

EBA/CP/2015/26

11 December 2015

Consultation Paper

Guidelines on ICAAP and ILAAP information collected for SREP purposes

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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 11 March 2016. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N° 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

These Guidelines facilitate the consistent approach to the assessment of institutions' internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) under the supervisory review and evaluation process (SREP) and should be read together with the EBA Guidelines on common procedures and methodologies for SREP¹ (SREP Guidelines).

In particular, these Guidelines specify what information regarding ICAAP and ILAAP competent authorities should collect from the institutions in order to perform their assessments following the criteria specified in the SREP Guidelines.

Whilst not setting any specific requirements toward ICAAP and ILAAP recognising the responsibility of institutions for defining their own approaches to ICAAP and ILAAP and ensuring that those are compliant with the requirements of directive 2013/36/EU, the common set of information items referred to in these Guidelines would facilitate consistent supervisory assessment of ICAAP and ILAAP frameworks as well as reliability of ICAAP and ILAAP capital and liquidity estimates and their use in the assessment of institution's capital and liquidity adequacy and determination of additional own funds and liquidity requirements in accordance with SREP Guidelines.

In addition to specifying information items, these Guidelines also set general criteria for competent authorities to organise collection of ICAAP and ILAAP information from institutions and using such information for the purposes of their assessments of other SREP elements. When specifying such criteria, these Guidelines recognise the principle of proportionality in relation to the frequency, reference and remittance dates, and scope for ICAAP and ILAAP information that should be determined in relation to the SREP categorisation of institutions, minimum supervisory engagement model and supervisory examination programmes.

By means of these guidelines the EBA does not aim at introducing specific ICAAP/ILAAP 'report', but identifies information items and their core content recognising that such information can be provided either through a single report, specifically prepared by an institution for the purposes of ICAAP/ILAAP submissions, or as separate documents that are already available in the bank. The specific form of the submissions of information will be determined by the competent authorities when applying these Guidelines.

The Guidelines also do not introduce any specific common templates for quantitative data to support ICAAP and ILAAP assessments, nor introduce common risk taxonomy or methodological considerations other than already specified in SREP Guidelines.

¹ EBA/GL/2014/13 of 19 December 2014

Next steps

The Guidelines will be finalised following the completion of the public consultation. The Guidelines will be translated into the official EU languages and published on the EBA website. The deadline for competent authorities to report whether they comply with the guidelines will be two months after the publication of the translations. The guidelines will apply from 30 June 2016, however, competent authorities may use the draft Guidelines as provided in the Consultation Paper to structure their ICAAP and ILAAP information requests for 2016 cycle of SREP and joint decisions on institution-specific prudential requirements.

3. Background and rationale

1. Article 73 of Directive 2013/36/EU requires institutions to have in place sound, effective and comprehensive strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital that they consider adequate to cover the nature and level of the risks to which they are or might be exposed (which is commonly referred to internal capital adequacy assessment process – ICAAP). Those strategies and processes shall be subject to regular internal review to ensure that they remain comprehensive and proportionate to the nature, scale and complexity of the activities of the institution concerned.
2. Article 86 of Directive 2013/36/EU requires institutions to have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons and management and monitoring of funding positions, so as to ensure that institutions maintain adequate levels of liquidity buffers and adequate funding (which is commonly referred to as internal liquidity adequacy assessment process – ILAAP). Those strategies, policies, processes and systems shall be tailored to business lines, currencies, branches and legal entities and shall include adequate allocation mechanisms of liquidity costs, benefits and risks. The methodologies for managing and monitoring of funding position shall include the current and projected material cash-flows in and arising from assets, liabilities, off-balance- sheet items, including contingent liabilities and the possible impact of reputational risk.
3. The competent authorities review ICAAP and ILAAP as part of the supervisory review and evaluation process (SREP) performed in accordance with Article 97 of Directive 2013/36/EU and in accordance with the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP Guidelines)².
4. Furthermore, the SREP Guidelines provide a set of criteria that competent authorities should consider when assessing ICAAP and ILAAP frameworks and estimates of their internal capital and liquidity calculation. In order to satisfy those assessment criteria the following should be considered:
 - a. ICAAP and ILAAP should be consistent with risk profile and operating environment of an institution, tailored to the institution's circumstances and needs and it should use the inputs and definitions that the institution normally uses for internal purposes. At the same time, the institution should make the ICAAP and ILAAP understandable to the competent authorities and demonstrate that it is sound, effective and comprehensive.
 - b. The design of ICAAP and ILAAP frameworks is the responsibility of the institutions. ICAAP and ILAAP should be based on adequate measurement and assessment processes including both quantitative and qualitative elements, and they should be

² EBA/GL/2014/13 of 19 December 2014

fully documented. The ICAAP and ILAAP should form an integral part of institutions' management processes and should be reviewed on a regular basis. ICAAP and ILAAP should be risk based, covering all material risks to which the institution is or might be exposed to and consider also the regulatory, economic or business environment in which the institution operates.

- c. ICAAP and ILAAP should be forward-looking. Institutions should have an internal strategy for maintaining adequate level of capital and liquidity taking into account the strategic plans and how they relate to macroeconomic factors.
 - d. The ICAAP should produce a reasonable overall capital number and assessment. The institution should be able to explain to the competent authorities the calculation methodologies to make the ICAAP understandable and the similarities and differences between its ICAAP and its own funds requirements to enable supervisor compare the outcomes.
 - e. The ILAAP should produce a credible and understandable assessment and outcome. The institution should be able to explain to the competent authorities the methodologies and calculations used and the risks these are looking to address, and a breakdown and summary of the underlying components of the ILAAP calculations.
5. In order to perform supervisory assessments of ICAAP and ILAAP frameworks, and determine whether institutions' ICAAP and ILAAP meet the criteria specified in the SREP Guidelines and above, competent authorities should have access to various ICAAP and ILAAP specific and background information, including institution's policies and methodological documents, operational documents and supporting documents evidencing the use of ICAAP and ILAAP in the risk management and strategic management of an institution.
6. The aim of these Guidelines is to ensure convergence of supervisory practices in the assessment of ICAAP and ILAAP as required by SREP Guidelines by introducing common set of information competent authorities will be using in their assessments.
7. In particular, the Guidelines specify what information regarding ICAAP and ILAAP competent authorities should collect from the institutions in order to perform their assessments:
- a. an overarching document ('reader's manual') that facilitates the assessment of ICAAP and ILAAP documents by providing an overview of the documents and their status (new, unchanged, changed with minor edits, etc.), an overview of where the information items specified in these Guideline can be found in the documentation provided by an institution and other information relevant for the competent authority at the start of the assessment;
 - b. general information about ICAAP and ILAAP frameworks, business model and strategy, as well as governance as specified in Section 5 of these Guidelines;
 - c. ICAAP-specific information as specified in Section 6 of these Guidelines;
 - d. ILAAP-specific information as specified in Section 7 of these Guidelines; and

