



BOARD OF GOVERNORS  
OF THE  
**FEDERAL RESERVE SYSTEM**  
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

January 29, 2010

Andrew S. Baer, Esq.  
Sullivan & Cromwell LLP  
1701 Pennsylvania Avenue, NW  
Washington, D.C. 20006-5805

Dear Mr. Baer:

This letter concerns the notice filed September 9, 2009, under section 4 of the Bank Holding Company Act (“BHC Act”)<sup>1</sup> by Deutsche Bank AG, Frankfurt, Germany, and Taunus Corporation, New York, New York (together, “Deutsche Bank”), to (1) enter into physically settled tolling agreements with power plant owners (“Energy Tolling”); and (2) provide energy management services to owners of power generation facilities under energy management agreements (“Energy Management Services”), all in the United States.

Deutsche Bank is a foreign bank organized under the laws of Germany and is a financial holding company (“FHC”) for purposes of the BHC Act. In the United States, Deutsche Bank currently engages in commodity derivatives activities that are permissible for bank holding companies under the BHC Act (“Commodity Derivatives Activities”)<sup>2</sup> and also provides financial and investment advisory services for derivatives transactions (“Derivative Advisory Services”) that are permissible for bank holding companies under the BHC Act. The Board previously authorized Deutsche Bank to engage in physical commodity trading activities (“Physical Commodity Trading”) as an activity

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<sup>1</sup> 12 U.S.C. § 1843.

<sup>2</sup> See 12 U.S.C. § 1843(k)(4)(F).

that is complementary to Commodity Derivatives Activities.<sup>3</sup> Deutsche Bank conducts Physical Commodity Trading primarily through a nonbank subsidiary, DB Energy Trading LLC (“DBET”), Wilmington, Delaware.

Deutsche Bank has requested approval to expand DBET’s activities to include Energy Tolling. Under the energy tolling agreements to which Deutsche Bank would be a party, Deutsche Bank would make periodic fixed payments to the owner of a power generation facility (“capacity payments”) in exchange for the right to all or part of the plant’s power output. Deutsche Bank would also generally supply fuel and make payments to cover the owner’s variable costs plus a profit margin. The plant owner, however, would retain control over the day-to-day operations of the plant and physical plant assets at all times.<sup>4</sup>

Deutsche Bank has committed to conduct Energy Tolling activities in accordance with the restrictions, definitions, and conditions previously imposed by the Board on the conduct of those activities. In connection with the Board’s approval of Deutsche Bank’s Physical Commodity Trading activities, Deutsche Bank committed to the Board that it will limit the aggregate market value of physical commodities that it and any of its subsidiaries hold at any one time to 5 percent of Deutsche Bank’s tier 1 capital. Deutsche Bank also has committed to include the present value of capacity payments associated with Energy Tolling contracts in that 5 percent limit. As a result, Deutsche Bank’s potential exposure to commodity price risk would not increase by engaging in Energy Tolling activities.

Deutsche Bank has also requested approval to provide Energy Management Services pursuant to an energy management agreement with a power plant owner as an activity that is complementary to its Commodity Derivatives Activities and Derivative Advisory Services. As an energy manager, Deutsche Bank proposes to provide transactional and advisory services to power plant owners. The transactional services would consist primarily of acting as a financial intermediary, substituting its credit and liquidity for those

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<sup>3</sup> Deutsche Bank AG, 92 Federal Reserve Bulletin C54 (2005).

<sup>4</sup> [The footnote has been redacted.]

of the owner to facilitate the owner's purchase of fuel and sale of power. Deutsche Bank's advisory services would include providing market information to assist the owner in developing and refining a risk-management plan for the plant and providing a variety of administrative services to support these transactions.

Deutsche Bank has committed to provide Energy Management Services in accordance with the restrictions, definitions, and conditions previously imposed by the Board on the conduct of those activities. Deutsche Bank has made all the commitments that were required in connection with the Board's previous approvals of Energy Management Services. Those commitments generally limit the scope of the activities that Deutsche Bank may perform as energy manager to ensure that Deutsche Bank incurs only those risks that are consistent with the agency nature of the Energy Management Services and limit the revenues attributable to Deutsche Bank's Energy Management Services to 5 percent of Deutsche Bank's total consolidated operating revenues.<sup>5</sup> The authority to act as energy manager should not expand Deutsche Bank's ability to engage in physical commodity trading beyond what it is currently allowed to do under its Physical Commodity Trading authority.

