Deutsche Bank AG

February 18, 2004

By E-Mail to rule-comments@sec.gov
and U.S. Mail

Mr. Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549-0609

Re: File No. S7-21-03; Alternative Net Capital Requirements for Broker-Dealers That Are Part of Consolidated Supervised Entities

Dear Mr. Katz:

Deutsche Bank AG and Deutsche Bank Securities Inc. (together "Deutsche Bank") are pleased to submit comments to the Securities and Exchange Commission's ("the Commission") proposal for "Alternative Net Capital Requirements for Broker-Dealers That Are Part of Consolidated Supervised Entities" ("the proposal"). Deutsche Bank commends the Commission for proposing a rule that represents such a great stride towards consistency with modern comprehensive risk management practices employed by most highly capitalized financial institutions. We appreciate the efforts that the Commission's staff has made to engage in dialogues with affected trade associations and institutions to explain the intent of the proposal. We also commend the Commission because, while we recognize that the proposal was originally generated in response to the needs of U.S. investment banks unaffiliated with bank holding companies arising out of certain European Union ("EU") directives, the Commission has attempted to make the proposal attractive to broker-dealer affiliates of U.S. bank holding companies and foreign banks.

Having actively participated in the dialogue with the Securities Industry Association, ABASA, the New York Clearing House and the Institute of International Bankers, we are very familiar with and generally support their comments. Given the importance of this proposal, and given the impact it would have on our organization, Deutsche Bank would like to provide its unique perspective on the issue.

For the reasons highlighted below, we respectfully urge that a number of changes to the proposal be made to eliminate unfair competitive disadvantages the proposed regulatory scheme would impose on U.S. and foreign banking organizations and their broker-dealer subsidiaries.

Our primary concerns with the proposal as written are as follows:

1. The proposed rule would conflict with functional regulation principles established in the Gramm-Leach-Bliley Act ("GLB") and would subject bank holding companies and foreign banks to an unfairly burdensome system of overlapping consolidated supervision by asserting jurisdiction equivalent to that of the Federal Reserve Board or to that of a foreign financial services regulatory authority ("FFSRA") to supervise
and examine or require reporting from subsidiaries of bank holding companies.

2. The proposed regime does not appear "equivalent" to the model of consolidated supervision employed by EU regulators, including the German Federal Financial Supervisory Authority ("BaFin") and the U.K. Financial Services Authority ("FSA"). Presumably, the Commission would expect these agencies to defer to the Commission's consolidated supervision (upon approval of the proposal). In contrast, the Commission's proposal does not defer to consolidated supervision exercised by EU regulators or, for that matter, the consolidated supervision exercised by the Federal Reserve Board. As written, the proposal would create overlapping consolidated supervision for Deutsche Bank and other bank holding companies, even though it was drafted to avoid overlapping consolidated supervision for U.S. investment banks. In the case of Deutsche Bank, the proposal would unnecessarily duplicate the consolidated supervision exercised by the BaFin pursuant to Sections 10a and 13b of the German Banking Act ("KWG").

3. The examination and reporting requirements that would have to be met to qualify for the alternative net capital requirements under the proposal would unfairly burden bank holding companies and foreign banks that are already subject to comprehensive examination and reporting requirements imposed by the Federal Reserve Board and FFSRA, and would provide a competitive advantage to U.S. investment banks that would be subject only to the examination and reporting requirements of the proposal.

4. The proposed regime jeopardizes the confidential status of information provided by foreign and domestic banks and bank holding companies to their primary consolidated supervisors by creating a requirement for production of information that does not conform to the provisions of sections 17(h) of the Securities Exchange Act of 1934. Moreover, there is a possibility that any decision by the Commission on an application by any organization to take advantage of the proposal would be a public order, creating the possibility that the public could ascertain the Commission's assessment of the financial condition and internal controls of the applicant relative to other successful applicants.

5. The proposed broker-dealer market and credit risk deduction methodologies are inconsistent with domestic and international banking standards, in that U.S. broker-dealers would be prohibited from using VaR and credit risk modeling in connection with new and non-marketable issues, derivatives, and financing transactions, and would therefore require implementation and maintenance of a separate and distinct regulatory reporting system for the U.S. broker-dealer which would primarily be used to meet local reporting requirements.

