

PROMETEIA RISK ACADEMY

# ICAAP Masterclass

*A deep dive into the Internal Capital Adequacy Assessment Process, the Pillar 2 requirement introduced by the Basel II Accord to shape a sound and comprehensive framework for the control of risk to capital*

# Internal Capital Adequacy Assessment Process (ICAAP) Masterclass

With its second edition in 2003, the **Basel Accord introduced three main pillars:**

- **Minimum capital requirements** for dealing with the main banking risks
- **Prudential supervision** to assess capital adequacy
- Obligations to the market to provide information and **transparency**

While the **Pillar 1 is focused on the static calculation** of Risk Weighted Assets, the objective of the **Pillar 2 is to strengthen and improve the control framework** developed by financial institutions and enhance the awareness of their own risks. The Second Pillar outlines a prudential supervision process that is articulated in two integrated phases:

**(1) the self-assessment of banks' current and prospective capital adequacy** in terms of ability to deal with all significant risks (**ICAAP**); **(2) the process by which the Supervisory Authority reviews the ICAAP** of the banks, performing a comprehensive assessment on the reliability of risk management tools (**SREP**). Over the past few years, the ICAAP has been increasingly subject to scrutiny from regulatory authorities, which have stressed the importance of a **comprehensive and dynamic assessment of risk**, accurately measuring the required and available capital resources. In this scenario, **managerial practices and governance frameworks are expected to evolve**, to better identify the sources of risk and mitigate their adverse effects. This integrated framework raises important challenges for the bank in terms of methodology, governance and technology.

## YOUR EXPERT TRAINERS

**Prometeia has a unique track record in the field of ICAAP, ILAAP and Pillar 2 requirements:**

- **Over 70 risk management projects successfully delivered in the last 3 years** in EMEA, supporting business processes, governance and regulatory compliance of Risk, Finance, Treasury and Credit
- **Over 500 implementation consultants and IT engineers** fully dedicated to Risk projects (ERM and Buy-side), of which 300 specialised in Credit, ALM, Market and Liquidity Risk management
- **Over 25 years of experience** in developing Risk Management solutions and supporting regulatory compliant reporting and implementation, covering market risk, credit risk models and processes, IRRBB, managerial and regulatory liquidity

## THE COURSE

**This two-day course thoroughly addresses the ICAAP framework, covering regulation, governance and methodology, along with practical insights from real life implementation.**

**This course addresses the role of ICAAP within a modern banking institution**, where managing risks and capital is increasingly becoming a key strategic factor for competing successfully in the industry. **The first day offers a comprehensive view of ICAAP regulation and its key principles.** It discusses the role of capital assessment within the evolution of banking supervision, highlights the duplicity of internal assessment and supervisory process and points

out the major cornerstones of ICAAP, such as risk integration and stress testing. The second session illustrates the prevailing methodological approaches to measure and manage single risks. **The second day focuses on the most complex elements of the ICAAP implementation**, from the methods and best practices to identify and map risks, to the challenge of delivering a consistent risk integration and stress testing. The final session aims at sparking a discussion on practical experiences of ICAAP application and regulators' feedback, where participants will be encouraged to discuss issues relating to their own bank and local supervisory framework.

## THE TRAINING PACKAGE INCLUDES:

- **Live interactive workshop** with no limit to the number of participants from the Bank
- **Combination of industry best practices and concrete experience** acquired in both advanced and emerging markets
- **Comprehensive take-away course documentation**
- **Post-course contact with trainers** to address further concerns and draft a roadmap

## HOW WILL YOU BENEFIT?

**This 2-day course will be highly interactive with practical examples** to explain concepts and group discussion will be encouraged throughout. Attendees will gain knowledge and know-how regarding:

- **The regulatory principle** ruling ICAAP
- **The key methodological elements** for measuring risks and assessing capital adequacy
- **The approach to develop** an advanced ICAAP framework and achieve strategic managerial benefit

Plus:

- **The practical insights** to build and manage effectively ICAAP

## WHO SHOULD ATTEND?

**The course is suitable for:**

- **Risk, Regulatory Reporting, Credit, Treasury and Internal Audit** departments
- **Other governance functions** such as Planning, Organisation, IT and Compliance

## PROGRAMME

## DAY 1

## Overview of the ICAAP Framework

- The evolution of **Prudential Supervision** in the banking industry
- The **Basel Committee framework**: risk assessment and capital adequacy
- The **Basel II Accord** and the three pillars
- **Key principles for Internal Capital Adequacy Assessment Process (ICAAP)** and **Supervisory Review and Evaluation Process (SREP)** Implementation
- **Identification of key risks** and single risks capital calculation
- The **concepts of risk diversification and correlation** - total capital calculation
- The **contact of capital adequacy** - regulatory versus internal perspective
- **Stress Test** definition and general principles
- **Governance structure** and ICAAP documentation

## Single Risks Calculation Methods

- **Credit** and **Counterparty Risk**
- **Market** and **Operational Risk**
- **IRRBB** and **Liquidity Risk**
- **Concentration Risk** and Other Risks

## DAY 2

## Risk Mapping

- **Regulatory requirements** and industry standards
- **Risk perimeter** for ICAAP
- **Methodological approach** to risk mapping

## Risk Diversification and Integration

- The concept of **risk diversification**
- **Regulatory requirements** for risk integration
- **Methodological approach** to risk integration
- **Pros and Cons** of the different options

## Integrated Stress Testing

- **Supervisory guidelines**: Stress Testing and Reverse Stress Testing
- **An integrated approach** to Stress Testing
- **Scenario definition** and selection
- **Structural modelling** approach
- **Management actions**

## Discussion - ICAAP Implementation Experience and Regulatory Environments

# About Prometeia

Prometeia is a global provider of consulting services and business solutions focused on Risk & Performance Management. Since 1974, we supply highly specialised advisory, analytical tools and research programs, integrating quantitative models, market and customer data, financial and economic scenarios. With over 700 industry experts, we serve over 200 financial institutions in 20 different countries, through a consolidated network of foreign branches and subsidiaries located in Europe, Africa and Middle East. Prometeia's client base includes primary financial institutions, central banks and multilateral organisations, as well as local banks and credit unions.

## OUR UNIQUE BUSINESS MODEL COMBINES



Prometeia's business model sets it apart from traditional professional training providers: its teaching relies heavily on real world practical experience, since Prometeia's matter-experts are constantly involved in the delivery of Risk Management projects in a multitude of banks and financial institutions. Prometeia's training mission is to add value to customers by building a bridge between economic theory, econometrics, finance and day-to-day banking challenges.