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Committee of European Banking Supervisors

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Dear Mr Shmelijov

RE: CEBS draft revised Guidelines on Technical Aspects of Stress Testing under the Supervisory Review Process

We appreciate the opportunity to formally respond to CEBS' Consultation Paper 32, *Guidelines on Stress Testing*. We agree with CEBS emphasis upon the importance of stress testing as a key tool to be used by the management body of financial institutions. We support the high level principles and the proportionate approach presented which takes into account the nature, scale and complexity of firms.

There are a number of issues in the draft which we believe should be addressed in the final guidelines. We have focused on proposals which, if implemented, may result in misleading outcomes or which would be difficult to implement.

Guideline 1

CEBS proposes that the management body should be responsible for the overall stress testing programme. Although we agree with the general objective of the guideline, we respectfully suggest that the direct involvement of the management body as described goes too far, particularly for highly complex institutions. This is an area where inverse proportionality should be applied. We suggest banks be permitted flexibility to delegate tasks and responsibilities to relevant senior management, or a designated committee, based on impact and materiality. For example, the management body should be able to delegate scenario selection as well as business assumptions to a designated committee.

Guideline 13

CEBS proposes running stress tests for material subsidiaries and/or at a sub-consolidated level. Our experience shows that there is little value added in this approach, compared to using a severe common group-wide scenario. Firms should have the flexibility to segregate and stress test individual subsidiaries based on their own judgement.

Guideline 20

In general, we agree with the guideline that stress tests should foster discussions with supervisors about results and risk management action. However, we do not believe stress



tests should automatically be linked to capital or liquidity buffers as suggested in § 100. First, stress tests must be understood according to their expected probability of occurrence. Secondly, if stress tests were the basis for assessing capital adequacy, there would be a perverse incentive to choose scenarios and risk drivers to avoid that potential capital impact. This would effectively reduce stress testing to a reporting tool and severely limit the value of stress tests as a tool for creative exploration of risks.

Guideline 21

The proposals require firms to disclose the result of their firm-wide tests to the college of supervisors. We are concerned that this proposal would require disclosure of information in contravention of the data protection laws of several countries. Any guideline issued by CEBS must comply with existing laws across Member States. We propose that the detailed results are shared only with the core college and that a qualitative discussion (sharing aggregated figures) could be held at the general college.

In the same guideline, CEBS proposes that the results of firm-wide stress tests may be taken into account when deciding upon the adequacy of the consolidated level of own funds held by the group. There are already clear rules regarding the calculation of own funds, and the outcome of the stress testing is not of itself a proper basis for deciding upon the adequacy of capital requirements.

Guideline 22

CEBS proposes that supervisors may consider recommending scenarios to institutions. We ask that CEBS clarify that supervisors may only recommend industry-wide scenarios. Firm specific scenarios should reflect an in-depth understanding of a firm's business model, and a firm specific scenario provided by supervisors may produce misleading results.

Regarding liquidity risk, we suggest awaiting the results of the outstanding consultations by the Basel Committee and the European Commission rather than providing independent views. CEBS asks firms to assume the complete loss of wholesale funding under an idiosyncratic stress scenario; in our view, this assumption is overly conservative and not risk based.

We hope you find our comments useful. Please contact me if you would like to discuss the feedback provided.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Andrew Procter', with a long horizontal flourish extending to the right.

Andrew Procter
Global Head of Government & Regulatory Affairs
Deutsche Bank AG