Deutsche Bank

2 April 2012

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Dear Mr. Farkas,

***DB Response to EBA discussion paper on draft regulatory technical standards on the capital requirements for Central Counterparties (CCPs) under the draft Regulation on OTC derivatives, CCPs and Trade Repositories***

Deutsche Bank (DB) welcomes the opportunity to comment on the EBA's discussion paper (DP) on draft regulatory technical standards (RTS) on capital requirements for CCPs.

The DP is focused on the risk methodologies that CCPs will use to calculate the additional capital held against market risk, credit risk and counterparty risk. DB is not in a position to comment on the methodologies that the CCPs intend to use. However, we note from the DP that the expectation is that they will be able to use complex internal models to calculate their own resources.

In that context, we would like to take this opportunity to reiterate our position that the use of the Current Exposure Method (CEM) for the calculation of a CCP's hypothetical capital is a flawed approach. As outlined by the industry in responses to the Basel Committee and to the European Commission on a number of occasions, the CEM is fundamentally inappropriate for measuring the risk of a clearing house towards its members. CCPs must be able to apply for, and receive, regulatory approval for a range of internal models as is proposed in the DP.

We understand that the Basel Committee is reviewing the use of CEM with the intention of finding an alternative approach. However, we are seriously concerned that CEM will still be put in place as an interim measure. We urge European regulators to ensure that the Basel Committee does not move forward with this approach, even as an interim measure, as doing so would result in a massive misallocation of capital and liquidity for all EU banks who act as clearing members. The impact is not limited to clearing members of UK-based CCP, but is Europe-wide.

We propose an alternative solution which would require institutions to apply a 50% risk weight to funded default fund contributions of qualifying CCPs. Given that Initial Margin is intended to cover scenarios at a 99% confidence level (and higher in Europe), it follows that there is less than a 1% probability that the default fund would be hit by a clearing member default. A 50% risk weight would require institutions to hold 4% capital against that risk. This would be the equivalent risk weight for a single-A rated corporate loan in an institution's banking book. The proposal is conservative given that many clearing houses are rated in the AA range.

While it may be opportunistic to use the publication of the DP to highlight the importance of this issue, we believe it is essential that the EBA and its members push for a coherent and appropriate framework for CCPs as we move into a mandatory clearing environment.

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We look forward to continued dialogue with the EBA on this issue.

Yours sincerely,

Andrew Procter
Global Head of Government and
Regulatory Affairs