is interpreted as the P2R in CET1. What is being ignored in this context is that parts of risk quantification are based on a fair value view, meaning that they will not affect tier 1 capital in the going-concern scenario – which may lead to a systematically excessive P2R for the purposes of the CET1 ratio. A differentiation between the P2R for the total capital ratio and the tier 1 ratio may be necessary.	Friedberg, Jörg	Publish
31	Principle 6	(i)	29	Deletion	We propose to delete the phrase "The institution is expected to apply a high level of conservatism under both perspectives". Instead of being conservative, measurement of risks in both perspectives must be accurate. Institutions want to understand the true extent of their risk exposure. The instrument to bring conservatism into the picture is not risk measurement – it is the risk appetite framework, whereby the institution must determine the degree of conservatism. This should be clarified in the document. From our point of view, it should also be possible to apply a lower confidence level for the definition of adverse scenarios in statistical approaches than in the economic perspective.	Conceiving a viable regulatory concept.	Friedberg, Jörg	Publish
32	Principle 6	(i)	29	Clarification	It is unclear what the concept of "risk quantification in the normative perspective" refers to. The wording "in addition" implies that risks from a normative view are already expected in the baseline scenario. In our opinion, the concept of risk quantification also contradicts the following statement that adequate methodologies be used for quantifying the potential future changes in own funds in adverse scenarios. There is a difference to be taken into account here.	Clarification that no mandatory risk quantification is required for adverse scenarios in the normative perspective, and that instead, the focus is on the scenario definition.	Friedberg, Jörg	Publish
33	Principle 6	(ii)	29	Amendment	At this point, the requirement for all "methodologies [...] to be subject to independent [...] validation" should be put into perspective in terms of materiality – as also shown in a differentiated manner in example 6.1.	Incorporating a materiality clause would avoid unnecessary effort.	Friedberg, Jörg	Publish
34	Principle 6	70	29-30	Amendment	The exact meaning of the "overall level of conservatism" is unclear: is this some kind of 'security level' that a bank defines itself (i.e. most likely comparable to a confidence level), or is it a conservative approach for individual models? In the latter case, it is worth noting that conservative modelling merely for the sake of conservatism is inappropriate – managing a bank requires an assessment of the risks involved that is as realistic as possible. We therefore ask for clarification of the concept of "overall level of conservatism", taking into account the points mentioned here. Moreover, the wording "losses that occur rarely" remains unclear in conjunction with the concept of conservatism. We also suggest deleting the link to Pillar 1, since the orientation towards Pillar 1 does not in itself create added value, or lead to a more accurate measurement. The last two sentences could be formulated as follows: „In the view of the ECB, in a sound ICAAP the overall level of conservatism under the economic perspective is generally determined by the combination of underlying assumptions and parameters.26”	Avoiding misunderstandings.	Friedberg, Jörg	Publish

35	Principle 6	70	29-30	Deletion	We take a critical view of the term "risk quantification methodologies" in the context of the normative perspective. As stated in Principle 6 (i), sentence 2, further methods for deriving adverse scenarios are also possible. Hence, the term "risk quantification" should therefore be deleted here.	Avoiding misunderstandings in defining adverse scenarios in the normative perspective.	Friedberg, Jörg	Publish
36	Principle 6	70, footnote 25	30	Amendment	We ask for a clearer wording, permitting institutions to stay below the requirements of Pillar 1.	Avoding misunderstandings.	Friedberg, Jörg	Publish
37	Principle 6	71	30	Deletion	Section 71 requires a calibration of the institution's risk appetite on the basis of its own risk appetite. For this concept to work, the time horizon must be specified. For high confidence levels, this will be difficult to convey to the Management Board (every 1,000 years for a 99.9% confidence interval). We therefore suggest to at least delete "on the basis of its own risk appetite"; The insertion makes no sense in the context of risk measurement: the focus should be on the correctness of the calculation rather than on the risk appetite – after all, the risk appetite cannot be back-tested. Furthermore, the methodology should be independent of the willingness to take risks. Given that section 71 is difficult to understand overall (and, as far as we can see, is also redundant to section 70 – according to which risks need to be quantified in a sufficiently conservative manner), a deletion should be considered.	Enhancing the technical accuracy of the regulatory text.	Friedberg, Jörg	Publish
38	Principle 6	77	31	Amendment	The ECB's critical attitude towards inter-risk diversification is well known. We consider inclusion for the purposes of SREP / P2R to be appropriate, provided that individual evidence can be provided.	Providing the option of incorporating IR correlations into P2R calculations would provide additional risk sensitivity to the P2R.	Friedberg, Jörg	Publish
