



FINANCIAL REGULATOR
Rialtóir Airgeadais

Implementation of the CRD

Part C: The ICAAP Submission
Portal

3 October 2006

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1. Overview

This is part C of the Financial Regulator's consultation on the Capital Requirements Directive (CRD). In this document, it presents the template through which credit institutions will provide information about their Internal Capital Adequacy Assessment Process (ICAAP). The paper details the overall objective of this template in terms of what it is trying to achieve and (of equal importance) in terms of what it is not trying to achieve. Hereinafter, this template is referred to as the 'ICAAP submission portal' or 'the portal.' The portal itself is provided in the first annex to this paper.

This document also provides an overview of the Financial Regulator's process for supervisory evaluation under Pillar 2 highlighting in particular the focus of that evaluation. Annex 2 provides a flow chart that illustrates this process.

This paper should be read in conjunction with a number of other documents because it does not attempt to set out all relevant aspects of the Financial Regulator's policy in respect of the implementation of Pillar 2 of the new Basel Accord/CRD. The development of the portal was at all times informed by the CEBS guidelines on the Application of the Supervisory Review Process Under Pillar 2 (GL03). Readers are advised therefore to re-visit these guidelines in particular.

This note furthermore does not cover other aspects of the application of the Capital Requirements Directive that may impact upon the data credit institutions provide through the portal. Specifically, institutions should refer to part A of the Financial Regulator's consultation on the Capital Requirements Directive.

2. Objective of the Portal

Pillar 2 can be described as a set of relationships between supervisory authorities and regulated institutions, the objective of which is to ensure that institutions have adequate capital to cover their risks and to encourage the development and use of better risk management techniques. Fundamentally, Pillar 2 should foster an active dialogue between authorities and institutions such that when deficiencies are identified, prompt and decisive action can be taken to reduce risk and restore capital. The ICAAP submission portal is one of a number of methodologies the Financial Regulator will use to facilitate and structure this dialogue.

The ICAAP submission portal will provide the Financial Regulator with an insight to the Internal Capital Adequacy Assessment Process (ICAAP) of each credit institution required to complete it. It was designed (inter-alia) with the objective of achieving efficiencies for both credit institutions and the Financial Regulator. It is therefore anticipated that the use of the portal should provide information to the Financial Regulator on the risk, capital and governance components of an ICAAP in a comprehensive and consistent manner thereby facilitating more meaningful and less burdensome interaction between it and the credit institution concerned.

It is not the intended or specified objective of the portal to in any way prescribe the structures of and the methodologies used in ICAAPs. It is the responsibility of each credit institution to design and operate their ICAAPs. Nevertheless, credit institutions must be able to demonstrate through the portal and other parts of the Pillar 2 dialogue with the Financial Regulator that their ICAAP is fit-for-purpose, complies with the CRD and is consistent with the aforementioned CEBS guidelines and other relevant guidance from the Financial Regulator on the Capital Requirements Directive.

3. Scope of Application and Timing of Submission

The Financial Regulator will require every credit institution it licenses to have an ICAAP and to provide information about its ICAAP through the ICAAP submission portal. Credit institutions seeking to adopt the CRD between 1 January 2007 and 1 April 2007 should submit a completed ICAAP submission portal to the Financial Regulator via their line examiner as soon as possible and no later than 31 October 2006.

Those credit institutions seeking to adopt the CRD standardised approach to credit risk on or after 1 April 2007 must submit the portal 6 months prior to the date they go live. Credit institutions that are seeking to adopt an IRB approach to credit risk on or after 1 April 2007, and for which the Financial Regulator is their consolidating supervisor, should submit a completed ICAAP portal at the same time as their model application. Equally, credit institutions that are seeking to adopt an IRB approach to credit risk on or after 1 April 2007, but for which the Financial Regulator is not their consolidating supervisor, should submit a completed ICAAP portal to the Financial Regulator at the same time as their Pillar 1 models are submitted to their consolidating supervisor.

The scope of application for investment firms is covered in paragraph 9.5 of part A of the Financial Regulator's consultation on the Capital Requirements Directive.

