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January 31, 2014

Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, D.C. 20551
Attention: Mr. Robert deV. Frierson, Secretary
Docket No. R-1466, RIN 7100 AE-03

Office of the Comptroller of the Currency
400 7th Street, S.W., Suite 3E-218
Mail Stop 9W-11
Washington, D.C. 20219
Attention: Legislative and Regulatory Activities Division
Docket ID OCC-2013-0016, RIN 1557 AD 74

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429
Attention: Robert E. Feldman, Executive Secretary
RIN 3064-AE04

Re: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring

Ladies and Gentlemen:

Deutsche Bank AG ("**Deutsche Bank**") appreciates the opportunity to provide comments to the Board of Governors of the Federal Reserve System (the "**Board**"), the Office of the Comptroller of the Currency ("**OCC**"), and the Federal Deposit Insurance Corporation ("**FDIC**") (collectively, the "**Agencies**") on the Agencies' proposal entitled Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring (the "**Proposal**") that would implement quantitative liquidity requirements in accordance with the liquidity coverage ratio ("**LCR**") standard established by the Basel Committee on Banking Supervision ("**BCBS**") for banks.

Deutsche Bank supports the Agencies' efforts to strengthen liquidity regulations and to reduce the potential risks to the financial system that can result from the inability of a supervised organization subject to the Proposal (herein referred to as a "**Covered Company**") to meet its short-term liquidity needs. We believe that these efforts are an essential component of the overall goal to improve the resiliency of financial institutions operating in the United States ("**US**") and their ability to survive under stressed conditions. However, we note that Deutsche Bank is already subject to a stringent liquidity framework under home country regulations and question the need for the Proposal's "super equivalence" to a standard based upon international cooperation and comparability for internationally active banking organizations.

Deutsche Bank applauds the Agencies for its participation in, and leadership of, international regulatory coordination and we urge the Agencies to maintain their commitment. For a foreign banking organization, such as Deutsche Bank, internationally equivalent standards are particularly important. We refer to our April 29, 2013 response letter[1] on the Notice of Proposed Rulemaking for Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations (the "**FBO Proposal**") to the extent the letter refers to the enhanced standards for liquidity management and the difficulties of being subject to multiple - and often conflicting - regulatory regimes.

We believe that significant aspects of the Proposal are inconsistent with the BCBS's LCR framework even where US-specific circumstances are not present. The divergence will disrupt both the alignment among global regulatory approaches and the establishment of harmonized global standards, with real consequences for the affected institutions. It also obscures the comparison of the relative liquidity situation of US-domiciled organizations on the one hand with FBOs on the other, and creates significant burdens for institutions required to comply with more than one standard throughout their global operations.

In addition, we are concerned that some of the "super-equivalent" features of the Proposal overshoot the goal of furthering the short-term resilience of the liquidity risk profile of internationally active banks and will instead result in negative unintended consequences.

[1] http://www.federalreserve.gov/SECRS/2013/July/20130705/R-1438/R-1438_042913_111104_460291695185_1.pdf

Deutsche Bank supports the positions taken in the joint comment letter put forth by the Clearing House Association L.L.C., the American Bankers Association, the Securities Industry & Financial Markets Association, the Financial Services Roundtable, the Institute of International Bankers and the Structured Finance Industry Group (collectively, the "**Trade Associations**") with respect to the Proposal.

Our greatest concerns affect the following areas:

1. The High Quality Liquid Assets ("**HQLA**") standard excludes important liquid asset classes.
2. The calculation of total net outflows (including the "worst day" methodology) is a significant departure from the BCBS approach and is highly likely to overstate liquidity risk.
3. LCR requirements at certain insured depositary institution subsidiaries will result in excess trapped liquidity.
4. The accelerated implementation timeline may be based on incorrect assumptions and creates substantial challenges that may not be outweighed by any benefits.
5. Frequency of calculation and reporting.
6. Situations of the LCR falling below 100%.

Deutsche Bank hopes that the suggestions set forth below will achieve the Agencies' objective, while still providing liquidity standards which will minimize the potential for systemic harm to the global and US financial system.

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1. High Quality Liquid Assets Standards

We worry about the unintended consequences of the Proposal's narrow definition of HQLA which excludes certain important asset classes that have historically been associated with high liquidity and good credit quality. A limited definition of HQLA that excludes assets considered stable and liquid by the markets, is almost certain to result in market distortions and hinders the efficient functioning of the capital markets, by limiting the possible investor pool for the excluded securities and by creating artificial demand for the narrow band of favored assets. The limited definition also impedes the ability of Covered Companies to maintain liquidity buffers that are both liquid investments and an efficient use of capital.

