

**Guidelines on ICAAP and ILAAP information collected for SREP purposes  
(EBA/GL/2016/10)**

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

These guidelines aim to ensure 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 EBA guidelines on common procedures and methodologies for SREP (SREP Guidelines). In particular, these guidelines specify what information, regarding ICAAP and ILAAP, competent authorities should collect from institutions in order to perform their assessment following the criteria specified in the SREP Guidelines.

The European Banking Authority published these guidelines on 10.02.2017. Banco de España's Executive Commission adopted them as their own on 04.04.2017, providing that they will enter into force on 31.12.2017.

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EBA/GL/2016/10

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10/02/2017

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## Guidelines

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on ICAAP and ILAAP information  
collected for SREP purposes

# 1. Compliance and reporting obligations

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## Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010<sup>1</sup>. 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 10.04.2017. 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](mailto:compliance@eba.europa.eu) with the reference 'EBA/GL/2016/10'. 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).

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<sup>1</sup> 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

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### Subject matter

5. These Guidelines aim to ensure 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)<sup>2</sup>. In particular, these Guidelines specify what information, regarding ICAAP and ILAAP, competent authorities should collect from 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

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### Date of application

8. These Guidelines apply from 1 January 2017.

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<sup>2</sup> EBA/GL/2014/13 of 19 December 2014

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

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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 an additional source of information for the assessments of other SREP elements, including business model analysis in accordance with Section 4 of the SREP Guidelines, assessment of internal governance and institution-wide controls in accordance with Section 5 of the 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. the 'reader's manual' prepared in accordance with paragraph 11;
  - 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;
  - e. summary of main conclusions of ICAAP and ILAAP and quality assurance information as specified in Section 8 of these Guidelines.
  
11. Competent authorities should ensure that the institution provides them with the 'reader's manual' that is prepared as an overarching document facilitating the assessment of ICAAP and ILAAP documents. To this end, the 'reader's manual' should provide an overview of all ICAAP- and ILAAP-related documents submitted to the competent authorities and their status (new, unchanged, changed with minor edits, etc.). The 'reader's manual' should essentially work as an index by linking the specific information items referred to in these Guidelines with the documents provided by the institution to the competent authority (especially in the case where the format of the submission of information allows institutions to submit multiple

internal documents, as specified in paragraph 12(d)). The 'reader's manual' should also provide information regarding the material changes to the information items compared with the previous submission of information, and any exclusions from the submission (see also paragraphs 21-22), as well as any other information that may be relevant for the competent authority for the assessment. Furthermore, the 'reader's manual' should contain references to all ICAAP and ILAAP information publicly disclosed by the institution (including the information disclosed in accordance with Article 438(a) of Regulation (EU) No 575/2013<sup>3</sup>).

12. 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). When setting remittance dates for the first time or when materially changing these dates competent authorities should allow institutions sufficient time to prepare their submissions;
  - b. the reference date, and specify whether different reference dates can be used for individual information items;
  - c. the frequency with 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.
13. 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 the SREP Guidelines as further specified in the following paragraphs.
14. Competent authorities should require an institution that falls under SREP Category 1 to provide them at least with all information items referred to in these Guidelines on an annual basis. Competent authorities should endeavour to set a single remittance date and a single reference date for all SREP Category 1 institutions; however, depending on the organisation of SREP processes, institution-specific dates may be set, where this is deemed more appropriate.
15. For non-Category 1 institutions referred to in Section 2.4 of the SREP Guidelines competent authorities may:
  - a. determine another frequency of information submission rather than annually, and set different remittance and reference dates for various information items always in

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<sup>3</sup> OJ L 176/1

accordance with the minimum supervisory engagement model applied to each institutions according to Section 2.4 of the SREP Guidelines and the supervisory examination programme pertinent to the institution referred to in Article 99 of Directive 2013/36/EU;