4. Proportionality

During the course of the Financial Regulator's discussions with the Implementation Forum Working Group on Pillar 2, much consideration was

given to the sometimes-conflicting relationship between proportionality and the stated objective of achieving efficiencies. The benefits of designing a generic template appropriate to all credit institution types as distinct from a number of bespoke portals to accommodate the proportionality principle was recognised from an early stage. The principle of proportionality will therefore be incorporated in the responses credit institutions give through the portal rather than in the questions it poses.

5. Completeness

The Financial Regulator acknowledges that each ICAAP will be subject to improvements over time and a facility exists in the portal to provide details of future improvements. Nevertheless, credit institutions must complete **all** sections of the portal, and with the exception of Section 5 (Capital), provide information about ICAAP processes, policies and procedures as they are at the time the portal is populated. In other words, the detail provided in the portal cannot simply be a statement of intent. Due regard will then be given to the adequacy of the aforementioned policies, processes, procedures and of the capital numbers generated in the Financial Regulator's dialogue with the credit institution.

As already stated, the Financial Regulator will not prescribe the structure of and methodology used in ICAAPs. There is an expectation nevertheless that the complexity of the credit institution will be reflected within the comprehensiveness of each response provided.

6. The Portal and Dialogue with the Financial Regulator

The ICAAP Submission Portal will form an integral part of all stages of the Pillar 2 dialogue between the Financial Regulator and credit institutions. From receipt, the Financial Regulator will subject the portal to a number of review processes following which further supporting documentation or additional information may be requested from the institution. The Financial Regulator will then form an initial view of the ICAAP that it will discuss with the credit institution using the various supervisory tools and channels. The Financial Regulator will also discuss its conclusions with the credit institution before it forwards formal notification of the outcome of the Supervisory Review and Evaluation Process (SREP).

As stated in the overview, development of the ICAAP Submission Portal was at all times informed by the CEBS guidelines on the Application of the Supervisory Review Process under Pillar 2 (GL03). In its dialogue with and assessment of each credit institution, the Financial Regulator will consider the degree to which the ICAAP as presented is consistent with the CEBS guidelines. In particular, this interaction will explore the following:

- The extent to which each institution's board and senior management have taken responsibility for the Internal Capital Adequacy Assessment Process.
- The extent to which the design of the ICAAP has been fully specified and documented.
- The extent to which the ICAAP is used to inform decision-making.
- The extent to which the ICAAP is risk-based.

- The extent to which the ICAAP is reviewed.
- The comprehensiveness of the coverage of the ICAAP.
- The adequacy of measurement and assessment processes.
- The adequacy of the outcome of the ICAAP (capital number).

7. Home/Host

As already stated, the Financial Regulator will require every credit institution it licenses to have an ICAAP and to provide information about its ICAAP through the ICAAP submission portal. Without prejudice to the parameters around the timing of submission as detailed above, the Financial Regulator will discuss bilaterally with Irish licensed subsidiaries of foreign groups the relationship between their ICAAP and the group ICAAP before submission of the portal.

8. Scope of Application Within a Member State

A question also remains as to whether credit institutions consolidating in Ireland will be required to submit an ICAAP on the basis of each licensed entity. Again, without prejudice to the parameters around the timing of submissions, the Financial Regulator will explore and resolve this issue on a bilateral basis with the credit institutions concerned prior to submission of the portal.

The Financial Regulator will take a pragmatic approach to resolving remaining issues around home/host and scope of application within a

member state as any other approach would be counter to the objective of achieving efficiencies through the use of the portal. Nevertheless, whatever the final outcome of the bilateral discussion with credit institutions on this and the home/host issue, it must be clear to the Financial Regulator through the portal and subsequent dialogue that each Irish licensed entity is adequately capitalised to cover its risks and subject to an appropriate governance arrangement for its ICAAP.

9. Next Steps

Credit institutions that intend to adopt a Basel II approach in 2007 should inform their examiner of their anticipated implementation dates as soon as possible. As detailed in paragraph 3 of this paper, there is a direct correlation between the implementation date for Pillar 1 approaches and submission of the portal. The Financial regulator appreciates that the portal itself is the subject of this consultation. Pending completion of the consultation, credit institutions can use the version of the portal in annex 1. Upon contact with their line examiner, credit institutions adopting the CRD between 1 January 2007 and 1 April 2007 will be forwarded a formatted version of the portal suitable for completion.