In addition, there is notable variance in the definition and calculation of HQLA between the Proposal and the BCBS LCR framework. In order for the LCR to be a global metric, standards for HQLA and the calculation of inflows and outflows should fundamentally align.

Highly-Rated Municipal Bonds

We strongly feel that the Agencies should include highly rated municipal securities as HQLA, as these securities do have a liquid market. We are concerned that the exclusion of this US-specific asset class would weaken demand for municipal securities and adversely impact the ability of municipal issuers to raise capital for local infrastructure - which is likely to result in significant harm to the broader economy. Municipalities will need to find alternative ways to raise capital for essential local projects, utilities and services as Covered Companies will participate less in the municipal bond market and demand for municipal bonds will be reduced. When funds can no longer be raised in the municipal bond market, expenditures will need to be passed on to local businesses or the general public in the form of increased tax levies. We believe that investments of large banks in highly rated municipal securities serve "main street" well - without creating undue liquidity risks.

Residential Mortgage-Backed Securities *("RMBS")*

Under the Proposal, RMBS assets are not permitted as part of HQLA, which diverges from the BCBS LCR framework under which RMBS meeting certain criteria are included as Level 2B assets. We believe that high-quality RMBS should be included to incentivize banks to participate in the residential mortgage market and avoid unintended consequences for the residential mortgage market.

Covered Bonds

Given that securities issued by financial institutions or their affiliates are excluded, we believe it would be helpful to allow highly rated covered bonds to be considered as Level 2B liquid assets in accordance with the criteria put forth in the joint comment letter submitted by the Securities Industry & Financial Markets Association and the

Structured Finance Industry Group, and in the Trade Associations' comment letter. A framework for inclusion should provide an incentive, rather than a disincentive, for the development of a covered bond market.
We note that the risk characteristics of covered bonds are fundamentally different from securitizations, in addition to the fact that covered bonds are also more transparent and straightforward. In light of their characteristics, it is not unsurprising, as research[2] has confirmed that the supply of liquidity provided by covered bonds in Europe during the credit crisis was not significantly interrupted.

Corporate Securities

Under the Proposal, the scope of both corporate debt and corporate equity is too narrowly drawn for purposes of inclusion into HQLA. Regarding corporate debt, the Proposal should be revised to include public debt if the issuer's equity (rather than its debt securities) is publicly traded. Publicly traded debt securities are relatively rare, yet unlisted debt securities of well-know public companies are actively traded in liquid markets. We also believe that appropriately liquid equity securities outside the scope of the Standard & Poor's 500 should qualify as Level 2B assets. Again, we are concerned about market distortions with respect to a relatively small group of favored equity issuers, which in connection with the large amounts of liquidity required to be held under the Proposal, is likely to lead to inefficient market distortions with unforeseeable consequences.

2. Calculation of Total Net Cash Outflow

A "super equivalent" feature of the Proposal is the method for calculating the total net cash outflow amount. Under the Proposal the calculation differs significantly from the BCBS LCR framework approach, which uses total cumulative amounts of outflows and inflows at the end of the 30-day liquidity stress period. The Proposal takes a very different approach by using the outflows associated with the "worst day" in the rolling 30-day period - established based on a number of highly conservative outflow assumptions. We recommend that the Proposal's calculation approach be conformed to the international standard in order to maintain consistency and comparability

[2] Liquidity in Government versus Covered Bonds markets, by Jen Dick-Nielson, Jacob Gyntelberg and Thomas Sangill, Working Papers no 392, November 2012, available at http://www.bis.org/publ/work392.pdf

and that, if the Agencies' concerns regarding maturity mismatches are confirmed, the international standard should be enhanced accordingly. We believe that the "worst day" methodology, together with the Proposal's extremely conservative assumptions regarding both the timing of inflows and outflows as well as the outflow rates, is certain to overstate liquidity risk, resulting in trapped liquidity that cannot be put to productive use for the benefit of the economy.

Deutsche Bank also recommends that the Agencies undertake a quantitative impact study to develop an empirical understanding of the risks of maturity mismatches within the Basel LCR's 30-calendar day horizon. The possible consequences of addressing this risk before its full scope is known by overly conservative liquidity requirements may cause more damage to the financial system and the economy than the perceived risk could have on it.

