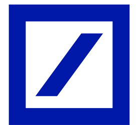
Deutsche Bank



EU Transparency Register ID Number 271912611231-56

30 September 2013

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Mr. Adam Farkas
Director General
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Tower 42
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Dear Mr. Farkas,

Deutsche Bank's response to the European Banking Authority's Consultation Paper on draft Guidelines on retail deposits subject to different outflows for purposes of liquidity reporting (EBA/CP/2013/34)

Deutsche Bank (DB) welcomes the opportunity to comment on the EBA's consultation paper on retail deposits. We appreciate that the EBA has issued the proposals as Guidelines rather than binding regulation due to the changed mandate in the CRR. The flexibility allowed for in guidelines is particularly important given the challenge of implementing these proposals across a range of business models in differing retail markets. In this context, the differing savings cultures in EU countries could create perverse effects if the proposals were to be imposed uniformly in the EU. It is therefore important that the guidelines are not interpreted by the EBA members as de facto rules.

We highlight a number of priority issues in this letter. Our response to the questions are in the Annex.

PICS and Trusts: Traditionally in various jurisdictions, trust and wrapper structures are set up for wealth management and succession planning reasons, on behalf of individuals or families at the upper end of the private wealth range. The CRR would seem to indicate that, because they cannot be treated as retail customers, they must be financial institutions and therefore subject to a 100% outflow rate. This would be excessively punitive given the liquidity risk posed by this depositor type. In our experience, these structures show behaviour aligned very closely with private wealth clients and the legal nature of the structures creates significant obstacles to withdrawal of funds in a 30 day period. Without a differentiated treatment, a large tranche of clients would have to restructure their accounts, losing the succession planning and wealth management benefit they provide, with no prudential or systemic benefit.

A differentiated treatment, which recognised the 'retail nature' of these deposits, despite the fact they are adopted as legal entities, would be in line with the view taken by other regulators globally such as FinMA in Switzerland which treats these structures as corporates, and the MAS in Singapore which has indicated that it would be sympathetic with applying a treatment between the retail and corporate outflow rates, i.e. <40%.

Within Singapore specifically, DB's wealth management business conducted a study of the activity of Private Wealth clients in this location and found that their behaviour was almost 95% correlated with that of retail depositors; proving that treatment as a Financial Institution is not warranted. The application of a 100% outflow rate to these structures has a very material impact on the LCRs of a number of global institutions and should certainly be reviewed by the EBA as part of Article 509.

Chairman of the Supervisory Board: Paul Achleitner
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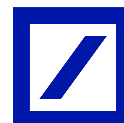


The EBA could alternatively propose a reduced outflow rate for a sub-set of the financial institutions category which is particular to the family trust and private wealth wrapper structures.

Classification process: We would appreciate confirmation from the EBA that the following is the appropriate process for firms to follow when classifying deposits in accordance with the CRR, is as follows:

- Ascertain the “natural person” retail deposit base, in accordance with Article 411.2 which entails excluding any Private Institutional Client (PICs) and Trust clients, which may be retail in nature but are not captured by this definition;

- Consider whether these “natural person” deposits might meet the necessary risk factors to qualify for the assignment of higher outflows with the scorecard approach proposed by the guidelines. Where deposits meet this criterion, bucket them within the three categories and apply appropriate outflows rates (as the institution sees fit) providing they are higher than the standard outflow rate (greater than 10%); And

- Only if they do not qualify for higher outflow rates, as per step two, should consideration be given as to whether they meet the definition of an ‘established relationship’ or ‘transactional account’ under CRR Article 421.With regard to step 1 above, the EBA stated in the recent public hearing that they removed the ‘High Net Worth Individual’ indicator from the scorecard methodology, in recognition that trusts and private wealth wrapper structures are not considered “natural persons” in accordance with Article 411.2 of the CRR and would not therefore fall within the scope of these guidelines.

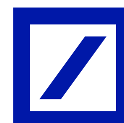
Cliff effects due to reclassification: A deposit of EUR 100k may be classified as insured with an established relationship present and therefore eligible for a 5% outflow rate. However, if that deposit has one other risk factor, for instance it is non-resident, and the depositor decides to place an extra one EURO into the account, the entire deposit will be subject to a higher outflow rate of circa 15%. This is clearly disproportionate and the EBA needs to consider an approach that will avoid these cliff effects. DB holds the view that to prevent these cliff effects from taking place:

- The threshold for a high value deposit needs to be differentiated from the European DGS amount e.g. EUR 200k. Linking the two seems contradictory to the aims of the EU-wide DGS, given that depositors should have confidence in the protection provided and would not withdraw their funds for the sake of an extra Euro being at risk; And

- The whole deposit amount should not have to be reclassified. Although DB appreciates that, in the past, some depositors were seen to withdraw the full balance from their accounts, there should be recognition given to the stability of the insured amount. Depositors are better informed about the benefits of the European-wide DGS scheme following the 2008 crisis. The amount which is subject to the higher outflow rate should only be the excess above the EUR100k DGS threshold. This treatment would be consistent with the approach taken at the BCBS.

Internet banking: The distribution channel indicator appears to capture all accounts which have access to internet banking services. The EBA clarified at its public hearing that this was not the intention and that it referred only to internet-only banks that do not have a branch network. We would appreciate if this sensible clarification could be made clear within the finalised guidelines.

Treatment of term deposits: As we have stated above, the flexibility in the guidelines should facilitate the differences in savings cultures between different European countries. For example, in reference to the indicator which says that maturing term deposits are high risk, in Germany the behaviour of depositors would typically indicate a low risk of withdrawal of long-term deposits maturing <30days. Depositors with larger balances keep maturities of term deposits relatively



short. Historically, these have proven stable. Introducing differentiation adds complexity to the framework and, as pointed out in the discussion paper, would risk skewing client decisions towards the products that receive a more favourable treatment under the regulatory framework. We would therefore argue that the application of the guidelines should be sufficiently flexible to reflect the extremely high probability, based on historical evidence that these deposits will roll-over.