- b. determine different levels of detail or waive certain specific information items referred to in these Guidelines. When waiving information items, competent authorities should ensure that they have obtained sufficient information to assess the ICAAP and ILAAP frameworks and the reliability of the ICAAP and ILAAP capital and liquidity estimates in accordance with the EBA SREP Guidelines.
16. Depending on the quality of the information provided and the assessment of whether the document(s) submitted cover all areas specified in these Guidelines, competent authorities may request institutions to provide additional information needed for the assessment of ICAAP and ILAAP within the SREP. Competent authorities should determine the appropriate level of granularity and quantity of information to be provided for the purposes of assessment of ICAAP and ILAAP, through an ongoing supervisory dialogue with an institution within the SREP.
17. The competent authorities should ensure that they receive all relevant information and that this information remains valid and applicable at the remittance date, even in cases where the (production) date of the document is different from the pertinent reference date. Documents related to any information item specified in these Guidelines produced in between the reference date and the remittance date should be included where relevant for ICAAP and ILAAP assessment purposes (taking into account materiality as specified in these Guidelines).
18. Competent authorities may, with a view to facilitating the assessment of individual SREP elements following the applied engagement model and supervisory examination programme, request from institutions some specific information referred to in these Guidelines or additional information outside the regular ICAAP and ILAAP submission cycle established in accordance with paragraphs 14 and 15 (e.g. some ILAAP-specific information may be requested for the SREP assessment of liquidity and funding risks, and not necessarily for the assessment of ILAAP itself).
19. 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 format referred to in paragraph 12 as well as the exact and detailed scope of each information item consistently for all group entities.
20. Where information referred to in these Guidelines is requested from institutions in the form of the institutions' own internal documents that do not follow the structure or format set out in these Guidelines, competent authorities should endeavour to ensure structural consistency

and comparability, including by requesting institutions to explain by means of 'reader's manual' how and where all information items specified in these Guidelines are covered in the documentation provided.

21. For the purposes of the assessment of ICAAP and ILAAP frameworks and calculations under SREP, competent authorities should ensure that they have received all relevant information items as specified in these Guidelines, taking into account proportionality. Where information items are already available to the competent authorities as part of other activities, competent authorities should require institutions to confirm in the 'reader's manual' that this information remains up to date and there have been no changes to the pertinent documents, or to provide updated information on the changes made to the documents after the last submission. Based on these considerations, competent authorities may decide to omit information items that they possess from other supervisory activities and that remain valid and up to date from the requests for ICAAP and ILAAP information carried out in accordance with paragraphs 14 and 15.
22. Where information items are available at a very granular level, competent authorities may permit institutions to not submit include every available document in relation to the required information items. When excluding such granular information from submissions, such as supporting documents in relation to local dashboards, meeting minutes and individual key performance indicators, competent authorities should ensure that institutions have provided their general policies governing these items and have mentioned in the 'reader's manual' what information has been excluded from the submission. Competent authorities should, as appropriate, require examples of this information. Competent authorities should ensure that data and documents excluded from submission could nevertheless be required, where this is necessary or appropriate, including for reasons of evidencing the institution's compliance with the regulatory requirements.



## 5. Information that is common to ICAAP and ILAAP

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### 5.1 Information on business model and strategy

23. 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 the institution operates;
- b. description of main income and cost drivers, allocated to core business lines, markets and subsidiaries.

24. 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 and management framework

25. 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 and arrangements that ensure that the institution has in place a robust and integrated framework for the management of its material risks and their evolution, including (1) the interaction and integration of capital and liquidity management, including interaction between ICAAP and ILAAP, (2) interaction between management of various risk categories and institution-wide risk management, (3) integration of ICAAP and ILAAP into the risk management and the overall management of an institution, including in the pricing and performance management;
- e. where appropriate, description of separation of tasks within the group, institutional protection scheme or cooperative network concerning risk management.

### 5.3 Information on risk appetite framework

26. 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 the senior management and the management body, in respect of the design and implementation of the risk appetite framework;
  - c. information on the identification of the material risks which 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 the time horizons, and the process applied to keeping such threshold and limits up to date;
  - e. description of the limit allocation framework within the group, and, for example, core business lines, markets and subsidiaries;
  - f. description of the integration and use of the risk appetite framework in the risk and overall management, including links to business strategy, risk strategy, ICAAP and ILAAP, including capital and liquidity planning.

