Deutsche Bank

Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 2DB

Tel. +44 20 7545 8000

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Sue Lloyd
Senior Director
International Accounting Standards Board
30 Cannon Street,
London
EC4M 6XH,
United Kingdom
Fax: +44 (0)20 7246 6411

COMMENT LETTER: MANDATORY EFFECTIVE DATE OF IFRS 9

Dear Ms Lloyd,

Deutsche Bank (the Bank) appreciates the opportunity to provide feedback on the IASB Comment Letter: Mandatory Effective Date of IFRS 9. In this letter we outline our key messages in response to the Comment Letter. Appendix 1 provides our more detailed responses to the specific questions posed by the International Accounting Standards Board (IASB).

Key Messages:

- We are highly supportive of the IASB's plan to change the effective date of IFRS 9 Financial Instrument Classification and Measurement.
- We think it is important to give preparers the opportunity to be aware of the basic principles of all phases of IFRS 9 before adopting and therefore given the changes to the timelines of impairment and hedge accounting the change in the mandatory effective date is required.

- The move to 1.1.2015 is reasonable so long as the IASB complete their development of hedge accounting and impairment in line with their current work-plan in 2012 and modify the transition requirements. Should the work-plan slip then an effective date of 1.1.15 may be too early especially with the onerous requirements to provide comparative figures and may warrant another deferral. In order to meet an effective date of 1.1.15 the IASB need to complete the impairment and hedge accounting phases of IFRS 9 in 2012 to give adequate time for the standard to be adopted.
- We do not support the current transition proposals. We believe that the comparative information required by IFRS 9 would be not be useful for investors or comparable since it provides hybrid reporting of some instruments under IAS 39 principles and some under IFRS 9. As such we believe the predictive value of such comparatives would be low.
- Rather than the proposed transition requirements as currently drafted in IFRS 9 we support a modified retrospective application of IFRS 9 from the beginning of 1.1.2015 with no restatement of comparative information. This application would mean that IFRS 9 is applied to all financial instruments held as at 1.1.2015 as if IFRS 9 had always been applied with the initial application adjustment posted to retained earnings.
- Fully retrospective application is particularly problematic for an SEC Foreign Private Issuer (FPI) as 5 years of certain financial information needs to be restated including summarized P&L and Balance Sheets. This is exceptionally costly to implement, requiring parallel reporting over such a long period and we believe these costs far outweigh the benefit.
- We encourage the IASB to consider similar transition rules for future phases of the project and other projects. We also encourage the IASB to reconsider the transition rules for IFRS 10 where. similar to IFRS 9, full retrospective application would be exceptionally onerous.
- We believe that the reporting of profit and losses on fair value movements due to own credit on fair value option liabilities is an important issue that could be addressed more urgently and separately from the rest of IFRS 9.

I hope you find these comments helpful. Should you have any questions or wish to discuss these matters further, please contact me on either +44(207)54-50978 or via email to cynthia.mustafa@db.com.

Yours sincerely,

Cynthia Mustafa

Managing Director
Global Head, Accounting Policy and Advisory Group

Appendix

Question 1:

The Board proposes to amend IFRS 9 (2009) and IFRS 9 (2010 so that entities would be required to apply them for annual periods beginning on or after 1 January 2015. Do you agree? Why or why not? If not, what alternative do you propose?

We are strongly in favour of the deferral of the IFRS 9 effective date to 1 January 2015. We believe that the move is required so that preparers can be aware of the basic principles of each phase of IFRS 9. Further given that the EU will only consider endorsement of IFRS 9 when all phases are complete the move in the effective date mitigates the risk of dual reporting for Foreign Private Issuers such as Deutsche Bank in the near term.

Important to note is that the move to 1.1.2015 may be too early should the IASB not complete all phases of IFRS 9 in line with the current work-plan during 2012. We are further concerned about the plan by the IASB to expose the FASB draft financial instrument classification and measurement model. We observe that there is no firm date that the FASB appears to have committed to with respect to the issuance of their ED on financial instruments. In turn, the timing of when the IASB will issue the FASB ED is unclear. We recommend that the FASB commit to a data for issuance of their ED and following this the IASB complete their own exposure process and subsequent discussions as quickly as possible so that there is certainty about what will be needed to be adopted. If all phases of IFRS 9 are not completed in 2012 then adoption of IFRS 9 by 1.1.2015 for an SEC registered Foreign Private Issuer (FPI) such as Deutsche Bank becomes increasingly difficult.

