Pills

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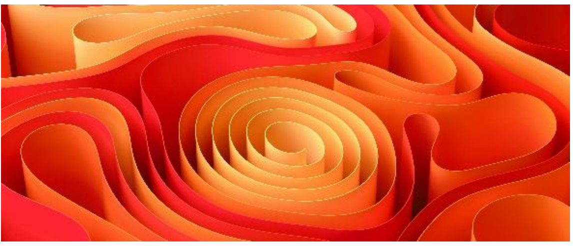
Author: Dario Esposito



TOPICS:

Capital, Liquidity risk

SOURCE:

European Central Bank

ECB Clarification on ICAAPs and ILAAPs and Respective Package Submissions

- The ECB **clarifies** its **supervisory expectations** regarding Internal Capital Adequacy Assessment Processes (**ICAAPs**) and Internal Liquidity Adequacy Assessment Processes (**ILAAPs**). It **reinforces the principles** established in its 2018 guidance while introducing practical clarifications rather than new regulatory requirements.
- The document emphasises that ICAAPs and ILAAPs should operate as **continuous, governance-driven processes embedded in institutions' day-to-day risk management**. Banks are expected to maintain **robust governance** arrangements, with management bodies regularly reviewing and approving capital and liquidity adequacy statements before submission. **Supporting documentation** should remain current throughout the year without requiring reapproval solely for supervisory submissions.
- The ECB expects institutions to conduct **forward-looking capital and liquidity assessments** over at least a three-year horizon under both baseline and adverse scenarios. Assessments should incorporate normative and economic perspectives, credible macroeconomic assumptions, stress testing, sensitivity analyses and detailed explanations of methodologies, risk drivers, and management actions. Emphasis is placed on integrating economic capital considerations into strategic and operational decision-making.
- **Capital planning** should identify feasible management actions - such as capital raising, deleveraging, or securitisation - and demonstrate how these support capital adequacy under stressed conditions. Dividend and share buyback policies should align with sustainable forward-looking capital positions, be formally approved by the management body, and be discussed with Joint Supervisory Teams (JSTs) before material changes or announcements.
- The annex outlines **technical submission requirements**. Since SREP 2025, institutions must provide key ICAAP and ILAAP documents annually by 15 March while continuously submitting material updates throughout the year. Required submissions include adequacy statements, capital and funding plans, reader's manuals, supervisory templates, reconciliations and projections. The ECB also specifies expectations for quantitative reconciliations between internal and Pillar 1 measures, comprehensive documentation of methodologies, and concise Capital Adequacy Statements (CAS) and Liquidity Adequacy Statements (LAS) that explain governance, risk management, stress testing, strategic integration and planned improvements.