## 5.4 Information on stress testing framework and programme

27. On stress testing frameworks and programmes, competent authorities should ensure that they receive from institutions the following:

- a. general description of the institution's stress testing programme, including *inter alia* the types of stress tests undertaken, their frequency, methodological details and models used, the range of assumptions and relevant data infrastructure;
- b. description of the governance arrangements of the stress testing programme, and in particular the stress tests used for ICAAP and ILAAP purposes;
- c. description of the interaction (integration) between solvency and liquidity stress tests, and in particular of ICAAP- and ILAAP-specific stress testing, and the role of reverse stress tests;
- d. description of the uses of stress testing and its integration into the risk management and control framework.

## 5.5 Information on risk data, aggregation and IT systems

28. 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 used 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 purposes;
- d. description of IT systems used to gather, store, aggregate and disseminate risk data used for ICAAP and ILAAP.

## 6. ICAAP-specific information

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### 6.1 Information on the overall ICAAP framework

#### 6.1.1 Methodology and policy documentation

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

- a. description of the scope of ICAAP including an overview of and reasoning for any deviations from the scope of the 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 the key objectives and the main assumptions of ICAAP (e.g. link to certain external credit ratings) including how these ensure the capital adequacy;
- d. description of whether 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 possible differences between the risk categories and the entities of the group covered.

#### 6.1.2 Operational documentation

30. On evidencing the implementation of the scope, the general objectives and the main assumptions underlying 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 the differences between the risks covered by ICAAP and the risk appetite framework, where the scope of risks covered is different.
- c. description of any deviations in the ICAAP process and in the key assumptions within the group and the entities of the group, where appropriate.

## 6.2 Information on risk measurement, assessment and aggregation

### 6.2.1 Methodology and policy documentation

31. On risk measurement, assessment and aggregation methodologies used within ICAAP, competent authorities should ensure that they receive from institutions the following:
- a. general description of key features of quantification/measurement methodologies and models, including metrics, assumptions and parameters used (e.g. confidence intervals, holding periods etc.) for all risk categories and sub-categories that are used for the approval of methodologies and models by the management body of the institution;
  - b. specification of the actual data used, including an explanation of how the data used reflects the scope of group entities covered by ICAAP, including the length of the time series;
  - c. description of the main differences between quantification/measurement methodologies and models used for ICAAP purposes and those used for the calculation of the minimum own funds requirements for risks covered by Regulation (EU) No 575/2013 (in case an institution is using advanced models approved by the competent authorities). Such description should be provided on a risk-by-risk basis and include inter alia information on the different use of Basel I transitional floors (Article 500 of Regulation (EU) No 575/2013), different assumptions regarding risk parameters, confidence intervals etc.;
  - d. description of the approach to the aggregation of the internal capital estimates for the entities and the risk categories covered, including the approach to intra-risk and inter-risk diversification benefits and/or concentrations where considered by the institution's methodology.

### 6.2.2 Operational documentation

32. On evidencing the implementation of the 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 sub-categories, broken down by risk category and sub-category covered by ICAAP. Where institutions assert that certain risk categories or sub-categories covered by ICAAP are better covered by means of qualitative mitigating measures rather than by allocating internal capital, this should be explained accordingly;

- b. the results of the calculation of internal capital estimates as specified above for all material risk categories and sub-categories covered by ICAAP on a risk-by-risk basis. Where certain risk sub-categories are identified as material but the calculation methodologies applied have not enabled the calculation of an internal capital estimate at the level of granularity required, and, for that reason, such estimates have been incorporated as part of internal capital estimate for a respective risk category, institutions should explain how such sub-categories have actually been included in the calculations (e.g. some risk sub-category has been identified as material, but the institution is not able to provide an internal capital estimate for such risk and instead includes coverage of this risk within the capital estimate for the main risk category; in that case, the competent authority should ensure that the institution explains how this risk has been captured under the main risk category);
- c. in addition to the risk-by-risk information specified above, the results of the aggregation of the internal capital estimates for entities and risk categories, including for the effects of intra-risk and inter-risk diversification benefits and/or concentrations, where these aspects are being taken into account by the methodology applied.

## 6.3 Information on internal capital and capital allocation

### 6.3.1 Methodology and policy documentation

33. 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 the internal capital used to cover ICAAP capital estimates, including all the 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 of the 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

34. 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 the 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 exceeds the allocated capital.