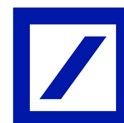
In addition, in Germany the classic savings product has a three month notice period. The normal practice is to allow for early redemption to occur with a small fee. The redemption practice would be stopped quickly in a crisis scenario, particularly an idiosyncratic scenario, ensuring that the stability of the deposits would be protected. However, if the EBA risk factor was applied, banks would be incentivised to stop the practice of allowing withdrawals for a small fee to avoid applying a high outflow vector. This would reduce access to an extremely stable source of long-term funding and limit choice for consumers.

As a final point we would reiterate our general view, expressed in our response to the discussion paper, that the level of granularity proposed in applying the risk factors to individual retail deposits, is disproportionate to the added value achieved for the LCR. In general retail and SME customers are managed on a portfolio basis, which is recognised in the CRR for credit assessment purposes, and risk factors applying to individuals should be smoothed out by overall portfolio effects.

We look forward to ongoing dialogue with the EBA on these guidelines which will materially impact LCR outcomes in Europe and require significant infrastructure and resource investment.

Yours sincerely,

Andrew Procter
Global Head of Compliance, Government and
Regulatory Affairs



Annex

Questions

Q1: Do you agree with these criteria for assessing the existence of an 'established relationship'? In your view, what other criteria could be considered to qualify deposits as being part of an 'established relationship making withdrawal highly unlikely' under a combined idiosyncratic and market-wide stress scenario?

We broadly agree with the criteria on established relationships. We would argue, however, that duration is not a significant risk factor, particularly with regard to retail clients who seldom change their banking service providers. In a time of stress, each depositor will weigh the risk to the institution against the insurance given by the relevant DGS, regardless of the length of their relationship with the bank. We therefore suggest the EBA removes this wording from the definition of established relationship.

Q2: Do you agree with this criterion for identifying a transactional account?

We agree with the definition of transactional accounts as stated within the consultation. However, we do not believe this should be limited to just those that receive a salary paid into them, particularly as the retail deposit category also captures SME depositors, some of whom will be paying out salaries. All regular payment activity should therefore be taken into account e.g. salaries, rents, direct debits, and regular business payments.

Q3: Regarding established relationships, how would you assess that the contractual relationship with the institution and the minimum number of products are active in the sense of being actively managed?

Each bank might constitute an 'established relationship' differently (e.g. long standing savings accounts, insurance products, etc.) We therefore feel it should be left to each institution to determine, based on its own business model and internal risk management, what is considered stable or "established". We would expect the flexibility in the guidelines to allow for this.

Q4: What is your view concerning the threshold proposed for high and very high value deposits? Please give your reasons.

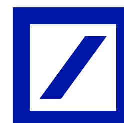
According to article 421(2) all amounts which are not covered by the Deposit Guarantee Scheme are already factored in with a higher outflow rate. Therefore an additional volume-based surcharge should not apply.

As stated in our cover letter, in order to avoid 'cliff effects' we would prefer higher threshold amounts to be set. We would suggest >200k for high value deposits and >1m for very high value deposits. This is consistent with the treatment by the BCBS and therefore already reflected within banks' reporting systems.

Once again we would emphasise that we have not observed any behaviour of clients with higher deposits to indicate that they are less stable than clients with deposits covered by the DGS.

Q5: Do you agree with the criterion for considering a deposit to be rate driven?

Whilst in principle we agree with the criteria to decide which product can be considered as rate-driven, we believe in practise it is not straight-forward to identify these rate-driven deposits. This is particularly true in a low interest rate environment where a few basis points would trigger a change in the regulatory treatment if a product was classified as rate-driven with potentially higher outflow rates. We respectfully ask that the EBA could provide some guidance on what is meant by 'significantly' in this context.



Furthermore, the tool would be operationally difficult to implement as the selection of peer rates is highly subjective, arbitrary and might change over time. Most banks offer unique features to attract customers, which makes a direct comparison even more difficult to achieve. Moreover, a significant population of products have a combination of various components.

In addition we think it is difficult to define an appropriate peer group. For example, comparing globally operating banks does not factor in circumstances in the respective home country such as the economy, house banking relationship or individual/ voluntary DGS. Defining a peer, even within the respective home country, may be challenging given that business models might differ significantly.

Q6: Do you agree with the criteria to identify this risk factor?

To a certain extent we would agree that non-resident deposits might be less “sticky” than resident deposits. However this risk factor seems more appropriate for banks operating in only one jurisdiction. Global banks are set up to provide services to clients on a cross-jurisdictional basis. It is not logical to conclude that a German client, who banks with DB in Germany, and holds accounts with DB in other jurisdictions, is a higher risk than a client with accounts only in Germany. There is no evidence to substantiate this risk factor.

In this context, it is also not clear how subsidiaries and branches of global banks would be treated. For example, for a bank headquartered in the Eurozone with an entity in UK, why would a GBP deposit be considered non-resident and therefore riskier than a deposit placed in EUR? In our view this is counter-intuitive.

Q7: Do you agree with the above analysis of the cost and benefit impact of the proposals?

Given that the guidelines are not yet finalised we are not in a position to provide an accurate indication of costs and required resources. In particular, it will be a difficult and time-consuming process to apply the guidelines retrospectively to existing deposits. Therefore, while we support the EBA’s objective of quantifying the impact on the LCR, we are not in a position to verify the analysis. We would suggest that the EBA carry out another impact assessment in 12 months’ time.