6. The cost of creating and implementing transitional policies, procedures and systems would be unduly high. This is particularly true considering that the VaR and credit risk model specifications in the proposed rule vary from those used by banking organizations, which have been approved by, and are subject to extensive ongoing review by, the home country Consolidated Supervisors. The risk models in the proposal would be adopted for use in managing business organizations only as a secondary tool. It is simply not cost-effective for Deutsche Bank and other financial holding companies to alter the VaR and credit risk models from subsidiary to subsidiary.
As such, the potential benefits of the proposal, as written, may be outweighed, in our view, by the potential costs of compliance and additional regulatory burdens that would be imposed on affiliates of bank holding companies and foreign banks if their subsidiary U.S. broker-dealers were to elect the alternative net capital standard provided for in the proposal.

**General Recommendations**

We believe that the Commission's objectives can be met without the imposition of overlapping consolidated supervision by creating a regulatory scheme that adheres to the following guiding principles.

1. The Commission should provide and be responsible for consolidated supervision of broker-dealer holding companies for which it is the primary regulator, and for any other organization that has no other effective consolidated supervisor (together, "Investment Bank Holding Companies"); however, for entities that already have an effective consolidated supervisor, the Commission should defer to the Federal Reserve, or to a FFSRA for which the Federal Reserve has made a determination of "comprehensive consolidated supervision" ("CCS") (together "Consolidated Supervisors").

2. Examination of affiliated entities other than a registered U.S. broker-dealer should be conducted by the Consolidated Supervisor except in the case of an Investment Bank Holding Company and its subsidiaries, which would be examined by the Commission.

3. The Commission, where it is not the principal regulator of a broker-dealer's holding company and its subsidiaries, would have access to financial and risk management reports, policies and procedures and other information requests depicted in the proposal through its examination authority over the broker-dealer. The Commission should draft the rule in such a way as to require only the registered U.S. broker-dealer subsidiary of a holding company with a Consolidated Supervisor to submit the information being requested by the Commission. The Commission should obtain information about entities other than the U.S. broker-dealer only from the Consolidated Supervisor. Such an arrangement would be consistent with functional regulation principles, would provide the Commission greater control over the confidentiality of information requested through the regulated entity, the registered broker-dealer, and should not create equivalency concerns. This would not detract from the Commission's stature as a consolidated supervisor; rather, it would enhance the Commission's stature by adhering to the same principles of deference to a home country supervisor practiced by other Consolidated Supervisors.

We understand that the Commission may be concerned about its ability to collect information regarding the consolidated holding company and material affiliates based upon experiences it has had under 240.17h-1T and 240.17h-2T ("the risk assessment rules"). In the risk assessment rules the Commission requested from the U.S. broker-dealer information about material associated persons of the broker-dealer but believes that it could not effectively require those associated persons to provide such information to the broker-dealer.

This is in stark contrast to the position in which the Commission would be under the
proposal. The Commission is now affording significant capital benefits and consistency between regulatory capital calculations and modern risk management tools to the U.S. broker-dealer, which translate into material operational efficiencies that will directly impact the profitability of the holding company. Accordingly, the holding company's management has a vested interest in ensuring that its Consolidated Supervisor and the broker-dealer's management will comply with the Commission's requirements under the proposal.

If the Commission revises Appendix E to require specific reporting to be made by the broker-dealer rather than by another entity, then the Commission would have a full array of effective remedies against the broker-dealer should the holding company fail to provide such information in a timely manner. For example, the Commission could find the broker-dealer to have violated Appendix E and either reprimand, publicly censure or fine the broker-dealer. Finally, should the Consolidated Supervisor or the broker-dealer fail to provide required information then the Commission, as a last resort, could revoke the U.S. broker-dealer's approval to use Appendix E.

4. To augment the risk management reports submitted by the U.S. broker-dealer to the Commission, the Commission could continue to require reports from the U.S. broker-dealer regarding financial relationships between the broker-dealer and each of its material associated persons ("MAP"), as defined in 240.17h-1T, to determine the financial risk posed by each such person to the U.S. broker-dealer.

5. Copies of information submitted by the U.S. broker-dealer's holding company and bank affiliates to the Federal Reserve Board should be obtained by the Commission subject to the provisions of section 17(h) of the Securities Exchange Act of 1934 whenever possible. Information from other Consolidated Supervisors could be obtained either by requesting the Federal Reserve to obtain such information, or by arrangements made directly between the Commission and such Consolidated Supervisor. Only when such information is not available to the Commission under section 17(h) or when the Consolidated Supervisor proves unresponsive to the Commission should the Commission require such information to be submitted by the U.S. broker-dealer.