## 6.4 Information on capital planning

### 6.4.1 Methodology and policy documentation

35. 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

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

37. In addition to the general information on stress testing as specified in Section 5.4, 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 adverse scenarios considered under ICAAP, including specification of the scenario assumptions and key macroeconomic variables, including the description of how reverse stress tests have been used to calibrate the severity of scenarios used;
- b. 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**

38. 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, and prudential ratios, as well as, in integrated approaches, the impact on the liquidity position;
  - b. explanation of how the scenario outcomes are relevant to the institution's business model, strategy, material risks and group entities covered by ICAAP.

## **6.6 Supporting documentation**

39. In addition to the information items referred to in Sections 6.1-6.5, competent authorities should ensure that they receive 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. the approval of the overall set-up of ICAAP;
  - b. the approval of the 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. evidence of 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. examples of significant 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 with the available internal capital (current situation and forward-looking);



- f. evidence of 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

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### 7.1 Information on liquidity and funding risk management framework

#### 7.1.1 Methodology and policy documentation

40. On evidencing 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 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 ILAAP explaining the relation between all its components and providing reasoning about how that set-up ensures the institution has access to sufficient liquidity;
- c. the criteria applied by the institution for the selection of significant risk drivers for liquidity and funding risk, including the selection of significant currencies for monitoring the liquidity and the funding position;
- d. the criteria applied by the institution for the selection of appropriate tools and assumptions for ILAAP, such as the method of measuring and projecting current and future cash-flows of assets, liabilities and off-balance-sheet items over appropriate time horizons.

#### 7.1.2 Operational documentation

41. 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 intragroup liquidity flows and funding positions, including any possible legal or regulatory impediments to the transfer of liquidity within the (sub-)group;
- b. reasoning for the 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. evidence of the monitoring of compliance with minimum and additional prudential requirements related to liquidity and funding risk in accordance with Article 105 of Directive 2013/36/EU, including the forecast of compliance with these requirements under different scenarios over an appropriate time horizon within the scope of ILAAP coverage.

## 7.2 Information on funding strategy

### 7.2.1 Methodology and policy documentation

42. On the 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

43. 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 a forward-looking time horizon specified in the EBA Guidelines on harmonised

definitions and templates for funding plans of credit institutions under Recommendation A4 of ESRB/2012/2<sup>4</sup>;

- d. an assessment of the funding position and funding risk after execution of the funding plan;
- e. information on back-testing of the funding plan in accordance with the requirements of the EBA Guidelines on harmonised definitions and templates for funding plans of credit institutions under Recommendation A4 of ESRB/2012/2.

## 7.3 Information on strategy regarding liquidity buffers and collateral management

### 7.3.1 Methodology and policy documentation

44. On liquidity buffers and collateral management strategy, competent authorities should ensure that they receive from institutions the following:
- a. their methodology for determining the internal minimum size of the liquidity buffer, including the institutions' definition of liquid assets, the criteria they apply for determining the liquidity value of liquid assets and the 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 any potential loss of available liquidity due to this concentration.

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<sup>4</sup> EBA/GL/2014/04 of 19 June 2014

### 7.3.2 Operational documentation

45. On evidencing implementation of the strategy regarding liquidity buffers and collateral management, competent authorities should ensure that they receive from institutions the following:
- a. quantification of the minimum volume of liquid assets considered adequate to meet internal requirements;
  - b. quantification of the current liquidity buffer, 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 Commission Delegated Regulation (EU) No 2015/61 including reasoning to show that the counterbalancing capacity is capable of covering risks not included under Regulation (EU) No 575/2013;
  - d. projections of the development of the internally 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 details of 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 of, 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

46. 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 as well as the criteria for the selection of the liquidity and funding elements that ensure all relevant benefits and costs are taken into account, as well as any 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.

47. 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 of the interlinkages between LTP and strategic decision making as well as front office decision making on asset and liability generation.

#### **7.4.2 Operational documentation**

48. On evidencing cost-benefit allocation of the implementation of the liquidity 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 (e.g. interest rate curves, internal reference rates for main categories of assets and liabilities in use, etc.);
  - 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-sheet and off-balance-sheet;
  - c. description of the current integration of the liquidity cost-benefit allocation mechanism into performance management, where necessary split out into the different business lines/units or regions.
49. 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 the relation between LTP and key risk ratios.

