



17 December 2015

Svein Andresen
General Secretary
Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland
fsb@bis.org

Deutsche Bank AG
Winchester House
1 Great Winchester Street
London EC2N 2DB

Tel: +44 20 7545 8000

Direct Tel +44(20)754-58380
Direct Fax +44(20)754-58553

Dear Mr. Andresen,

Deutsche Bank response to consultation on guiding principles on the temporary funding needed to support the orderly resolution of a global systemically important bank (G-SIB)

Deutsche Bank (DB) welcomes the Financial Stability Board's (FSB) proposed guiding principles on temporary funding in resolution and appreciates the important work already done in this area to lay the groundwork for orderly resolution of G-SIBs (e.g. TLAC etc). These principles not only help a recapitalised bank going through resolution to access financial markets and gain market confidence to ensure continuous functioning of its critical operations, they are also important for all other market participants in a situation of severe market stress. In addition, the principles will help banks in focusing the detailed funding analysis that needs to be conducted in the context of resolvability and also helps to reduce some of the outstanding uncertainties about the funding resources bank can potentially rely on.

Banks have already done a lot of effort to improve their recovery and resolution planning processes, which are embedded in their overall risk management framework. Our analysis around funding needs in a post resolution scenario has shown that there are various factors that will be pertinent to the potential funding needs in resolution. In order for a bank to anticipate what post-resolution restructuring will require in terms of potential funding, the following factors about the circumstances that led to resolution will have to be taken into consideration:

- The market conditions at the time of resolution: Systemic crisis versus idiosyncratic, local versus global stress scenario and the type of institutions that are affected
- The shape of the bank at the time of resolution – The bank's management will likely have taken actions during the recovery phase (such as disposals) to restore viability and also regulators might have already interfered in the recovery phase.

We therefore request greater recognition that it is not possible to anticipate what post-resolution restructuring will require, as this will vary depending on the circumstances that led to the firm's failure, market conditions and the shape of the bank at the point of resolution, as we have described in more detail in our response to the FSB guidance on arrangements to support operational continuity in resolution. This also means there is no 'one size fits all' approach to the funding picture. Finally, we have identified some of the practical considerations of the timing and details of funding needs, the credibility of private sources and operational and legal considerations related to public sources of funding. Our detailed responses to the questions are set out in the attached annex. Please let us know if you have any questions or if you would like to discuss any points further.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Daniel Trinder'.

Daniel Trinder
Global Head of Regulatory Policy

Chairman of the Supervisory Board: Paul Achleitner.



Annex - DB responses to consultation questions

Q1: Are the principles on temporary funding in resolution identified in the report appropriate? What additional elements, if any, should be considered for inclusion?

We are generally supportive of the six principles on temporary funding needs of GSIBs in resolution. Additionally, we would flag that it has to be recognised that new capital and liquidity rules, enhanced stress testing requirements as well as enhanced disclosure rules have a positive effect on the banks overall funding capacity. New resolution regimes also have the beneficial effect of shortening the time required to restore market confidence as a firm has been recapitalised and can effectively be declared as solvent. This ensures that funding frameworks ensure sufficient liquidity, even in stress situations, to continue its operations and avoid a resolution event triggered by a liquidity shortage. Over the last couple of years banks have constantly improved their stress testing framework and reporting capability allowing banks to assess liquidity and funding position on a daily basis, which also ensures greater transparency over an institution's liquidity position during a recovery or resolution event.

Q2: What are your views on the most effective means for maximising the availability and use of private funding sources in resolution in a manner consistent with orderly resolution? Are there particular formats of private funding that should be considered?

We agree with the general principle that where possible, private funding sources should be further assessed and developed to reduce the risk of funding acting as an impediment to the overall credibility of a bank's resolution plan.

In some jurisdictions, granting new credit facilities provided by private market participants is supported by a super priority funding mechanism which ranks senior to all other claims previously committed. However, in most jurisdictions, it is not clear whether these types of private funding arrangements are available for banks in resolution, which means liquidity providers might be less willing to engage in the immediate provision of new funding. Therefore, further legal and regulatory adjustments are required to make such funding sources operational. As for private consortium funding, we are less confident that this would be a credible source of funding in a situation of severe, systemic, stress.

It should also be noted that, in the context of private funding sources, cost of funding and investor appetite is already affected on a going concern basis by new liquidity regulations (e.g. Net Stable Funding Ratio (NSFR), Liquidity Coverage Ratio (LCR), Total Loss Absorbency Capacity (TLAC)). The effect of these in a stressed situation or resolution scenario is untested and uncertain.