- e. conclusions on ICAAP and ILAAP and quality assurance information as specified in Section 8 of these Guidelines.
8. In addition to specifying information items, these Guidelines also set general criteria for competent authorities to organise collection of ICAAP and ILAAP information from institutions and using such information for the purposes of their assessments of other SREP elements. When specifying such criteria, these Guidelines recognise the principle of proportionality in relation to the frequency, granularity, reference and remittance dates for ICAAP and ILAAP information that should be determined in relation to the SREP categorisation of institutions, minimum supervisory engagement model and supervisory examination programmes.
9. In particular, the competent authorities would be expected to receive from Category 1 institutions all information specified in these guidelines annually by a single set date as a comprehensive package. The scope, format, frequencies, remittance and reference dates for the information submissions for non-Category 1 institutions may be different and will be determined by the competent authorities for each category of institutions, or individual institutions, where appropriate, depending on the respective minimum supervisory engagement model and supervisory examination programmes, where appropriate coordinating these arrangements within the colleges of supervisors..
10. As provided in the SREP Guidelines, the categorisation of institutions will drive the level of minimum supervisory engagement with an institution, but will also define supervisory expectations of the standards the institution is expected to meet. As a consequence, the SREP categorisation will define supervisory expectation towards the set-up and sophistication of the ILAAP and ICAAP including the relevance of some of the information items included in these Guidelines.
11. Furthermore, the principle of proportionality applies also regarding the actual content of the information provided by institutions, and in particular in relation to the depth, detail and scope of the ICAAP and ILAAP documentation. Since in principle all information items specified in these Guidelines could be relevant for both complex and less complex institutions, and taking into account this Guideline does not specify the level of detail in which the information items should be covered. Therefore, no split in information items was made in the Guidelines in relation to proportionality.
12. Thus, by means of these guidelines the EBA does not aim at introducing specific ICAAP/ILAAP 'report', but identifies information items and their core content recognising that such information can be provided either through a single report, specifically prepared by an institution for the purposes of ICAAP/ILAAP submissions, or as separate documents that are already available in the bank. The specific form of the submission of information will be determined by the competent authorities when applying these Guidelines.
13. The Guidelines also do not introduce any specific common templates for quantitative data to support ICAAP and ILAAP assessments, nor introduce common risk taxonomy or methodological considerations other than already specified in SREP Guidelines.

4. Draft guidelines

In between the text of the draft Guidelines advice that follows, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.

EBA/GL-REC/20XX/XX

DD Month YYYY

Draft Guidelines

on ICAAP and ILAAP information collected for SREP purposes

1. Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010³. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the guidelines.
2. Guidelines set the EBA view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 to whom guidelines apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

3. According to Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by ([dd.mm.yyyy]). In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website to compliance@eba.europa.eu with the reference 'EBA/GL/201x/xx'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to EBA.
4. Notifications will be published on the EBA website, in line with Article 16(3).

³ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, (OJ L 331, 15.12.2010, p.12).

2. Subject matter, scope and definitions

Subject matter

5. This Guidelines aim at ensuring convergence of supervisory practices for the assessment of institutions' internal capital adequacy assessment process (ICAAP) and internal liquidity adequacy assessment process (ILAAP) under the supervisory review and evaluation process (SREP) in accordance with the EBA Guidelines on common procedures and methodologies for SREP (SREP Guidelines)⁴. In particular, these Guidelines specify what information regarding ICAAP and ILAAP competent authorities should collect from the institutions in order to perform their assessments following the criteria specified in the SREP Guidelines.

Addressees

6. These Guidelines are addressed to competent authorities as defined in point (i) of Article 4(2) of Regulation (EU) No 1093/2010.

Scope

7. Competent authorities should apply these Guidelines 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.

3. Implementation

Date of application

8. These guidelines apply from 30 June 2016.

⁴ EBA/GL/2014/13 of 19 December 2014

4. General considerations for collection of ICAAP and ILAAP related information

9. Competent authorities should collect the information from institutions regarding ICAAP and ILAAP specified in these Guidelines in order to perform the following supervisory assessments as specified in the SREP Guidelines:
 - a. assessment of the soundness, effectiveness, and comprehensiveness of ICAAP and ILAAP frameworks in accordance with Section 5.6.2 of the SREP Guidelines;
 - b. assessment of the granularity, credibility, understandability and comparability of ICAAP calculations as specified in Section 7.2.1 of the SREP Guidelines; and,
 - c. as additional source of information for the assessments of other SREP elements, including business model analysis in accordance with Section 4 of SREP Guidelines, assessment of internal governance and institution-wide controls in accordance with Section 5 of SREP Guidelines, and assessment of risks to liquidity and funding and liquidity adequacy, in accordance with Section 8 of the SREP Guidelines.
10. Competent authorities should ensure that the information collected from institutions should contain the following:
 - a. an overarching document ('reader's manual') that facilitates the assessment of ICAAP and ILAAP documents by providing an overview of the documents and their status (new, unchanged, changed with minor edits, etc.), an overview of where the information items specified in these Guideline can be found in the documentation provided by an institution and, where appropriate, any other information that may be relevant for the competent authority at the start of the assessment;
 - b. general information about ICAAP and ILAAP frameworks, business models and strategy, as well as governance as specified in Section 5 of these Guidelines;
 - c. ICAAP-specific information as specified in Section 6 of these Guidelines;
 - d. ILAAP-specific information as specified in Section 7 of these Guidelines; and
 - e. conclusions on ICAAP and ILAAP and quality assurance information as specified in Section 8 of these Guidelines.



11. With regard to the collection of information specified in these Guidelines, competent authorities should set out the operational procedures and notify institutions subject to the provision of ICAAP and ILAAP information about the following:
 - a. the dates, by which the information should be provided by institutions to competent authorities (remittance dates);
 - b. the reference date, and specify whether different reference dates can be used for individual information items;
 - c. the frequency in which the information should be provided;
 - d. the technical means and format for the submission of information, and in particular whether information should be provided as one document (report) or in any other form (e.g. multiple documents), or whether institutions may submit own internal documents.
12. In order to facilitate the application of the principle of proportionality, the operational procedures specified in the previous paragraph should be proportionate to the category an institution is assigned to according to Section 2.4 of SREP Guidelines as further specified in the following paragraphs.
13. Competent authorities should require SREP Category 1 institutions to provide to them at least all information items referred to in these Guidelines, on an annual basis by one single set date.
14. For non-Category 1 institutions referred to in Section 2.4 of SREP Guidelines competent authorities may:
 - a. determine different than annual frequency of information submission, and different remittance and reference dates for various information items in accordance with minimum supervisory engagement model applied to each institutions according to Section 2.4 of SREP Guidelines and supervisory examination programme applied to an institution according to Article 99 of Directive 2013/36/EU;
 - b. determine different levels of detail or waive some specific information items referred to in these Guidelines. When waiving specific information items, competent authorities should ensure that they have obtained sufficient information to assess whether the proportionality principle has correctly been applied for that institution.
15. Depending on the quality of the information provided and the assessment of whether the document(s) provided cover all areas detailed in these Guidelines, competent authorities may request institutions to provide supplementary information needed for the assessment of ICAAP and ILAAP within the SREP.

