Deutsche Bank Government & Regulatory Affairs



Cross-Border Resolution, Too Fragmented to Fail? 2 October 2015

Passion to Perform

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Resolution of a global bank

Several key dependencies and challenges exist to execute and develop effective resolution plans

Significant leadership and investment

- Top level management involvement
- Bank's business model determines the resolution strategy
- Multiple dimensions of the bank's operations and entities are impacted

Extensive internal change

- Heavy dependency on data quality, MIS and IT systems
- Operational inter-connectivity needs to be understood
- Banks required to drive bilateral contract solutions (e.g. continuity clauses)

Dependencies

- Maturity of regulations varies across jurisdictions
- Requirements likely to continue to evolve over next 1-3 years

Regulatory consistency and predictability

- Higher level of coordination required including non-CMG members
- Cross-border recognition of resolution regimes is essential

Cooperation and trust between authorities

External

Internal



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SPE or MPE?

A bank's business model determines the resolution strategy

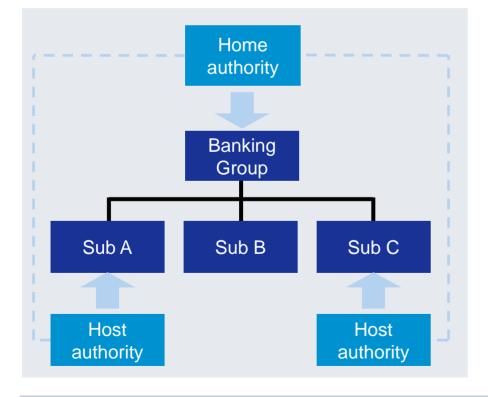


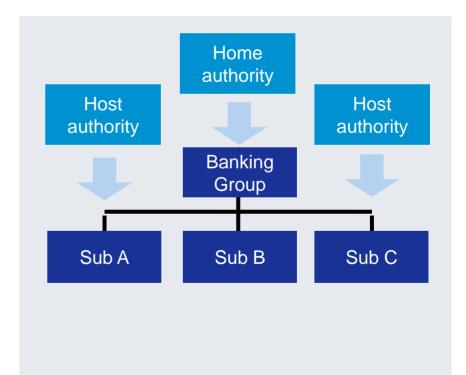
Single Point of Entry (SPE)

- Home authority coordinates the resolution process
- Absorption of losses by top parent entity
- Appropriate for banks highly integrated and centralised

Multiple Point of Entry (MPE)

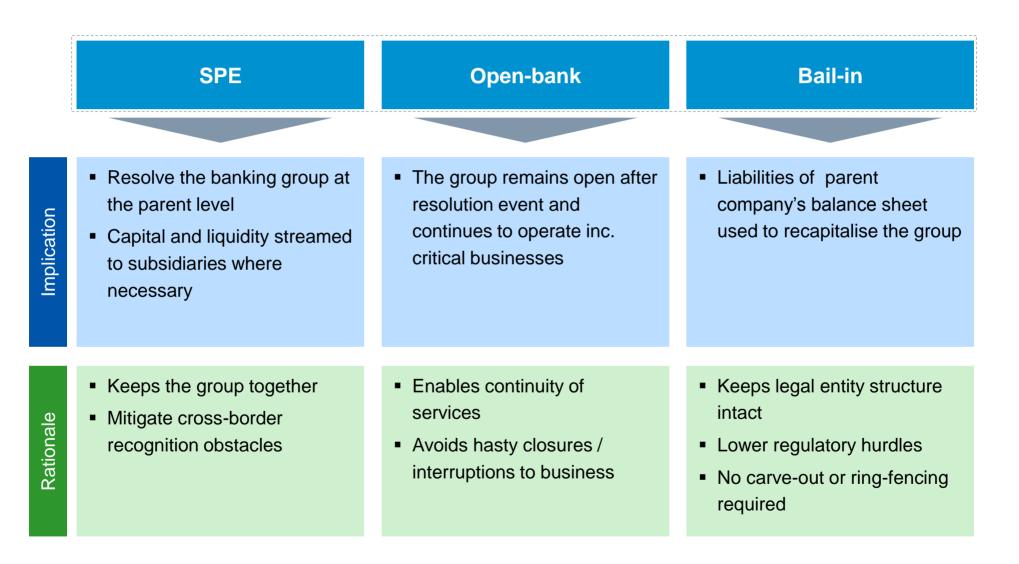
- Home and host authorities resolve different entities simultaneously
- Appropriate for banks with decentralised structure
- Requires heightened coordination





