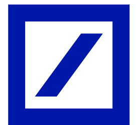
Deutsche Bank



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EU Transparency Register ID Number

29 September 2016

Deutsche Bank's response to the European Banking Authority consultation on Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013

Dear Sir or Madam:

Deutsche Bank welcomes the opportunity to comment on the European Banking Authority's (EBA's) consultation on Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013.

Disclosures play an integral role in ensuring market discipline and transparency in the financial system. We welcome the EBA's goal of ensuring a harmonised and timely EU implementation of the Basel Committee on Banking Supervisions' (BCBS') revised Pillar 3 framework.[1] In doing this, the focus should be on promoting consistency and usability across jurisdictions, and not simply increased granularity. While more granular disclosures can provide useful information, there are several circumstances in these Guidelines where we believe the usability of disclosures is actually reduced.

For example, the requirement to split credit risk (CR6) disclosures by Probability of Default (PD) grades for each exposure class; and to disclose exposures for counterparty credit risk (CCR4) for each regulatory portfolio would result in up to 60 additional tables. These templates will likely be too complex for most users to find useful and will result in information overload. As a result of the increased granularity that comes with the new and updated templates, there will be many more instances where commentary and explanations are needed to ensure users understand the underlying data. While the EBA's objective is to implement simple disclosures that are easy understand, the consequences could be that the templates end up being less uniform and thus more difficult to compare across institutions.

[1] http://www.bis.org/bcbs/publ/d309.htm

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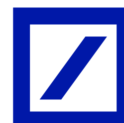
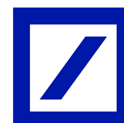


Based on the current Capital Requirements Regulation (CRR) requirements and as a result of previous Enhanced Disclosure Task Force (EDTF) recommendations, our view is that the existing tables provide users with the right level of detail to be thorough and meaningful. We therefore do not see the additional value in providing users the extensive level of detail being proposed and especially not on a semi-annual basis. We believe that the EBA should ensure that any increased granularity has a direct benefit to the user. In this respect and others we support the views expressed in the response letter submitted by the Association for Financial Markets in Europe (AFME). In addition, it is important that the new disclosure requirements have a firm and clear legal basis. We believe that the European Banking Federation (EBF) response letter raises important points in this regard.

Our responses to the consultation questions can be found in the attached Annex I. In addition, we have included other detailed comments that can be found in Annex II. Please do not hesitate to contact us if you have questions or wish to discuss any of these comments further.

Yours Sincerely,

Matt Holmes
Head of Regulatory Policy



Annex I: Deutsche Bank responses to the questions in the proposed Guidelines

Q1. Do users prefer a comprehensive template providing a breakdown of capital requirements and RWA by exposure classes for credit risk in Template EU OV1-B, or would they prefer to have the detailed breakdown by exposure classes provided in Template EU CR5-B for the Standardised approach and Template EU CR6 for the IRB approach?

A comprehensive template is preferred. Providing a detailed breakdown by exposure class in EU CR5-B and EU CR6 would result in a disproportionate additional burden and little benefit to users.

Q4. Would it be feasible to breakdown the value adjustments and provisions by PD grade for the fixed PD grade bands that are provided in the masterscale? Would this information be useful to users?

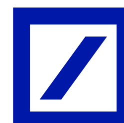
It would be possible to breakdown the value adjustments and provisions, however, the usefulness of such disclosure is questionable. This is because most provisioning amounts are expected to be clustered around the lower end of the rating scale and defaulted exposures. Providing a breakdown in this manner would also make it harder to compare figures across institutions and would require additional qualitative information in order for the information to be of any use to the user.

Q5. Is information on the sources of counterparty credit risk (breakdown by type of transactions) for exposures measured under the Internal Model Method useful for users? Should this breakdown be expanded to the other methods of computation of the exposure value?

We see limited use for information on the sources of counterparty credit risk (broken down by transaction type) for exposures measured under the Internal Model Method (IMM).

Q7. Which impediments, if any, including issues of availability of information, currently prevent you from disclosing the information on total (Standardised plus Internal model approaches) capital requirements by types of market risk as required under Article 445 CRR or are likely to render the disclosure of Template EU MR1-A unduly burdensome?

Currently, we disclose market risk own funds requirements by risk type for the standardised approach but not for the internal model approach. The revised BCBS Pillar 3 framework maintains this requirement only for the standardised approach, which makes sense. However, we provide the



market risk own funds requirement broken down by the relevant internal model approach, such as Value at Risk (VaR) or Incremental Risk Charge (IRC).

While there would be no impediments to providing a break down as outlined by the Guidelines, it would be misleading to provide market risk own funds requirements by risk type for internal model approaches. This had been explained previously in our 2015 Pillar 3 Report.[2]

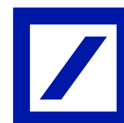
For each business unit, we calculate a separate VaR for each risk type, for example, by interest rate risk, credit spread risk, equity risk, foreign exchange risk and commodity risk. Key risk factors include swap/government curves, index and issuer-specific credit curves, funding spreads, single equity and index prices, foreign exchange rates, commodity prices as well as their implied volatilities. Simply adding the VaR figures of the individual risk types to arrive at an aggregate VaR would imply that the losses in all risk types occur simultaneously and are driven by concurrent extreme adverse movements of underlying risk drivers. As proposed, such a disclosure would ignore diversification effects, which reflects the fact that the total VaR on a given day will be lower than the sum of the VaR relating to the individual risk types.