16. Furthermore, competent authorities may request some specific information referred to in these Guidelines outside the regular ICAAP and ILAAP submission cycle established in accordance with paragraphs 13 and 14, to facilitate the assessment of individual SREP elements following the applied engagement model and supervisory examination programme (e.g. some ILAAP-specific information may be requested for the SREP assessment of liquidity and funding risks, and not necessary for the assessment of ILAAP itself).
17. Where these Guidelines are applied in relation to cross-border banking groups and their entities, and the college of supervisors has been established, competent authorities involved should, in the context of their cooperation for the SREP assessment in accordance with Section 11.1 of the SREP Guidelines, coordinate to the maximum extent possible the dates, means and the format referred to in paragraph 11(d) as well as the exact and detailed scope of each information item consistently for all entities within the group of institutions.
18. Where information referred to in these Guidelines is requested from institutions in the form of institution's own internal documents that not follow the structure established in these Guidelines, competent authorities should aim to ensure structural consistency, including by requesting institutions to explain how and where all information items specified in these Guidelines are covered in the documentation provided. To this end, competent authorities should require institutions to prepare a 'reader's manual' containing a mapping table of the information items following the structure established in these Guidelines to the internal documentation which institutions are providing.
19. For the purposes of the assessment of ICAAP and ILAAP frameworks and calculations under SREP, competent authorities should ensure they have received all relevant information items as specified in these Guidelines, taking into account proportionality as explained above. Where some information items are already available to the competent authorities as part of other activities, they may decide to omit such information items from the requests for ICAAP and ILAAP information carried out in accordance with paragraphs 13 and 14. When applying this provision, competent authorities should require institutions to confirm in the 'reader's manual' that information they already possess and that has been omitted from the requests remains up-to-date and there have been no changes to the documents, or provide information on the changes made to the documents after the last submission.
20. In cases where information items are available at a very granular level, institutions should not be required to include every available document in relation to the required information for the sake of completeness. When excluding such granular information from submissions, such as supporting documents in relation to local dashboards, meeting minutes, individual KPIs, competent authorities should ensure that institutions have provided their general policies governing these items and have mentioned in the 'reader's manual' what information was excluded. Competent authorities should, as appropriate, require examples of this information. Such information should, where appropriate, be provided on an upfront basis by institutions where they are seen as important evidence of the institution's compliance with the regulatory requirements.

5. Information that is common to ICAAP and ILAAP

5.1 Information on business model and strategy

21. On business model and strategy, competent authorities should ensure that they receive from institutions the following:

- a. description of the current business models including identification of core business lines, markets, geographies, subsidiaries and products it operates;
- b. description of main income and cost drivers, allocated to core business lines, markets and subsidiaries.

22. On forward-looking strategy, competent authorities should ensure that they receive from institutions the following:

- a. description of the changes planned by the institution to the current business model and its underlying activities (including information on operational changes (such as IT infrastructure) or governance issues);
- b. projections of key financial metrics for all core business lines, markets and subsidiaries;
- c. description of how the business strategy and ICAAP/ILAAP are linked.

5.2 Information on risk governance framework

23. On the set-up and governance of risk management and control frameworks, competent authorities should ensure that they receive from institutions the following:

- a. description of the overall governance arrangements, including the roles and responsibilities within the risk management and control organisation, including at the level of management body and senior management across the group covering:
 - i. risk taking, risk management and risk control, in general;
 - ii. ICAAP and ILAAP and their key components, including *inter alia* risk identification, risk measurement, stress testing, capital and liquidity planning, limit structures, limit breaches, escalation procedures etc.);
- b. description of reporting lines and frequency of regular reporting to the management body covering the risk management and control of the risks;

- c. description of interaction between risk measurement and monitoring and actual risk taking practice (e.g. limit setting, monitoring, dealing with breaches etc.);
- d. description of processes that ensures that the institution has in place a robust framework for the management of its risks and their evolution, the interaction and integration of capital and liquidity management, including interaction between ICAAP and ILAAP, also referring to ICAAP and ILAAP integration into risk management, and the overall management of an institution, including pricing and performance management;
- e. where appropriate, description of separation of tasks within the banking group, institutional protection scheme or cooperative network concerning risk management.

5.3 Information on risk appetite framework

24. On risk appetite framework, competent authorities should ensure that they receive from institutions the following:

- a. description of the correspondence of the strategy and business model of the institution with its risk appetite framework;
- b. description of the process and governance arrangements, including the roles and responsibilities within senior management and management body, in respect of the design and implementation of risk appetite framework;
- c. information on the identification of material risks the institution is or might be exposed to;
- d. description of the risk appetite/tolerance levels, thresholds and limits set for the identified material risks, as well as time horizons, and the process applied to keeping such threshold and limits up-to-date;
- e. description of the limit allocation framework covering group, and, e.g. core business lines, markets and subsidiaries;
- f. description of the integration and use of the risk appetite framework in risk and overall management, including links to business strategy, risk strategy, ICAAP and ILAAP, including capital and liquidity planning.

5.4 Information on risk data, aggregation and IT systems

25. On risk data, aggregation and IT systems, competent authorities should ensure that they receive from institutions the following:

- a. description of the framework and process to gather, store and aggregate risk data across various levels of an institution, including flow of data from subsidiaries to the group;
- b. description of data flow and data structure of risk data used for ICAAP and ILAAP;
- c. description of data checks applied for risk data used for ICAAP and ILAAP;
- d. description of IT systems used to gather, store, aggregate and disseminate risk data used for ICAAP and ILAAP.

5.5 Information on disclosure of ICAAP and ILAAP

26. On disclosure of ICAAP/ILAAP methodologies, results or any other related information, as well as the disclosure of information on capital, liquidity and funding risk management, competent authorities should ensure that they receive from institutions the following:

- a. description of what information is being disclosed, including content, granularity time lag, and frequency of such disclosures and references to such disclosures;
- b. an assessment of the (potential) impact of the disclosed information and disclosure practices on the institution's ability to follow its capital and funding plans, its liquidity and funding profile, and management ability to react to changes in the institution's risk profile;
- c. where appropriate, explanation of any deviations between disclosed information, internal (ICAAP/ILAAP) information and information reported to the competent authorities.

