Deutsche Bank

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Deutsche Bank AG
Winchester House
1 Great Winchester Street
London EC2N 2DB

Tel: +44 20 7545 8000

Direct Tel +44 20 7545 1903
Direct Fax +44 20 7547 4179

Mr. Wayne Byres
Secretary General
Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
Basel
Switzerland

baselcommittee@bis.org

Dear Mr. Byres,

Deutsche Bank's response to the Basel Committee on Banking Supervision's consultation on Revised good practice principles for supervisory colleges

Deutsche Bank (DB) welcomes the opportunity to comment on the Basel Committee on Banking Supervision's (BCBS) revised principles for supervisory colleges.

Supervisory colleges can play a very important role not only in improving the quality of supervision but also in fostering understanding and confidence in reliance amongst regulators. These global principles are also, therefore, important in view of a trend towards the nationally focused application of prudential requirements, which in some instances could restrict the flow of financial capital and liquidity. Enhanced regulatory coordination will facilitate cross-border supervision and promote convergence of supervisory practices of global banking groups. The BCBS's work to make clear the expectations of colleges and share good practices is therefore timely and constructive.

DB supports the principles and guidelines proposed by the BCBS. The Appendix contains some more detailed feedback.

The main points we would like to emphasise are the:

- Need for greater consistency in the work of colleges;
- Importance of clarity and shared expectations, which may be supported by agreement of Terms of Reference (ToR) on a group-specific basis; and
- Need for more structured follow-up with the relevant banking group after the conclusion of college meetings and on work done between college meetings.

We would be pleased to discuss further any aspect of our response.

Yours sincerely,

Andrew Procter
Global Head of Government and
Regulatory Affairs

Appendix

Specific comments

Principle 1: College objectives
Supervisory colleges should enhance, on an ongoing and confidential basis, information exchange and cooperation between supervisors to support the effective supervision of international banking groups. Colleges should enhance the mutual trust and appreciation of needs and responsibilities on which supervisory relationships are built.

Supervisory colleges are an important platform to support and enhance collaboration between supervisors. We fully support the intention of the BCBS to "place[s] greater emphasis on [this] on an ongoing basis", recognising that for core colleges in particular, this supports the overall objectives and expectations of the BCBS better than periodic 'set piece' meetings.

Composition of colleges will vary, and we agree that "it is key that the organisation and cooperation processes are clear for all college members". In support of this, there would be value in a college agreeing some form of 'Terms of Reference' (ToR) based on shared expectations, capturing the key elements set out in the other BCBS principles, but tailored for the group in question. It may be appropriate to consider a framework template to promote an appropriate level of commonality. This could be developed drawing on existing examples, such as that provided by the European Banking Authority.

Such an agreement may include some form of standing agenda or framework for meetings reflecting recurring themes, such as impact of policy developments and macro-prudential risks, planned supervisory assessments, overall risk profile, stress testing, recovery and resolution planning, and key financial data. In our experience, some but not all colleges follow this approach. Over time, this would enhance the comparability of inputs across jurisdictions, the ability to track developments in these areas between college meetings. This of course should not restrict colleges in being flexible and adaptable, in order to be responsive to current themes or emerging risks.

The ToR may also cover the frequency, type and format of the meetings and importantly, expectations regarding information exchange between the meetings. Some information will be shared on ad hoc basis as a timely update to relevant supervisors, but there may be benefit in sharing some updates more regularly.

The effectiveness of the college could also be enhanced by sharing such Terms of Reference, or key aspects of it, with the banking group in question.

Principle 2: College structures
Supervisory colleges should be structured in a way that enhances effective oversight of international banking groups, taking into account the scale, structure and complexity of the banking group, its significance in host jurisdictions, and the corresponding needs of its supervisors. While a college is a single forum, multiple or variable substructures may be used, as no single college structure is likely to be suitable for all banks.