When reviewing the template design for market risk disclosures, the overall direction of prudential regulatory developments should be taken into account. As the VaR disclosures are likely to be made defunct by the implementation of Fundamental Review of the Trading Book (FRTB), it would make sense, especially from a resource perspective, to consider a template update compatible with the implementation of FRTB.

Q10. In case you support the development of key risk metric template(s) that would apply to all institutions, which area of risks and metrics would you like to be covered in such template(s)?

While the development of key risk metric template(s) that would apply to all institutions is a sensible objective, we believe the EU template(s) should be consulted on at a later date once the equivalent template is finalised by the BCBS. This would help ensure this requirement is implemented consistently across jurisdictions.

[2] https://www.db.com/ir/en/download/Deutsche_Bank_Pillar_3_Report_2015.pdf



Q11. Do you regard making available quantitative disclosures in an editable format as feasible and useful?

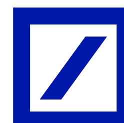
We currently disclose a financial data supplement[3] on an annual and quarterly basis in an editable format. This disclosure is made publicly available in excel format to provide users with a detailed financial summary of the bank at the consolidated and segmental levels over a historical period.

However, while making quantitative disclosures available in an editable format is feasible, it would be difficult to do for each and every template. This is due to the sheer magnitude of additional templates required, the provided implementation timeframe, and the governance needed over disclosures in an editable format. It would be possible, but at a cost that would outweigh its usefuleness.

It is essential, moreover, for the user to be able to read and thoroughly understand clear definitions in order to understand the differences of the underlying data. For example, Template *EU CR6: Internal Ratings-Based Approach (IRB) – Credit risk exposures by exposure class and PD range* features Columns (a) and (b) that are based on accounting carrying values and columns (c) through (l) that are based on regulatory values - either determined by institutions or as specified in the Guidelines. Our concern is that without additional qualitative background, user groups could be misled if their reading assumes the figures are determined by the same definition. Furthermore, the added governance required would be in addition to the increase in resources needed to comply with the requirements proposed in the Guidelines.

Instead of making each quantitative disclosure available in editable format, we recommend only providing quantitative disclosure in an editable format for templates that are considered high usage and which users would find most useful.

[3] https://www.db.com/ir/en/quarterly-results.htm



Annex II: Deutsche Bank detailed comments on the proposed Guidelines

Exposure amount used for regulatory purposes

Throughout the many templates provided in the Guidelines, there are different exposure measures referenced that provide the basis for those respective disclosures. This can be the "exposure amount considered for regulatory purposes" (for example in EU LI2), or the "net carrying value of on-balance and off-balance sheet exposures (corresponding to the accounting values reported in financial statements but according to the scope of regulatory consolidation)" (for example in EU CRB-B and CRB-C). These measures are partially adjusted to reflect a "pre- or post-CCF, pre- or post provisions, pre- or post credit risk mitigation" value. This could be confusing as it would result in similar but slightly different "EAD or net exposure-like" exposure values which all require additional explanations and commentary on the exact definition and which cannot be easily reconciled.

Against this background we recommend that banks be permitted to use the CRR-defined "EAD" for all their credit-related Pillar 3 disclosures, which is being defined as the relevant exposure amount for the standardised and IRB approaches before risk-weighting. Allowing banks to reference this value in all cases where regulatory credit risk presentation is required would include the credit risk-related templates EU CRB-B and CRB-C where the currently expected exposure measure is "net carrying value of on-balance and off-balance sheet exposures (corresponding to the accounting values reported in financial statements but according to the scope of regulatory consolidation)." In particular for these tables it is logical to base the disclosures on the EAD as the required breakout is a split by regulatory exposure classes.

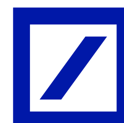
In template EU LI2, moreover, there is a requirement to reconcile the "exposure amount used for regulatory purposes" back to the carrying value at the balance sheet. For market risk where internal models (VaR) are applied, there is no "exposure amount for market risk according to the CRR." As such, we would like clarification on how the reconciliation is to be performed in this circumstance.

Disclosure of Approved Limits of Risk

Disclosure of actual limits is a quantitative requirement and we do not believe it is needed for a better understanding of risk management objectives and policies. We deem explicit disclosure of details of our approved limits, and hence our risk appetite, to be commercially sensitive information and therefore confidential.

