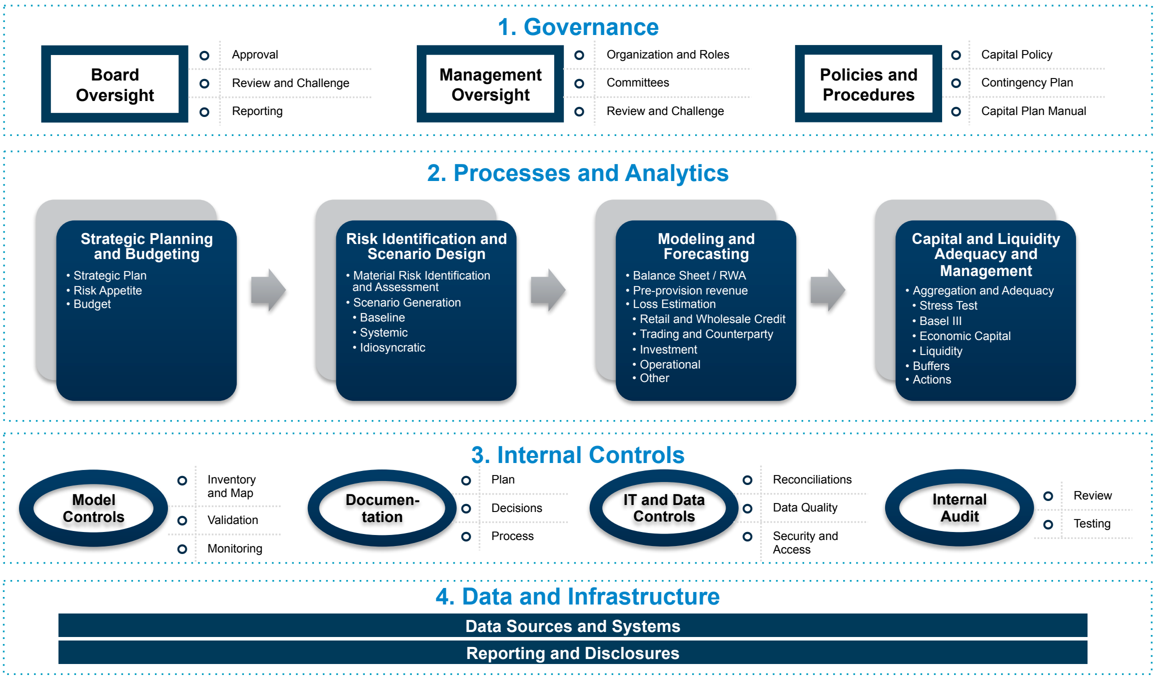
1. **Do the guidelines specify information requirements for ICAAP and ILAAP processes sufficiently? Are there areas where the EBA should aim for greater detail, or where more flexibility would be appropriate?**

Positive Feedback

- ICAAP and ILAAP information requirement guidelines are **comprehensive** as they cover key building blocks for capital and liquidity adequacy analysis including 1. Governance; 2. Processes and Analytics; 3. Internal Controls and; 4. Data and Infrastructure considerations (see Figure 1 for A&M ICAAP and ILAAP framework).

Figure 1 – A&M Integrated Risk, Capital and Liquidity Framework



- ICAAP / ILAAP information guidelines provide **explicit consideration** of business strategy and risk appetite setting. Information requirements related to bank strategy and risk appetite can provide proper context for capital and liquidity adequacy analysis.
- ICAAP / ILAAP information guidelines provide **enough flexibility** for bank implementation of internal risk management practices and methods.
- The inclusion of both **common and specific** information requirements for ICAAP and ILAAP is positive as it allows for presentation synergies between capital and liquidity adequacy processes

Potential Areas for Enhancement

- ICAAP / ILAAP information guidelines present **ICAAP and ILAAP** as two separate standalone adequacy analyses with separate analytics and calculations. Information standards to link static capital/liquidity assessments and forward looking stress tests in capital and funding plans would be beneficial to increase the credibility and effectiveness of bank ICAAP and ILAAP submissions. While there are differentiated elements that only apply to capital or liquidity risk management, there are also important interdependencies between both disciplines that need to be understood for adequate bank risk management:

