

# ICAAP Submission Instructions

**August 2018**

**BC Credit Unions**



Financial  
Institutions  
Commission

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# INTRODUCTION

These instructions outline FICOM’s expectations on what should be included in a credit union’s Internal Capital Adequacy Assessment Process (ICAAP) submission to FICOM. For further details on regulatory expectations for a credit union’s ICAAP refer to the **ICAAP Guide**.

Credit unions in Asset Groups 1, 2 and 3 are requested to submit a written report summarizing their ICAAP, incorporating the elements listed in the table below, annually within 120 days of their fiscal year-end. The ICAAP report submitted to FICOM must be approved by the credit union’s board of directors. The ICAAP report and the resolution of the directors showing the approval of the report should be submitted through FICOM’s [Secure File Transfer System](#). Late submissions may result in a penalty as per FICOM’s [Non-Compliant Filings Administrative Penalty Guideline](#) under the Administrative Penalties Regulation of the *Financial Institutions Act*.

The ICAAP report should be concise, while at the same time discuss all material risks. Supplementary information such as policies, risk management frameworks, and processes can be referenced by way of appendices. The amount of detail in the ICAAP report may vary based on the size and complexity of the credit union.

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

## ICAAP SUBMISSION ELEMENTS

### 1 Executive Summary

The executive summary should provide a brief overview of the ICAAP methodology and results including:

- confirmation that the credit union has assessed its capital as adequate, given the size and complexity of its business; or, if its capital is not adequate, the actions planned to remediate the situation;

- commentary and an outline of significant risks faced by the credit union – the use of existing risk management summaries is encouraged for consistency and to avoid duplication of risk documentation;
- summary of the main findings of the credit union’s ICAAP analysis including:
  - the level and composition of capital the credit union determined it should hold;
  - the adequacy of the credit union’s management processes;
  - whether the credit union has adequate capital resources over its planning horizon, and
  - results, assumptions, and methodologies of stress test analysis.
- summary of the financial position of the credit union, its business strategy, and projected balance sheet structure and profitability over the next three years; and
- description of the review, challenge, and 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 reviews of the risk tolerances by management and the board. The use of risk management summaries is encouraged for consistency and to avoid duplication. Summary documentation (e.g. risk appetite statement) derived from the credit union’s risk management framework can be submitted by way of an appendix to the ICAAP submission, and referenced in the submission itself.

## **4 Material Risks**

This section should provide a concise description of the credit union’s identified risks and the risk identification process. At a minimum, the following key risks should be included in the ICAAP:

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

This section should also include a summary of how each material risk is identified and quantified for capital allocation purposes, including methodologies, assumptions, and calculations used. Credit unions may find it helpful to refer to the risk quantifying methodologies developed by the Basel Committee on Banking Supervision.

## **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**

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:

- stress tests on portfolios on material risks;
- stress tests undertaken and rationale for their choice;
- 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.

At a minimum, the credit union should include 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 (if the credit union primarily serves areas that have recently experienced accelerated growth in real estate prices, the credit union should select a scenario which more appropriately reflects a larger risk of downturn); and
- additional scenarios based on identified significant risks.

## **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 calculations;
- identify the nature of any internal audit or third party review of the ICAAP;
- identify any plans to enhance the ICAAP going forward; and
- outline the board's review and approval process of the ICAAP and provide evidence of board approval.

## **9 Key Metrics Report**

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

## ICAAP Key Metrics Report

Credit Union Name:		
Submission Date:		
Board Approval Date:		
As at Date:		
Total Risk Weighted Assets (RWA): (\$000s)		\$0
Capital Base: (\$000s)		\$0
<b>Credit Union's Assessment of Capital Required for the Risk</b>		
	<b>\$ Capital (000's)</b>	<b>% RWA</b>
<b>Pillar 1 Risks</b>		
<i>Credit Risk (minimum regulatory requirement)</i>	\$0	8.00%
<i>Credit Risk (credit union's assessment)</i>	\$0	0.00%
Credit Risk <sup>1</sup> (greater of regulatory minimum or credit union's assessment)	\$0	0.00%
Market Risk	\$0	0.00%
Operational Risk	\$0	0.00%
<b>Pillar 2 Risks</b>		
Concentration Risk	\$0	0.00%
Interest Rate Risk	\$0	0.00%
Funding Risk	\$0	0.00%
Other Significant Risks	\$0	0.00%
<b>Capital Required for Pillar 1 and 2 Risks</b>	<b>\$0</b>	<b>0.00%</b>
<b>Stress Test</b>		
<i>Additional Capital for Stress Test</i>	\$0	0.00%
<b>ICAAP Summary</b>		
	<b>\$ Capital (000's)</b>	<b>% RWA</b>
<b>Total ICAAP Capital Required</b>	<b>\$0</b>	<b>0.00%</b>
<b>Internal Capital Target</b> <sup>2,3</sup>	<b>\$0</b>	<b>0.00%</b>
<b>Current Total Capital (Capital Base)</b>	<b>\$0</b>	<b>0.00%</b>
<b>Surplus (Deficit) to Internal Capital Target</b>	<b>\$0</b>	<b>0.00%</b>

**Notes:**

<sup>1</sup> Capital required for credit risk is the greater of the regulatory minimum (8% of RWA) or the credit union's assessment for credit risk

<sup>2</sup> As per FICOM's Internal Capital Target (ICT) Guideline, the credit union's ICT is expected to be above the Supervisory Target of 10%

<sup>3</sup> The credit union's ICT is expected to be equal to or greater than the calculated Total ICAAP Capital Required



## Financial Institutions Commission

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