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**Deutsche Bank response to the EBA consultation on the draft RTS specifying the prudential treatment of software assets**

Dear Mr Campa,

Deutsche Bank AG (DB) welcomes the opportunity to provide views in response to the EBA's consultation on the draft Regulatory Technical Standards specifying the prudential treatment of software assets.

We appreciate the acceleration of the work on this RTS. The revised treatment and exemption of software from capital deduction will create incentives for further investment in banks' digitalisation, a key challenge for future-proofing our business model and adjusting to the new competitive environment. The RTS will also release much-needed capital that can support lending, especially relevant in the COVID-19 recovery. The proposed approach for prudential amortisation is relatively easy to implement and under certain conditions it would not require substantial data infrastructure.





With our submission we are calling for the EBA to:

- Calibrate the prudential amortisation at 3 years;
- Adopt the RTS as soon as possible and at the latest by mid-September, so that it can apply, after the Delegated Act process, the soonest, and at the latest by the end of 2020.

The EBA is proposing to calibrate the new prudential amortisation at 2 years, suggesting this as the prudent level along the range of 1-3 years that software appears to survive after a migration. This calibration will only allow a small part of software assets to be exempt from deduction. That limits the associated digitalisation incentives and capital benefits. It also underestimates the value retention of software assets.

There is evidence from past cases of bank mergers or acquisitions, during crisis times, that software in a migration retains value for much longer than the estimated 1-3 years and its value could also appreciate. That evidence supports a longer calibration of the prudential amortisation. That is especially because in a merger or acquisition the entirety of a bank's software would be subject to migration, i.e. including those assets that may be beyond the prudential amortisation schedule but still in the accounting amortisation, and even those fully depreciated but still in use. A healthy bank today would continue using its software until a crisis situation. Only then the software would be passed to a potential buyer. This lead time should also be counted in the prudential amortisation period.

A higher calibration would also go further in mitigating the competitive disadvantage of EU banks, without undermining resilience. Under U.S. rules, the average EU bank would have a 6 year prudential useful life, i.e. no change to U.S. GAAP, while the EBA proposal restricts the prudential useful life to 2 years only. We believe the EBA mandate allows for extending that prudential useful life.

In light of the recent amendments to the Capital Requirements Regulation (CRR) accelerating the implementation of the relevant Delegated Act, we believe it is crucial that the EBA adopts the RTS as soon as possible so that it can apply still in Q3 2020 and at the latest by the end of the year. That will respect the political decision of the co-legislators and will release capital in a timeframe relevant for the COVID-19 recovery. An accelerated



timeline with Q3 implementation would be of substantial benefit to the economy. To that end, the EBA can accelerate the RTS finalisation and eliminate the reference to 20 days delay between publication in the Official Journal and application.

We support the submissions by the industry associations AFME, EBF, CFO Network and the German Banking Industry Committee (Deutsche Kreditwirtschaft).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'MH', enclosed in a thin black rectangular border.

Matt Holmes

Head of Regulatory Policy