EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Template for comments

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

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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	41 and 43	14 & 15	Amendment	The OCR level (that includes TSCR +P2R+CBR) from “Figure 3 -Baseline capital ratio projection under the normative perspective” shows an upward trend over the planning horizon. In contrast, the TSCR level in “Figure 4- Adverse capital ratio projections under the normative perspective” is presented as constant on the same three year horizon. It is expected that under the adverse scenario, reflecting increases in required internal capital the TSCR level would increase over the planning horizon. Also, in case of adverse scenarios, we consider that the management buffer should have a decreasing trend (having in mind that in case of prolonged stressed periods the buffer’s main objective is to absorb losses/ be used).As per Figure 4, the lowest outcome point under stress correspondends to the highest level for the Management Buffer. Even if we do understand the Figures are for illustration purposes, we consider an ammendment to the Figure 4 would be beneficial to the proper understanding of the guidance/ principle in question.	Ammendements would provide clearer understanding of the concepts form maket participants	Dochia, Andrei	Publish

2	Principle 3	43	15	Amendment	In Figure 4, the adverse scenarios 1, 2, n are presented as having a similar evolution (timing) but with varying severity levels. Under capital planning, running the same adverse scenario but only changhing the severity level is less informative than having a different construction of alternative scenarios. E.g. Scenario 1 assumes imediate impact of risk factors, duration 1 year, severity high. Scenario 2 assumes deferred impact of risk factors from year 2 onwards, duration 2 years, severity mild. We consider an ammendment to the shape of the alternative adverse scenarios outcomes would be beneficial, highlighting potential hitting TSCR/Management Buffer levels in multiple adverse scenarios (not only in the most severe scenario).	Ammendements would provide clearer understanding of the concepts form maket participants	Dochia, Andrei	Publish
3	Principle 3	43	15	Amendment	In case of adverse capital projections (Figure 4), we consider that plotting the early intervention trigger (Directive 2014/59/EU - set as trigger of 1.5% over TSCR) above TSCR and below the Management Buffer should increase information relevance consequently providing valuable information and alignment with the BRRD framework	More complete picture depicted including BRRD concepts.	Dochia, Andrei	Publish
4	Principle 3	42	15	Clarification	Paragraph 42 states that in sufficiently adverse scenarios, it "might be acceptable" that the institution does not meet its P2G and combined buffer requirement. It is also expected that institutions maintain adequate management buffers on top of the TSCR to fulfil market expectations under adverse conditions. We consider that the wording "might be acceptable" could be replaced with a less judgmental expression for example "under sufficiently adverse scenarios, while institutions are normally allowed to use P2G and combined buffer requirements, they should aim to maintain an adequate management buffer above TSCR and early intervention triggers" While we agree that management buffers above TSCR are a sound prudential risk amangement practice, we draw attention that supevisory ratios are not public as per current disclosure requiements and as such the management of market expectations vis-a-vis positioning above TSCR is somehow not a practical aspect. Using reference to supervisory & resolution authorities would be more appropriate.	Eliminate judgmental wording on when buffers are allowed to be used - enhance clarity	Dochia, Andrei	Publish

5	Principle 3	43	15	Clarification	The underlying scenario for the recovery plan might very well be much more adverse than the capital planning scenario (e.g. reverse ST). Adversity might be reflected in the speed of capital depletion and thus in the commensurate assumptions around management actions. Assumptions for management actions (e.g. duration of an action, expected impact) might very well not be consistent in Capital Plan scenario and Recovery Plan scenario. More clarity should be provided with regards to the intended meaning of the referred part of Paragraph 43 (assumptions are expected to be consistent..)	Increase clarity of ECB expectations in the area of CP and RP coherence	Dochia, Andrei	Publish
6	Principle 2	24	8	Clarification	Discussing about the ICAAP as an integral part of an institution’s management framework, the guideline makes reference to the fact that "ICAAP-based risk-adjusted performance indicators are expected to be used in the decision-making process and, for example, when determining variable remuneration or when discussing business and risks at all levels of the institution, including, inter alia, in asset-liability committees, risk committees and meetings of the management body" We consider that the more practical examples should be provided with regards to expectations in terms of risk-adjusted performance indicators/metrics that institutions could use to show effective use of ICAAP outcomes. We note that the only other reference to ICAAP based/linked metrics is provided in EBA's Guidlines for Sound Remuneration The lack of practical examples on such an important topic in the entire prudential framework does not ensure convergence of institution practices.	Key concept with limited practical guidance available	Dochia, Andrei	Publish
7	Principle 3	i)	11	Clarification	We consider the document should make consistent use of the terms available internal capital (capital supply) and required internal capital (capital demand) to avoid misunderstanding of the concepts presented (multiple paragraphs use internal capital interchangebly, either referring to supply or demand for capital).	Avoid misunderstanding when referring to internal capital	Dochia, Andrei	Publish