- **Risk Events** – stressed scenarios can have effects in capital and liquidity ratios which in many instances feed into each other. For instance, an event that results in increased financial losses that impact capital can result in credit downgrades, lack of access to funding markets or deposit run-offs that impact liquidity. Similarly, liquidity events that result in higher funding costs have an impact in capital ratios.
- **External Triggers** – while capital and liquidity adequacy measures are very different, external triggers to identify potential capital and liquidity adequacy issues can be common to both disciplines. An illustrative list of external trigger indicators that can be commonly used for ICAAP and ILAAP purposes is provided below:
  - Spreads on CDS and bonds
  - % drop in share price
  - Significant negative revenue surprises
  - Credit rating downgrades
  - Signs of weakness in compliance with regulation or conduct issues
- **Contingency Actions** – credibility of ICAAP and ILAAP is a function of potential management actions that can be undertaken in case banks incur in shortfalls relative to management targets. Effectiveness of management plans to restore capital and liquidity positions are related to the type of event being faced by the bank (success of management responses depends on whether the event is idiosyncratic to the bank or impacting the entire sector). Also management actions can have different impacts in capital and liquidity positions – e.g., while the sale of an asset might have a positive impact to liquidity it can also create a negative impact in capital if sold at a loss relative to accounting value. Understanding the connectivity of capital and liquidity contingency management actions is important for bank risk management.

- Information requirements for liquidity contingency planning are included but omitted for **capital contingency planning**. In order to provide consistency between ILAAP and ICAAP submissions, capital contingency information should be provided including:
  - i. Crisis levels
  - ii. Contingency triggers
  - iii. Range of capital actions
  - iv. Credibility and execution risks of actions

- A more explicit linkage between ICAAP / ILAAP information guidelines and other related supervisory guidelines in areas such as **recovery planning, risk data aggregation and reverse stress testing** requirements should be provided to avoid overlaps / inefficiencies in information submissions and promote an integrated supervisory model. For instance, banks will gain **effectiveness** in recovery planning process if they take into account insights gained from ILAAP and ICAAP processes in areas such as range of scenarios, probability of occurrence, idiosyncratic vs. systemic events based on risk assessment, stress testing outcomes, mitigation actions and other risk management controls. Banks will also gain in **efficiencies** if recovery planning, stress testing (supervisory and internal) and ICAAP / ILAAP are all integrated and consolidated in one unique submission.

- EBA and other regulatory bodies should consider **harmonizing risk taxonomies** used for supervisory purposes (ICAAP, ILAAP, SREP, Basel, Comprehensive Assessment, Concurrent Stress Tests, capital buffers, etc.,). The lack of consistency in risk taxonomies might lead to:
    - Double counting
    - Investor confusion in interpretation of capital and liquidity adequacy metrics and buffers
    - Lack of comparability across different capital and liquidity assessments (static vs. forward looking measures)
    - Comparability of capital adequacy processes across jurisdictions, particularly relevant for banks with global operations

- In relation to **model documentation and validation information requirements** for ICAAP and ILAAP, G-SIBs use a large number of models for capital and liquidity management purposes. The inclusion of all model ICAAP and ILAAP documentation and validation reports can result in overwhelming information for supervisors. As an alternative, banks could provide a summary of models / methodologies and assumptions used for ICAAP / ILAAP and a summary of key model validation findings. In parallel, access to model inventory, documentation and validation report respositories could be granted to supervisors as needed.

- Finally, ICAAP and ILAAP information requirements include coverage for inter-risk diversification benefits. The inclusion of inter-risk diversification effects contrasts with the explicit opposition of supervisors to account for any benefit as part of SREP. Not allowing for **inter-risk diversification** highly penalizes groups with global diversified operations. Furthermore, compliance with SREP assessments at the subsidiary standalone level might exacerbate the effects of ignoring diversification benefits. Understanding and measurement of inter-risk diversification at the holding company and across subsidiaries is important when setting risk appetite setting and capital allocation targets at banks with global operations.

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