Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 2DB
Tel. +44 20 7545 8000

Francoise Flores
EFRAG Chairman
European Financial Reporting Advisory Group
35 Square de Meeus
B-1000 Brussels

Commentletters@efrag.org

18 March 2013

Re: EFRAG Comment Letter: Exposure Draft Classification and Measurement: Limited Amendments to IFRS 9

Dear Ms Flores

Deutsche Bank ("the Bank") appreciates the opportunity to provide feedback on the EFRAG draft comment letter to the IASB on Exposure Draft Classification and Measurement: Limited Amendments to IFRS 9 ("the ED"). Our key messages are as follows:

- While we have some suggestions about how the standard can be made more operational and best reflect the entity's business model, Deutsche Bank is overall supportive of the ED. We believe the standard represents an improvement to financial reporting and we are keen to get a final standard as soon as possible.
- We agree with the comments and suggestions made in the draft EFRAG letter regarding certain rate regulated products and other products, but we would prefer recommendations to be made to IASB about how to amend the principles, if required, rather than a list of products or features which may not meet the contractual cash flow characteristics test. In this context we believe that the IASB should engage in further discussions on such instruments and consider the possibility of broadening the definition of a benchmark instrument.
- We preferred the original 2 bucket business model in the original IFRS 9, although the three bucket model does improve convergence with US GAAP. We are supportive of limiting the Fair Value through OCI (FVTOCI) classification. As the two major classifications for financial assets are amortised cost and Fair Value through Profit or Loss, we would recommend that these two business models are defined, with FVTOCI being a residual category.
- We are strongly opposed to any attempts to reintroduce bifurcation of financial assets because past experience has shown that its application is complex and an immense burden on our organisation. Moreover any reintroduction of the bifurcation rules would conflict with the IASB's initial intention to reduce complexity in the accounting for financial instruments.

The appendix contains our responses to the specific questions posed by EFRAG in their consultation .

We hope you find these comments helpful. Should you have any questions or wish to discuss these matters further, please contact Karin Dohm on +49(69)910-31183 or via email to karin.dohm@db.com or Maria Nordgren on +44(207)547-5363 or via e mail to maria.nordgren@db.com

Yours sincerely,

Karin Dohm
Managing Director
Chief Accounting Officer
Deutsche Bank AG

Maria Nordgren
Global Technical Director
Accounting Policy and Advisory Group
Deutsche Bank AG

Appendix

Question 1:

Are you aware of any other financial assets that would not pass the contractual cash flow characteristics assessment and for which, in your view, measurement other than at FV-PL would provide more useful information? Is so please describe the financial assets and why you believe that measurement at other than FV-PL provides more useful information.

We are supportive of the principle based approach of the contractual cash flow characteristics assessment in the ED. Any principle based standard requires the application of judgment and interpretation. We understand that the standard should not provide illustrative examples for every product and we would not be in favour of a situation where exceptions to the rule for specific instruments are made.

However for the products identified in the draft EFRAG letter, namely certain rate regulated products, the issue is that the ED as drafted may be too narrow in its definition of benchmark instrument and as such certain rate regulated instruments would seemingly fall into the Fair Value Through Profit and Loss (FVTPL) category, as there may not be a benchmark instrument upon which to assess the subject contract in that particular jurisdiction.

Consistent with the draft EFRAG comment letter, we are also concerned that the ED as drafted may take a too strict definition of interest and time value of money. Specifically, it is unclear how factors such as liquidity, funding costs and other costs and a lender's profit margin, which are common features of many lending instruments, would be assessed in the contractual cash flow test.

While we are largely supportive of the contractual cash flow assessment as detailed in the amended IFRS, we would support that the IASB engage with stakeholders and look further into the matters regarding rate regulated instruments (specifically to consider whether it would be appropriate to widen the definition of benchmark instrument and the definition of time value of money.