Further to paragraph 7, line examiners will be in contact shortly with Irish licensed subsidiaries of foreign groups to explore further the relationship between their ICAAP and the group ICAAP and to give consideration to any issues that may arise before submission of the portal. Equally, the Financial Regulator will be in contact with Irish credit institutions consolidating in Ireland to advance the matters raised under paragraph 8 of this paper.

Annex 1



FINANCIAL REGULATOR
Rialtóir Airgeadais

ICAAP SUBMISSION PORTAL

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1. General and Miscellaneous

1.1 Please state the entity to which this ICAAP submission applies.

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1.2 Please state the time horizon of your institution's ICAAP.

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1.3 Please provide a reference date for the information provided in this document excluding Section 5.

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1.4 Please provide the following details about the key contact point in your institution for queries on the ICAAP.

Name	
Job Title	
Department	
Postal Address	
Phone Number	
Fax Number	
E-Mail	

1.5 Please outline the role and reporting line of the key contact point within the organisation.

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1.6 If the Financial Regulator is not your institution’s consolidating supervisor please provide the following details about the key contact point in the regulatory authority of your parent with responsibility for your parent’s ICAAP.

Name	
Job Title	
Department	
Institution	
Postal Address	
Phone Number	
Fax Number	
E-Mail	

1.7 Please describe significant changes made to the process, methodology and outputs of your institution’s ICAAP since the date of last submission (Please ignore this question if this is your institution’s first submission).

2. Governance and Framework

2.1 Management Structure

2.1.1 Please provide an overview of your board and executive management structure identifying key individuals and committees and their inter-relationship with business and control units. This narrative should be facilitated with the use of organisational charts and other schematics.

2.2 Design of the ICAAP

2.2.1 With reference to its scope, methodology and objectives, please describe the role of the board in approving the conceptual design of the ICAAP.

2.2.2 Please describe the role of senior management in the design of the ICAAP with reference to the key determinants of its scope, methodology and objectives.

2.3 Documentation

2.3.1 Please provide the following information about your institution’s capital plan.

Document Ref	
Title	
Time Horizon	
Board Approval Date	
Date of last Review	
Date of Next Review	
Distribution List	

2.3.2 Please provide the following information about all documentation supporting the ICAAP that feeds into the document referred to in 2.6.2 and that is sighted by the board and/or senior management. These documents should (inter-alia) describe the methodologies, assumptions and procedures that underpin the ICAAP.

Document Ref	Title	Sighted By	Board Approval Date (if applicable)	Date of Last Review	Date of Next Review	Distribution List

2.4 Review Processes

Pre-Submission Reviews

2.4.1 Prior to the first submission of the ICAAP, please describe any and all reviews of the ICAAP that your institution has undertaken with reference in particular to their scope, objectives and methodologies.

Management Reviews

2.4.2 With reference to their frequency and methodology please describe the ICAAP review conducted by your institution to ensure that risks are covered adequately and that capital coverage reflects your institution’s risk profile.

2.4.3 Please list documentation supporting the management review process

Document Ref	Title	Sighted By	Board Approval Date (If Applicable)	Date of Last Review	Date of Next Review	Distribution List

Independent Review

2.4.4 With reference to scope, methodology and frequency, please describe your institution’s process to review (i) the ICAAP and (ii) the on-going review process.

2.4.5 Please describe the role of main internal parties, and if applicable, external parties to the review

2.4.6 Please describe how your institution determines and maintains the independence of the review and reviewers.

2.4.7 Please complete the following table with respect to the document presented to the board and senior management detailing the findings of the last review.

Document Ref	Title	Prepared By	Completion Date	Distribution List

2.4.8 Please describe the actions (if any) taken to follow up on the findings of the last review. Please report also on the state of any outstanding items.

2.4.9 If reviews (other than the one detailed here) have been conducted since the date of your last ICAAP submission, please provide the following information with respect to each of them.

Date Initiated	Date Completed	Conducted By

2.5 Business Integration

2.5.1 Please provide the following information with respect to all reports generated by the ICAAP that are sighted by the board and/or senior management. Under report description, please describe the role of each report from the perspective of the board and senior management.

Report Ref	Report Description	Produced By	Sighted By	Frequency of Distribution	Distribution List

2.5.2 Please describe how the ICAAP and its results are integrated into decision-making about risk citing examples as appropriate.

