

ANNEX III

Supervisory review and evaluation process (SREP)

<p>Scope of application of SREP</p>	<p>Description of the guidance of the competent authority on the scope of application of SREP including:</p> <ul style="list-style-type: none"> —guidance specifying what entities are covered by/excluded from SREP —a high-level overview of how the competent authority takes into account the principle of proportionality when considering the scope of SREP 	<p>The Financial Supervisory Authority in Iceland (FSA) applies the Supervisory and Evaluation Review Process (SREP) annually to the three largest financial institutions in Iceland. Proportionality principle is applied and smaller and less complex entities are excluded from the annual SREP. Such entities are reviewed at greater intervals by the FSA.</p> <p>The FSA has published “Common Criteria and Methodologies for SREP” along with Annexes outlining supervisory benchmarks for the setting of Pillar 2 additional own funds requirements for credit, concentration and market risk as well as methods for setting capital buffers.</p>
<p>Individual risk assessment</p>	<p>Description of the guidance of the competent authority on individual risk assessment including:</p> <ul style="list-style-type: none"> —a high-level overview of the risk assessment process —a high-level overview of how the competent authority takes into account the principle of proportionality when assessing individual risks —a high-level overview of the criteria used and scoring methodology applied by the competent authority for assessing individual risks 	<p>A risk assessment is conducted by an analysis team in cooperation with the SREP project manager. The assessment is based on written procedures, instructions and detailed descriptions which are provided for all risk factors. Teams begin evaluating the appropriate risk factors in a detailed manner when the assessment has been finalized, in accordance with SREP guidelines.</p> <p>If new risks are identified when the SREP is underway, the project manager will, in collaboration with the unit director and unit liaison, assess if the situation requires a longer timeframe or if other actions need to be taken.</p> <p>The scoring methodology applied by the FSA is based on the criteria described in the SREP guidelines.</p>
<p>Review and evaluation of ICAAP</p>	<p>Description of the guidance of the competent authority on the review and evaluation of the internal capital adequacy assessment process (ICAAP) as part of the SREP for assessing the reliability of the ICAAP calculations for</p>	<p>Emphasis is placed on capital planning, management aspects and internal governance. Consideration should be given to economic cycles and sensitivity to external risk factors. The ICAAP should</p>

	<p>determining the own fund requirements to cover individual capital risks including:</p> <ul style="list-style-type: none"> —an overview of the process to be followed by institutions for implementing the ICAAP —an overview of the methodology applied by the competent authority to review the ICAAP of institutions —information on whether an independent review of the ICAAP is required from the competent authority 	<p>be a part of the financial institution’s business and management processes rather than a separate operation.</p> <p>To evaluate a financial institution’s ICAAP, the FSA reviews its different risk types, the adequacy and reliability of its internal governance, the adequacy of its own funds and methods of risk mitigation. The FSA also assesses whether increasing own funds is the correct means of addressing any existing vulnerabilities.</p> <p>The FSA will, through collaboration and dialogue with financial undertakings, examine their risk strategy, how they identify, measure, aggregate and monitor the risks they take and their risk-bearing capacity.</p> <p>The ICAAP is reviewed as a part of the SREP process at the FSA.</p>
<p>Overall SREP assessment and supervisory measures</p>	<p>Description of the guidance of the competent authority on the overall SREP assessment and supervisory measures taken by the competent authority on the basis of the overall SREP assessment</p>	<p>The SREP process is structured with a view to ensure consistency in treatment of financial institutions, bearing in mind their differing risks, strategies and management. An important element of the SREP is the ability to assess qualitatively each type of risk and its management within the overall context of the financial institution’s internal governance.</p> <p>The FSA evaluates the results of the SREP process and decides if any measures need to be taken. The financial institution is always given a chance to review and bring up any concerns it might have with the SREP results and the measures taken by the FSA.</p> <p>The FSA reviews any comments received before a final decision on own funds and any improvements or changes in the financial institutions’ business is required.</p>