## **7.5 Information on intraday liquidity risk management**

### **7.5.1 Methodology and policy documentation**

50. 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 risks;
  - b. description of the escalation procedures for the purpose of intraday liquidity shortfalls which ensure that payments due and settlement obligations are met on a timely basis under both 'business as usual' and stressed conditions.

### **7.5.2 Operational documentation**

51. Where appropriate, on the 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 at an appropriate frequency;
- b. the total number of missed payments and an overview with explanation of material payments missed or material obligations not met by the institution in a timely manner.

## 7.6 Information on liquidity stress testing

### 7.6.1 Methodology and policy documentation

52. In addition to the general information on stress testing as specified in Section 5.4, on the set-up of liquidity stress testing, competent authorities should ensure that they receive from institutions the following:

- a. description of the adverse scenarios applied and the assumptions considered in liquidity stress testing, including any relevant items such as the number of scenarios used, the scope, internal reporting frequency to the management body, risk drivers (macro and idiosyncratic), the applied time horizons and, where relevant, the split in currencies/regions/business units;
- b. 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

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

- a. quantitative outcome of the stress tests including an analysis of (the main drivers of) this outcome and a clear insight into the relevance of the outcome for the internal limits, liquidity buffers, reporting, modelling and risk appetite;
- b. quantitative and qualitative analysis of the outcomes of stress testing on the funding profile.

## 7.7 Information on liquidity contingency plan

### 7.7.1 Methodology and policy documentation

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

- a. description of the lines of responsibilities for designing, monitoring and executing the liquidity contingency plan;

- b. description of the 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, where available (e.g. examples of sales of new asset types, pledging collateral with central banks, etc.).

### **7.7.2 Operational documentation**

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

- a. the current liquidity contingency plan;
- b. information on the possible management actions including the assessment of their feasibility and liquidity generating capacity under different stress scenarios;
- c. the management view on the implications of all liquidity-related public disclosures made by the institution for the feasibility and timeliness of management actions included in the liquidity contingency plan;
- d. recent analysis of testing, including conclusions on the feasibility of the management actions included in the liquidity contingency plan;
- e. description of the internal view on the impact of executing the management actions included in the liquidity contingency plan, 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 terms.

## **7.8 Supporting documentation**

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

- a. approval of the overall set-up of ILAAP;
- b. approval of the key ILAAP elements, such as the funding plan, the liquidity contingency plan, the liquidity cost-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. evidence of 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. examples of significant decisions in new product approval committees evidencing, if applicable, the use of the liquidity transfer pricing (LTP) and risk views in these decisions;
- e. evidence of discussion of the analysis of the feasibility of the funding plan based on (changes in) market depth and volatility;
- f. evidence of decisions on management actions related to intraday liquidity risk after internal escalation due to intraday liquidity events;
- g. evidence of discussion of the outcome of liquidity stress tests and decision on any management (non-)action;
- h. evidence of discussion on the regular testing of the liquidity contingency plan and decisions on adjusting the management actions listed in the liquidity contingency plan;
- i. decision relating to the size and composition of the liquid asset buffer;
- j. evidence of discussion regarding the testing of the liquidity value of, and of the time required 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

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57. Competent authorities should ensure that they receive from institutions conclusions of the internal capital and liquidity adequacy assessments and their impact on the risk and overall management of an institution, including:
- a. summary of main conclusions on ICAAP and ILAAP in order to form a concise view on the current capital and liquidity position of the institution, its capacity to cover the risks to which it is or might be exposed, and any measures planned by it to ensure that capital and liquidity remain at, or are restored to, adequate levels in the near future;
  - b. material changes (made or planned) to the risk management framework based on ICAAP or ILAAP results;
  - c. material 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);
  - d. material changes (made or planned) to the ICAAP and ILAAP frameworks, including improvements to be introduced following the observation of internal validations, internal audit reports and the outcomes of the dialogue with the competent authorities.
58. Competent authorities should ensure that the information specified in the previous paragraph should have approval from the pertinent body within the governance framework responsible for ICAAP and ILAAP and should be accompanied by a specific timeline associated with the planned changes.
59. 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 (e.g. validation concepts, validation reports) and a description of both the internal validation approach (process, frequency) and the validation content, where available. 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 the independent validation function.
60. Competent authorities should also receive from institutions their internal audit reports covering ICAAP and ILAAP.