

ICAAP submission - suggested format for small investment firms v1.0

Small investment firms are not required to adopt the following suggested format when asked to submit their Internal Capital Adequacy Assessment (ICAAP) document for the FSA to review.

This document provides an outline for an ICAAP submission however the format and length of your document should be proportional to the size and complexity of your firm's business.

Adoption of this format may be convenient for firms as it covers most of the matters which typically would be subject to review and evaluation by the FSA and if not provided in the initial submission are likely to be covered in follow up discussions with the firm. Utilisation of this format may therefore assist the review process for both the firm and the FSA.

Equally, the use of this format is not a substitute for being aware of the relevant rules.

The amount of detail in the ICAAP document will vary based on the size and complexity of the firm. Supplementary documents such as policies, risk management frameworks and processes can be referred to by way of appendices.

The ICAAP process should be seen as building on existing processes and procedures that already exist within the firm's risk management.

The FSA expect to receive the document that has been approved by the governing body of the firm.

Contents

1.	Executive Summary	2
2.	Background - the ICAAP Process	2
3.	Statement of risk appetite	2
4.	Business strategy	2
5.	Material risks	3
6.	Capital planning and Stress and scenario tests	3
7.	Challenge and adoption of the ICAAP	3

1. Executive Summary

The purpose is to provide an overview of the firm's ICAAP methodology and results. It may typically include the following:

- confirmation that the firm has adequate capital for its size and complexity of business;
- confirmation that all the firm's regulated entities are covered by the assessment;
- if the firm is a member of a group, confirmation of the type of group (e.g. limited licence, limited activity or full scope) and if all firms in the group are not of the same type, what are the different types;
- material risks identified by the firm and whether these risks are within the firm's risk appetite;
- the findings of the ICAAP analysis:
 - the amount of capital the firm considers that it should hold compared to its capital resource requirement (CRR) 'pillar 1' calculation;
 - the adequacy of the firm's risk management process;
 - whether the firm has adequate resources over its planning horizon taking into account the dividend policy and the potential impact of an economic downturn;
- clarification of the BIPRU approach that the firm has adopted for credit, market and operational risk (if applicable);
- a table itemising components of the Pillar 1 (to be provided for comparison purposes) and the firm's Pillar 2 capital figures;

	Pillar 1 (optional)	ICAAP
	Minimum capital	Firm's Pillar 2 capital
Credit risk		
Market risk		
Operational risk		
Fixed Overhead Requirement (FOR)		
Pillar 1 total		
Pillar 2 risk X		
Pillar 2 risk Y		
Pillar 2 risk Z		
Pillar 2 total		
Adjustments (diversification if claimed etc)		
Additional capital to cover stress testing		
ICAAP capital		
Current total capital		
Surplus		

- commentary on any major issues where further analysis / work and decisions are required; and
- a description of the review, challenge and approval process of the ICAAP by the firm and its governing body.

2. Background - the ICAAP Process

This section would provide a high level overview of the firm's ICAAP process pulling together the firm's risk management framework, business planning and capital management. It would cover relevant policies, procedures and systems used by the firm to identify, manage and monitor its risks in accordance with its risk appetite.

3. Statement of risk appetite

This section would provide a high level overview of the firm's risk appetite statement and set out the frequency of review by the firm's senior management and approval by its governing body.

4. Business strategy

This section could include a high level summary of the firm's business / corporate plan which could provide an indication of the forward view of the firm's business (e.g. growth plans, new product lines, new market / distribution channels etc.) Specific details on the firm's business / model can be provided by way of appendices as appropriate.

5. Material risks

This section could provide a concise description of the firm's identification process of risks and how the firm assesses which risks are deemed to be material. As a starting point this section could follow the FSA guidance and terminology of the key risks to be considered as part of an ICAAP. If the firm uses Professional Indemnity Insurance (PII), the firm needs to adequately assess whether there is any gap in the coverage, whether the insurer is a good credit risk, payment history and whether the insurer has sufficient liquidity to survive the period between submitting a claim and it being settled.

For an asset management firm see [BIPRU 2.2.61 to 2.2.65](#) and for a securities firm see [BIPRU 2.2.66 to 2.2.70](#)

6. Capital planning and Stress and scenario tests

This section would provide details on the firm's projections of its capital resources and capital requirements. These projections may include a forward projection of 3 to 5 years (or a shorter time period if more appropriate) and should be consistent with the firm's business plan. This initial projection would form the 'base case' for the capital planning analysis. A projection of past and forecasted income streams would also be useful.

This information would provide an indication of the level of capital planning, management and cashflow analysis.

This section should include a statement of the firm's operating philosophy on capital management and how this links up with the firm's ICAAP.

Using the base case as a starting point the firm should use stress tests to consider how it would perform under stressed conditions. This section would set out the stress tests undertaken and the extent to which the stressed conditions that the firm has selected meet the FSA's definition of a severe recession or relevant business downturn / event, i.e. of a severity that occurs once in a 25 year period. The firm should provide an indication of how it would manage its business and capital alongside meeting its minimum regulatory requirements, the firm's total capital held can not be less than the minimum Pillar I figure. Where mitigating actions are relied upon, the results of the stress tests should be provided on both gross and net of controls and credible manageable actions.

The details of the stress test such as the methodology and assumptions used should be included in an appendix.

We have provided guidance with respect to stress tests for asset managers and securities firms which can be found in [BIPRU 2.2.65 and 2.2.66](#) respectively.

Management actions following the stress and scenario tests should be articulated and the following should be considered:

- quantitative impact of management actions;
- sensitivity analysis / testing of management actions; and
- justifications for why these mitigating actions are realistic.

7. Challenge and adoption of the ICAAP

This section should describe the extent of challenge and testing of the ICAAP. It would include the testing and control processes applied to the ICAAP models or calculations.

The ICAAP document should be maintained and owned by the firm's Board / equivalent decision making body. The document's purpose is to inform the Board of the ongoing assessment of the firm's

risks, how the firm intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors. This section would include the senior management and governing body review and sign-off procedures. If used, details should be provided of any reliance on external suppliers of economic scenario models or consultants. Copies of reports obtained from external reviewers or internal audits should be referred to in a separate appendix.

This section should also include a brief description of how the ICAAP is used by the firm including how it is embedded in the firm's decision making process. Please provide details of any future refinements to the firm's ICAAP (including any work-in-progress) and any relevant information that you believe would help us when we review your ICAAP.