



26 September 2013

Financial Stability Board

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Dear Sir / Madam,

Financial Stability Board Consultative Document on Principles for an Effective Risk Appetite Framework

Deutsche Bank (**DB**) welcomes the opportunity to share with the Financial Stability Board (**FSB**) our views on the consultative document on the draft Principles for an Effective Risk Appetite Framework (the **Principles**).

We support the FSB's goal to enhance supervisory oversight of firms by ensuring banks establish an effective risk appetite framework (**RAF**) and we broadly agree with the concepts outlined in the Principles. That said, we have comments on the risk appetite statement, risk limits and the internal audit obligations.

Section 2 - Risk appetite statement

DB agrees that the risk appetite statement should determine the firm's maximum level of risk based on its "risk appetite, risk capacity, and risk profile". However we believe that the definition of "risk appetite" should not require the specification of "types of risk".

We note that DB's Risk Appetite Tolerance levels - which we construe to be the equivalent of "risk capacity" under the Principles - are defined at group-level, and focus on key ratios which ensure capital adequacy (risk bearing capacity and Core Equity Tier 1 ratios) and liquidity.

Separately, DB also undertakes a Risk and Capital Demand Plan which sets out the aggregate level of risk the Bank is willing to assume to achieve its strategic objectives. In that plan, risk and capital demand is differentiated by risk type on a group-level, as well as on business division and business unit levels, and provides flexibility for opportunistic reallocations of risk.

Introducing "types of risk" within "risk appetite" reduces the ability to efficiently monitor and control the processes underpinning the RAF. Therefore we recommend that "risk appetite" focus only on capital adequacy and liquidity, so as to align with the definition of "risk capacity" outlined in the Principles.

Section 3 - Risk limits

While DB's current risk appetite framework is largely in line with the Principles, we are concerned that a requirement to establish risk limits at a legal entity level is too broad-reaching. If construed literally, the requirement for risk limits appear to apply to all legal entities regardless of materiality. We recommend that the risk limits focus on legal entities with significant or material business activity, in line with the requirement to manage risk on a business line basis. Significance and



materiality should be determined by individual firms in accordance with their internal assessment of risk appetite, (above-defined) risk capacity and risk profile, which in turn is based on criteria such as capital, liquidity and earnings. We also suggest that the FSB consider consulting on and specifying guidelines to determine significance and materiality.

We are concerned that the proposed requirement to cover “material risk concentrations at the firm-wide, business line and legal entity levels” is too rigid, and may result in a significant burden and create adverse implications potentially without meeting the intended objective. DB believes that concentration limits are more effectively managed when they are set at a group-level to allow for a holistic and inclusive approach to risk management, capturing concentration risks in aggregate across the bank’s platform. We recommend the FSB allow for firms to include material risk concentrations at a level which best fits with and reflects the bank’s risk appetite, risk capacity and risk profile.

Section 4 - Internal audit obligations

In DB’s opinion, the points currently set out in Section 4.6 are interrelated and overlap in places. We also believe the assessment timeline proposed in the Principles is somewhat contradictory and should be made consistent.

The RAF should be consistent with finalised FSB principles, emerging supervisory rules and guidance regarding the RAF. However supervisory expectations are not always clear and aligned between supervisors. Additional clarity on supervisory expectations would be helpful.

We agree that Internal Audit should report on deficiencies of implementation of the RAF, and that internal audit reporting mechanisms should allow for this. It is important that reporting mechanisms that are the responsibility of the second line of management should be kept distinct and not confused with responsibilities to be undertaken by the third line.

With regard to reporting of alignment of risk appetite and risk profile with risk culture, audit work should continue to focus on design and operating effectiveness of controls. This would correspond, in practice, to the assessment of management and governance frameworks.

We trust you find our comments helpful and would be happy to discuss further any part of our response.

Yours sincerely,

Andrew Procter
Global Head of Compliance, Government and
Regulatory Affairs