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Secretariat of the Basel Committee on
Banking Supervision
Bank for International Settlements
CH-4002
Basel
Switzerland

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

Baselcommittee@bis.org

Dear Mr. Ingves,

DB response to BCBS consultation on a framework for dealing with domestic systemically important banks

Deutsche Bank welcomes the opportunity to comment on the BCBS's proposals for domestic systemically important banks (D-SIBs).

We recognise that there are notable challenges in designing a framework for D-SIBs due to the differing characteristics of national economies. We understand that the BCBS have rejected as insufficiently flexible a detailed and prescriptive approach in favour of Principles which allow significant national variation, both in the methodology for identifying D-SIBs and the amount of higher loss absorbency (HLA).

The Principles are broadly sensible. However, the BCBS should go further and use them to inform a consistent and predictable framework. The conceptual challenge is similar to that for Pillar 2, where each decision needs to be made on a firm-specific basis but much more guidance has been provided to help authorities' implementation.

Our main concerns relate to the application of HLA requirements for cross-border groups, including the interaction of D-SIB and global systemically important bank (G-SIB) requirements. The proposed Principles allow too much discretion and the lack of detail or explicit methodology will make capital planning for global groups in particular significantly more complex, unpredictable and potentially much more onerous. This is because:

- The Principles say that Home authorities should impose the higher of the G-SIB and D-SIB HLA requirement at the top level. This avoids double-counting to the extent that the requirements will not be additive. However, much clearer guidance should be provided to "ensure the overall consistency between the two frameworks".
- Allowing national approaches for identification makes it difficult to predict the outcome for specific legal entities and to work out how much capital will be needed. The timetable for putting in place national regimes is not specified and, when coupled with meeting Basel III and any G-SIB requirements, will put additional pressure on firms when capital market capacity is already constrained. This is further exacerbated by other potential variations such as Pillar 2 requirements and stress-testing.
- The proposed approach also does not address more subtle forms of double-counting, in that aspects of the underlying identification methodology may contribute both to G-SIB and to D-SIB requirements, e.g. interconnectedness or complexity. This effect will be exacerbated by market characteristics such as concentration.



- The lack of predictability for firms in relation to capital-planning is equally applicable to Home supervisors. This may result in artificially high requirements when compared to those which would be the case under the Home supervisor's local D-SIB regime, in expectation of 'trapped capital' in Host jurisdictions. This is exacerbated by the lack of explicit guidance on appropriate amounts. The BCBS noted that there are concerns about Host authorities not having a group-wide perspective, but do not give the Home authority any mechanism to deal with disproportionate Host requirements, apart from to increase capital requirements themselves.
- The BCBS recognises the need to put in place arrangements to avoid 'surprises' from the Host supervisor and that they should provide the rationale for their decision. However, this is simply an exchange of information rather than joint decision-making or a form of consultation. Saying that the Host should provide "an indication of the steps the bank would need to take to avoid/reduce such a requirement" does not go far enough.
- The potential for significant variation under the Principles will ultimately embed a nationalistic approach within capital requirements frameworks. This may have consequences in related areas, such as Pillar 2 assessments and recovery and resolution plans (RRPs) and undermine cooperation.

There is also no reference in the paper to any impact analysis having been carried out by the BCBS. If this is the case, and is as a result of it being impossible to predict the outcomes, this emphasises some of the concerns raised above. Uncertainty will only amplify current economic pressures.

We support the proposal that there be recognition of resolution regimes and RRP's when considering the appropriate level of HLA. This should explicitly be reflected in Principle 8.

We encourage the G20 to allow sufficient additional time for the BCBS to further elaborate the D-SIB framework in order to support consistency and predictability.

Yours sincerely,

Andrew Procter
Global Head of Government and
Regulatory Affairs