6. ICAAP specific information

6.1 Information on the overall ICAAP framework

6.1.1 Methodology and policy documentation

27. On scope, the general objectives and main assumptions underlying the ICAAP, competent authorities should ensure that they receive from institutions the following:

- a. description of scope of ICAAP including an overview of and reasoning for any deviations from the scope of entities covered by the minimum own funds requirements;
- b. description of the approach to the identification of risks (including risk concentrations) and the inclusions of identified risks within risk categories and sub-categories to be covered by ICAAP, including the approach to the determination of 'materiality' of risks;
- c. description of key objectives and main assumptions of ICAAP (e.g. link to certain external credit ratings) including how this ensures capital adequacy;
- d. description of whether the ICAAP is focused on the risks' impact on accounting figures or on the economic value of the institution, or both of them;
- e. description of ICAAP time horizon(s), including explanation of differences between risk categories and entities of the group covered, if any.

6.1.2 Operational documentation

28. On evidencing the implementation of the scope, the general objectives and main assumptions underlying the ICAAP, competent authorities should ensure that they receive from institutions the following:

- a. list of risk categories and sub-categories covered by ICAAP, including their definitions and perimeter of individual risk categories;
- b. explanations of differences between risks covered by the ICAAP and risk appetite framework, where the scope of risks covered is different.
- c. description of any deviations in the ICAAP process and key assumptions within the group and entities of the group, where appropriate.

6.2 Information on risk measurement, assessment and aggregation

6.2.1 Methodology and policy documentation

29. On regarding risk measurement, assessment and aggregation methodologies used within ICAAP, competent authorities should ensure that they receive from institutions the following:

- a. description of quantification / measurement methodologies and models, including metrics, assumptions, and parameters used (e.g. confidence intervals, holding periods etc.) for all risk categories and subcategories;
- b. specification of actual data used, including explanation of the link between the data and scope of group entities covered by ICAAP, including length of time series;
- c. descriptions of the main differences between quantification / measurement methodologies and models used for ICAAP purposes and those used for the calculation of minimum own funds requirements for risks covered by regulation (EU) No 575/2013 (in case an institution is using advance models approved by the competent authorities) Such description should be provided on risk-by-risk basis and include inter alia information on different use of Basel I transitional floors (Article 500 of Regulation (EU) No 575/213), different assumptions regarding risk parameters, confidence intervals etc.);
- d. description of the approach to aggregation of internal capital estimates for entities and risk categories covered, including the approach to intra-risk and inter-risk diversification benefits and/or concentrations where considered by the methodology.

6.2.2 Operational documentation

30. On evidencing the implementation of ICAAP risk measurement, assessment and aggregation methodologies, competent authorities should ensure that they receive from institutions the following:

- a. internal capital estimates to cover all risk categories and subcategories, broken down by risk category and subcategory covered by ICAAP;
- b. the results of the calculation of internal capital estimates as specified above should be provided for all material risks categories and subcategories covered by ICAAP on a risk-by-risk basis. In case where some risk sub-categories have been identified as material, but calculation methodologies do not allow for the calculation of internal capital estimate at the level of required granularity and such estimates have been incorporated as part of internal capital estimate for a respective risk category, institutions should explain how such sub-categories are included in the calculations (e.g. some risk sub-category risk has been identified as material, but institution is not

able to provide internal capital estimate for such risk and instead includes coverage of this risk within capital estimate for main risk category, it should explain how this risk has been captured under credit risk);

- c. in addition to risk-by-risk information specified above, the results of the aggregation of internal capital estimates for entities and risk categories, including the effects of intra-risk and inter-risk diversification benefits and/or concentrations, where considered by the methodology.

6.3 Information on internal capital and capital allocation

6.3.1 Methodology and policy documentation

31. On internal capital definition and the capital allocation used within ICAAP, competent authorities should ensure that they receive from institutions the following:

- a. Definition of internal capital used to cover ICAAP capital estimates, including all capital elements/instruments considered ;
- b. Description of the main differences between internal capital elements/instruments and regulatory own funds instruments, where appropriate;
- c. Description of the methodology and assumptions used for the allocation of internal capital to group entities, and core business lines and markets, where appropriate;
- d. Description of the monitoring process (comparison of internal capital estimates vs. allocated capital), including escalation procedures.

6.3.2 Operational documentation

32. On evidencing the full implementation of the internal capital definition and the capital allocation framework within ICAAP, competent authorities should ensure that they receive from institutions the following:

- a. amount of internal capital available to date, broken down by various elements considered;
- b. actual amounts of internal capital allocated to risks covered by ICAAP and group entities, and core business lines and markets, where relevant;
- c. quantitative comparison between the actual internal capital usage relative to the internal capital allocated based on ICAAP estimates supported by an explanation of cases where actual capital usage is close to or above the allocated capital.

6.4 Information on capital planning

6.4.1 Methodology and policy documentation

33. On capital planning, competent authorities should ensure that they receive from institutions the following:

- a. description of the general set-up of capital planning, including dimensions considered (e.g. internal, regulatory), time horizon, capital instruments, capital measures etc. ;
- b. description of the main assumptions underlying the capital planning.

6.4.2 Operational documentation

34. On evidencing the full implementation of capital planning, competent authorities should ensure that they receive from institutions the following:

- a. forward-looking view on the development of risks and capital in terms of both internal capital and regulatory own funds ;
- b. description of the current conclusions from capital planning such as planned issuances of various capital instruments, other capital measures (e.g. dividend policy) and planned changes to the balance sheet (e.g. sales of portfolios etc.).

6.5 Information on stress testing in ICAAP

6.5.1 Methodology and policy documentation

35. On the stress tests applied for ICAAP purposes, including on capital planning and allocation of internal capital under the scenarios reported to the management body, competent authorities should ensure that they receive from institutions the following:

- a. description of the governance arrangements for the execution, approval and use of ICAAP stress testing;
- b. description of integration of ICAAP stress testing into the overall stress testing programme of an institution and interaction between ICAAP stress testing and other stress testing, and integration of stress testing into risk management and control framework;
- c. description of adverse scenarios considered under ICAAP, including specification of the scenario assumptions and key macro-economic variables;
- d. description of key assumptions used in the scenarios considered, including management actions, business assumptions regarding balance sheet, reference dates, time horizons etc.

6.5.2 Operational documentation

36. On evidencing the full implementation of ICAAP stress tests and their outcomes, competent authorities should ensure that they receive from institutions the following:

- a. quantitative outcome of the scenarios considered and impact on key metrics, including P&L and capital, both internal and regulatory own funds, prudential ratios, as well as in integrated approaches also the impact on the liquidity position;
- b. explanation of how scenario outcomes are relevant to the institution's business model, strategy, material risks and group entities covered by ICAAP.