To align the current proposal with these guiding principles, we would suggest that the Commission modify its current proposal to create a regulatory scheme where the principal Consolidated Supervisor of a parent bank holding company or foreign bank maintains responsibility for, and authority over, consolidated supervision and examination of the holding company and its subsidiaries, but that provides the Commission with the authority to request from the U.S. broker-dealer information necessary to assess financial risks to the broker-dealer for each MAP of the U.S. broker-dealer. This would level the playing field for U.S. broker-dealer subsidiaries of foreign and domestic banks and bank holding companies by affording them the capital benefits offered in proposed 240.15c3-1 Appendix E without unfairly subjecting them to a duplicate scheme of comprehensive supervision.

We further suggest that Appendix E be modified to permit the U.S. broker-dealer subsidiary of a foreign or domestic banking organization with a Consolidated Supervisor to use the same capital adequacy requirements and computation methodology utilized by its parent banking organization. Otherwise, the costs of redundant regulatory reporting systems are likely to outweigh the benefits of the proposal for banking organizations subject to capital
adequacy rules imposed on a consolidated basis by Consolidated Supervisors.

We believe that the best way to implement the foregoing guiding principles would be to revise the proposal so that there would be an entirely separate set of rules that apply to organizations that already are subject to effective consolidated supervision. This will require the Commission to define the circumstances under which it will regard an applicant as already being subject to effective consolidated supervision. One possibility would be for the Commission to defer to the Federal Reserve Board's CCS determinations. In the new separate part of the proposal, the Commission could define the scope of information it will routinely seek from the applicant's existing regulators and from the broker-dealer, where appropriate; clarify that it will not duplicate the examination authority of the existing regulator; and adopt specific protocols for deferring to the primary regulator's assessment of adequacy of capital, risk models, and internal controls.

Finally, we recommend that the Commission's staff confer with the staff of the Commodity Futures Trading Commission ("CFTC") and encourage the CFTC to adopt, for broker-dealers also registered as futures commissions merchants, proposed Appendix E as finally approved.

Specific Observations and Recommendations

The remainder of this letter will comment on specific provisions of the proposal, as drafted, and serve to reinforce the overriding concerns discussed above regarding the proposal.

Section 240.15c3-1(7)

This paragraph would permit the Commission to approve an application or amendment to an application by a U.S. broker-dealer to calculate net capital using the market and credit risk standards of Appendix E (section 240.15c3-1e), "subject to any conditions or limitations the Commission may require as necessary or appropriate in the public interest and consistent with the protection of investors."

We believe that the proposal would be clearer if there were an explicit cross-reference to the standards set forth in paragraph (a)(6) of Appendix E. Moreover, if the Commission contemplates imposing routine conditions to approvals of such applications, those conditions should be explicitly set forth in the proposed rule. Additionally, we believe that in the interest of fairness, the rule, as ultimately adopted, should provide for the right of the applicant to have a hearing before an application is denied or before an application is granted with additional conditions not specifically listed in the rule.

Section 240.15c3-1(13)

The definition of "entity that has a principal regulator" should be revised to delete from paragraph (ii) the phrase "the person is primarily in the insured depository institutions business". This phrase would serve to exclude as an entity having a principal regulator virtually all bank holding companies and foreign banks that could be expected to have a broker-dealer eligible to use the proposed net capital requirement.

Any parent of a broker-dealer willing to subject itself to comprehensive consolidated supervision by the Federal Reserve Board or a FFSRA should be deemed to be an entity
having a principal regulator and should not be subject to Commission examination or supervision. Such a determination would be fully consistent with the scheme of functional regulation established by the Gramm-Leach-Bliley Act.

Appendix E (Section 240.15c3-1e)

(a) Applications

The proposed application process is extremely burdensome and complicated. While much detail is explicitly required, the Commission may request even more information and impose additional conditions. Consequently, we believe that the Commission should provide that an applicant has a right to a hearing before an application is denied or before conditions to approval are imposed. Similarly, the Commission should provide the opportunity for a hearing in the event it decides to revoke a broker-dealer's exemption to allow it to use the market risk standards of Appendix E if it finds that "such exemption is no longer necessary or appropriate in the public interest, or is no longer consistent with the protection of investors."