Q3: In cases where public sector backstop funding is needed in resolution, how should such funding ideally be structured so as to minimise the risk of moral hazard, reduce the need for temporary liquidity support from the public sector, and allow the firm to return to private sector funding (i.e. timing of disbursements, term of funding, pricing, collateral requirements, potential use of public sector guarantee authority where available, exit incentives, etc.)?

We believe it needs to be recognised that most funding needs in a post resolution scenario will mostly be driven by new and/or rolling business activities only. We would also flag that the very existence of the possibility public sector backstop funding would help to restore market confidence and the guiding principles will be an effective measure to set the framework for its provision. However, this does not mean that banks will have to resort to these public sector backstops. As such, we agree that the guiding principles should be seen as a framework and/or tool kit to restore market confidence, where firms and/or resolution authorities can potentially rely on the agreed tools



in place, but they do not necessarily have to be used. In this context, clear communication from the resolution authority is needed at the point of resolution about the preferred operational mechanism to deliver the most appropriate post resolution funding structure.

Second, while bail-in removes the risk of moral hazard by ensuring creditor participation and restoring the solvency of the bank through recapitalisation, we would flag that it also affects market confidence and the bank's ability to access private funding sources. We therefore believe that temporary guarantees may be needed to restore market confidence. This solution is particularly suitable for an SPE approach which relies on centralised capital markets access. However, this does not need to come from public sources of funding. In Europe, Bank Recovery and Resolution Directive (BRRD) Art. 101 provides for the ability of the Single Resolution Fund (SRF) to provide funding guarantees as an additional resolution tool, providing confidence to the market in the early stages of the resolution. In this structure, a guarantee would be priced at market standards and the potential losses for the SRF should be minimal given the recapitalisation. Even in the event of a loss of repayment, the SRF would be replenished by the respective banks covered by the SRB and thus ensure that no public money would be at risk. However, the FSB also flags that this arrangement should be in line with national law and regulations. And in the case of European law, funding from resolution funds (also in the form of a guarantee) may be considered state aid and there are limitations to the debt securities for which a guarantee can be provided. It is essential that national resolution authorities ensure that there are no legal or operational impediments to provision of such privately-backed funding arrangements in resolution.

Q4: Do you agree with the suggested elements of resolution planning for temporary funding in Section 5? What additional elements, if any, should be considered for inclusion?

While we agree more information is needed in a bank's resolution plan around temporary funding needs, some of the elements described under principle five are dependent on the type of stress that has taken the bank to the point of non-viability. Decisions about the most appropriate source(s) of funding, including the exact combination of them, will partly have to be determined as part of the resolution weekend / stabilisation process. There are various interdependent processes (contingency and recovery planning, valuation and stress testing, operational assessments and other monitoring exercises around the point of non-viability) which will have to be aligned and exercised before the potential post resolution funding decisions can be identified.

Therefore, it makes it hard to take pre-resolution actions in advance of the resolution weekend and anticipate the exact identification of assets that can be use for collateralised facilities of a specific funding provider. Instead, flexibility to decide and act at that point should be built into the resolution plan for temporary funding. This requirement should be part of the overall resolvability assessment dialogue between the bank and its home resolution authority.

Q5: Do you agree with the approach outlined for cross border cooperation between home and host jurisdictions? What additional principles or procedures, if any, should be considered?

We reiterate our support for the section which confirms that for a single point of entry (SPE) resolution strategy the home resolution authority should be responsible both for exercising resolution tools and for coordinating the provision of liquidity. To further facilitate the execution of cross border cooperation in the area of funding provisions, cooperation agreements between authorities should also be further developed and enhanced to focus specifically on funding needs. This is provided for in the BRRD, especially where cross-border use of resolution funds is anticipated. Clear ex-ante definition of responsibilities and agreement on the home resolution authority strategy, and how the home and host authority will coordinate to ensure free movements of funds would avoid fragmented



and decentralised liquidity management, which is of utmost importance to effective resolution for SPE banks with centralised liquidity and collateral management.

One area which supports cross-border funding in recovery and resolution planning is the creation of cross currency central bank swap facilities. These swap facilities helped to ensure swift execution of foreign exchange swaps and bank were able to manage liquidity in other currencies in a more efficient manner. Continued access to these should be explicitly considered in home and host authorities cooperation agreements.

Q6: Are there any other actions that could be taken by firms or authorities with regard to the temporary funding needed to support the orderly resolution of a G-SIB?

Nothing in addition to what has already been described in the responses to the above questions.