3. Trapped Liquidity at Subsidiary Levels

Among the Proposal's features that exceed the BCBS LCR framework significantly, is the requirement to separately subject depository institutions with more than $10 billion in consolidated assets (**"Covered Subsidiaries"**) that are held by a Covered Companies with $250 billion or more in consolidated assets to a 100% LCR requirement on a standalone basis. As an FBO, we could be subject to separate LCR requirements (i) for the entire group, (ii) for the Intermediate Holding Company ("**IHC**") required to be established under the FBO Proposal, and (iii) for our Covered Subsidiaries. From a liquidity management perspective, this results in unnecessarily duplicative liquidity buffers within the organization and it is difficult to see which concerns drive this feature if the relevant bank holding company or ultimate parent has ample liquidity to function as a source of strength and support its subsidiaries. The inevitable consequence appears to be that excess liquidity will be trapped at Covered Subsidiaries, especially if the final rule were to apply the 75% cap on inflows, as currently required under the Proposal's Level 2 calculation caps and restrictive inflow/outflow assumptions regarding subsidiaries.

4. Concerns regarding the Accelerated Timeline for Implementation

Another "super equivalent" feature of the Proposal is the accelerated implementation timeframe compared to the BCBS approach. The latter, which was approved by numerous global regulators including the Agencies, requires an internationally active banking organization to have an LCR of 60% by January 1, 2015 and 100% by January 1,

2019. Even the more strict CRD IV approach by the European Union allows until January 1, 2018 for full compliance. The Proposal, in contrast, requires a Covered Company to comply with an LCR of 80% by January 1, 2015 and 100% by January 1, 2017.

We have two serious concerns regarding the accelerated timeline. First, we believe that the empirical evidence justifying the Agencies LCR shortfall conclusion is very limited. We respectfully suggest that the Agencies revisit the conclusion that US Covered Banks would only have a LCR shortfall of approximately $200 billion or provide greater detail on the assumptions underlying this estimate. According to the Proposal, the basis for the Agencies accelerated timeline is "the strong liquidity position many US banking organizations and other companies that would be subject to the proposal have achieved since the recent financial crisis."[3]

We are concerned that the conclusion relating to the strong liquidity position may be based on analysis (i) of the less stringent BCBS approach, and (ii) of only a subset of the Covered Companies that will likely have to comply with the Proposal. If the shortfall assumption is based on the BCBS approach, we have a number of concerns regarding its reliability, such as the multitude of material differences to the BCBS LCR in terms of the Proposal's more conservative approach regarding fundamental aspects of the LCR, for example (i) HQLA-eligibility of assets, (ii) net cash outflow percentages, (iii) calculation of net cash outflow amount ("worst day" methodology and associated inflow and outflow timing assumptions), and (iv) the fact that BCBS LCR does not require Covered Subsidiaries to meet the LCR on a standalone basis. Each of the aforementioned differences are not only key reasons why it will be impossible to have comparability in the US LCR across internationally active banking organizations unless such differences are aligned. Moreover these factors would have made it virtually impossible for the Agencies to truly determine with a high degree of accuracy that there is only a small shortfall in the LCR that will be needed by US banking organizations under a fully phased-in LCR.

In addition to the concerns with basing the LCR shortfall on the materially different BCBS approach, we are concerned that the estimate of the shortfall does not take into account any shortfall that may be present in FBOs that will likely be required by the FBO Proposal to form an IHC that has over $50 billion in consolidated assets or

[3] Preamble at 71821.

any entity that has recently been designated as a systemically important financial institution ("**SIFI**") by the Financial Stability Oversight Committee ("**FSOC**"). Without the inclusion of the approximately 18 IHCs and 3 SIFIs that will likely be subject to the Proposal, over 35% of the Covered Companies that will likely be subject to the Proposal will not have had its LCR shortfall included in the Agencies' estimate. Accordingly, the estimate of only a $200 billion shortfall in the LCR is likely significantly underestimated.

Second, the accelerated timeline disregards the comprehensive information technology improvements and related governance processes that are required under the multitude of current regulatory efforts affecting large and internationally active financial institutions. While we agree that information technology improvements will be helpful for the Covered Companies overall, there are limits to the level of acceleration that can be applied to projects of this scale and magnitude. Practical operational difficulties of implementing complex new systems which have to be properly developed and tested cannot be rushed without jeopardizing the outcome.

Following the Agencies' consideration of the aforementioned concerns, if the Agencies believe an accelerated implementation timeframe is warranted, the Agencies should first conduct a quantitative impact study that (i) is based on all Covered Companies that are expected to be subject to the requirements of the Proposal, (ii) calculates the LCR shortfall based on the requirements set forth in the Proposal, (iii) studies the risks and costs of liquidity regulation with respect to the larger economy, (iv) analyzes the cumulative effects and interplay of other ongoing regulatory initiatives relating to capital, leverage and other prudential standards, (v) studies the information technology improvements and governance processes required to comply with the Proposal, as well as the monetary cost associated with the same, and (vi) is released for public review and subject to public comment. Even if the basis for an accelerated implementation timeframe still holds true after such analysis, Deutsche Bank strongly urges the Agencies to truly consider the fact that doing so will make it impossible for there to be a truly level playing field LCR comparison across all internationally active banking organization until 2019 when the BCBS approach becomes fully phased-in (assuming the other major differences between the LCR BCBS approach and Proposal are ultimately aligned).

