

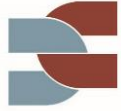


## EACB Comments

EBA draft Guidelines on ICAAP and ILAAP information  
collected for SREP purposes

(EBA/CP/2015/26)

Brussels, 11<sup>th</sup> March 2016



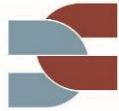
**Contact:**

For further information or questions on this paper, please contact:

- Mr. Volker Heegemann, Head of Department ([v.heegemann@eacb.coop](mailto:v.heegemann@eacb.coop))
- Mr. Marco Mancino, Adviser, Banking Regulation ([m.mancino@eacb.coop](mailto:m.mancino@eacb.coop))

The **European Association of Co-operative Banks** (EACB) is the voice of the co-operative banks in Europe. It represents, promotes and defends the common interests of its 31 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the co-operative banks' business model. With 4.200 locally operating banks and 68.000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 205 million customers, mainly consumers, retailers and communities. The co-operative banks in Europe represent 78 million members and 860.000 employees and have a total average market share of about 20%.

For further details, please visit [www.eacb.coop](http://www.eacb.coop)



## **Introduction**

The members of the EACB welcome the opportunity to comment on the EBA draft Guidelines on ICAAP and ILAAP information collected for SREP purposes.

We welcome that the EBA does not aim at introducing specific ICAAP/ILAAP reports, and that specific form of the submissions of information will be determined by the competent authorities when applying the GL. We also appreciate that the GL do not introduce any specific common templates for quantitative data to support ICAAP and ILAAP assessments. However, we see that the overall design of these draft GL presents certain aspects that need to be addressed to avoid inconsistencies in the implementation.

## **General comments**

### ➤ Expected timeline and implementation

The EBA indicates in the executive summary that the final GL are planned to be applicable from 30/06/2016. The consultation period closes on 11/03/2016. Depending on the development of the work stream it may happen that the publication of the final GL occurs almost at the same time of their initial applicability. In light of this, institutions will not be provided with the necessary implementation period. In addition it is also indicated that Competent Authorities may require their ICAAP/ILAAP information for the 2016 SREP based on the draft GL. These could however be subject to change, and create misunderstandings and undue implementation costs. Such consequences should be avoided especially in light of regulators' effort for a simpler and better regulation.

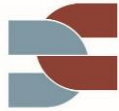
The information required should be maintained to elements that are actually relevant and manageable for an ICAAP/ILAAP. The suggested approach is likely to result in an excessive documentation/information exercises challenging for both competent authorities to analyse and assess and for institutions to produce. At the same time, the timeline for producing and approving an ICAAP/ILAAP is very tight therefore firms should be enabled to prioritise their efforts on managing their capital and liquidity risk rather than compiling vast quantities of supporting documents.

Due to the frequency and extent of required information banks may not be in the position to fulfil the requirements of all individual units of the supervisors in the requested time and quality. As a result only of the excessively tight timing for the submission of the information, the quality and granularity of the information might be below the supervisors' expectations.

### ➤ Relationship with ECB guidelines on supervisory expectations

The ICAAP and ILAAP supervisory expectations issued by the ECB on January, 8<sup>th</sup> 2016, in order to perform the SREP-process 2016, are ambitious with respect to both, time and content. We believe that a more coordinated and aligned procedure on the gathering of information and the required content should be envisaged between the EBA and the ECB.

For instance, under Annex A the ECB rightly indicates that the ICAAP and ILAAP are internal processes under the responsibility of the institutions. Also the EBA draft GL



recognise that the ICAAP and ILAAP are internal processes. We would like to emphasise the need to maintain the ability for banks to have a flexible approach to their capital planning, and avoid creating inconsistent indications regarding supervisory expectations. With respect to the risk profile strategy it is crucial that banks have to be able by themselves to envisage the appropriate conservatism of the risk management. On the other hand the ECB indicates that the "level of conservatism and comprehensiveness of our government arrangements" has to be much more conservative, than the baseline described by the ECB. The complexity of the risk management should only depend on the well argued risk structure and the business model and therefore it can differ within the banking sector.

Under Chapter 2 (General design of the ICAAP) the ECB also indicates that banks have to draw conclusions and have to ensure their capital adequacy from a holistic perspective over a medium-term horizon. While Chapter 8 (Severity level of stress test) prescribes to consider the results of a material impact on the institution's regulatory capital ratios.

It is paramount for banks to have a relatively stable legal environment, particularly concerning the minimum capital requirements within the SREP. Banks have made the experience that, especially in a tough economical environment the requirements concerning the bank's capital sharply raise due to supervisory decisions. Therefore it is absolutely necessary that banks can use their own funds to compensate their risks and losses, particular in difficult times.

### **Specific comments**

#### ➤ *Proportionality and level playing field*

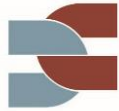
Concerning the level playing field, we want to point out that the requirements of the internal risk management have to be proportionate to the business model and risk profile of each individual bank. Therefore the EBA guidelines should especially reflect the elements and considerations of the principle of proportionality in a proper manner.

Para. 14 of the draft GL stipulates, for non-Category 1 institutions as referred to in the SREP GL, that competent authorities may determine different than annual frequency of information submission. Due to the minor complexity of these institutions it should be clarified that the required information submission may only be less frequent.

