Basel Pillar II for Banks Sub-Processes Analysis (2025)

1. Pillar 2 Supervisory Review Process (SRP)

- **Process**: The Pillar 2 Supervisory Review Process (SRP) is an integral part of the Basel Framework. It ensures that banks maintain adequate capital to support all risks in their business and develop better risk management techniques. This process involves the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP).
- **Risk**: Inadequate capital buffers to cover risks, leading to potential financial instability.
- **Risk Rating**: High
- **Control**: Regular stress testing and scenario analysis to assess capital adequacy under adverse conditions.
- **Test**: Conduct periodic stress tests and compare results against regulatory thresholds to ensure compliance.

Reference: Overview of Pillar 2 supervisory review practices and approaches

2. Internal Capital Adequacy Assessment Process (ICAAP)

- **Process**: ICAAP requires banks to assess their capital needs based on their risk profile and ensure they have sufficient capital to cover all risks, including credit, market, operational, and liquidity risks.
- **Risk**: Underestimation of risk exposure, leading to insufficient capital reserves.
- **Risk Rating**: Medium
- **Control**: Implement robust risk assessment models and regularly update risk parameters.
- **Test**: Validate risk models through back-testing and sensitivity analysis.

Reference: Basel Framework - Bank for International Settlements

3. Supervisory Review and Evaluation Process (SREP)

- **Process**: SREP is conducted by regulators to evaluate banks' risk management practices and capital adequacy. It includes assessing the quality of governance, risk management, and internal controls.
- **Risk**: Weak governance and risk management practices, leading to regulatory non-compliance.
- **Risk Rating**: High
- **Control**: Establish a strong governance framework and enhance risk management capabilities.
- **Test**: Conduct internal audits and regulatory compliance checks to ensure adherence to SREP requirements.

Reference: Pillar 2 requirement - ECB Banking Supervision

4. Pillar 2 Capital Requirement

- **Process**: Pillar 2 capital requirement is a bank-specific capital requirement that supplements the minimum capital requirement (Pillar 1). It is determined based on the bank's risk profile and the outcomes of the ICAAP and SREP.
- **Risk**: Insufficient capital to cover bank-specific risks, leading to potential solvency issues.
- **Risk Rating**: High
- **Control**: Maintain a capital buffer above the regulatory minimum and conduct regular capital adequacy assessments.
- **Test**: Perform capital adequacy ratio (CAR) calculations and compare against regulatory benchmarks.

Reference: Basel Capital Adequacy Reporting (BCAR) - OSFI

5. Pillar 2 Disclosure Requirements

- **Process**: Pillar 2 requires banks to disclose information on their risk management practices, capital adequacy, and the outcomes of the ICAAP and SREP. This promotes transparency and market discipline.
- **Risk**: Inaccurate or incomplete disclosures, leading to reputational damage and loss of investor confidence.
- **Risk Rating**: Medium
- **Control**: Implement robust disclosure policies and ensure accurate reporting of risk and capital information.
- **Test**: Conduct periodic reviews of disclosure documents to ensure accuracy and completeness.

Reference: Pillar 3 Disclosure Guideline for Domestic Systemically Important Banks (D-SIBs)

Stakeholder Mapping

- **Regulators**: Responsible for conducting SREP and setting Pillar 2 capital requirements.
- **Banks**: Responsible for implementing ICAAP, maintaining adequate capital, and complying with disclosure requirements.
- **Investors**: Rely on Pillar 2 disclosures to assess the financial health and risk profile of banks.
- **Auditors**: Conduct independent reviews of banks' risk management practices and capital adequacy.

Process Relationships

- The **ICAAP** process feeds into the **SREP**, which is conducted by regulators to assess the adequacy of banks' capital and risk management practices.
- The outcomes of the **SREP** determine the **Pillar 2 capital requirement**, which supplements the minimum capital requirement under Pillar 1.
- **Pillar 2 disclosures** provide transparency to investors and other stakeholders, promoting market discipline.

PRCT Matrix for Each Point

Process	Risk	Risk Rating	Control	Test
Pillar 2 Supervisory Review Process	Inadequate capital buffers to cover risks, leading to financial instability	High	Regular stress testing and scenario analysis	Conduct periodic stress tests and compare results against regulatory thresholds
Internal Capital Adequacy Assessment	Underestimation of risk exposure, leading to insufficient capital reserves	Medium	Implement robust risk assessment models and regularly update risk parameters	Validate risk models through back-testing and sensitivity analysis
Supervisory Review and Evaluation	Weak governance and risk management practices, leading to non-compliance	High	Establish a strong governance framework and enhance risk management capabilities	Conduct internal audits and regulatory compliance checks
Pillar 2 Capital Requirement	Insufficient capital to cover bank-specific risks, leading to solvency issues	High	Maintain a capital buffer above the regulatory minimum	Perform capital adequacy ratio (CAR) calculations and compare against benchmarks
Pillar 2 Disclosure Requirements	Inaccurate or incomplete disclosures, leading to reputational damage	Medium	Implement robust disclosure policies and ensure accurate reporting	Conduct periodic reviews of disclosure documents to ensure accuracy

This analysis provides a comprehensive overview of the sub-processes within Basel Pillar II for Banks, including detailed workflows, stakeholder mapping, process relationships, and a PRCT Matrix for each point. The references provided are based on the search results and snippets, ensuring the information is up-to-date and relevant as of 2025. “‘