Example of SPE resolution strategy

Three pillars: Single Point of Entry, open-bank, bail-in



Achieving the resolution strategy

Multiple dimensions of the bank's operations are impacted



Authority alignment	Jurisdictional legal framework			Regulatory approvals		
Financial continuity	Bail-in operationalisation		Liquidity and funding			
Operational continuity	3rd party vendors	Intragroup services	IT owne & licer		Critical IT	Material FMIs*
Information & stabilisation	Contractual clauses	Financial contracts	Day 1 MIS**	Record retention	Booking model	Stabilisation playbooks
Governance & Communication	Communication	People retention	Critical fun Material e shared se	entities/	Governance & policies	Strategic alignment
Reducing complexity			Structural ope	rating model		

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Cross-border resolution in practice Three elements financial institutions need from authorities

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1. Regulatory consistency and predictability

2. Cross-border recognition of resolution regimes

3. Cooperation and trust among authorities

Regulatory framework Effective resolution planning relies on regulatory consistency and predictability



	Main legislation	Key features
EU	Bank Recovery & Resolution Directive (2014)	Broad statutory bail-in regime, supported by ex-ante financed resolution fund
Switzerland	Federal Banking Act (2012)	Powers to ensure SIFI resolvability plus CoCo requirements
USA	Dodd-Frank Act (2010)	Living Wills, supported by Orderly Liquidation Authority and Fund
Japan	Deposit Insurance Act (2013)	Contractual bail-in and contribution from deposit insurance fund in resolution
Hong Kong	Hong Kong Monetary Authority (TBC)	Powers for deposit insurance fund in resolution and to bail-in instruments
Singapore	Monetary Authority of Singapore Act (TBC)	Powers for deposit insurance fund in resolution and to bail-in instruments

Cross-border recognition

Recognition of foreign resolution regimes is key for the strategy to work in practice



Multilateral convention

- Ideal option
- Will take a long time to adopt

Statutory recognition

- Bilateral agreements between jurisdictions
- Requires regimes to be broadly aligned

Contractual clauses

- Interim solution
- Difficult to implement and potential for legal challenge
- e.g. Stay Protocol; bail-in clauses

Cross-border recognition

In the absence of statutory recognition, contractual clauses are necessary but present important challenges



	Stays in contracts	Bail-in
Objective	 Avoiding mass terminations and cross-defaults 	 Ensuring liabilities can absorb losses, even when governed by foreign law
Proposals	 ISDA protocol for derivative contracts between G-SIBs Expansion to other contracts and counterparties 	 FSB recommends clauses for debt instruments EU BRRD requires it for all liabilities in scope for bail-in
Challenges	 Secure buy-side adoption Concerns where firms are acting as agent or have a fiduciary duty Problematic for non-standard contracts 	 Requires negotiation for client approval Overly burdensome when applied to operational liabilities unlikely to be bailed-in

Home and host authorities



Focus should be on building cooperation and trust

- Cooperation is key, both for SPE and MPE strategies
- Positive developments in the past few years: Crisis Management Groups (CMGs), EU resolution colleges and Banking Union
- Remaining obstacles:
 - Moving away from a ring-fenced approach to resolution
 - Communication with non-CMG authorities
 - Building trust among authorities

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