

Abstract

The client was requested by the FSA to produce their approach to ICAAP at short notice. Given the aggressive timeframe involved, the client engaged Advantage Reply to accelerate delivery of the project, as well as provide expertise in ensuring the ICAAP approach would be sufficiently robust to withstand critique from the FSA, the client's parent and its regulators. Advantage Reply delivered a robust ICAAP approach that was accepted by the FSA. Required actions were also identified for the client to deliver the agreed 'future state' reflecting the FSA's key ICAAP requirements, and stakeholder buy-in was obtained for these actions.

A black and white photograph of a grand classical building facade, likely a government or financial institution, featuring a prominent portico with several tall columns and a detailed pediment with sculptures.

Basel II, Pillar 2 (ICAAP) Development and Execution

THE CLIENT

The client's parent entity, a bank headquartered in Europe, is a leading global wealth manager, top tier investment banking and securities firm, and one of the largest global asset managers. The specific client in this case is the Chief Financial Officer of the UK subsidiary.

THE CHALLENGE

Pillar 2 of the Basel II Accord requires banks to implement an Internal Capital Adequacy Assessment Process (ICAAP). Advantage Reply was engaged to document and communicate the ICAAP process for a UK subsidiary of the Investment Bank.

The Financial Services Authority, the UK financial services regulator, had requested the client to produce their approach to ICAAP. Short notice and tight deadlines led the client to engage external assistance with prior experience to accelerate project delivery. The brief was to assist develop an ICAAP approach that was sufficiently robust to not only withstand critique from the FSA but also to satisfy the parent bank and its regulators.

APPROACH AND SOLUTION

The project was broken into two work streams: the first to meet the regulators deadline; and the second to address gap-closing actions.

Advantage Reply consultants reviewed the state of readiness of the client in terms of the FSA's key ICAAP requirements. Current gaps were identified and gap-closing options determined. Key FSA requirements were referenced and mapped to each gap-closing action to provide an audit trail to closure. The deliverables were: to present the strategic approach to capital adequacy at various workshops; to validate findings; and obtain stakeholder buy-in to actions to deliver the agreed "future state". Advantage Reply consultants then assisted with presenting the ICAAP process and Roadmap to the FSA for assessment.

The tactical work stream involved addressing the gaps identified by the earlier work stream. It also included the drafting of the ICAAP document which involved engaging senior stakeholders within Finance, Risk, Legal, Business, and the Board

of Directors with regards to the proposed solutions. Representatives of the client's parent entity were also engaged.

ICAAP workshops were prepared and conducted with the aim of validating the content of the ICAAP document. The workshops were also used to verify the completeness of the gap closing and validity of the solutions proposed in the original ICAAP approach.

The ICAAP included: identification of all risks inherent in the client's business; methods used to mitigate each material risk; definition of test scenarios and management actions if these scenarios materialise; and an agreed risk management framework and governance.

RESULTS AND BENEFITS

Avantage Reply delivered a robust ICAAP approach that was accepted by the FSA. The approach formed the basis of a successful ICAAP implementation with clearly-defined options to close any existing gaps. Home-host issues were addressed with the parent bank and its regulators. Both of these stakeholders were satisfied with the approach and solutions proposed by Avantage Reply.

Staff at all levels and areas within the organisation formed closer relationships as result of collaboration on a complex document spanning all functions and capturing a single view of the UK subsidiary.

The engagement was completed within the aggressive timelines set and within budget.

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