EBA's Questionnaire on the users/investors needs on credit institutions Pillar 3 disclosures

SECTION	QUESTION	DB ANSWER
Identification of party providing feedback	1. Entity (if applicable)/Contact person/Contact details (e.g. email, tel.)/Country	Deutsche Bank/ Marta Gaska/marta.gaska@db.com/00442075477546/UK
	2. Please specify activity / business sector	Universal financial services provider
	3. What use do/es you / your company make/s of Pillar 3 disclosures provided by credit institutions [e.g. investment analysis, investment advice, resource allocation decisions, audit, verification of regulatory requirements, enforcement of prudential measures, other (specify)]? How many reports on Pillar 3 disclosures do you consult per year? If you do not use Pillar 3 disclosures, please explain why (please note that in this case, you do not need to respond to the questions that follow)?	3. DB uses Pillar 3 disclosures for benchmarking and peer analysis within its corporate strategy and financial reporting functions. DB also uses Pillar 3 disclosures in Company Research (DB's sell-side analyst research function) to analyse the appropriateness of capital and RWA assumptions.
	4. Did you, and to what extent, consider the EBA assessments on Pillar 3 disclosures in your field of activity (e.g. considering the whole assessment, just areas on specific issues/risk types)? If not, why?	4. We review EBA assessments in full and perform gap analysis of DB's Pillar 3 report.
General perception on the usefulness of Pillar 3 disclosures	5. Are risk disclosures made by credit institutions adequate in order to assess their risk profile? If not what improvements would you suggest?	5. Yes they are generally adequate to assess the risk profile. However, it is important for Pillar 3 disclosures to strike the right balance between the volume and usefulness of information requested in order to avoid information overload. Also, some mandated disclosures' are not useful and their inclusion distracts from understanding a firm's 'true' risk profile.
	6. Are Pillar 3 disclosures easy to locate and are they easy to be understood and to use for comparability purposes? If not, would you suggest specific areas where comparability should be improved? Would you suggest any way to improve access to Pillar 3 information?	6. In a few cases it is not easy to locate Pillar 3 disclosures, as websites are not always clear, in particular in instances where Pillar 3 disclosures are provided as part of annual reports. Pillar 3 disclosures comparability is at times limited, often as a result of bank-specific implementation of Basel 2 and Basel 2.5 and the variety of methods available for assessing the same risks. To an

		extent this is unavoidable but it makes strict alignment of format and template impractical as many disclosures require a bank-specific presentation or at least flexibility to address current market needs. We believe, however, that harmonisation of disclosure of some core risk elements could be achievable and appropriate, resulting in greater comparability across institutions. For example, definition and granularity of capital information and elements of credit risk could be standardised and followed up with enhanced guidance from EBA.
	7. Is the frequency of the credit institution's publication of Pillar 3 disclosures (once a year) sufficient for you? If not what type of information would be useful for you to be disclosed on a more frequent basis?	7. Yes, it is sufficient for the majority of information provided. Disclosures on core information like capital and RWA are provided on a quarterly basis through quarterly reports.
	8. Do you have specific suggestions/comments about the publication dates of the Pillar 3 reports you consult?	8. Pillar 3 disclosures should be published as part of, or close to, the annual reporting cycle within Q1. This is not always the case at the moment.
	9. Would you support a greater degree of reconciliation between Pillar 3 disclosures and disclosures in the financial statements (e.g. in the areas of own funds, credit risk, market risk)? If so, under which forms (e.g. reconciliation tables, textual explanations)?	9. We would support a greater degree of reconciliation in selected areas, e.g. on own funds, in the form of tables. However, it should be recognised that there are obvious limitations in reconciling the more simplistic IFRS representations of credit and market risk with the more complex, model-based regulatory measures (EAD, RWA), reflecting the different purposes of IFRS and regulatory reporting.
	10. Do you have any general suggestions/proposals for improving credit institutions risk disclosures under the current Pillar 3 framework (e.g. use of common definitions, other)? Would you suggest the use of common templates or some specific format (e.g. separate report or report included in financial statements) for the publication of information under Pillar 3 requirements?	10. Comparability is key and could be improved through standardising disclosures around some of the core information, such as capital definition and some elements of credit risk (e.g. aligned bucketing in PD ranges). However, fixed formats for all risk elements simply would not work.
Information on scope	11. Do you find information on the accounting versus the prudential scope of consolidation adequate, especially regarding the scoping-out of some investments and reciprocal cross holdings from the regulatory consolidation scope? If not,	11. Due to the fact that, for large institutions, the scope of entities to consider as well as the inherent legal structures are complex, descriptions on their accounting or regulatory treatment provided are generally rather generic. However, adding more details would