We agree with the BCBS's proposals under Principle 2. We have observed quite different levels of representation and participation in college meetings. To some degree that will inevitably reflect the operations of a bank in a jurisdiction. We recognise, however, that attendance by a supervisor primarily as an observer may also have some value. Additionally, we suggest that given the structure of the banking group may change over time (e.g. by introducing or exiting certain businesses or jurisdictions) it should be clear that the college structure should be kept under periodic review and adjusted as necessary. We also welcome the proposal that the home supervisor should inform the banking group of the overall college structure and membership. In this regard, we also suggest that the banking group is kept informed of all college representatives and any changes to

the list of participants to ensure better communication between the banking group and supervisors. Finally, we note that supervisors are sometimes unable to attend a college because of budgetary constraints. While that may be due to a rational allocation of scarce resource, it may also suggest that some jurisdictions do not place sufficient priority on college participation.

The focus of the BCBS college structure is naturally prudential supervision. However, there may be some advantages in identifying whether there may be benefits from involving key securities regulators in some activities. The line of demarcation between prudential and conduct or market supervision is blurred. These will generally be a common interest in strategic plans, IT and infrastructure, control frameworks, senior management and other topics and there is no reason of principle why conduct and market regulators should not participate in prudential colleges. Even where, as is the case in the EU, a prudential college has certain formal decision making powers, an agenda can be agreed that allows for the efficient disposition of business including participation by securities and market supervisors.

Within the framework for each group there may be multiple college structures – e.g. core colleges, regional colleges and sizeable global colleges. To improve the coherency of approach and efficiency – given there will be overlap of participants – the home supervisor should be encouraged to align the various colleges' agendas as much as possible.

In light of the importance of colleges in the context of cross-border supervision, the BCBS is correct to emphasise that participants should be sufficiently senior and at the appropriate level within their organisation to contribute effectively, with sufficient familiarity with the group. From time to time (and perhaps particularly in relation to joint working between regular meetings with a narrower focus), this could be supplemented with colleagues from specialist risk divisions drawn from college members.

Principle 3: Information-sharing

College members should do their best to promptly share appropriate information with respect to a banking group's principal risks, vulnerabilities and risk management practices. Mutual trust and willingness to cooperate are key for effective two-way information-sharing. To facilitate this process, supervisory colleges should strive towards confidentiality agreements among college members, such as those contained in memoranda of understanding (MoUs).

Information sharing is vital for effective regulatory coordination. Given the sensitivity of some information, we support use of MoUs between all college members that clearly define protocols. To support the guidance provided for exchange of information within the college, we recommend that:

- 'appropriate information' is further elaborated, in order to establish shared expectations of what this means within the context of the college in question;

- MoUs should take into consideration confidentiality and national data protection laws and include a section on how to resolve a potential issue arising from conflicting national legal requirements;

- MoUs should be shared with the banking group to provide transparency;

- good practices identified through the survey are embedded within the guidelines – e.g. thematic discussions, college "newsletters" and updates on supervisory methods and current status of local branches and subsidiaries;

- the home supervisors should keep a central log of all information shared between college supervisors. This would improve not only tracking of information shared but would help build institutional memory on the banking group. This should be subject to the same level of security;

- the home supervisors should routinely be informed of requests for group-level information by host supervisors. Also, the home supervisor should be aware of information-sharing between two or more host supervisors.

In addition, we believe the banking group should be made aware promptly of information shared between college members where this has been provided by the group unless there is some operational imperative requiring confidentiality. We propose this is included in the principles.

Much of the information that will be shared will be supplied by the banking group. Sharing of information may be more meaningful if there is consistency of format, which may also support better analysis. Therefore it could be helpful for the BCBS to recommend standardisation of the data collection format, which would additionally avoid a proliferation of approaches, which would then be frustrating and inefficient for supervisors. We believe that BCBS data aggregation project and EBA XBRL taxonomy to be used between EU supervisors could provide valuable foundation for this exercise.

Principle 4: Communication channels
Communication channels within a college should ensure the efficiency, ease of use, integrity and confidentiality of information exchange. The home supervisor should make sound communication channels available to the college and host supervisors should use them appropriately and regularly.

We agree with the proposed principle and guidance. In addition, particularly for the largest global colleges it is possible that some host supervisors may not be able to attend due to limited time or resources. As such, it is worth home supervisors considering whether alternatives, such as video conferencing facilities, may be helpful.