6.6 Supporting documentation

37. In addition to the information items referred to in the Sections 6.1-6.5, competent authorities should ensure that they received from institutions all relevant supporting information including minutes of relevant committees and management body meetings evidencing the sound set-up and implementation of ICAAP, and in particular:

- a. approval of overall set-up of ICAAP;
- b. approval of key ICAAP elements, such as general objectives and main assumptions, risk measurement and assessment, risk aggregation, internal capital, capital allocation, capital planning, stress scenarios, their main assumptions and outcomes, etc.
- c. discussion on (changes in) risk and capital situation, limit breaches, etc., including decisions on management actions or the explicit decision not to take any action;
- d. decisions on new product approval committees (or the respective decision making body) evidencing the impact on the risk and capital profile is taken into account;
- e. decisions on management actions related to internal capital estimates, their aggregation and their comparison to the available internal capital (current situation and forward-looking);
- f. discussion of the outcome of stress testing in ICAAP and decision on any management (non-)action;
- g. where available, internal self-assessments in which institutions can take the opportunity to justify their level of compliance against publicly available criteria regarding risk management and control that affect ICAAP.

7. ILAAP specific information

7.1 Information on liquidity and funding risk management framework

7.1.1 Methodology and policy documentation

38. On the set-up of a process that ensures the institution has a robust and specific framework for liquidity and funding risk management, including a process for identifying measuring and controlling liquidity and funding risks, competent authorities should ensure that they receive from institutions the following:

- a. description of the scope of the ILAAP including an overview of and reasoning for any deviations from the prudential scope of liquidity requirements recognising possible waivers;
- b. description of the set-up of the ILAAP explaining the relation between all its components and providing reasoning how that set-up ensures the institution has access to sufficient liquidity;
- c. criteria for the selection of significant risk drivers for liquidity and funding risk, including the selection of significant currencies for monitoring the liquidity and funding position;
- d. criteria for the selection of appropriate tools and assumptions for the ILAAP, such as the method of measuring and projecting current and future cash flows of asset, liabilities and off-balance items over appropriate time horizons.

7.1.2 Operational documentation

39. On evidencing the full implementation of a process that ensures the institution has a robust and specific framework for liquidity and funding risk management, including a process for identifying measuring and controlling liquidity and funding risks, competent authorities should ensure that they receive from institutions the following:

- a. an assessment of the intra-group liquidity risk, including any possible legal or regulatory impediments to the transfer of liquidity within the (sub)group;
- b. reasoning for selection of the significant risk drivers and a quantitative overview of these risk drivers, updated at an appropriate frequency;
- c. quantitative overview of the funding profile and its perceived stability in all significant currencies;

- d. monitoring of compliance with minimum and additional prudential requirements related to liquidity and funding risk, including a forecast of compliance with these requirements under different scenario's over an appropriate time horizon within the scope of ILAAP coverage.

7.2 Information on funding strategy

7.2.1 Methodology and policy documentation

40. On funding strategy, competent authorities should ensure that they receive from institutions the following:

- a. description of the general set-up of the Funding Plan, including sources of funding, tenors, key markets, products used, etc.;
- b. where appropriate, a policy document on maintaining presence in markets in order to ensure and periodically test market access and fund raising capacity of the institution, where relevant;
- c. where appropriate, a policy document on funding concentration risk, including on the principles for measuring and monitoring of correlation between funding sources and economic connection between depositors and other liquidity providers;
- d. where appropriate, a policy on funding in foreign currencies, including the most relevant assumptions with regard to availability and convertibility of these currencies.

7.2.2 Operational documentation

41. On evidencing the full implementation of the funding strategy, competent authorities should ensure that they receive from institutions the following:

- a. the current Funding Plan;
- b. an quantitative overview of the characteristics, such as volumes, prices and investor appetite, of recent funds raised and an analysis of the feasibility of the execution of the funding plan taken into account (changes in) market volatility;
- c. a forward-looking view on the (desired) development of the funding position over at least three years, as specified in the EBA Guidelines on harmonised definitions and templates for funding plans of credit institutions under Recommendation A4 of ESRB/2012/2⁵;
- d. an assessment of the funding position and funding risk after execution of the funding plan.

⁵ EBA/GL/2014/04 of 19 June 2014

7.3 Information on strategy regarding liquidity buffers and collateral management

7.3.1 Methodology and policy documentation

42. On liquidity buffers and collateral management strategy, competent authorities should ensure that they receive from institutions the following:

- a. methodology for determining the internal minimum required level of liquid assets, including definitions of liquid assets, criteria for determining the liquidity value of liquid assets and constraints relating to concentration and other risk characteristics of the liquid assets;
- b. policy document on collateral management, including principles in relation to the location and transferability of collateral as well as to their role in relation to meeting minimum prudential requirements;
- c. policy document on asset encumbrance, including principles for measuring and monitoring both encumbered and unencumbered assets and linking the limit and control framework regarding asset encumbrance to the institution's (liquidity and funding) risk appetite;
- d. principles for testing the assumptions relating to the liquidity value of and time to sell or repo assets included in the liquid asset buffer;
- e. policy document on liquidity concentration risk in the liquidity buffer, including principles for measuring and monitoring of correlation between liquid assets and cashflows in the counterbalancing capacity.

7.3.2 Operational documentation

43. On evidencing the full implementation of the strategy regarding liquidity buffers and collateral management, competent authorities should ensure that they receive from institutions the following:

- a. quantification of minimum volume of liquid assets considered adequate to meet internal requirements;
- b. quantification of the current buffer of liquid assets, including its distribution over products, currencies, counterparties, regions / group entities, etc.;
- c. description of differences between the definitions of the elements of the 'counterbalancing capacity' and 'high quality liquid assets' according to the Commission Delegated Regulation (EU) No 2015/61 including reasoning why the counterbalancing capacity is capable to cover risks not included under the Regulation (EU) No 575/2013;

- d. projections of the development of the internal required minimum volume of liquid assets and available liquid assets over appropriate time horizons under both business as usual and stressed conditions;
- e. quantitative overview and analysis of current and projected levels of asset encumbrance, including detail on assets encumbered as well as unencumbered assets that could be used for generating liquidity;
- f. assessment of the time it takes to convert liquid assets into directly usable liquidity, taking into account legal, operational or prudential impediments to the use of liquid assets to cover cash outflows;
- g. analysis of the testing of assumptions in relation to the liquidity value and time to sell or repo assets included in the liquid asset buffer.