8	Principle 3	35	11	Clarification	The document makes reference to the fact that: "The institution is expected to reflect this continuity objective in its RAF (as specified under Principle 2) and use the ICAAP framework to reassess its risk appetite and tolerance thresholds within its overall capital constraints, taking into account its risk profile and vulnerabilities" This is the only paragraph where the concept of "risk tolerance" is introducted to complement the concept of "risk appetite". We note that "risk tolerance" is not defined in the Glossary section. We also note that while the latest EBA Guidelines on Internal Governance (EBA/GL/2017/11), makes the following statement: The guidelines align the terminology used regarding risk appetite and risk tolerance with the EBA guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) (EBA/GL/2014/13) and also with the revised BCBS principles; they use the term 'risk appetite' to refer to the aggregate level of risk and the types of risk an institution is willing to assume, while 'risk capacity' is the maximum amount of risk an institution is able to assume. We note that EBA/GL/2017/11 and BCBS Corporate Governance principles for banks (July 2015) do not use the term risk tolerance, but only risk appetite and risk capacity. We consider that "risk tolerance" should either be properly defined or eliminated altogether from the guidance to eliminate implementation confusion.	Ensure consistency with other guidelines, recent developments	Dochia, Andrei	Publish
9	Principle 3	45		Clarification	Under the economic perspective, paragraph 45 makes reference to the need to perform a point-in-time risk quantification should. Supplementary clarification is needed in this area in order to grasp the information strictly from the point of view of the economic perspective (or why this should not be used also under the normative perspective/TSCR).	New concepts used need further explanation for proper understanding by market parcitipants	Dochia, Andrei	Publish

10	Principle 3	47	17	Amendment	Although the economic perspective plotted in *Figure 5 - Management considerations under the economic perspective,* is a different perspective from normative perspective, the figure is not comparable with Figures 3 and 4 (where TSCR, OCR, P2G are included). There is also no comparable time dimension added to the Figure 5 which makes comparison of the two concepts even more difficult to grasp. We consider that a combined graph/ figure outlining commonalities and differences between normative and economic perspectives would give valuable insights to institutions and ensure a better understanding of the two dimensions that need to be assessed.	Improvement in understanding of differences between the two perspectives	Dochia, Andrei	Publish
11	Principle 3	44	17	Amendment	Paragraph 44, presenting the economic perspective, makes use of terms/ concepts such as fair value of risks and economic risks. The concepts/ terms are not defined in the Glossary section and are not to be found in other Regulatory/Supervisory guidance on the topic. These concepts should be adequately defined before being used to defined the economic perspective. The same paragraph states that */ The institution is expected to manage economic risks and adequately assess them in its sensitivity analysis and its monitoring of capital adequacy.* The statement inconsistently makes use of the concept sensitivity analysis, a simpler method to perform stress testing, while the rest of the document mentioned scenario analysis as a stress testin methodology. The overall meaning of the above mentioned phrase is unclear (the bank is expected to manage economic risks?)	New concepts used need further explanation for proper understanding by market parcitipants	Dochia, Andrei	Publish

12	Principle 3	44 & 49	16 / 18	Clarification	As presented in the guideline, the economic perspective should provide for a fully comprehensive view of risks. The same is valid though under the normative perspective, where within TSCR institutions try to capture all other Pillar 2 risks. The key example provided is the one of the IRRBB, with the two known perspectives (earnings and EVE perspective). We note that while the guideline somehow suggests that the NPV/EVE concept is captured in the economic perspective and earnings in the normative perspective, we can confirm from practice that institutions (and NCAs) currenlty include (require) IRRBB with a capital charge within TSCR (normative) at an amount closely linked to the outcome of the EVE measurement. Due to the fact that economic perspective is mentioned to represent a more comprehensive risk capture, and given above comment on IRRBB, we strongly beleive that the guidelne should provide clear guidance on the key differences between the normative and economic perspecives starting with risk capture differences.	Example provided is not sufficient to differentiate between the two perspectives	Dochia, Andrei	Publish
13	Principle 3	20 & 53	6 & 18	Clarification	Figure 6 - Overview of ICAAP perspectives and key features : In order to ensure appropriate measurement from both perspectives“ Adequate, consistent and independently validated internal risk quantification methods” placed in the figure under the economic perspective, should also be applied for normative perspective. To support this, note that paragrah 20 makes reference to the fact that ICAAP outcomes are expected to be subject to adequate back-testing/ validation. We suggest the requirement is moved to the common area at the bottom of the Figure 6. It is also not clear what is the difference between the wordings used for normative and economic perspectives to describe seemingly similar concepts. For example, the normative perspective talks about Additional management buffers determined by the institution while the economic perspective about Internal indicators, thresholds and management buffers.	Increase clarity	Dochia, Andrei	Publish

14	Principle 4	54	22	Amendment	Principle 4 makes reference to the need for institutions to identify all material risks and take them into account in the ICAAP. In addition, Paragraph 54 refers to the need to implement a regular process for risk identification and inclusion into a risk inventory, all based on an internal definition of materiality. We suggest the guidelines make use of the concept of risk assessment instead of risk identification, especially as identification is only the first sub-process of the the larger risk assessment process (risk assessment = risk identification + risk analysis + risk evaluation as per ERM standards such as BS ISO 31100). In our experience, institutions also use the concept risk assessment in their ICAAP frameworks.	Alignment to market practice/ risk management standards taxonomy	Dochia, Andrei	Publish
15	Principle 4	58	23	Amendment	Paragraph 58 refers to the fact that the management body is responsible for deciding which risk types are to be considered material and which of these should be covered with capital. In our view, the management body shold be primarily responsible with the design/approval of the risk assessment methodology (as a component of the larger risk mgm framework). Such risk assessment methodology should also include list of objective risk criteria to which the risk level (probability x likelihood) is evaluated against when deciding if a risk is material or not. We recommend the paragraf to be ammended in line with the above and/or more comprehensive risk management standards (e.g. revised COSO ERM, BS ISO 31100)	Alignment to market practice/ risk management standards taxonomy	Dochia, Andrei	Publish
16							Dochia, Andrei	Publish
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19							Dochia, Andrei	Publish
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