Subparagraph (a)(1)(viii) requires the holding company of a broker-dealer using the alternative capital requirement to commit in writing as part of the application to comply with requirements for internal risk management control systems applicable to the broker-dealer, and to submit to the Commission any proposed changes to those systems. While such requirements make sense in the case of an otherwise unregulated Investment Bank Holding Company seeking to make the Commission its consolidated supervising entity for purposes of EU directives, they are not justified for bank holding companies and foreign banks that are already required by their principal regulators to maintain adequate risk management control systems. Such entities should be permitted to rely on findings by their principal regulators regarding the adequacy of their risk management systems. The Commission should address any concerns it may have by utilizing the procedures in Section 17(h) of the Securities Exchange Act of 1934, requiring modifications to the broker-dealer's tentative net capital requirement contained in the proposal, or modifying the VaR multiplication factors used in the U.S. broker-dealer's market risk charge determination.

These requirements highlight the importance for the Commission to amend the definition of "entity that has a principal regulator" in Section 240.15c3-1(13), because any holding company excluded from this definition would be subject to Commission examination. Moreover, under the proposed provision (a)(1)(viii)(E), the Commission asserts the authority to examine the books and records of all affiliates of the U.S. broker-dealer that do not have a principal regulator, as defined in proposed section 240.15c3-1(c)(13). The Commission should confirm that, for this purpose, the Federal Reserve Board or other Consolidated Supervisor is the principal regulator, not only of the bank holding company itself, but also of all subsidiaries of the holding company other than banks (except state member banks), insurance companies and broker-dealers.

We note that the Federal Reserve Board examines material subsidiaries of bank holding companies on a routine periodic basis. Thus, it is unnecessary and inconsistent with the notion of functional regulation that is fundamental to the Gramm-Leach-Bliley Act for the Commission to duplicate the Federal Reserve Board's authority as the primary consolidated regulator of bank holding companies and their subsidiaries. Section 17(k) of the Securities Exchange Act of 1934, also requires the Commission to eliminate unnecessary and
burdensome duplication in the examination process. Consequently, we strongly recommend that subparagraph (E) be deleted in its entirety and all other provisions relating to the application and other aspects of the proposal be modified to take this concept into account.

To the extent that the information sought is with respect to foreign affiliates, in the case of foreign banks, coordination with the home country FFSRA may be appropriate.

In addition, to the extent that the Commission obtains information other than through the processes set forth in Section 17(h)(3) and 17(k), it is unclear whether the Commission could maintain the confidentiality of information it obtains about a bank holding company that the Federal Reserve Board could maintain as confidential under the exemption from disclosure under the Freedom of Information Act ("FOIA") for examination information. 5 U.S.C. § 552(b)(8). The Federal Reserve Board, or the Commission, has the ability to make public or use in a public manner any information it receives. However, the FOIA exemption for examination information is designed to permit financial institutions' regulatory agencies to preserve the confidentiality of such information in order to promote candor between the agencies and regulated institutions and the integrity of the examination process. The proposal, if adopted in its current form, would jeopardize these principles by seeking to obtain examination information in a manner that would not enable the Commission to preserve confidentiality in response to a public request even if the Commission wanted to do so. Although the Commission asserts the ability to use the (b)(8) exemption (17 C.F.R. § 200.80(b)), it is unclear whether assertion of this exemption would be upheld if information is provided to the Commission by an entity over which the Commission has no statutory examination authority.

Similarly, the Commission must ensure that it has the ability to preserve the confidentiality of its decisions on applications under the proposal. If such "orders" contain Commission decisions regarding add-ons or multipliers customized for the applicant's circumstances, permitting such orders to become publicly available could permit the public to discern the Commission's determination of the adequacy of an applicant's financial condition and internal controls relative to other successful applicants. We are not concerned that the models would become publicly available; they clearly constitute proprietary trade secrets that could be protected under the (b)(4) exemption in the FOIA. However, the Commission's own comments as to the merits of those models may not be protected unless the Commission can assert the exemption for examination material. We note that under the Commission's regulations at 17 C.F.R. § 200.80a, orders are generally publicly available.

Using the Federal Reserve Board's application process as a model, an applicant seeking to keep information confidential under the (b)(4) exemption must specify the reason that such information qualifies for the exemption, and the applicant has the burden of separating the confidential information into a separate confidential volume of the application (redacting the protected information from the public volume). This is consistent with the Commission's procedure set forth in 17 C.F.R. § 200.80(b). When a Federal Reserve Board order refers to confidential information contained in a separate, non-public letter, that information is generally protected by the examination exception to disclosure (the (b)(8) exemption). As noted above, using the U.S. broker-dealer as the source of all information under the proposal - including the application - would permit the Commission to assert the (b)(8) exemption for examination information in withholding information from public availability. Otherwise, it appears the Commission would be relying on its asserted ability to maintain confidentiality of documents pursuant to 17 C.F.R. § 200.83, without clear
Finally, we note that even if the Commission is able to assert the (b)(8) exemption in the FOIA to preserve the confidentiality of examination information, it is not clear that information provided to the Commission would be afforded the same common law examination privilege from disclosure in third party litigation that is afforded to information provided to U.S. bank regulators. This privilege should be available if the Commission receives its information through the Federal Reserve Board under Section 17(h) of the Securities Exchange Act.