7.4 Information on the cost benefit allocation mechanism

7.4.1 Methodology and policy documentation

44. On the set-up of the liquidity cost benefit allocation mechanism, competent authorities should ensure that they receive from institutions the following:
- a. description of liquidity cost benefit allocation mechanism and selection criteria for the selection of the liquidity and funding elements that ensure all relevant benefits and costs are included, as well as adjustment frequency of the prices;
 - b. description of the interlinkages between the liquidity cost benefit allocation mechanism and the risk management and overall management of the institution.
45. For the institutions with liquidity transfer pricing (LTP) mechanisms in place, competent authorities should ensure that the information referred to in the previous paragraph also includes description of the set-up and functioning of LTP, and in particular for the interlinkages between LTP and strategic decision making as well as front office decision on asset and liability generation.

7.4.2 Operational documentation

46. On evidencing the full implementation liquidity cost benefit allocation mechanism, competent authorities should ensure that they receive from institutions the following:
- a. description of the current liquidity cost benefit allocation mechanism and a quantitative overview of its current calibration;
 - b. description of the current integration of the liquidity cost benefit allocation mechanism into the measurement of profitability for new asset and liability generation, both on balance and off balance;

- c. description of the current integration of the liquidity cost benefit allocation mechanism into performance management, where necessary split out to different business lines / units or regions.
47. For the institutions with LTP mechanisms in place, the information referred to in the previous paragraph should also cover the functioning of LTP, and in particular for the relation between LTP and key risk ratios.

7.5 Information on intraday liquidity risk management

7.5.1 Methodology and policy documentation

48. Where appropriate, on the set-up of intraday liquidity risk management, competent authorities should ensure that they receive from institutions the following:
- a. description of the criteria and tools for measuring and monitoring intraday liquidity risk;
 - b. description of the escalation procedures for the purpose of intraday liquidity shortfalls which will ensure payments due and settlement obligations are met on a timely basis under both business as usual and stressed conditions;
 - c. description of the interlinkage between intraday liquidity risk management and the Contingency Funding Plan.

7.5.2 Operational documentation

49. Where appropriate, on the full implementation of intraday liquidity risk management, competent authorities should ensure that they receive from institutions the following:
- a. quantitative overview of intraday liquidity risk over the past year with an appropriate frequency;
 - b. overview with explanation of any payments missed or obligations not met in a timely manner.

7.6 Information on liquidity stress testing

7.6.1 Methodology and policy documentation

50. On the set-up of liquidity stress testing, competent authorities should ensure that they receive from institutions the following:
- a. description of governance regarding the execution, approval and use of liquidity stress testing;

- b. description of the policy framework on liquidity stress testing, including items such as the number of scenario's used, scope, reporting frequency, risk drivers (macro and idiosyncratic), and, where relevant, split in currencies / regions / business units.
- c. description of the criteria for calibrating scenarios, selecting appropriate time horizons (including intraday, where relevant), quantification of the impact of stress on the liquidity value of buffer assets, etc.

7.6.2 Operational documentation

51. On evidence of the full implementation of liquidity stress testing, competent authorities should ensure that they receive from institutions the following:

- a. overview of the scenario's used, time horizons chosen and assumptions made for the purpose of liquidity stress testing;
- b. quantitative outcome of the stress tests including an analysis of the (main drivers of) this outcome and a clear insight in the relevance of the outcome for the internal limits, liquidity buffers, reporting, modelling and risk appetite;
- c. quantitative and qualitative analysis of the outcomes of stress testing on the funding profile and on feasibility of the funding plan and contingency funding plan.

7.7 Information on contingency funding plan

7.7.1 Methodology and policy documentation

52. On the set-up of the liquidity contingency plans, competent authorities should ensure that they receive from institutions the following:

- a. description of the lines of responsibilities for designing, monitoring and executing the Contingency Funding Plan (CFP);
- b. description of strategies for addressing liquidity shortfalls in emergency situations;
- c. description of a tool to monitor market conditions that allow institutions to determine in a timely manner whether escalation and / or execution of measures is warranted;
- d. description of testing procedures.

7.7.2 Operational documentation

53. On the full implementation of liquidity contingency funding plans, competent authorities should ensure that they receive from institutions the following:

- a. the current Contingency Funding Plan;

- b. information on the anticipated concrete management actions including the assessment of their feasibility and liquidity generating capacity under different stress scenarios;
- c. recent analysis on testing, including conclusions on the feasibility of the management actions included in the CFP;
- d. description of the internal view on the impact of executing the management actions included in the CFP, e.g. on the access the institution has to relevant markets and on the overall stability of its funding profile in the short and longer term.

7.8 Supporting documentation

54. In addition to the information referred to in Section 7.1-7.7, competent authorities should ensure that they receive from institutions all relevant supporting information including minutes of relevant committees, management body meetings evidencing the sound set-up and implementation of ILAAP, and in particular:

- a. approval of overall set-up of ILAAP;
- b. approval of key ILAAP elements, such as the Funding Plan, Contingency Funding Plan, liquidity cos benefit allocation mechanism, stress test assumptions and conclusions on outcomes, specific liquidity and funding risk appetite, targeted size and composition of liquid asset buffer, etc.;
- c. discussion on (changes in) the liquidity and funding risk profile, limit breaches, etc., including decisions on management actions or the explicit decision not to take any action;
- d. decisions in new product approval committees evidencing, if applicable, the use of LTP and risk views in these decisions;
- e. discussion of the analysis of the feasibility of the Funding Plan based on (changes in) market depth and volatility;
- f. decisions on management actions related to intraday liquidity risk, where relevant;
- g. discussion of the outcome of Liquidity Stress Tests and decision on any management (non-)action;
- h. discussion on the regular testing of the Contingency Funding Plan and decisions on adjusting the management actions listed in the CFP;
- i. decision relating to the size and composition of the liquid asset buffer;



- j. discussion regarding the testing of the liquidity value of and time to sell or repo assets included in the liquid asset buffer;
- k. where available, internal self-assessments in which institutions can take the opportunity to justify their level of compliance against publicly available criteria regarding risk management and control that affect ILAAP.

8. ICAAP and ILAAP conclusions and quality assurance

55. Competent authorities should ensure that they receive from institutions conclusions on the findings of the internal capital and liquidity adequacy assessments and their impact on the risk and overall management of an institution, including:
- a. changes (made or planned) to the risk management framework based on ICAAP or ILAAP results;
 - b. changes (made or planned) to business models, strategies or risk appetite frameworks based on ICAAP or ILAAP results, including management actions (e.g. changes of risk positions);
 - c. changes (made or planned) into ICAAP and ILAAP frameworks, including improvements to be introduced following the observation of internal validations, internal audit reports as well as the outcomes of the dialogue with the competent authorities.
56. Competent authorities should ensure that information specified in the previous paragraph should have the approval by the pertinent body within the governance framework responsible for the ICAAP and ILAAP and be accompanied by specific timelines associated with the planned changes.
57. Competent authorities should also receive from institutions adequate explanation of how institutions ensure that the ICAAP and ILAAP frameworks and models used provide reliable results (validation concepts, validation reports) and a description of both the validation approach (process, frequency) and the validation content. In particular, competent authorities should receive from institutions all available results of the internal validations/reviews of ICAAP and ILAAP methodologies and calculation outcomes performed by independent validation function.
58. Competent authorities should also receive from institutions their internal audit reports covering ICAAP and ILAAP.