39	Principle 6	80-82	32	Clarification	The ICAAP Guide emphasises the principle of proportionality in the context of the independent validation function. In accordance with section 80, the materiality and complexity of risks and methods are decisive for the proportional design of independent validation. For instance, example 6.1 also requires organisational implementation according to the nature, size, scale and complexity of the risks involved. Accordingly, independent validation for Pillar 2 models should permit organisational differentiation, depending on the type of risk and its importance for the bank – meaning that a bank may deploy the organisational arrangements shown in example 6.1 in different ways, in accordance with the materiality and complexity of the respective type of risk. However, the TRIM guideline should be taken into account. In our view, however, a distinction between Pillar 1 and Pillar 2 models is required with regard to the validation function, not least because the efforts required for recognition of Pillar 1 models are only worthwhile for material risks – meaning that higher specific validation requirements need to be imposed. For Pillar 2 models, however, these should not be adopted without reflection. In our view, institutions should be able to choose different ways of separating model development and validation, depending on the importance of individual models.	Safeguards the principle of proportionality with respect to validations.	Friedberg, Jörg	Publish
40	Principle 6	80-82	32	Deletion	It is incomprehensible that the design of the validation function should be indiscriminately linked to the size of an institution. In this respect, the reference to TRIM – as provided in example 6.1 – is inappropriate, given that a proportionate organisational design of the validation is excluded solely on the basis of G-SII or O-SII status, regardless of the materiality and complexity of individual types of risk. However, section 11 of the ICAAP Guide addresses only credit institutions that are significant supervised entities as defined in Article 2 (16) of the SSM Framework Regulation. The reference to the TRIM guideline thus undermines the proportionality emphasised in the ICAAP Guide. The reference to TRIM should therefore be deleted (especially as a review of the requirements is already announced in footnote 13 of the TRIM guideline).	Safeguards the principle of proportionality with respect to validations.	Friedberg, Jörg	Publish
41	Principle 7	(i); 83	33	Amendment	At its hearing on 24 April 2018, the ECB signalled that stress tests conducted by institutions may also be used as an option for risk quantification from an economic perspective. If this were done using another internal procedures (statistical models), separate stress tests would not be necessary for the economic perspective. We request that you amend the supervisory expectations in this respect.	The objective is to harmonise the ECB's written expectations with the possibilities for the economic perspective, as outlined in the hearing.	Friedberg, Jörg	Publish

42	Principle 7	(ii)	33	Amendment	The principle exacerbates the requirements imposed with respect to stress tests; at present, the intention is hardly recognisable (especially concerning the differentiation between the different scenarios). Stress-testing requirements should be set with a sense of proportion, depending on the complexity and size of the institution concerned. For this reason, supervisory authorities need to clearly set out requirements and definitions of terminology related to stress tests: "basis", "risk", "adverse", "stress", "severe adverse" and "reverse".	Formulate requirements with a sense of perspective, clearly outlining the intention.	Friedberg, Jörg	Publish
43	Principle 7	(iii)	33	Deletion	Principle 7 (iii) requires a quarterly update of vulnerabilities and corresponding scenarios. We consider this frequency to be exaggerated, since the risk profile of most institutions does not change so quickly. Notwithstanding this, actual key indicators are, of course, updated on a quarterly basis.	Removing the "quarterly" review cycle – or changing it to "at least annually" – would avoid unnecessary efforts.	Friedberg, Jörg	Publish
44	Principle 7	85	34	Clarification	Does this imply that adverse scenarios are synonymous with stress tests – or do special scenarios need to be defined with regard to their impact upon CET1 capital? In any event, a requirement defining the result of the adverse scenario may counteract the plausibility criterion, or is reserved for reverse stress testing.	Clarification in order to prevent misunderstandings.	Friedberg, Jörg	Publish
45	Principle 7	85/86	34	Clarification	Adverse scenarios in the normative perspective are required to incorporate "severe economic downturns and financial shocks". How can this requirement be distinguished from the assumptions for stress scenarios? The same ambiguity affects the glossary; please implement any clarifications there as well.	Unambiguous wording required, to prevent misinterpretations.	Friedberg, Jörg	Publish
46	Principle 7	89	34	Clarification	Should this be interpreted to mean that reverse stress tests are to be conducted solely with respect to regulatory parameters – as opposed to economic risks (which are defined differently) and potential risk cover?	Clarification in order to prevent misunderstandings.	Friedberg, Jörg	Publish