As noted, the Board previously has determined pursuant to Regulation Y that Energy Tolling and Energy Management Services complement the financial activity of engaging in Commodity Derivatives Activities and Derivatives Advisory Services.<sup>6</sup> The Board has delegated its authority to the Director of the Division of Banking Supervision and Regulation ("Director"), with the concurrence of the General Counsel, to approve proposals by an FHC to engage in Energy Tolling and to provide Energy Management Services when the proposal meets the conditions imposed by the Board in approving previous proposals and raises no significant legal, policy, or supervisory issues.

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<sup>5</sup> "Total operating revenues" is defined as net interest income and all non-interest revenue, including net securities gains but excluding extraordinary items.

<sup>6</sup> See The Royal Bank of Scotland Group PLC, 94 Federal Reserve Bulletin C60 (2008), and Fortis S.A./N.V., 94 Federal Reserve Bulletin C20 (2008).

As noted, Deutsche Bank has committed to conduct Energy Tolling and provide Energy Management Services in accordance with the restrictions, definitions, and conditions previously relied on by the Board in authorizing those activities. Deutsche Bank also has established and maintained policies and systems for monitoring and controlling the risks associated with Energy Tolling and Energy Management Services and is expected to continue to maintain effective risk-management policies and systems for each of those activities. Approval of the request to engage in Energy Tolling and Energy Management Services likely would benefit Deutsche Bank's customers by enhancing Deutsche Bank's ability to provide efficiently a full range of commodity-related services consistent with existing market practice. Approval also would enable Deutsche Bank to improve its understanding of physical commodity and commodity derivatives markets and its ability to serve as an effective competitor in physical commodity and commodity derivatives markets.

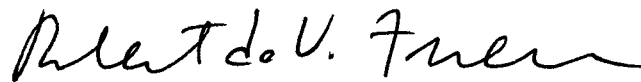
Based on the record, including all the commitments made to the Board in connection with the notice and the conditions imposed by the Board in previous cases, the Director, with the concurrence of the General Counsel, has determined that (1) the proposed Energy Tolling is complementary to Deutsche Bank's Commodity Derivatives Activities and (2) the proposed Energy Management Services are complementary to Deutsche Bank's Commodity Derivatives Activities and Derivatives Advisory Services. In approving the proposed Energy Tolling and Energy Management Services, the Director, with the concurrence of the General Counsel, also has determined that the proposed activities do not pose a substantial risk to the safety or soundness of Deutsche Bank, its depository institutions, or the financial system generally and can reasonably be expected to produce benefits to the public that outweigh any potential adverse effects.

In making these determinations, the Director relied on all the information, representations, and commitments provided by Deutsche Bank to the Board in connection with the notice. These commitments and conditions imposed are critical to the determination that Energy Tolling and Energy Management Services would not pose a substantial risk to the safety and soundness of Deutsche Bank, other financial institutions, or the financial system generally. These determinations also are subject to all the conditions set forth in

Regulation Y, including those in section 225.7,<sup>7</sup> and to the conditions contained in the Board's previous decisions noted above. These commitments and conditions shall be deemed to be conditions imposed in writing in connection with the notice and this approval and, as such, may be enforced in proceedings under applicable law.

These determinations should not be construed as granting relief from any other conditions or commitments to which Deutsche Bank may be subject. In addition, these determinations are subject to the Board's authority to require modification or termination of the activities of a bank holding company or any of its subsidiaries as the Board finds necessary to ensure compliance with, or to prevent evasion of, the provisions and purposes of the BHC Act and the Board's regulations and orders issued thereunder.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Robert deV. Frierson". The signature is fluid and cursive, written in a professional style.

Robert deV. Frierson  
Deputy Secretary of the Board

cc: Federal Reserve Bank of New York

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<sup>7</sup> 12 CFR 225.7.