	what would you suggest to improve it?	not result in information the reader could absorb and hence would not be beneficial.
Information on own funds	12. Do credit institutions provide sufficient information on internal capital allocation and on their risk taking capacity, including off-balance sheet activities? If not, what kind of additional information would you need to assess the risk appetite and risk capacity of the institution?	12. As the disclosure requirement is only qualitative the information provided is sometimes rather generic. Banks should be encouraged to provide more specific and also quantitative information suiting their management approach.
	13. Do you consider disclosing and explaining changes in own funds from one period to another to be relevant (including also changes related to implementation of new CRD requirements? [Q related to best practices identified by the EBA]	13. Yes, disclosures on own funds are one of the core pieces of information provided in Pillar 3 and should be accompanied by relevant commentary on developments and drivers.
Information on the calculation of minimum capital requirements for credit risk according to the IRB approach	14. Is the description of internal rating systems provided by credit institutions sufficient in terms of both quantitative and qualitative information to understand the characteristics of these systems and appreciate their sensitivity to the economic cycle (use of Through The Cycle / Point In Time data)? If not, what information would you suggest to disclose? What is your opinion regarding the comparability among institutions of information disclosed on internal rating systems?	14. Descriptions of rating models have been improved over time. Nevertheless, generic text descriptions of models (even with some quantitative information) are generally difficult to absorb by the reader. Moreover, the complexity inherent in these rating models and their proprietary nature constitute a challenge. At the same time, by their nature these disclosures on internal rating systems need to be flexible to display bank-internal characteristics and hence disallow a high degree of harmonisation.
	15. Are models adequately described (including e.g. calibrations, loss coverage horizons and confidence levels, as well as credit risk concentrations and risk diversification where appropriate)? What parameters would you expect to be disclosed?	15. Models in Pillar 3 disclosures are generally well-described, particularly in terms of loss coverage horizon and risk diversification. Information on concentration risk could be further enhanced.
	16. Do credit institutions provide enough qualitative and quantitative information about exposure classes under the IRB-approach? If not, what additional information should be disclosed under the current disclosure requirements?	16. Banks provide detailed quantitative information on IRB exposure- by- exposure classes. The breakout by exposure class generally follows the same definition as provided by Basel 2 and CRD and – based on aligned granularity – could allow respective comparisons. However, for ad hoc evolving risks for specific exposure classes (e.g.

		European sovereign exposure) Pillar 3 might not be sufficient to satisfy market needs. In these instances, other disclosure methods could be more adequate and timely, such as, for example, ad hoc disclosures, analysts' presentations and press releases.
	17. The CRD requires providing a breakdown of retail exposures against a sufficient number of expected loss (EL) grades. How many grades would you consider as a minimum and why?	17. At least 4-5 PD or EL buckets should be considered to allow for a meaningful differentiation of credit quality. Moreover, one bucket should be reserved for defaulted exposure. In order to allow comparability between banks, it would be helpful to have these ranges or buckets aligned across institutions.
	18. Is the information on value adjustments and provision (i.e. specific and general allowance respectively) per exposure class sufficient? If not, what improvements are needed?	18. Materially, yes.
	19. Do you consider the information on back testing relevant and what improvements, if any, would you propose?	19. Back-testing information for market risk can be displayed and assessed quite easily (for example, in a graph) and therefore provides useful information to the reader. At the same time, back-testing for credit risk is not easily assessable. Highly aggregated information might not give much insight to allow assessment of the suitability of internal credit risk models whereas information on parameter level (in particular for larger banks) would result in an information overload.
	20. Do credit institutions provide adequate information to allow an appropriate comparison to be made of capital requirements for credit risk across different exposure classes? If not, what improvements would you propose?	20. Comparisons would only be possible if a certain level of standardisation is achieved on definitions and granularity for exposure classes.
	21. Do credit institutions provide enough quantitative information for assessing the capital requirements for credit risk (RWAs and AIRB shortfall) for defaulted assets? If not, what improvements would you propose?	21. Materially, yes
	22. Do credit institutions provide adequate information for assessing the current and future IRB share for exposure classes? If not, what improvements would you expect (e.g. EAD by exposure classes for standard /IRB approaches; description of roll-out plans, portfolios under permanent exemption)?	22. In many cases, information is quite generic. Banks could be asked to provide an overview of which exposures are covered by which approaches.