If all phases of IFRS 9 are not completed in 2012 then the IASB will need to further defer the effective date of IFRS 9 especially if no changes are made to the transition requirements. We encourage the IASB to make this decision as soon as possible during 2012 to avoid unnecessary cost and effort.

Significant lead time is required to adopt IFRS 9 especially for a FPI. The SEC reporting requirements mean that when a standard requires retrospective application then 5 years of other financial information needs to be restated. This includes summarised balance sheets and profit and loss statements along with certain key ratios. With an effective date of 1.1.15 an FPI would need to restate their opening balance sheet of 1.1.2011. Collecting information for previous periods is very difficult and costly, even when the rules are finalised. As such, uncertainty in the final rules of IFRS 9 exacerbates the already difficult task of restating prior periods. In question 2 we suggest alternatives to the transition requirements detailed in IFRS 9.

Question 2:
The Board proposes not to change the requirement in IFRS 9 for comparatives to be presented for entities that initially apply IFRS 9 for reporting periods beginning on or after 1 January 2012. Do you agree? Why or why not? If not, what alternatives do you propose?

We are not supportive of the IASB proposal to maintain the transition requirements as drafted. We believe there are compelling reasons to amend the transition rules.

The hybrid approach applying IAS 39 for instruments derecognised and IFRS 9 to instruments on the balance sheet as at the effective date will be very confusing for users of financial statements and will not provide useful comparatives. Moreover, this approach makes it very difficult for preparers since we cannot finalise our comparatives until after the effective date, once financial instruments existing at the balance sheet date are known. As we issue quarterly financial statements we would need to finalise 4 years of comparatives within a 4 month period (i.e. January to April) which is already the busiest time of year in terms of finalising our annual and first quarter financial statements. This will create enormous strain on our Finance infrastructure.

Retrospective application means that as a FPI we need to restate 5 years of certain financial information including balance sheets and profit and loss statements as well as certain key ratios. This is extremely costly due to the requirement to run parallel reporting and provides little benefit for investors. In the comparative periods institutions will not be making decisions to maximise profitability under the new rules and so the predictive value of the comparatives will be low.

We propose a modified retrospective transition approach which would apply the requirements of IFRS 9 to the financial instruments held as at 1.1.15 as if IFRS 9 had always been applied, with the initial application adjustment being posted to retained earnings. We believe this approach is preferable for the following reasons:

- It will provide IASB with some time to complete impairment and hedging phases, preventing the current situation to be repeated in 12 months
- Also provide sufficient time for exposure of FASB proposals and finalisation of insurance project;
- Economic decisions and business models will be reflected appropriately and at the correct time; and

- Information provided to users will be meaningful for decision-making purposes.

Under this approach instruments being newly classified as amortised cost would be restated to the amortised cost as if the instrument had always been classified as amortised cost where practicable. Instruments being newly classified as fair value through P&L would be adjusted to their fair value as at 1.1.15.

If the above proposal is not acceptable to the IASB Board then we would propose a second solution whereby the IFRS 9 effective date is 1.1.2016. In this scenario IFRS 9 would be applied to all financial instruments held as at 1.1.15 with the initial application impact posted through retained earnings. This solution would provide one year of comparatives. Important to note is that the standard should be clear that comparatives should not be restated earlier than the beginning of the comparative period required by IAS 1 to prevent the cost of restatement of earlier periods due to SEC reporting requirements (i.e. 2nd comparative period for P&L and 5 year summary financial information).

This second proposed approach provides a meaningful set of 1 year of comparative information and strikes a good balance between the cost of preparing comparatives and the benefits of having comparative information.

FPIs have a similar issue with retrospective application of all significant standards. We encourage the IASB to consider this impact when considering transition requirements in the projects going forward.

We note that the IFRIC recently discussed the transition requirements in IFRS 10 and the issue has been addressed to the IASB Board. We encourage the IASB to consider an amendment to the IFRS 10 transition requirements in line with the above proposal i.e. apply IFRS 10 as at 1.1.13 with no comparatives or with a single year of comparatives. We note this is similar to the transition rules of FAS 167 by the FASB.

We agree with the IASB that early adoption should be permitted.