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Secretariat of the Financial Stability Board
c/o Bank for International Settlements
CH-4002 – Basel
Switzerland

Wednesday, 21 September 2016

Consultative Document – Proposed policy recommendations to address structural vulnerabilities from asset management activities

Dear Sir/ Madam,

Deutsche Bank welcomes the opportunity to provide comments on the above consultation. We strongly support the Financial Stability Board (FSB)'s approach in seeking to address the residual risks arising from asset management at the global level.

We have contributed to the German Investment Funds Association's (BVI) response to this consultation, and will not repeat those detailed answers to those questions; however we would like to provide some additional comments in support of that response.

We agree with the focus on risks arising from activities rather than institutions. As outlined in the consultative document, asset managers act as agents on behalf of their clients and do not usually use their balance sheets in transactions between their clients and the marketplace.

Looking forward to the finalisation of the draft recommendations and subsequent process whereby the International Organisation of Securities Commission (IOSCO) updates its guidance for funds, it will important to ensure consistency with existing requirements. The FSB approach could usefully draw on the experience of the European Union framework, which addresses the same risks outlined in this consultation, through the Undertaking for Collective Investment in Transferrable Securities Directive (UCITS)[1] and the Alternative Investment Fund Managers Directive (AIFMD)[2]. These legislative texts set strict requirements on organisation, risk management, leverage, authorisation of funds and, for UCITS funds, the composition of portfolios. As evidenced by an April 2016 report by the International Capital Markets Association (ICMA) and the European Fund and Asset Management Association (EFAMA), these requirements have proved effective in both normal and exceptional circumstances. [3]

[1] Directive 2014/91/EU
[2] Directive 2011/61/EU
[3] https://www.efama.org/Publications/EFAMA_AMIC_Report_Managing_Fund_Liquidity_Risk_Europe.pdf

In the United States, the Securities and Exchange Commission (SEC) is also working on a similar framework. Rules such as portfolio limits on the use of derivatives by funds, requirements to establish liquidity risk management programs and mandatory stress-testing protocols are expected by year-end, while work on data reporting and transition planning requirements for asset managers is currently underway.

We agree that further work on system-wide stress testing could be beneficial to gain more insight on risks building at a macroprudential level. In addition to this work, simple and consistent measures of leverage in funds developed by the International Organisation of Securities Commission (IOSCO) would also increase market transparency and make it easier for comparison across jurisdictions. The AIFMD reporting requirements for Alternative Investment Funds (AIFs) which employ leverage on a substantial basis[4] could be taken into account as a basis for further work at the international level. They include information on the overall level of leverage employed by each AIF managed, a break-down between leverage arising from the borrowing of cash or securities vs. leverage embedded in financial derivatives, as well as the extent to which the AIF's assets have been reused under leverage leveraging arrangements.

Overall, when developing these new measures and in updating current guidance and addressing the risks mentioned in this consultation, a comprehensive analysis of existing measures across jurisdictions will be key. This is particularly important for reporting, where the duplication of rules may obscure risk management for regulators and constitute an unnecessary burden for firms.

Yours sincerely,

Matt Holmes

Global Head of Regulatory Policy

[4] defined as a leverage factor above 3:1 relative to Net Asset Value (NAV)