



25 September 2012

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Dear Mr. Farkas

DB's response to the European Banking Authority's consultation on technical standards on the calculation of credit risk adjustments

Deutsche Bank (DB) welcomes the opportunity to respond to the EBA's consultation on the technical standards on the calculation of credit risk adjustments.

We appreciate the EBA's objective to provide a standardised calculation of specific credit risk adjustments (SCRAs) and general credit risk adjustments (GCRAs) across accounting regimes in accordance with Article 105(4) CRR, which covers Articles 106, 155, 162 to 164, 174, 241 and 261 of the CRR.

While the intention of the draft Regulatory Technical Standards (RTS) on SCRA and GCRA is to provide a clear and consistent structure the consultative document raises several issues that we would like to bring to the EBA's attention.

General Comments

- *Lack of clarity* - Instead of providing clarity, the labels GCRAs and SCRAs will likely cause confusion with the terminology used for the "Loans & Receivables" category of loans. We suggest changing the labels to "credit risk adjustments for national GAAPs" and "credit risk adjustments for international GAAPs".
- *Accounting inconsistencies* - Notwithstanding the EBA's intention of providing standardised criteria across accounting methodologies, the examples listed in Article 2(4) for GCRAs are not applicable for IFRS and instead reflect national GAAP standards.
- *Group exposure assignment and recommended approach* - Although the SCRA rules are clear, the assignment logic should be modified. While DB supports the policy proposal option 3, we suggest conducting the assignment of SCRAs for a group of exposures in relation to its expected loss or exposure amount to reduce the complexity of the calculation processes.
- *Operational and cost impediments* - DB is concerned that for positions held at fair value it can be very complex to decompose the fair value changes into credit and non-credit related components as a pre-requisite to determine the exposure at default. This complexity is not only an operational burden but adds unjustified implementation costs. We propose, therefore, that the RTS acknowledges that for assets held at fair value, if the composition of the adjustments into credit and non-credit related components cannot be performed reliably, all value adjustments should be considered non-credit related.



Our detailed comments are delineated in the attached Annex.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'A. Procter', with a long horizontal stroke extending to the right.

Andrew Procter
Global Head of Government and
Regulatory Affairs



ANNEX

Question 1: Are the provisions included in this draft RTS on criteria that specify which amounts shall be included in the calculation of GCRAs or SCRAs respectively, sufficiently clear? Are there aspects which need to be elaborated further?

In general, the labels GCRAs and SCRAs may cause confusion with the terminology used for describing the classes of loan loss provisions for the category “Loans & Receivables”. As the examples also include e.g. impairments of ‘available for sale’ assets, we suggest changing the labels to “credit risk adjustments for national GAAPs” and “credit risk adjustments for international GAAPs”.

The criteria for determining GCRAs prescribed in Article 2(2) are aligned with IFRS. However, the examples listed in Article 2(4) for GCRAs are not applicable for IFRS and reflect, as mentioned in the RTS on page 14, situations which are understood to fall under national GAAPs. Furthermore, the incurred loss model under IAS 39 is listed as an example for SCRAs. In our view, this leads to the result that there are no GCRAs under IFRS. If this is not the case, we suggest changing the examples listed under GCRAs and SCRAs (incurred loss model under GCRAs). If there are no GCRAs under IFRS, the examples do not need to be changed.

Question 2: Are there any issues regarding the timing of recognition of provisions, value adjustments or impairments in profit or loss and in Common Equity Tier 1 capital?

The example for SCRA described in Article 2(5) (a) refers e.g. to an impairment of an asset classified as ‘available for sale’. We understand the general clause under Article 2(1) to include fair value adjustments of assets classified as ‘available for sale’ which are credit-related and recognized in the ‘other comprehensive income’ (OCI) falling under the term ‘credit risk adjustments’ as these adjustments in the OCI reduce the Common Equity Tier 1 of the institution (after full phase-in). The following example could be added to make this point clearer: losses recognised not in the profit or loss, but in the ‘other comprehensive income’ as credit risk adjustments for instruments classified as ‘available for sale’.

We would also propose that the RTS acknowledges that for assets held at fair value, if the composition of the adjustments into a credit and a non-credit related component cannot be performed reliably, all value adjustments should be considered non-credit related.

Question 3: Are the provisions included in this draft RTS on the criteria to assign SCRAs for a group of exposures sufficiently clear? Are there aspects which need to be elaborated further?

The rules are clear, but we suggest a different assignment logic (see question 5).

Question 4: Are the provisions included in this draft RTS sufficiently clear? Are there any aspects which need to be elaborated further?

The determination of default according to Article 174(2) (b) CRR relies on the availability of a specific credit adjustment resulting from a significant perceived decline in credit quality subsequent to the institution taking on the exposure. Article 6 states that for the purpose of default determination, only those SCRAs should be taken into account which are ascribed individually to a single exposure.

We agree that the existence of SCRAs made for a group of exposures is not sufficient to conclude that for each of these obligors default events have occurred. It is not, however, clear if the examples of the incurred loss model under IAS 39, described in Article 2(5) (b) and (c),



are seen as an indication that the counterparty is less likely to pay and therefore could lead to a default of the obligor. It is not clear if these examples are SCRA that are ascribed individually to a single exposure or belong to a whole group of exposures. We suggest indicating for each example listed under Art. 2 (5) if this example is seen as an indicator for unlikeliness to pay according to Art. 174 CRR.

Question 5: Do you support the policy proposal, in particular to the preferred policy option (3), and the EBA's assessment that its impact is relatively immaterial to the CRR text? If not please explain why and provide estimates of such impacts whenever possible.

According to Article 3, in the case of a SCRA that reflects losses related to the credit risk of a group of exposures, institutions shall assign this SCRA to single exposures of this group proportionally to the risk-weighted exposure amounts. For this purpose, the exposure values shall be determined without taking into account any SCRA. This means that the exposure amounts have to be determined twice. Once without taking into account any SCRA for calculating the basis for assigning the SCRA for a group of exposures and afterwards determining the exposure amount for either CRSA (after SCRA) or IRBA (without any CRAs). Furthermore, all other parameters need to be included to calculate the risk-weighted exposure amounts.

We suggest conducting the assignment of SCRA for a group of exposures in relation to its expected loss or exposure amount. For this purpose, the exposure amount is for CRSA the accounting value remaining after the specific credit risk adjustments that are ascribed individually to a single exposure. For IRBA, the relevant exposure amount is the accounting value gross of any credit risk adjustments.

Question 6: What is the incremental cost to your institution for the implementation of this proposal?

As described in question 5, we suggest a different way to assign the SCRA for a group of exposures to single exposures. The proposal of the EBA requires changes and therefore causes implementation costs. Furthermore, this proposal introduces complexity as all parameters of the risk weight functions are taken into account. The less complex methodology is to use the exposure amount or the expected loss.

Question 7: What is the incremental cost for the ongoing compliance with this proposal?

We have no comments in relation to this question.

Question 8: What is the incremental benefit to your institution for the implementation of this proposal?

We have no comments in relation to this question.

Question 9: What is the incremental benefit for the ongoing compliance of this proposal?

We have no comments in relation to this question.