

Draft for Consultation FICOM ICAAP Submission Instructions

BC Credit Unions

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Financial
Institutions
Commission

INTRODUCTION

These instructions provide guidance on what to include in a credit union’s ICAAP submission to FICOM. Credit unions are requested to submit a written report summarizing their ICAAP, incorporating the elements listed in the table below.

The ICAAP report should be concise, while incorporating all material issues. Supplementary information such as policies, risk management frameworks, and processes can be referred to by way of appendices.

The amount of detail in the ICAAP document will vary based on the size and complexity of the credit union.

Table 1: ICAAP Submission Elements	
1	Executive Summary
2	Background on ICAAP
3	Statement of Risk Appetite
4	Material Risks
5	Capital Planning
6	Stress Testing
7	Integration of ICAAP into Risk Management
8	ICAAP Conclusions and Actions
9	Key Metrics Report

1 EXECUTIVE SUMMARY

The executive summary portion should provide a brief overview of the ICAAP methodology and results, such as:

- confirmation that the credit union has assessed its capital as adequate, or, if not, the actions planned to remediate the situation;
- commentary and an outline of significant risks faced by the credit union – the use of existing enterprise risk management (ERM) summaries is encouraged for consistency and to avoid duplication of risk documentation;
- a summary of main findings of the credit union’s ICAAP analysis including:
 - the level and composition of internal capital a credit union determines it should hold;

- the adequacy of the credit union’s management processes;
- whether it has adequate capital resources over its planning horizon, and
- results, assumptions, and methodologies of stress test analysis.
- a summary of the financial plan of the credit union, its business strategy, balance sheet structure, and projected profitability over three years; and
- description of the review, challenge, and Board approval process of the ICAAP.

2 BACKGROUND ON ICAAP

This section should provide a brief overview of the credit union’s ICAAP, including the credit union’s risk management framework, business planning, and capital management processes. The overview may refer to policies and systems used by the credit union to identify, manage, and monitor its risks according to its risk appetite where relevant.

3 STATEMENT OF RISK APPETITE

This section should provide a brief description of the credit union’s risk appetite and set out the frequency of review of the risk tolerances by management and the board.

The use of ERM summaries is encouraged for consistency and to avoid duplication. Summary documentation (e.g. risk appetite statements) derived from the ERM framework can be submitted by way of an appendix to the ICAAP submission, and referenced in the submission itself. ERM assumptions should be realistic and specific to the credit union.

4 MATERIAL RISKS

This section should provide a concise description of the credit union’s risk identification process. This should include a summary of how each material risk is identified and quantified for capital allocation purposes, including the methodology, assumptions, and calculations used. Key risks which should be considered as part of an ICAAP submission include “Pillar 1 and Pillar 2” risks as described by the Basel Committee on Banking Supervision:

- credit risk;
- market risk;
- operational risk;
- concentration risk;
- interest rate risk;
- funding risk; and
- other significant risks.

5 CAPITAL PLANNING

This section should include:

- the credit union's baseline capital forecasts, based on the annual business plan;
- a 3-year summary forecast capital position; and
- a description of the credit union's capital planning and management process, including an outline of how ICAAP is incorporated into this process.

6 STRESS TESTING

Each credit union is required to include, at a minimum, at least the following stress test scenarios in its ICAAP analysis:

- the impact on the credit union's capital resulting from a standardized 200 bps interest rate shock (single factor test);
- an economic downturn which includes at least a 30% reduction in real estate and security valuations, with resulting impacts on the level of delinquencies and credit defaults for material risk areas; and
- additional scenarios based on identified risks.

This section should provide a description of how the credit union's stress testing is used to support capital adequacy assessment and management and should summarize:

- the stress tests undertaken and the rationale for their choice;
- the methodology and assumptions used in each scenario tested;
- results of the stress test, including quantification of capital required; and
- how the credit union would manage its business and capital to ensure that sufficient levels of capital are available under stress conditions.

The objectives of the stress tests are to help gauge the capacity of each credit union to withstand a similar set of potentially severe events using a similar approach. Results of these stress tests should not be misinterpreted as potential weaknesses. Rather, results should be considered against actual performance and trends when assessing current and planned capital levels.

7 INTEGRATION OF ICAAP INTO RISK MANAGEMENT

This section should:

- summarize how ICAAP has been used by the credit union and how it is embedded in the decision making process;
- describe how ICAAP results have been integrated into risk limits and monitoring; and
- describe how the ICAAP results are reported to the board of directors.

8 ICAAP CONCLUSIONS AND ACTIONS

This section should:

- outline the adequacy of capital and any remedial actions;
- summarize the extent of challenge and testing of the ICAAP and the control processes applied to the ICAAP calculation;
- identify the nature of any internal audit or third party review of the ICAAP;
- identify any plans to enhance the ICAAP going forward; and
- provide evidence of board of director approval and involvement in the ICAAP.

9 Key Metrics Report

Completion of the following Key Metrics Report in Excel format is a required component of a credit union's ICAAP submission to FICOM.

Credit Union ICAAP Key Metrics Report		
Charter No:	As at Date:	
Credit Union Name:	Board Approval Date:	
Risk Weighted Assets:	Submission Date:	
	\$ Capital	% RWA
Pillar 1 Risks		
Credit Risk		
Market Risk		
Operational Risk		
Capital Required for Pillar 1 Risks		
Pillar 2 Risks		
Concentration Risk		
Interest Rate Risk		
<u>Funding Risk</u>		
Other Risks		
Capital Required for Pillar 2 Risks		
Stress Test		
Additional Capital for Stress Test		
ICAAP Summary		
Total Required ICAAP Capital ¹		
Current Capital ²	<i>Capital Base</i>	<i>Capital Adequacy Ratio</i>
ICAAP Capital Surplus or (Deficit)		

¹ Sum of capital requirements for Pillar1, Pillar 2, and additional stress test.

² Report capital base and capital adequacy ratio for the most recent year end.



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