



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

ECB Guide to the internal capital adequacy assessment process (ICAAP)

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General comments

Template for comments

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Please enter all your feedback in this list.

When entering feedback, please make sure that:

- each comment deals with a single issue only;
- you indicate the relevant article/chapter/paragraph, where appropriate;
- you indicate whether your comment is a proposed amendment, clarification or deletion.

Deadline: 4 May 2018

ID	Chapter	Paragraph	Page	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Name of commenter	Personal data
1	Principle 3	(iv) + 48 - 52	11, 18	Amendment	While we generally agree that the normative and the economic internal perspective should mutually inform each other, this would only be possible in practice if regulators provide more transparency on their pillar 2 requirement setting, e.g. a risk-by-risk decomposition. The paragraph should therefore be amended such that banks are only expected to implement such a mutual information process to the extent possible given the information provided by regulators.	Without additional transparency on pillar 2 requirements, banks would not be able to meet this expectation.	Nikou, Orestis	Publish

2	Principle 6	(i) + 70, 71	29, 30	Deletion	We disagree with the view that the economic internal perspective should be expected to be highly conservative/ the overall level of conservatism to be at least on par with the pillar 1 internal models. The economic internal perspective is supposed to give an economic and accurate view on the bank's risks. Bank's should then decide as part of their risk appetite setting how much of these risks the bank is willing to assume (in line with the ECB Guide on risk appetite). Providing the senior management of the bank with a distorted view on its risks would not allow it to rationally decide on the level of risk they are willing to take. Additionally, the conservatism required by Pillar 1 regulation may in some cases be motivated by the comparability of the risk measures across different banks. Applying the same conservative assumptions in the economic internal perspective would be inappropriate for the bank specific risk measurement.	Requiring banks to implement a conservative risk measurement would not allow the bank's senior management to receive an accurate view on the bank's risks and undermine the usefulness of the economic internal perspective for bank internal steering purposes.	Nikou, Orestis	Publish
3	1- Introduction	2	2	Deletion	Remove the term "conservative" (see justification regarding conservatism above)	See above	Nikou, Orestis	Publish
4	Principle 1	17-19	6	Clarification	We would appreciate additional clarifications on the scope of the internal review (in addition to a validation process). Currently we interpret this as an annual description of upcoming changes to the overall ICAAP framework (as provided to regulators as part of the ICAAP document). We would appreciate if no additional / more formal expectations on this review process would be set. Additionally, footnote 7 is unclear since it requires business lines and other functions (e.g. compliance) to carry out such an internal review, while we currently interpret this to be an internal review process of the team in charge to define the overall ICAAP framework (which is part of Risk).	Current text might create confusion on regulatory expectation regarding scope of internal review process.	Nikou, Orestis	Publish
5	Principle 2	(ii)	7	Deletion	We would recommend to remove the distinction between a quantitative and a qualitative framework. From our point of view, there should only be one overall ICAAP framework which combines quantitative and qualitative aspects.	Current text gives the impression of separate qualitative and quantitative frameworks and overcomplicates expectations.	Nikou, Orestis	Publish
6	Principle 2	24	8	Amendment	We would recommend to replace the new term "overall ICAAP architecture" with "overall ICAAP framework" in line with the term used in the EBA Guidelines on ICAAP and ILAAP information for SREP (section 6.1).	Introduction of new term (for an already defined aspect) would create confusion.	Nikou, Orestis	Publish
7	Principle 3	(i)	11	Deletion	Remove the term "conservative" (see justification regarding conservatism above)	See above	Nikou, Orestis	Publish
8	Principle 3	Figure 1	12	Deletion	Figure 1 does not help to clarify any ICAAP expectations and should be removed.	Figure does not add any value	Nikou, Orestis	Publish

9	Principle 3	38	12, 13	Amendment	Requiring banks to take all material risks into account in the normative internal perspective would require more transparency on the establishment of pillar 2 requirements by regulators (see above)	See above	Nikou, Orestis	Publish
10	Principle 3	Figure 2	14	Amendment	The own funds supply bar in the adverse scenario graph should be lower (somewhere above the absolute minimum)	Figure 2 gives wrong impression regarding capital requirements under stress	Nikou, Orestis	Publish
11	Principle 3	Figure 5	17	Deletion	We suggest to delete the last sentence below figure 5. While we agree with the expectation to link both perspectives (despite being difficult given current intransparency of P2R setting), this should not be the most important focus of the economic internal perspective. Assessing capital adequacy under the economic internal perspective should provide its own additional value and not only be considered an input into the normative internal perspective. Additionally, it is unclear how an increase of non-pillar 1 risks under stress should feed into the normative perspective given the lack of transparency.	Current text gives the impression that the economic internal perspective only serves the purpose to feed into the normative internal perspective.	Nikou, Orestis	Publish
12	Principle 4	55	22	Clarification	We understand the rationale to identify the risk from a "gross" perspective, however a) a pure gross approach is not always possible in practice. We suggest to add "if possible". b) the measurement of this risk should take into account the overall risk positioning (e.g. in case where hedging would be seen by the authors of the document as mitigating action). We suggest to clarify this in a footnote.	Current text might give wrong expectation regarding risk assessment being always possible on a gross basis and risk measurement.	Nikou, Orestis	Publish
13	Principle 5	(ii)	26	Deletion	Remove the term "conservative" also in relation to capital supply (see justification regarding conservatism above)	See above	Nikou, Orestis	Publish
14	Principle 5	Example 5.1	27	Clarification	Current text could be read as if ALL DTA's and goodwill should be deducted for the internal capital supply definition. Parentheses could help to clarify this: "In general, Tier 2 capital instruments, goodwill, deferred tax assets (DTAs) (and all other balance sheet items) that cannot be deemed available to cover losses, assuming the continuation (...)."	Current text might be misread as if all DTA's have to be deducted.	Nikou, Orestis	Publish
15	Principle 6	80	32	Amendment	Paragraph should clarify that this relates to "internal validation".	Current text might be misread to refer to supervisory validation.	Nikou, Orestis	Publish
16							Nikou, Orestis	
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