2.5.3 Please describe how the ICAAP and its results are integrated into decision-making about strategy citing examples as appropriate.

2.5.4 Please describe how the ICAAP and its results are integrated into other aspects of decision-making citing examples as appropriate.

2.6 Approval of the ICAAP

2.6.1 Please describe how your institution’s board approves the scope, methodology and objectives of the ICAAP.

2.6.2 Please provide the following information about the document approved by the board specifying the scope, methodology and objectives of the ICAAP.

Document Reference	Title	Board Approval Date	Date of Last Review	Date of Next Review	Distribution List

3. Risk

3.1 Risk Materiality

3.1.1 Please describe your institution’s definition of material risk. In doing so, please describe how a risk is determined to be non-material.

3.1.2 Please describe the role of the board in reviewing your institution’s definition of material risk.

3.1.3 Please describe the role of senior management in developing your institution’s definition of material risk

3.2 Risk Appetite and Strategy

3.2.1 Please describe your institution’s appetite for risk and the role of the board in defining that appetite.

3.2.2 Please describe the role of senior management in determining the strategy for risk management.

3.2.3 Please provide the following information with respect to the documents that detail risk appetite and strategy for managing risk.

Document Ref	Title	Produced By	Approved By and Date	Date of last review	Date of Next Review	Distribution List

3.3 Risk Exposure

3.3.1 With respect to each material risk to which your institution is exposed, please provide the following information:

Risk Type	Definition	Documented Policy (Y/N)	Policy Reference	Approved By	Date of Last Review	Date of Next Review	Distribution List

3.4 Risk Assessment

3.4.1 Please describe your institution’s processes for assessing risks.

3.4.2 Please provide the following information about the documentation associated with these processes.

Document Ref	Title	Produced By	Approved By and Date	Date of Last Review	Date of Next Review	Distribution List

3.4.3 Please describe the role of stress and scenario analysis in your institution’s assessment of risk.

3.5 _____ Risk

The questions in section 3.5 should be answered per risk type. Please copy this section as appropriate for the number of material risks to which your institutions is exposed.

3.5.1 Please describe the processes to measure _____ risk and the level at which it is measured (transaction, portfolio etc).

3.5.2 Please describe how _____ risk is monitored identifying in particular key reports, reporting lines and controls.

3.5.3 Please describe how _____ risk is managed identifying in particular key limits (where applicable).

3.5.4 Please describe your institution’s use of risk mitigants (e.g. hedging, securitisation, business insurance and other methods that reduce risk) for this risk type.

3.5.5 Please describe the role of stress and scenario analysis in your institution’s assessment of _____ risk.

3.5.6 Please describe the role of the board in monitoring _____ risk.

3.5.7 Please describe the role of senior management in managing _____ risk.

4. Capital Strategy and Targets

4.1 Please describe your capital targets.

4.2 Please describe how your institution sets capital targets (with reference to external factors) and its strategy for maintaining capital.

4.3 Please provide the following information with respect to the strategy for maintaining capital.

Document Ref	Title	Produced By	Approved By and Date	Date of last review	Date of Next Review

4.4 Please describe the processes used to link capital to material risk referencing procedures, policies and documentation as appropriate.

5. Capital

5.1 Please state the date for which all information provided in Section 5 is relevant and applicable.

5.2 Please specify the amount of capital your institution holds to cover its risks as per the date stated above.

5.3 Please specify the constituents of capital and the amount of each constituent your institution holds against its risks as per the date stated above.

5.4 Please specify the material risks for which your institution holds capital.

5.5 For each risk type identified in 5.4, please specify the internal capital your institution attributes to that risk.

5.6 With regard to your institution’s risks, please provide a description of how the capital was determined to be adequate (to include an analysis of correlation and diversification benefits and other determinants if applicable).

5.7 Please describe the substantive similarities and differences between the numbers generated by your institution’s ICAAP and your institution’s own funds requirements as calculated under Pillar 1.

6. Other Findings and Future Plans

6.1 Please specify other results and findings of your ICAAP.

6.2 With reference to each of the general headings in this submission pack, please describe the improvements in hand your institution plans to make to its ICAAP policies, processes and procedures and the timelines for achieving the stated changes.

7. Sign Off

Submission Portal to be signed off by Chief Executive

Annex 2

Pillar 2 Supervisory Assessment Process