5. Accompanying documents

5.1 Draft impact assessment

a. Problem identification

Institutions should have in place internal capital adequacy assessment process (ICAAP) in accordance with Article 73 of Directive 2013/36/EU, as well as internal liquidity adequacy assessment process (ILAAP) in accordance with Article 86 of the same Directive. Competent authorities should assess ICAAP and ILAAP as part of their supervisory review and evaluation process SREP performed in accordance with Article 97 of Directive 2013/36/EU and EBA Guidelines on common procedures and methodologies for SREP⁶ (SREP Guidelines).

The SREP Guidelines provide a set of qualitative criteria that competent authorities should consider in their assessment of ICAAP and ILAAP frameworks, established by institutions as part of their risk management arrangements, as well as the assessment of internal capital and liquidity estimations performed by the institutions under ICAAP and ILAAP.

In order to perform supervisory assessments of ICAAP and ILAAP frameworks and determine whether institutions' ICAAP and ILAAP meet the criteria, specified in the SREP Guidelines, competent authorities should have access to various ICAAP and ILAAP specific background information, including documents describing institution's internal policies and operations documents as well as other supporting documents evidencing the use of ICAAP and ILAAP in the risk management and strategic management decision-making process of an institution.

The collection of ICAAP and ILAAP information from institutions is essential for the performance of SREP assessment, many competent authorities have already been requesting institutions in their jurisdictions to provide them with ICAAP and/or ILAAP reports, as well as with other supporting quantitative data, given that such information is not part of the common European supervisory reporting framework. However, the existence of different and maybe divergent requirements for the provision of the relevant information may hinder harmonisation in the implementation of the SREP Guidelines and put additional burden on institutions, in particular to cross-border banking groups and their entities, which may face different requests of provision of information from the consolidating and host competent authorities. The introduction of the common SREP framework, including common criteria for the assessment of ICAAP and ILAAP, presents a good opportunity to the EBA to introduce further convergence of supervisory practices in the assessment of ICAAP and ILAAP, as required by SREP Guidelines, by introducing a common set of information that competent authorities will be using in their assessments.

⁶ EBA/GL/2014/13 of 19 December 2014



This impact assessment justifies the decision for developing EBA's own initiative guidelines, focusing on the benefits from the introduction of higher supervisory convergence regarding the collection of ICAAP and ILAAP related information. Such convergence would facilitate harmonised assessments, which at the same time would be consistent with the consistent implementation of the SREP Guidelines by competent authorities. Due to the nature of the problem addressed by these Guidelines and the lack of relevant data, only a high-level qualitative assessment has been conducted to assess the applicability of the provisions set out in the Guidelines.

It is noteworthy that the impact assessment quantifies the net impact (although not in monetary terms) from the full implementation of the guidelines, implying that the costs and benefits from the actual implementation of the guidelines will be proportionate to the level of implementation in each member state, i.e. member states which do not fully implement the guidelines will incur less costs but will also benefit less from the advantages of the full implementation.

b. Policy objectives

These Guidelines aim at achieving convergence of supervisory practices, in the assessment of ICAAP and ILAAP as required by SREP Guidelines, by introducing common set of information competent authorities will be using in their assessments across the EU.. In particular, the Guidelines aim at specifying what general and ICAAP- and ILAAP-specific information competent authorities should collect from institutions following their minimum engagement model as specified in the SREP Guidelines (more in-depth annual supervisory interaction and assessment of all SREP elements for large and complex Category-1 institutions and risk-based interaction with lower frequency for other categories of institutions).

In addition to specifying information items, these Guidelines also set general criteria for competent authorities to organise the collection of ICAAP and ILAAP information and specify the use of such information for the purposes of assessing other SREP elements. When specifying such criteria, these Guidelines recognise the principle of proportionality in relation to the frequency, granularity, reference and remittance dates for the provision of ICAAP and ILAAP information that should be determined in relation to the SREP categorisation of institutions, minimum supervisory engagement model and supervisory examination programmes.

To achieve the objective of convergence, the impact assessment should identify whether the specification of common ICAAP and ILAAP information is deemed necessary for their assessment under SREP contributing and if yes the trade-off between the costs and benefits involved for the full implementation of these Guidelines justifies the additional information requests.

c. Baseline

The introduction of a common approach for the collection of ICAAP- and ILAAP-related information would further establish a level plain field for similar reporting entities, i.e. that institutions with similar systemic impact, risk profiles, business models and geographic exposures are reviewed and assessed by competent authorities consistently and are subject to broadly consistent supervisory expectations, actions and measures.

It should be noted that:

- a) The Guidelines do not introduce specific ICAAP/ILAAP 'report' but defines the information items and their core content. Such information can be provided either through a single report, specifically prepared by an institution for the purposes of ICAAP/ILAAP submissions, or by the provision of separate documents which are already available at the institution. The specific form of the submission of information will be determined by the competent authorities when applying these Guidelines.
- b) Furthermore, the Guidelines do not introduce any specific common templates for the provision of quantitative data to support ICAAP and ILAAP assessments, nor introduce common risk taxonomy or methodological considerations other than already specified in SREP Guidelines.
- c) In their implementation of the Guidelines, competent authorities, however, may opt for introducing specific ICAAP and/or ILAAP reports based on the requirements of these Guidelines and require institutions to provide information specified in these Guidelines in the form of a specific report. In the national implementation of the Guidelines, competent authorities may also opt for supplementing information specified in these guidelines with specific quantitative information/data that may be necessary for the assessment of ICAAP and ILAAP or for the determination of supervisory benchmarks to be used for the assessment of ICAAP and ILAAP internal estimates.

It is expected that even in the absence of regulatory intervention by means of these Guidelines, most of the competent authorities within the EU will anyway request institutions to provide regular ICAAP and ILAAP information for the purposes of SREP assessments that would be more or less similar to the content of these Guidelines. This implies that nevertheless this requirement would introduce additional costs to the involved institutions. In light of this, the regulatory intervention (these Guidelines) would therefore enhance the harmonisation of prudential supervision and will speed up the actual compliance with SREP Guidelines, making the harmonisation feasible at an earlier stage. This would reduce the costs which would arise from the excessive exchange of information with national supervisors for the provision of ad hoc information and the assignment of resources in doing so.

d. Options considered and cost benefit analysis

Option 1: 'do nothing' (i.e. not to draft these Guidelines)

This option implies that competent authorities would continue applying with their current practices of requesting ICAAP and ILAAP information from institutions either by means of defining approaches at the level of each jurisdiction in a formalised way, or giving freedom to institutions to provide information without any guidance from competent authorities. Under this option, most of the authorities are likely to provide some guidance to the institutions in their jurisdictions regarding ICAAP and ILAAP information, with some authorities potentially introducing some ICAAP- and ILAAP-specific reports relying on the past practices, whereas limited number of



authorities is likely not to provide any guidance instead relying on information to be provided by institutions themselves, and thus likely requesting additional information that might be necessary for the assessment of criteria introduced in the SREP Guidelines.

