Pills

Regulatory/Supervisory Pills | N.119 August 2026

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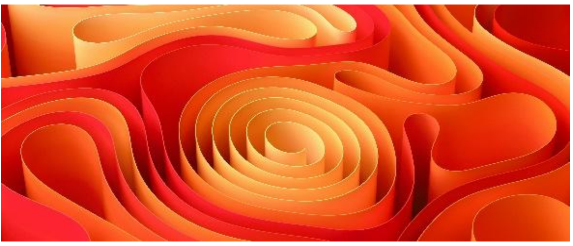

TOPICS:

Capital

SOURCE:

European Central Bank

ECB: Update Guide to the Internal Capital Adequacy Assessment Process (ICAAP)

- **The revised ICAAP Guide** does not fundamentally change the structure of the seven ICAAP principles, but **it introduces several updates** to align the guidance with the CRD VI/CRR III framework, the revised EBA SREP Guidelines and the ECB's latest supervisory expectations.
- **Regulatory updates**: The Guide incorporates references to the **2022 EBA SREP Guidelines (EBA/GL/2022/03)** and **Article 104b CRD** on **Pillar 2 Guidance (P2G)**. It clarifies that, if capital falls below the P2G level, institutions are expected to notify the competent authority and prepare a revised capital plan.
- **Greater emphasis on management buffers**: The Guide provides a more detailed explanation that management buffers are an internal management decision rather than a supervisory requirement, but they should reflect the institution's strategy, market expectations, distribution policies, and medium-term resilience.
- **Stronger integration between the normative and economic perspectives**: The ECB further reinforces the expectation that the two perspectives should **mutually inform each other**, rather than being treated as separate exercises.
- **Closer alignment with Recovery Planning**: The revised Guide expands its expectations regarding consistency between the ICAAP and the Recovery Plan, including the avoidance of double-counting management actions, alignment of capital thresholds, and the use of reverse stress testing as a bridge between the two frameworks.
- **More dynamic stress testing**: Beyond the annual exercise, institutions are expected to review scenarios regularly and update them whenever new vulnerabilities emerge. The integration between ICAAP and ILAAP stress testing is also further emphasised.
- **Enhanced governance and validation**: The Guide strengthens expectations regarding the independent validation of ICAAP methodologies and structured reporting to the management body, with greater emphasis on governance and model oversight.