Question 2:

Do you believe that the proposed clarification in the contractual cash flow characteristics assessment would decrease the number of financial assets to be measured at FV-PL in their entirety so that the request for reintroducing bifurcation in IFRS 9 is no longer justified? Please explain why.

For Deutsche Bank Group, we believe that in practice the clarification in the contractual cash flow characteristics assessment would only slightly decrease the number of financial assets to be measured at FVTPL.

Deutsche Bank was not supportive of re-introducing bifurcation in the original IFRS 9 and we retain that stance following amendment. Bifurcation increases complexity in the standard and proved to be operationally difficult to implement under current IAS 39. Therefore we are supportive of the contractual cash flow characteristics as drafted, and strongly opposed to re-introducing bifurcation rules for assets again. However we would encourage the Board to give further consideration to the rate regulated instruments as mentioned in our response to Question 1.

Question 3:

Are you aware of any circumstances in which, from your point of view, bifurcation might still be needed? If so, please provide a description of the financial assets concerned.

See response to Question 2. We are not supportive of reintroducing bifurcation due to the increased complexity. Any measure that reintroduces complexity would contradict the IASB's initial objective of reducing complexity. We are supportive of instruments being assessed in their entirety for the contractual cash flow characteristics assessment.

Question 4:

Do you believe that EFRAG should still urge the IASB to reintroduce bifurcation for financial assets on the basis of a principal and interest approach as described in paragraph 33, having in mind that finalising the appropriate requirements might delay the completion of IFRS 9, however not require re-exposure?

See our response to Question 2. No, we do not believe that EFRAG should suggest to the IASB to reintroduce bifurcation for financial assets. We are keen to get a final version of IFRS 9 Classification and Measurement as soon as possible and believe the proposed model is operational, barring the suggestions as outlined in Question 1.

Question 5:

View 1: Eligible debt instruments should be mandatorily measured at FV-OCI if they are held within a business model whose objective is both to collect contractual cash flows and to sell.

View 2: Entities should be able to elect at initial recognition to measure eligible debt instruments at FV-OCI if by doing so accounting mismatches are reduced or eliminated

Do you support View 1 or View 2 above? Please explain why.

We are more supportive of view 2.

We prefer the 2 business model approach in the original IFRS 9 without the FVTOCI classification; although we believe that the 3 model approach improves convergence to US GAAP.
However, we are concerned that the borders between the FVTOCI business model and the FVTPL business model are not well defined. Specifically, opportunistic sales to maximize yield will cause instruments to be FVTOCI versus opportunistic sales to maximize profit (will cause instrument to be at FVTPL). We believe this distinction is very subtle and requires further clarification/analysis before a final standard is finalised.

If FVTOCI is to remain, we would prefer either that the FVTPL business model is defined and the FVTOCI is the residual category. Alternatively we would be supportive of an option to move instruments from FVTOCI to FVTPL at initial recognition.

In terms of view 2 as detailed by EFRAG we would also be supportive of the 2 model approach and an option to classify instruments to FVTOCI if the related liabilities are also measured at FVTOCI and so designation results in a reduction in an accounting mismatch.

Question 6:
Do you believe that the introduction of the FVTOCI measurement category would increase the use of fair value relative to IFRS 9 (2010)? Please explain why.

Yes we believe more instruments will be at fair value under the exposure draft.

We had not fully implemented the original IFRS 9 nor had our impact assessments audited but we did believe that under the original wording then liquidity portfolios were more likely to be designated under the hold to collect (amortised cost) business model. We had interpreted sales due to a regulatory requirement not to violate the hold to collect principle in the original IFRS 9 (which is not the case in the ED)

The revised wording makes it clear that frequent sales due to any reason other than credit deterioration violate the hold to collect business model. As such we expect our liquidity portfolios that are not managed on a fair value basis to be FVTOCI under the new model whereas under the original version we most likely would have expected them to be amortised cost. However, from a Deutsche Bank Group perspective, the liquidity portfolio does not constitute a material balance in the light of the Group's total assets.