Much will depend on whether competent authorities will actually dispose adequately of the proposed discretion in the supervision of LSIs as referred to in paragraph 14. In this respect we particularly welcome that the EBA has not proposed standardised reporting formats so as to allow competent supervisors sufficient scope for implementing the principle of proportionality.

Additionally, we would like to emphasise again that the ECB's and EBA's Guidelines should be aligned to avoid redundancies, misunderstandings and any additional burden for institutions.

Regarding any requests of supplementary information (e.g. para 15) it is necessary to stipulate a minimum lead time between the request of the authority and the submission



of the information by the institution. Institutions are currently overwhelmed by periodic and especially one-off requests by authorities. This leads to unnecessary and disproportionate staff expenses, which could be avoided by setting a minimum lead time for the submission of answers/information of at least four weeks.

➤ Section 5 – Information that is common to ICAAP and ILAAP

*Para. 25*

Para. 25 sets out requirements for information on risk data, aggregation and IT systems. We believe that these requirements are extremely extensive. Our understanding is that financial institutions would be required to deliver full and complete documentation on data and IT architecture. It does not seem feasible for competent authorities to actually inspect and evaluate such documentation for all their supervised entities. Rather, a report summarising the relevant information should be sufficient to assess compliance with overarching principles, e.g. by way of checks based on examples and random samples.

It also has to be noted that in many instances small financial institutions outsource risk management structures to specialised external service providers. In such cases it would make no practical sense to request to every institution information on the external provider's database, data aggregation and IT systems. Examples of supervisory expectations in this context would be welcome.

*Para. 26*

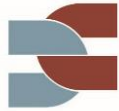
Disclosure requirements are hardly understandable. In particular, relevant disclosure requirements are already set out in CRR (e.g. Art. 435 (1) and 438(a)).

With regard to the an assessment of the impact of the disclosed information and practices on the institution's ability to follow its capital and funding plans etc., this seems to be of relevance, if at all, only to financial institutions with strong capital market focus. Even in such cases, impacts on capital adequacy and funding rather stem from annual reports or direct communication with investors. Disclosure under Pillar 3 only plays a subordinate role in our experience. Furthermore, it is unclear how the influence of Pillar 3 information is to be assessed separately from the other public relations activities. Performing such an assessment may require specific interviews to individual investors. This would determine an unreasonable burden and be hardly a practical requirement.

Finally, due to the principle of confidentiality and materiality inherent in Pillar 3, there are always deviations between internal information and disclosed information, particularly in the level of detail. Explaining these would be of no practical use for supervisors and at the same time require additional resources. Disclosure should be sufficiently assessed as part of the audit, whose reports are public.

➤ Section 7 – ILAAP specific information

The proposed structure of the ILAAP information requirements could be simplified to allow institutions to more effectively demonstrate their liquidity adequacy, in particular allowing to better present main liquidity and funding risks relevant for the specific bank



and how they are managed. For instance, the proposed structure and content of the June 2015 “PRA’s approach to supervising liquidity and funding risks” allows institutions to clearly describe the conclusions of their overall liquidity adequacy review, clearly state their LCR positions, level of high-quality liquid assets, inflows and outflows, then describe their liquidity and funding risk assessments, before describing their risk management frameworks. This approach would be simpler, more streamlined and effective.

*Para. 43(d)*

The requirements for “*projections of the development of the internal required minimum volume of liquid assets*” seem to go beyond the SREP GL, which should be the founding ground for these information GL. Moreover, liquidity management is a highly dynamic process that needs to be adapted to changing environments. Such projections would thus be soon outdated. Projections may be performed reasonably over secured funding via covered bonds or securitisation. Other encumbrance such as repos, lending or collateralisation is hardly projectable, but driven by operational liquidity management considerations.

*Para. 48(c)*

With regard to the description of the interlinkage between intraday liquidity risk management and the Contingency Funding Plan there is no established supervisory requirement. Also, an interlinkage between intraday liquidity risk management and the Contingency Funding Plan seems very remote.

*Para. 51(c)*

To our understanding this would be an obligation to produce a funding plan under stress assumptions in addition to the normal funding plan. Also in this respect there is yet no supervisory requirement to stress-test funding. The stress-testing requirements set by the EBA GL already sensibly cover liquidity aspects.

➤ *Section 8 – ICAAP and ILAAP conclusions and quality assurance*

So far, the Model Change Policy (MCP) applied solely to Pillar 1. Under Pillar 2, changes to the ICAAP structure typically undergo to subsequent examination (i.e. no approval by competent authorities in advance but examination-based decision). The requirements now call for information on changes (made or planned) to the ILAAP/ICAAP frameworks (paragraphs 55(c), 56). It should be clarified that no MCP and no conditional approval are being introduced at this point. Para. 55(a) and (b) also seem to imply that any and all changes to the business model, strategies, risk appetite, etc. have to be submitted to competent authorities before being implemented. This would constitute a moajro interference in the management’s area of responsibility. Moreover, descriptions of changes made or planned should be limited to material changes, to keep the documentation burden within reasonable limits.