Information on securitisation	23. Do you find information on credit institutions' securitization activity and its objectives regarding securitization activity, including its role and involvement in the securitization chain, sufficient detailed to determine the impact on the institution's risk profile? If not what additional types of information would be relevant to adequately depict the credit institution incurred risk due to securitisation?	23. Between disclosure requirements and industry good practice guidelines introduced since the crisis, disclosures ought to be sufficient. However, that is obviously dependent on compliance with these measures.
	25. Is the description of accounting policies applied to securitisation activities informative enough?	25. Materially, yes although while there could still be an emphasis to provide bank-specific and less generic information on this. At the same time it is important for Pillar 3 disclosure to strike the right balance between the volume and usefulness of information it requests. Any more detail would end up in information overload.
	26. Would you welcome more granularity in the presentation of securitization exposures? If yes, what are the areas where more granularity is needed?	26. Pure volume-driven disclosures on underlying pools should be discontinued, since they do not represent banks' exposures and could lead to misjudgements. We would encourage proper presentation of risk exposures assumed by the bank.
Information on remuneration	27. Are the provided disclosures enough to determine the risk implications of the remuneration process? Do they make it easy to link such process to the overall risk management framework? If not, what improvements would you expect?	27. Yes, the current provisions require a firm to describe how current and future risks are taken into account. We do not consider further detail to be necessary.
	28. Is more clarity on the notions of material risk takers and relevant stakeholders needed?	28. More guidance is required in relation to the identification of material risk takers. Whilst there are clear variations in the identification criteria used by regulators globally for risk takers, it is imperative that a consistent approach is implemented across Europe. A consistent approach will enhance the usefulness of the information disclosed by firms.
	29. Are relevant features of remuneration schemes adequately described and do they include all information needed to analyze the incentive structure of the remuneration system (e.g. specific performance indicators, deferral criteria, adjustment mechanisms)?	29. Yes, they are clearly described and capture all of the key information required. To reiterate, however, the information disclosed would be of greater relevance were there are consistent criteria for indentifying material risk takers.
	30. Based on the remuneration disclosures is it easy to understand the mechanisms that intend to align personal	30. Yes. It is clear that firms must address how personal incentives link with long term goals. This is identified and achieved through

	incentives with the credit institution's long-term goals? If not, what would you see as relevant information to be added?	the use of equity and clawback measures which should apply at an individual and business/group level. Firms must provide details on this.
	31. Do you consider the level of both qualitative and quantitative information on risk adjusted performance to be adequate?	31. Yes. Risk adjustment measures can be extremely complex and incorporate both qualitative and quantitative measures. It is useful to provide a summary of these. However, more detailed information would be of little benefit without supporting information which is proprietary and which firms are typically unable to disclose. More detailed risk adjustment information should be shared between firms and their respective regulators where required.
Information on market risk	32. Depending on whether credit institutions use standardised or internal models approach, do you find quantitative information about capital requirement sufficient? If not, do you think a further breakdown of capital requirements per specific type of risk is needed?	32. Yes. However, comparisons between banks are difficult due to dependency on the method mix that a specific bank applies.
	33. For banks using the internal models approach, do you find the level of information on types of VAR used sufficient? If not, what specific information is missing?	33. Yes. However, internal model details are difficult to present and would also not allow comparisons. At the same time they constitute to a large degree proprietary information, which banks are typically unable to present. Also, it is important for Pillar 3 disclosure to strike the right balance between the volume and usefulness of information requested.
	34. Are characteristics of internal models adequately described (including stress testing and back testing approaches)? If not what improvements would you suggest?	34. The characteristics of internal models are adequately described. However, the limitations with respect to the assessment of their suitability remains. At the same time, it is Deutsche Bank's view that adding more description of internal models will not improve the understanding of external observers.