



BANCO CENTRAL DO BRASIL

CIRCULAR 3,547 OF JULY 7, 2011

Establishes procedures and parameters related to the Internal Capital Adequacy Assessment Process (ICAAP).

The Board of Directors of the Central Bank of Brazil, in a session held on July 6, 2011, based on art. 10, item IX, and art. 11, item VII, of Law 4,595 of December 31, 1964, on art. 6, item II, of Resolution 3,490 of August 29, 2007, and on art. 6, paragraph 2, of Resolution 3,988 of June 30, 2011,

RESOLVES:

Art. 1. The Internal Capital Adequacy Assessment Process (ICAAP), mentioned in item VI of art. 4 of Resolution 3,988 of June 30, 2011, must assess the sufficiency of capital held by the institution, considering its strategic objectives and the risks to which it is exposed in the time horizon of one year, and must cover:

I – an evaluation and calculation of the institution's capital needs to cover the following risks:

a) credit risk;

b) market risk;

c) operational risk;

d) interest rate risk in the banking book;

e) counterparty credit risk, arising from the bilateral risk of loss resulting from the uncertainty on the market value of a transaction and from its variations associated with the movement of underlying risk factors or with a deterioration in the credit quality of the counterparty; and

f) concentration risk, resulting from a large exposure to a single counterparty, to a risk factor, or to groups of counterparties connected through common characteristics, as a same economic sector or a same geographical region;

II – an assessment of capital needs to cover other relevant risks to which the institution is exposed, considering, at a minimum:

a) liquidity risk;

b) strategic risk, arising from adverse changes in the business environment or from inappropriate assumptions in decision-making; and



BANCO CENTRAL DO BRASIL

c) reputational risk, arising from a negative perception about the institution by customers, counterparties, shareholders, investors and supervisors;

III – stress testing and the assessment of its impact on capital; and

IV – description of the methodologies used to estimate capital needs, as mentioned in items I and II, and to the stress tests referred to in item III.

Paragraph 1. Should correlations or effects of diversification be employed so as to result in a reduced capital need, the institution must demonstrate the robustness of estimates and of the rationale of assumptions.

Paragraph 2. The institution must demonstrate, in the process of assessing and calculating its capital need to cover the risks referred to in this article, how it evaluates the risk arising from exposure to social and environmental damage caused by its activities.

Art. 2. The ICAAP must be submitted to an independent validation of its development process, which assesses, at a minimum:

I – the underlying methodologies and assumptions of the estimates of capital needs mentioned in items I and II of art. 1;

II – correlation estimates, when used;

III – the inclusion of all relevant risks;

IV – the comprehensiveness, consistency, integrity and reliability of data inputs as well as the independence of their sources;

V – the adequacy of stress tests referred to in item III of art. 1; and

VI – the consistency and reliability of the information provided in the report referred to in art. 3.

Paragraph 1. The validation process is the sole responsibility of the institution and must be performed, at a minimum, every three years and, in particular, whenever any material change in the ICAAP or in the risk profile of the institution occurs.

Paragraph 2. The validation process must be properly documented and its findings must be submitted to the senior management and to the board, when such an instance is in place.

Art. 3. The ICAAP must be subject to annual reporting as of December 31 and made available by April 30 of the following year.

Paragraph 1. In 2013, an extraordinary report must be prepared as of June 30 and made available by September 30 of the same year.

Paragraph 2. The report mentioned in the heading and in paragraph 1 must be:



BANCO CENTRAL DO BRASIL

I – approved by senior management and by the board, when such an instance is in place; and

II – made available to the Central Bank of Brazil for a period of five years.

Art. 4. This Circular enters into force on the date of its publication.

Luiz Awazu Pereira da Silva
Director of Financial System Regulation