



**EUROPEAN CENTRAL BANK**  
BANKING SUPERVISION

**Danièle NOUY**

Chair of the Supervisory Board

*COURTESY TRANSLATION*

Mr Bernard Monot  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 16 December 2016

**Re: Your letter (QZ097)**

Honourable Member of the European Parliament, dear Mr Monot,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 15 November 2016.

In your letter, you enquired about why the results of the 2016 European Banking Authority (EBA) stress test for Deutsche Bank included the sale of its stake in the Chinese legal entity Hua Xia, which was agreed on 28 December 2015 and which was closed in 2016.

Stress tests are conducted, to a large extent, on the basis of historical data reported in stress test templates, for example on the administrative expenses of a bank. These data sometimes do not fully reflect relevant changes to the business of an institution that were implemented before the reference date of a stress test, which in this case was 31 December 2015. Such changes could relate, for instance, to mergers, restructuring measures or asset disposals. This is why adjustments to the starting point data in order to take account of one-off events are permitted by the EBA methodology for a narrow set of cases. These adjustments are designed to avoid distortion of the results of the forward-looking stress test. In this way, one-off adjustments make stress test results more realistic and, therefore, improve their usability for supervisory purposes. One-off adjustments are thus not a deviation from the published methodology<sup>1</sup> but explicitly foreseen by it.

Before the end of 2015, Deutsche Bank had completed the divestment of its stake in Hua Xia to the extent that it had entered into a binding sale contract with the buyer (PICC Property and Casualty Company Limited), and Deutsche Bank reflected this fact in its 2015 annual accounts. The sale was therefore considered to be completed in this sense. The closing of the transaction was expected in 2016, as stated in the footnote to Deutsche Bank's published stress test results. Prior to the finalisation of the stress test, ECB Banking Supervision had received sufficient confirmation from the competent Chinese authorities to deem the closure in 2016 a formality and the requirements for approval in line with the EBA methodology fulfilled. Accordingly, the Supervisory Board of the ECB approved the one-off adjustment. The review by the EBA's

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<sup>1</sup> <https://www.eba.europa.eu/documents/10180/1259315/2016+EU-wide+stress+test-Methodological+note.pdf>

Board of Supervisors confirmed this assessment. Let me also emphasise that we have been fully transparent regarding the application of one-off adjustments, as they were published by the EBA on 29 July 2016 in the form of footnotes to the results of the stress test.

On 3 November 2016 the relevant Chinese authorities approved the acquisition by the buyer, PICC Property and Casualty Company Limited, of the shares in Hua Xia from Deutsche Bank. As of 18 November 2016, the shares have been transferred to the buyer.

Please note that, in the conduct of the 2016 stress test, the ECB treated all banks in the same situation equally. For the approval of one-off exemptions, the ECB ensured a level playing field by applying the rules of the EBA methodology equally to all significant institutions. Each case was thoroughly assessed against the methodology's eligibility criteria for a one-off exemption. All applications for one-off exemptions that did not meet the eligibility requirements were rejected, while those which were approved were published together with the results.

You also enquired why CaixaBank was treated differently from Deutsche Bank in a similar situation. Let me point out first that CriteriaCaixa and not CaixaBank was the level of consolidation considered for the stress test, the first legal entity being a mixed financial holding company with a stake in the second. The claim that, regarding one-off adjustments, the ECB treated Deutsche Bank and CriteriaCaixa in different ways, although the two institutions were in a similar situation, is unfounded because the situations of the institutions were in fact very different.

First, CriteriaCaixa did not apply for its asset swap to be recognised as a one-off adjustment. According to the provisions of the public EBA methodology, such an application would have been necessary for the ECB to decide on the recognition of a one-off adjustment.

Second, although no longer relevant in the absence of an application, at the level of consolidation relevant for the stress test, the asset swap transaction of CriteriaCaixa represented only an internal transfer of assets. The case is thus neither from a formal nor from an economic perspective comparable to Deutsche Bank's disposal of its stake in Hua Xia Bank.

With regard to your suggestion that the methods for calculating risk-weighted assets should be reviewed, allow me to point out that the ECB has already initiated a multi-year project (the Targeted Review of Internal Models, which started at the end of 2015) to verify the adequacy and appropriateness and enhance the credibility of models used by banks to determine the risk weights of assets. A particular focus of this project is on reducing risk-weight variability which is not justified by differences in the underlying risks, but which is, for example, driven by banks' modelling choices. This will be achieved by clarifying supervisory expectations regarding the implementation of the requirements of the Capital Requirements Regulation (CRR)<sup>2</sup> by significant institutions. The compliance of banks with the CRR requirements and these supervisory expectations will be checked in dedicated internal model investigations starting in the course of 2017.

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<sup>2</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1)

Yours sincerely,

[signed]

Danièle Nouy