This option would not support the consistent implementation of SREP Guidelines by competent authorities and would not support the level playing field in the assessment of ICAAP and ILAAP across the EU. Under this option some institutions will be subject to the ICAAP/ILAAP reporting guidance issued by competent authorities in uncoordinated fashion, whereas others might not face such requirements. Such divergence in the applied approaches is likely to bring disproportionate costs to some institutions compared to others.

The 'do nothing' option would also not facilitate supervision of cross-border banking groups and their entities and functioning of colleges of supervisors, as competent authorities and colleges would have different (and maybe contradicting) information for their assessment, which is likely to lead to additional information requests bringing extra costs to institutions.

The benefit of 'do nothing' option is in preserving the current status quo, where some authorities may continue prescribing delivery and content of ICAAP- and ILAAP-specific information, whereas other authorities will not provide guidance and will fully rely on information provided by institutions for their assessments. Therefore there will be no change in practices or additional costs for institutions in any of the cases. Maintaining status quo, however, might not be possible in the long run, especially for authorities not providing any guidance to institutions, as in order to be compliant with SREP Guidelines and assess institutions' ICAAP and ILAAP using the criteria provided in the SREP Guidelines they would need to have additional information that is not currently being asked from institutions.

To sum-up, Option 1 can be analysed as follows:

Benefits: one-off 'opportunity' benefits (e.g. in terms of total operating cost of competent authorities and institutions) to competent authorities not currently providing any guidance to institutions regarding ICAAP and ILAAP information from the supervised institutions, as well as benefits to the institutions in such jurisdictions. Such benefits are limited as both competent authorities and institutions would still need to change their approaches as they would need to comply with updated ICAAP and ILAAP assessment criteria in SREP Guidelines. In addition, Option 1 will present benefits from avoiding dedicating staff from EBA and competent authorities to draft and monitor the implementation of the Guideline.

Costs: on-going costs of compliance with SREP Guidelines as competent authorities and institutions will need to adjust their process in order to have ICAAP and ILAAP information and the assessments of ICAAP and ILAAP to be performed in accordance with the criteria set specified in the SREP Guidelines. Furthermore, cross-border banking groups and their entities might be subject to additional costs stemming from harmonised and

uncoordinated requests for ICAAP and ILAAP information from the consolidating and host competent authorities.

Net impact (benefits minus costs): negative (low)

Option 2: To introduce the harmonisation of ICAAP and ILAAP collection of information from institutions by specifying the types of the required qualitative and quantitative information and providing criteria for the organisation of the collection process.

This option would support the consistent implementation of SREP Guidelines and provide competent authorities with the basic set of information needed to assess ICAAP and ILAAP frameworks and calculations against the criteria specified in the SREP Guidelines. This option will not introduce additional costs for institutions or competent authorities who have already specified the requested ICAAP and ILAAP information and which is aligned with the criteria set in the current Guidelines. However, the competent authorities which have not established similar approaches or do not have any approach for requesting information are likely to update their own guidance and their internal processes to meet the requirements of SREP Guidelines. Therefore this policy option is likely to introduce additional costs to the national supervisors as well as to the reporting institutions that are currently not subject to any specification/guidance regarding ICAAP and ILAAP information.

Considering the need for the consistent implementation of the SREP Guidelines and common criteria for ICAAP and ILAAP assessment, the scope of information regarding ICAAP and ILAAP that competent authorities need to request from institutions (where national guidance is currently provided), or institutions will need to provide to the competent authorities (where no guidance is currently provided), will need to change in order to provide sufficient basis for the assessment as required by the SREP Guidelines. Against this background, competent authorities and institutions will be subject to additional costs in any event, as they would need to implement SREP Guidelines (impact of these changes has been assessed in the separate impact assessment of the SREP Guidelines). Therefore, the benefit of these Guidelines will be in providing consistent basis for the changes in information ICAAP and ILAAP information to be requested/provided and thus facilitating the implementation of SREP Guidelines.

Furthermore, whilst harmonising the set of ICAAP and ILAAP related information under Option 2 the Guidelines also provide certain flexibility by means of allowing for a proportionate approach to be applied to smaller and less complex institutions (non-Category 1 institutions according to the classification of SREP Guidelines). Following the principle of proportionality, for non-Category 1 institutions competent authorities would determine reference dates, remittance dates, may waive some information items ex ante, and specify the format for the submission of ICAAP and ILAAP information that would best suit their supervisory needs, where appropriate coordinating these arrangements within the colleges of supervisors. This would furthermore reduce the costs of compliance with these Guidelines for institutions.

To sum-up, Option 2 can be analysed as follows:

Benefits: The benefits of this option (e.g. in terms of total operating cost of competent authorities and institutions) arise from introducing greater convergence and consistency into collection of ICAAP and ILAAP-specific information from institutions that would facilitate greater consistency in the SREP assessments of ICAAP and ILAAP frameworks and internal capital and liquidity calculations and thus positively contributing to more consistent implementation of SREP Guidelines across the EU. The Option would also offer benefits to cross-border institutions as they will be subject to more consistent and coordinated requests for ICAAP- and ILAAP- specific information by the consolidating and host competent authorities.

Costs: As almost all authorities in the EU already provide structured requests of ICAAP- and ILAAP-specific information from institutions (including by means of specific guidance to institutions), and would need to amend such requests for the purposes of the implementation of SREP Guidelines, additional costs from the harmonised approach introduced in these Guidelines are implied, although negligible, due to the anticipated amendment in the structure and content of such requests for the purposes of the implementation of SREP Guidelines. Non-Category 1 institutions, especially in the member states, where competent authorities have not provided ex ante guidance regarding ICAAP- and ILAAP-information submission by institutions may be subject to additional costs from the implementation of these Guidelines, but these are mitigating by the flexibility in relation to the application of the principle of proportionality.

Net impact (benefits minus costs): positive (low)

e. Preferred option

The cost-benefit analysis in section indicates that option 1 should be excluded as it produces a negative net impact. The high-level cost-benefit analysis indicates that option 2 is proposed for implementation, i.e. developing guidelines that introduce common approach to the specification of ICAAP- and ILAAP- specific information for the purposes of the assessment of ICAAP and IALLP in accordance with SREP Guidelines.