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**Internal Capital Adequacy Assessment Process (ICAAP)  
Internal Liquidity Adequacy Assessment Process (ILAAP)**

# Internal Capital and Liquidity Adequacy Assessment Processes

## Introduction to ICAAP and ILAAP

### Quick facts

1. There are 19+ key risks that may be applicable to your Institution and thus require consideration within your ICAAP and ILAAP both quantitative and qualitative.
2. The ICAAP and ILAAP documents should be a stand-alone documents. These documents should detail the strategies, processes and systems in place to manage risk at the firm. In addition it must be demonstrated, considered and justified within the document that these measures are both comprehensive and proportionate to the nature, scale and complexity of the institution's activities.

### Background

An institution's internal arrangements are reviewed as part of the SREP and consist importantly of the ICAAP and the ILAAP. The ICAAP is codified in Article 73 of the CRD (Directive 2013/36/EU) and the ILAAP set out by article 86 CRD IV. It requires institutions to:

- Adequately identify, measure, aggregate and monitor the credit institution's risks;
- Ensure that the credit institution holds adequate internal capital and liquidity resources in relation to the credit institution's risk profile; and
- Have in place sound, effective and comprehensive risk management strategies and processes and develop them further.

The ICAAP and ILAAP play a key role in the risk management of credit institutions.

### Timeline\*

January 2016

The ECB published its supervisory expectations on the ICAAP and ILAAP for significant banks.

February 2017

First drafts of the guides to the ICAAP and ILAAP.

March 2018

Public consultation. The guides were amended and refined on the basis of the comments received.

November 2018

The final guides to the ICAAP and ILAAP was published, replacing the expectations published in 2016.

Since January 2019

Banks are now encouraged to follow the supervisory expectations set out in these guides.

\* For updated ICAAP and ILAAP

### Scope



#### WHO

- EU banks and qualifying EU investment firms
- EU financial institution subsidiaries of the above
- EU branches of non-EU banks and investment firms



#### WHAT

- Board and senior management oversight
- Comprehensive risk identification and assessment
- Determination of the risk appetite and risk taking capacity
- Risk control, mitigation and reporting
- Adequacy of capital and liquidity sources and contingency planning
- Stress testing

### Purpose

To reflect on bank's capital risks in a structured way, using bank-specific approaches to measure and manage these risks.

To inform the Board of the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

### Challenges for the banks

- **Methodology:** The ICAAP and ILAAP should be documented and these documentation must be reviewed at least annually by the Board and will be requested by the regulator during their Supervisory Review and Evaluation Process (SREP). The ICAAP and ILAAP, and internal processes and systems supporting it, should be proportionate to the nature, scale and complexity of the activities of a firm.
- **Implementation** How to lower costs of implementation? How to integrate ICAAP and ILAAP into existing solutions?
- **Post implementation:** The ICAAP and ILAAP are expected to play an even greater role in the SREP in the future, which should encourage banks to continuously improve these processes.

# ICAAP and ILAAP

## Key questions for banks

- What are **key success factors** for a ICAAP and ILAAP?
- Are all **business lines, legal entities** and **risks** covered?
- To what extent is ICAAP and ILAAP embedded in **decision-making**?
- Are **policies** and **processes** appropriate for maintaining an adequate level of capital and liquidity to cover risks?

## Objective

- Have a robust enterprise-wide risk management framework;
- Have a clear understanding of liquidity characteristics;
- Assess its business model and its on-going viability and sustainability;
- Identify and assess all material risks;
- Identify and implement controls to migrate identified risks;
- Identify the amount and quality of internal capital and liquidity resources in relation to its risk profile, business strategy and plan;
- Demonstrate capital and liquidity adequacy.

## Principles and steps of ICAAP and ILAAP

1. Risk identification, measurement and assessment
2. Transplanting risk measures into estimates of loss
3. Available capital and liability resources
4. Consider impact of loss & resource estimate on capital and liquidity adequacy
5. Use estimates to make key decisions about capital
6. Internal control, governance
7. Effective Board & Senior Management oversight

**Step 1.** All areas of the institution's business should be considered and include risks' factors that are both quantitative and qualitative.

**Step 2.** The institution can look to calculate and determine their appropriate levels of capital and liquidity for their particular business model. All should be documented.

## Key risks that may be applicable to your institution

- Credit risk;
- Counterparty Risk & Counterparty Credit Risk
- Market risk ;
- Operational risk;
- Liquidity risk;
- Insurance risk;
- Concentration risk;
- Residual risk;
- Securitization risk;
- Funding risk;
- Business/strategic risk;
- Interest rate risk;
- Reputation risk;
- Pension obligation risk;
- Conduct of business risk;
- Money laundering risk;
- Sanctions risks;
- Regulatory risks;
- Risk of excessive leverage, etc.

## How can Deloitte help you

- **Assist in implementing and developing** risk management frameworks consistent with the company's financial risk strategy and risk appetite.
- **Measure** institution's **specific risks** and their aggregation.
- **Integrating** economic capital models into ERM frameworks.
- **Helping with the implementation** of adequate economic capital models and risk management processes and procedures consistent to institution's risk management bank's ICAAP and ILAAP documentation.
- **Improve processes** and methods for ICAAP and ILAAP.
- **Updating and reviewing** framework.

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