Disclosure of Specialised Lending Exposures

Regarding the disclosure of specialised lending exposures, the original BCBS template 'CR 10' has been amended in the Guidelines. The original BCBS template includes a breakdown of specialised



lending into 'High Volatility Commercial Real Estate' (HVCRE) and specialised lending other than HVCRE. Other HVCRE includes a break down into sub components including project finance, object finance, commodities finance and income producing real estate. In the Guidelines the break down has been removed and these have been amalgamated into one category.

Because these categories are diverse in their risk profile, aggregating them would make the disclosure of expected losses (EL) and risk weighted assets (RWA) densities across institutions less comparable and meaningful. In addition, this requirement would result in a competitive disadvantage for EU institutions versus international peers who may still provide this disclosure by underlying asset class. Some specialised lending categories exhibited high losses during last crises and absent this break down investors or counterparties may assume that all exposure is to the highest risk asset class which may adversely impact on credit spreads and equity prices. This is an area where we believe greater granularity provides genuine benefit to users.

Backtesting of Model Parameters

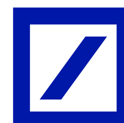
CRR Article 452 (i) requires disclosures on EL back testing only. While the BCBS Pillar 3 Revisions introduce a PD backtesting requirement and accompanying template, we consider the BCBS Pillar 3 requirement on PD to be redundant as the end users would try to use this information for same purpose as the existing EL back testing disclosure. PD is a key driver of EL and given the existing CRR requirements any additional similar PD disclosures should be voluntary. Multiple tables serving exactly the same purpose are not useful and create an additional burden for reporting institutions.

Geographical Breakdown of Model Parameters

Further guidance has been provided regarding application of CRR Article 452(j) that requires the breakdown of model parameters by each relevant geographical location of credit exposures. It is noted in the Guidelines that as a result of a lack of clarity in CRR text this is necessary, and the EBA has created following additional guidance:

1) "When an exposure to an obligor domiciled in another Member State or a third country is held via a subsidiary or a branch in that Member State or third country, the geographical location of the exposure is that Member State or third country."

2) "When an exposure to an obligor domiciled in another Member State or third country is held directly by an institution without subsidiary or branch in that other Member State or third country the exposure should be considered as an exposure towards the Member State in which the institution has been authorised."



The second requirement delinks the geographical breakdown of PD/loss given default (LGD) from the obligors domicile for jurisdictions where banks do not have branch or subsidiary. This delinks disclosures from economic reality and may show aggregated results which distort loss experience. Institutions are likely to have physical presence via a branch or subsidiary in countries where they have a material presence. As such, a geographical breakdown should be compulsory only for jurisdictions where a bank holds a physical presence and maintains material exposures. The concept of materiality should be further defined as users are unlikely to gain much from detailed disclosures on non-material exposures.

Standardised Approach for Counterparty Credit Risk (SA-CCR):
Exposures by Regulatory Portfolio & Risk

The revised BCBS Pillar 3 framework includes the requirement to provide a breakdown of CCR calculated under the standardised approach by regulatory portfolio and risk. Compared to the revised BCBS Pillar 3 template CCR3, which has eight total exposure categories, the template proposed by the EBA has sixteen categories. In our view the exposure classes should be revisited so as to be aligned with BCBS Pillar 3 template CCR3. As it stands, the EU CCR3 template proposed in the Guidelines is not appropriately tailored and the 'Exposure Classes' in template EU CCR3 are not relevant to CCR. Because the exposure classes have been taken from the credit risk part of the CRR categories such as 'Secured by mortgages on immovable property', 'Equity' and 'Covered bonds' etc are unlikely to be relevant in the disclosure of CCR.

EU CRB-B:

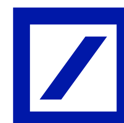
The EU CRB-B template requires the calculation of averages on a monthly basis, whilst the underlying COREP reporting has a quarterly cycle. This change would result in an increase in frequency of the reporting cycle to a monthly process only to support the disclosure aspect. We believe that this would be disproportionate and should be avoided.

EU CR3:

The description of Template EU CR3 requires consideration regarding collateralised exposures and includes a requirement to disclose separately within the template collateral that does not qualify according to CRR. Based on the provided instruction it is unclear in what form and where within EU CR3 this information should be reported. Additionally, this requirement goes beyond the BCBS Pillar 3 revisions and therefore we propose deleting it.

EU CCR5-A:

Template EU CCR5-A requires splitting the netting benefit back to underlying types which is not



meaningful in cases of netting sets which are often across underlying types. As this is also not a requirement in BCBS Pillar 3 revisions, we believe this split should be removed.

EU MRB-A:

In template EU MRB-A the scope of application refers to a trading book business that is generally subject to market risk capital requirements while the linked Article 455 CRR is to be applied by institutions using internal models for market risk only. We presume the template is only mandatory for institutes using an internal model to calculate its market risk capital requirements and request that this be clarified.

EU MR2-B:

A separate break down of RWA and own funds linked to FX movements for each internal model approach is not feasible. Currently the FX component is calculated separately for the standardised approach only. Our internal models factor in all drivers of market risk holistically. To attribute RWA and own funds to each individual risk driver requires substantial additional work which may not be possible for year end 2016 implementation.