

ICAAP and Pillar 3 risk disclosure



Are you ready to update your ICAAP and Risk Disclosure information?

We have all started to become familiar with the new style financial returns that are required to be submitted to the FSA based on the “Pillar 1” capital rules in the FSA Handbook. Equally, BIPRU firms should already have an Internal Capital Adequacy Assessment Process (“ICAAP”) in place required under “Pillar 2” and should have prepared an appropriate report and supporting documentation.

For many firms the first annual review of the ICAAP documentation is now required. Additionally, under “Pillar 3” certain risk disclosures need to be made publically available, with these disclosures being based on the results of the firm’s ICAAP.

→ What do I need to do to my ICAAP?

Over recent months we have been considering what the FSA and others have been saying about ICAAPs prepared to date and taking into account the noted developments in understanding and practice. Our involvement with the recent AIMA Working Group and the presentation we gave at the September 2008 FSA Asset Management Conference on this subject have assisted this process.

What has become clear is that the FSA expects to see firms take greater steps to quantify their risk appetite and the specific risks they face. The FSA also expects to see more work being performed by way of stress and scenario testing.

Where the FSA has been dissatisfied with an ICAAP it has been rejected and a resubmission requested. This further prolongs the process and increases costs. Whilst not all firms may be required to submit their ICAAP to the FSA for review, it is nevertheless extremely important that it be prepared to a suitable standard.

We are ready and able to help you meet the required standards. That help will extend to include the FSA019 “Pillar 2 information” report; the format in which the FSA wants all BIPRU firms to provide summary information about their ICAAP.

→ What form should my Pillar 3 risk disclosure take?

The Pillar 3 rules are set out in BIPRU 11 and require firms to prepare a “risk disclosure” summary, based on the risks identified in the ICAAP. Essentially, this is a written document detailing how you control and monitor the material risks in your business.

This risk disclosure needs to be made public though firms have a choice as to how to do that. Some may put it on their website for example, or include relevant notes in the statutory accounts. The point is though, that if the disclosure is not included in the accounts there should be a reference in them as to how the disclosure can be obtained (e.g. by requesting a copy from the registered office).

With many firms’ accounting year ends fast approaching, now is the time to be ensuring that your risk disclosure statement is up to date. We are also ready and able to assist you with this key aspect of the regulatory requirements.

→ Next steps

The industry’s understanding of what the FSA expects to see in an ICAAP has improved considerably over the past year. Thanks to our discussions with the regulator, and as active participants in the AIMA ICAAP working group, we can offer leading edge advice on the form and content of both your ICAAP and Pillar 3 disclosure.

It’s our business to protect your business

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