5. Frequency of Calculation and Reporting

Another notable example of the Proposal's departure from the BCBS LCR framework is the requirement that the LCR must be calculated at the same time on each business day.[4] We understand the Agencies' interest in this provision and we are not in principle averse to having this daily capability, especially during times of stress when this data would be particularly useful. However, we believe that it may not be necessary to perform the detailed calculations every single business day even during periods of ample liquidity. We would like to suggest that the Proposal be revised to follow the BCBS LCR framework under which the LCR is reported to the supervisors at least monthly, with the operational capacity to increase the frequency to weekly or even daily in stressed situations. We see no US-specific circumstances, such as higher volatility in available liquidity, that would make a daily calculation necessary but the requirement imposes significant operational burdens on financial institutions and ties up resources that could be use more effectively elsewhere.

We realize that reporting will be governed by a separate proposal and while we hope that the Agencies will not go forward with the daily calculation approach (and possibly require daily reporting), we would like to note that detailed transaction level daily liquidity data collection otherwise exist or are proposed, such as the Board's Proposals relating to the Complex Institution Liquidity Monitoring Report and Liquidity Monitoring (FR 2052a and FR 2052b) or the Mandatory Report of Selected Money Market Rates (FR 2420)[5]. Multiple daily calculations and reports with respect to the same data set are duplicative and create a much greater burden for the affected institutions without enhancing the data's usefulness. While we in no way question the Board's need for the requested information in fulfilling its mandate, we would like to respectfully suggest that the Board evaluate the overall needs for reporting with a view to coordinating and consolidating the requirements. If the reporting of this data were to be provided in one single reporting format, then one single source of data would exist to be used by the Board across its various disciplines and departments. Eliminating these duplicative requirements would greatly help institutions to allocate increasingly scarce resources and provide high quality data.

[4] It is our understanding that specific disclosure requirements are forthcoming in a separate US proposal.

[5] Deutsche Bank's response to this NPR is available at: http://www.federalreserve.gov/SECRS/2013/September/20130903/ICP-201312/ICP-201312_082613_111363_387229250091_1.pdf

6. Situation of LCR below 100%

We also suggest that the Agencies carefully consider the possibility that when an institution's LCR falls below 100% that this does not always indicate any real concerns regarding liquidity. While it would be ideal if the new regulatory landscape for financial institutions will avoid future times of stress, no matter how stringently large banking institutions are regulated, it is still possible that a situation of stress may affect the financial markets at some point in future. The inevitable rise of new and unknown risks - possibly arising from circumstances that are beyond the purview of banking regulation - are not foreseeable at this point. If a situation of stress were to arise, we are concerned that the requirement to publicly report an LCR below 100% would make the liquidity buffer de facto unusable in times of stress.

For example, in order to maintain the LCR at all cost a Covered Company would be willing to pay increasingly more for its funding, which would likely be interpreted by the markets as a sign of instability. In light of the fact that liquidity information is highly sensitive in the financial sector, we are concerned that media reports on a below 100% LCR may not fully appreciate the underlying reasons and complexities in the case of a temporary LCR shortfall, resulting in a "run" on the institution with potentially disastrous consequences and creating the instability that the Proposal is meant to prevent. We therefore strongly agree with the Agencies' view that public disclosure of the LCR is not appropriate and we recommend that the public disclosure at bank holding company level be carefully tailored to avoid such situations.

Recommendations

1. Broaden the HQLA definition to avoid market distortions for liquid assets of high credit quality and the unintended negative consequences for the efficient functioning of the capital markets and the broader economy.
2. Align the calculation of Total Net Cash Outflows in the final rule with the BCBS LCR framework to avoid a significant overstatement of the liquidity risk and ensure a degree of comparability with the BCBS LCR.
3. Reconsider the true need for separate LCR requirements at Covered Companies and instead permitting greater reliance on support by the ultimate holding company.
4. Reconsider the accelerated timeline for compliance with the LCR requirement in light of the severely limited visibility regarding its actual impact and the compounding effects of multiple new regulatory requirements.

5. Revisit the Proposal's daily calculation requirement regardless of the actual liquidity environment and evaluate the streamlining of information to be provided to Agencies.
6. Examine the impact of maintaining a 100% LCR in times of stress together with LCR disclosure to the public, while taking into account the potential impact on credit intermediation and economic stability.

Deutsche Bank appreciates the opportunity to provide the Agencies with the foregoing comments and recommendations regarding the Proposal.

Respectfully submitted,

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