

**Annex III**

**SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)**

**List of templates**

[ANNEX III](#) SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

EN

## Annex III

EN

## ANNEX III

SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)<sup>(1)</sup>

010	Date of the last update of information in this template	(31/12/2022)
020	<p><b>Scope of application of SREP</b> (Article 36 of IFD)</p> <p>Description of the competent authority's approach to the scope of application of SREP including:</p> <ul style="list-style-type: none"> <li>-what types of investment firms are covered by/excluded from SREP.</li> <li>-a high-level overview of how the competent authority takes into account the principle of proportionality when considering the scope of SREP and frequency of assessment of various SREP elements<sup>(2)</sup>.</li> </ul>	<p>On April 2023 the Director General of the Directorate General for Financial Supervision and Regulation and the Head of the Regulation and Macroprudential Analysis Directorate (on behalf of the Bank of Italy's Directorate) issued an internal communication to the Units and Bank of Italy's branches responsible for the supervision on Class 2 and 3 IFs in order to implement EBA GL 2022 09 - ESMA 35 42 1470 for the 2023 SREP cycle. According to Regulation on IFs supervision entered into force on December 2022 (<a href="https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/regolamenti/20221223/Regolamento-SIM.pdf">https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/regolamenti/20221223/Regolamento-SIM.pdf</a>) and in line with the Consolidated Law on Finance (CLF), Art. art. 6, co. 1 (<a href="https://www.consob.it/web/consob-and-its-activities/laws-and-regulations/documenti/english/laws/fr_decree58_1998.htm?hkeywords=&amp;docid=0&amp;page=0&amp;hits=19&amp;nav=false">https://www.consob.it/web/consob-and-its-activities/laws-and-regulations/documenti/english/laws/fr_decree58_1998.htm?hkeywords=&amp;docid=0&amp;page=0&amp;hits=19&amp;nav=false</a>) the SREP 2023 includes Class 2 IFs (on individual basis and on consolidated basis Class 2 IFs included in investment firms or banking group's with an Italian parent holding company) and Class 3 IFs (on individual basis). SREP is performed according to the proportionality principle that implies a degree of supervisory scrutiny proportionate to the activities performed by the IF, its dimension and the overall level of risks to which the IF is exposed, as assessed in the latest available SREP score.</p>
	<p>Description of the competent authority's approach to the assessment of individual SREP elements-including:</p> <ul style="list-style-type: none"> <li>-a high-level overview of the assessment process and methodologies applied to the assessment of SREP elements, including: (i) business model analysis; (ii) assessment of internal governance and investment firm-wide controls; (iii) assessment of risks to capital; and (iv) assessment of risks to liquidity;</li> </ul>	<p>In full compliance with GL EBA ESMA SREP 2022/09, in order to perform the SREP 2023, off-site analysts have been informed with the April 2023 above mentioned internal communication about the main changes introduced to the methodologies to assess IFs' risks as defined in the IFR/IFD package. While the risk assessment systems for the supervisory assessment of IFs' Business Model, Governance, Capital Adequacy and</p>

## Annex III

030	<p><b>Assessment of SREP elements</b> (Articles 36 of IFD)</p>	<p>-a high-level overview of how the competent authority takes into account the principle of proportionality when assessing individual SREP elements<sup>(3)</sup>.</p>	<p>Liquidity have been only slightly modified, new risk assessment systems for RtC, RtF, RtM and Other Risk have been designed. The score to be assigned to each risk profile is a combination of the score resulting from the RAS with the supervisory and motivated judgment of the supervisor. The score assigned to the whole set of the Risk to Capital is a weighted average of the score of each risk (RtC, RtF, RtM, OtR) where the supervisor decides the weights according to how the activity connected with that risk is relevant within the whole set of activities performed by the IF.</p>
040	<p><b>Review and evaluation of ICAAP and ILAAP</b> (Articles 24 and 36 of IFD)</p>	<p>Description of the competent authority's approach to the review and evaluation of the additional own funds and specific liquidity requirements as part of the SREP, and, in particular, for assessing the reliability of additional own funds and liquidity calculations for the purposes of determining additional own funds and liquidity requirements including<sup>(4)</sup>:</p> <p>-an overview of the methodology applied by the competent authority to review the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP) of investment firms:</p> <p>-information/reference to the competent authority requirements for submission of ICAAP and ILAAP-related information, in particular covering what information needs to be submitted;</p> <p>-information on whether an independent review of the ICAAP and the ILAAP is required from the investment firms.</p>	<p>The Regulation on IF supervision First Part, Title II, Ch.1, Section II provides that Class 2 IFs and Third-Country Branches similar to those, and at consolidated level, Class 2 IF groups, shall have in place sound, effective and comprehensive arrangements, strategies and processes to: i) assess and manage the risks to which IFs/IF groups are or might be exposed, including under stressed conditions; ii) assess on an ongoing basis the amounts, types and distribution of internal capital and liquid assets that they consider adequate to cover the nature and level of those risks. On the contrary, Class 3 IFs and Class 3 IF groups are waived from ICARAP obligations. On March 2023, in line with the above mentioned Regulation, the Bank of Italy provided IFs with guidance on how to draft the ICARAP documents. IFs were asked to: - describe their business plan, how they calculate their capital and income statement forecasts, their estimates on their internal capital needs under ordinary and stressed conditions; - provide estimates on the adequacy of their own funds and liquid assets both under ordinary conditions and taking into account the economic cycle.</p>

(1) The scope of SREP to be considered both at a level of an investment firm and in respect of its own resources. A competent authority shall explain the approach used to classify investment firm into different categories for SREP purposes, describing the use of quantitative and qualitative criteria, and how financial stability or other overall supervisory objectives are affected by such categorisation. A competent authority shall also explain how categorisation is put in practice for the purposes of ensuring at least a minimum engagement in SREP assessments, including the description of the frequencies for the assessment of all SREP elements for different categories of investment firms.

(2) Including working tools e.g. on-site inspections and off-site examinations, qualitative and quantitative criteria, statistical data used in the assessments. Hyperlinks to any guidance on the website to be added.

(3) Competent authorities shall also explain how the assessment of the internal capital adequacy assessment process (ICAAP) and the internal liquidity assessment process (ILAAP) is covered by the minimum engagement models applied for proportionality purposes based on SREP categories as well as how proportionality is applied for the purposes of specifying supervisory expectations to ICAAP and ILAAP, and in particular, any guidelines or minimum requirements for the ICAAP and ILAAP the competent authorities have issued.

(4) The approach competent authorities apply to arrive at the overall SREP assessment and its communication to the investment firms. The overall assessment by competent authorities is based on a review of all the elements referred to in row 020 to 040, along with any other relevant information about the investment firm that the competent authority may obtain.

(5) Competent authorities may also disclose the policies that guide their decisions for taking supervisory measures (within the meaning of Article 18 of the IFD) and early intervention measures (within the meaning of Article 27 of the Bank Recovery and Resolution Directive (BRRD)) whenever their assessment of an investment firm identifies weaknesses or inadequacies that call for supervisory intervention. Such disclosures might include the publication of internal guidelines or other documents describing general supervisory practices. However, no disclosure is required regarding decisions on individual investment firms, to respect the confidentiality principle.

Furthermore, competent authorities may provide information regarding the implications if an investment firm violates relevant legal provisions or does not comply with the supervisory or early intervention measures imposed based on the SREP outcomes, e.g. it shall list enforcement procedures that are in place (where applicable).