More generally we are concerned to ensure that participants arrive at a college meeting having been provided with an adequate baseline of information. Without deliberate preparation that common baseline is unlikely to emerge naturally.

Principle 5: Collaborative work
Supervisory colleges should promote collaborative work between members, as appropriate, to improve the effectiveness of the oversight of international banking groups. Collaborative work should be based on agreement between supervisors and should recognise national legal constraints.

We support collaboration between supervisors and see benefits in joint work and coordination. This may be supported within college ToR as described above, including roles and responsibilities of home and host supervisors in carrying out certain tasks collaboratively (e.g. model reviews). As a general principle and a matter of good practice, the home supervisor should be kept informed of material planned on-site inspections, running audits, meetings or supervisory exams in other jurisdictions, though this may be most useful in the context of core colleges. Details of this should be specified in the ToR.

We see value in coordinated decision-making (although recognising supervisors' responsibilities), as this will support consistency. The principles should support this where possible.

Principle 6: Interaction with the institution
Interaction between the college members and the banking group should complement the interaction that individual supervisors (both home and host) have with the specific entity they supervise.

The complementarity sought under this principle would also be promoted by the methodical and substantive preparation for college meetings that we advocated in our response to Principle 4.

Collective feedback from colleges is valuable for banking groups and these principles should seek to improve consistency regarding the type and content of such feedback. In addition, the principles could recommend that the college agree to do this within a specific time-frame (in the ToR) after college meetings.

Proactive communication with the banking group in between college meetings is also important; both to prepare for 'set piece' regular meetings and manage any issue-specific bespoke work. Communication regarding colleges could be further enhanced by some form of periodic (perhaps annual) communication coordinated by the home supervisors, which could include a forward calendar and updates regarding progress on issues considered by the college and included in its feedback to the firm.

We fully support the participation of the banking group at college meetings and we would suggest that banking group should always be invited to some sessions of college meetings. Separate to the specific college's ToR, the college supervisors should agree with the banking group an overall framework which would allow better management of the process. This could include responsibilities and expectations from the banking representatives at college meetings. The banking group should always be informed well in advance of the times and agenda of forthcoming college meetings, to ensure that these are as effective as possible.

As noted above, it would be good practice for the home regulator to be informed of all information requests for group-level information. On pg. 15 the BCBS says that "in the unlikely event that host supervisors are unable to obtain relevant information from local management, they should address information requests about the banking group to the home supervisor." To ensure that information shared between supervisors is most up to date and accurate, it would be helpful for the home supervisor to check with the banking group before sharing group-level information further.

Principle 7: Crisis preparedness
Supervisory colleges and crisis management structures are distinct but complementary. The work of a banking group's supervisory college should contribute to effective crisis management planning.

The CMG and supervisory colleges both have vital roles to play. In the case of large groups which have a CMG in place, there should be clearly documented and delineated roles and responsibilities for each, and agreement about information-sharing between the bodies. Although there will be clear overlap in terms of those attending college meetings and CMGs from the supervisory bodies, the functions are different and resolution authorities will also be involved. It's important to recognise the areas of mutual interest without confusing the purpose and objectives of each group. The college and CMG must endeavour to avoid duplication of work, by allowing sufficient coordination between these two structures, while managing potential conflicts of interest.

In particular, consideration should be given within the guidelines as to the role of colleges in respect of a banking group's recovery plans.

Regular updates to colleges on CMG work should become a part of standing agenda for regular college meetings.

Former Principle 8: Macro-prudential work

We understand the reasons for not including the macro-prudential principle as a standalone principle. However, these risks and use of any macro-prudential tools in relevant jurisdictions are relevant for discussion by supervisory colleges. This should be clearly articulated in the principles.

For example, the principles are not clear on how they propose to integrate macro-prudential authorities or policies in the work of supervisory colleges which by nature are micro-prudential focused. It may be helpful for the home supervisors to consider whether macro-prudential authorities in key jurisdictions should be invited to the college meetings periodically or on an ad hoc basis. At the very least information sharing on the use of macro-prudential tools should be explicitly contemplated in Memoranda of Understanding.

As advocated above, macroprudential risks should be a standing item on the agenda.