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25 September 2012

Ms. Susan M. Cosper Technical Director File Reference No. 2012-200 Financial Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116 U.S.A. director@fasb.org

File Reference No. 2012-200, Proposed Accounting Standards Update: Financial Instruments (Topic 825): Disclosures about Liquidity Risk and Interest Rate Risk

Dear Ms. Cosper:

Deutsche Bank appreciates the opportunity to provide comments on the Proposed Accounting Standards Update (Topic 825): Financial Instruments: Disclosures about Liquidity Risk and Interest Rate Risk (Proposed ASU).

Deutsche Bank prepares its consolidated financial statements under International Financial Reporting Standards (IFRS). It also has US based subsidiaries (collectively "DB") that issue stand-alone financial statements prepared in accordance with US GAAP. In this letter, we provide comments primarily from the perspective of our US entities, but are also mindful of the global focus on accounting convergence. Accordingly, we have also considered the impact such disclosure requirements would have on our consolidated financial reporting under IFRS.

DB is supportive of current international efforts to improve risk disclosures across a number of areas through the work of the Financial Stability Board (FSB) and others. While we appreciate that the overall objective of the Proposed ASU is to provide users of financial statements with more decision-useful information about entity-level exposure to liquidity risk and interest rate risk, we feel that international consistency should take precedence in this case. It is important that any new disclosures under US GAAP be aligned with the outcome of other international work to ensure comparability across firms and jurisdictions. Therefore, we are concerned that the Proposed ASU, with its current requirements, will

not achieve FASB's intended goal and should wait until the FSB has finalized its disclosure templates before taking this initiative forward.

We outline our concerns and views as follows:

## Liquidity Risk Disclosures:

International consistency will be essential.

In general, DB supports the objective of greater disclosure on liquidity risk. DB co-chairs the Enhanced Disclosure Task Force (EDTF) of the FSB which is in the process of finalizing new templates on Liquidity Risk Disclosure by middle to the end of October 2012. Implementation of many of these new disclosures on liquidity risk will start for the year ended December 31, 2012 and will continue for the years thereafter. DB and other industry stakeholders have encouraged the EDTF to allow for an appropriate level of narrative and qualitative text to accompany quantitative disclosures. International consistency will be important in this context to ensure that liquidity disclosures more closely reflect the varying approaches to the management and measurement of liquidity risk. Therefore we recommend that the FASB withdraw the current proposal until the international framework has been finalized.

Contractual maturity

One element of the proposed ASU where we believe greater clarity will be needed to achieve comparability is around the definition of maturity in the ASU. Although the ASU refers to expected maturity, the definition is neither based on expected timing of sale, nor on internal modeling assumptions. It seems to be closer to contractual maturity. This would be aligned with the EDTF proposal which is positive from a consistency perspective.

The proposed liquidity risk disclosures do not converge with IFRS 7

DB prepares its consolidated financial statements in accordance with IFRS, including providing disclosures of various risks under IFRS 7 "Financial Instruments: Disclosures" in our Form 20F filing with the SEC. We believe that the IASB and the FASB should continue to work together towards convergence, not to create another divergence in standard setting. To do otherwise would not promote FASB's objective of enhancing comparability. For the interests and benefits of global investors in financial institutions, we recommend the IASB and the FASB join forces with the Basel Committee and the FSB in developing consistent accounting standards for liquidity risk disclosures.



## **Interest Rate Risk Disclosures:**

• Interest rate risk disclosure should reflect market risk management best practice

Similar to the points regarding the liquidity risk disclosures, the proposed interest rate risk disclosures, such as re-pricing gap analysis, do not reflect how DB manages interest rate risk. DB views interest rate exposure as a component of its market risk management strategy, which is monitored and managed by individual business segments / product lines. To aggregate the interest risk related data and present it in the proposed format would be operationally challenging. Most important, we believe that the proposed re-pricing gap analysis is no longer a useful metric for interest risk management because it ignores the optionality of financial instruments and the effects of hedging.

In addition, since not all of the financial products behave in the same way as interest rate, we do not believe that IR01 (i.e. PV01) is a comprehensive measure of risk management for certain financial instruments. For instance, for some assets such as high yield corporate bonds, IR01 is a somewhat misleading measure. Although the IR01 calculation methodology with respect to interest rate sensitivity is the same for these bonds, the predominant risk drivers are credit spread/default risk. We often observe in the market that substantial movements in interest rates do not in fact lead to a material change in high yield bond pricing and hence our view of risks. As a consequence we are concerned that the proposed analysis is too simplistic and may be misleading.

 IFRS 7 permits management judgment in providing alternatives for interest rate sensitivity analysis

Under IFRS 7, if an entity prepares a sensitivity analysis, such as value-at-risk (VAR), which reflects the interdependence between risk variables and uses it to manage financial risks, the entity is permitted to use that sensitivity analysis as an alternative disclosure in place of interest rate sensitivity. DB provides VAR and stressed VAR (under Basel 2.5) in the MD&A of DB's Form 20F filings with the SEC, which shows interest rate risk as a component of VAR together with equity price risk, foreign exchange risk, commodity price risk and diversification effect. Because of the dynamic nature and the inter-relationship of the market risks in today's market environment, we believe that VAR is a better measure of interest rate sensitivity and is more representative of DB's market risk management. Notwithstanding the operational difficulty noted above, if DB US entities disclose interest risk sensitivity as required by the proposed ASU, it would present not only inconsistent, but also possibly misleading information to the users of financial statements. Hence we urge the FASB to adopt a consistent approach with IFRS 7 regarding the interest rate sensitivity analysis.



In summary, we recommend the FASB withdraw the current proposal until the international framework has been finalized. We encourage the FASB work with the Basel Committee, the FSB EDTF, the IASB, and others to develop a set of disclosures of liquidity risk and interest rate risk that are truly reflective how these risks are monitored and managed by entities. We also believe that any new or enhanced disclosures should be appropriately made in the MD&A due to the forward-looking nature of the underlying assumptions.

In the meantime, should the FASB decide to proceed with its proposed ASU in the current form, we recommend that the comment deadline be extended by at least 60 days to provide additional time for preparers to more completely identify and describe both conceptual and practical concerns with various aspects of the disclosure requirements. For example, we are concerned that the definition of "expected maturity" could result in disclosures that do not faithfully represent a reporting entity's true sources of and requirements for liquidity, particularly as the definition would be applied to both available for sale instruments and derivatives. In addition, we believe there may be alternative measures of interest rate sensitivity that could be used to provide a more accurate picture of how an entity manages such risks. These are complex areas that present significant challenges in formulating disclosures that are both meaningful to the user and adequately concise. We believe that if the FASB does not accept our recommendation to withdraw the proposed ASU in order to work with other standard setters and regulators in this area, then we would be able to provide more meaningful comments and concrete suggestions with the additional time requested.

We hope you find our comments useful and relevant, and look forward to continue working with you in the future. Should you wish to discuss our comments in more detail, please do not hesitate to contact me at <a href="mailto:karin.dohm@db.com">karin.dohm@db.com</a> or by telephone at 049 69 910-31183.

Yours sincerely,

Karin Dohm

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