Major/critical changes per topic in the new dict

Introduction and Purpose

- All banks licensed by the Central Bank of the UAE must ensure that Pillar 1 risks are mitigated by capital.

- Each bank is required to have a process to assess its overall capital adequacy as a function of its risk profile and its strategy.

- The ICAAP is a critical reference for supervision and for the supervisory dialogue between banks and Central Bank.

- This Guidance presents minimum expected practices to be considered by each bank in order to undertake their ICAAP.

- All methodologies employed by a bank for its ICAAP should be relevant to its business model, risk profile, to the geographies of its exposures, and, in particular, to the features of the UAE economy.

- The Central Bank may apply proportionality for smaller and less complex banks when evaluating the ICAAP.

ICAAP Executive Summary

- ICAAP executive summary should explain the views of Senior Management and the Board on the suitability of the bank’s capital to cover the risks faced by the bank.

- The executive summary should contain the following elements: main findings, governance framework, bank's structure, current capital position, capital composition, budgeted capital position, stress scenarios, risk management processes, and conclusion.

ICAAP Governance

- The Board of Directors has ultimate ownership and responsibility of the ICAAP.

- The ICAAP should be subject to an effective decision-making process.

- The ICAAP governance framework should ensure that the ICAAP is an integral part of the bank’s management process and decision-making.

ICAAP Methodology, Scope and Use Test

- ICAAP is an ongoing process, conducted at least quarterly.

- The ICAAP should be supported by robust methodologies and data.

- The ICAAP should be conducted at each level, with a special focus on the group level for local banks.

- The ICAAP and the bank’s business strategy form a feedback process.

Capital Planning

- Banks should have a capital plan approved by the Board.

- The ICAAP should be forward-looking taking into account both internal and external drivers over a period covering three (3) to five (5) years.

- The multi-year capital forecast should be assessed and calibrated through two perspectives: Pillar 1 and Pillar 2.

- Banks are required to fulfill internal risk appetite requirements in the bank’s self-assessment of Pillar 1 and Pillar 2 minimum regulatory capital requirements.

Material Risks

- Banks should have a robust risk management framework that is able to identify, measure, monitor, and mitigate risks.

- The risk management framework should be based on an appropriate risk appetite statement.

- The framework should be documented and regularly reviewed.

- The framework should be risk-based and include all material risks.

- The framework should be implemented and actively used by all levels of the bank.

- The framework should be subject to independent validation.

ICAAP Stress Test and Reverse Stress Test

- Stress tests should be conducted regularly and at least quarterly.

- Stress test scenarios should be designed to capture the risks and potential losses appropriately.

- Stress test methodologies should be robust and documented.

- Stress tests should support decision-making throughout the bank effectively.

- Reverse stress tests should be conducted to assess the likelihood of occurrence of a pre-defined outcome where the bank’s business model becomes non-viable.

ICAAP Submission and Approval

- The annual ICAAP report should be submitted to the Central Bank on or before the submission dates addressed in Table 1.

- All documents have to be submitted to the respective Central Bank reviewer by softcopy (submitted in word or pdf format), sending a copy to bsed.basel@cbuae.gov.ae.

- The submission dates below as per Notice 2940/2022 differentiate between (i) national banks and foreign bank and (ii) size and importance of the banks.

Internal Control Review

- Internal control structure is essential to the capital assessment process.

- Internal audit should perform an audit on the bank's ICAAP report annually.

- Internal control functions should perform regular reviews of the risk management process to make sure its coherence, validity, and rationality.

- The review of the ICAAP should cover the following: (i) Ensuring that the ICAAP is complete and suitable as of the bank's context , operational conditions, the reliability of controls behind it; (ii) The process of identifying all material risks; (iii) Efficiency of the information systems that support the ICAAP; 171 CBUAE Classification: Public (iv) Ensuring that the measurement methodologies in