(c) Market Risk

Paragraph (c)(2) restricts the use of VaR models to determine capital charges for positions with no ready market, for debt securities of less than investment grade, or for any derivative instrument based on the value of these positions, unless the Commission approves an application for such use pursuant to Section 240.15c3-1(a)(7). The referenced section should contain standards for approving such an application. Broker-dealers are currently using VaR and credit risk models for such instruments, which typically have the ability to model extreme illiquidity risk associated with securities for which there is no ready market. The Commission should recognize this fact by making it clear that institutions with a proven track record of using such models would be able to continue to use these models to calculate market risk charges under the proposed net capital standards.

Further, the rule should specify that any market risk models approved by the Federal Reserve or by another G-10 FFSRA for a broker-dealer's domestic bank or foreign bank parent holding company should be presumptively valid for initial approval purposes and for continued reporting purposes.

(d) Credit Risk

Paragraph (d) describes a very detailed methodology for determining credit risk capital charges only for derivatives on issues for which Appendix E is used to calculate the market risk capital charge. While setting forth specific requirements for credit risk models makes sense for broker-dealers that are not already supervised on a consolidated basis, it is unnecessary and causes conflicts for broker-dealers that are supervised on a consolidated basis by the Federal Reserve or by another G-10 FFSRA.

The rule should specify that any credit risk models approved by the Federal Reserve or by another G-10 FFSRA for a broker or dealer's domestic bank or foreign bank parent holding company should presumptively be valid for initial approval purposes and for continued reporting purposes.

(e) VaR Models

Subparagraph (e)(1) requires that the VaR model used to calculate market and credit risk for a position must be the same model used to report the market or credit risk of that position to senior management and must be integrated into the daily internal risk management system of the firm. Bank holding companies using more robust forms of VaR than that permitted in the proposed rule are not going to abandon those models. To the extent that the Commission does not permit a bank holding company to use its existing
form of VaR for all purposes, pursuant to the application process set forth in section 240.15c3-1e(c), the U.S. broker-dealer and its holding company would be effectively required to have two versions of VaR integrated into their management systems. This would be extremely costly and impractical.

Pursuant to subparagraph (e)(1)(ii), VaR models must be reviewed "both periodically and annually." Here again, to the extent that the Federal Reserve or another G-10 FFSRA has standards relating to the review of VaR models, the Commission should defer to those standards, or, at a minimum, coordinate its requirements for review with those of the other relevant regulators, to avoid unnecessary burdens. In addition, the Commission's review and approval should be limited to the use of the model by the regulated broker-dealer. The Commission should not second-guess a Consolidated Supervisor about the adequacy of the review process for the bank holding company or foreign bank.

(f) Additional Regulatory Conditions

Paragraph (f) permits the Commission to impose any additional regulatory conditions - not just those listed as illustrations - to a U.S. broker-dealer's ability to use the alternative net capital rules, if the Commission finds that the imposition of such conditions is "necessary or appropriate in the public interest, and for the protection of investors." However, the section clearly was intended to permit the imposition of additional conditions only if a broker-dealer committed a failure of the nature specified in subparagraphs (1) through (5). Therefore, paragraph (f) should be revised to read: "As a condition for the broker or dealer to use this Appendix E to calculate certain of its capital charges, the Commission may impose additional regulatory conditions that the Commission deems necessary or appropriate in the public interest, and for the protection of investors, on the broker or dealer, which may include: . . . . " Then, add "or" at the end of subparagraph (4), delete the word "or" in subparagraph (5), and delete subparagraph (6).

Appendix G (Section 240.15c3-1g)

(a) Conditions Regarding Computation of Allowable Capital and Risk Allowances

The Commission should defer to Basel standards for the calculation of allowable capital and allowances for market, credit and operational risk. The Commission provides in subparagraph (5) that a holding company may use Basel II upon approval of a request to the Commission. The provision should specify that the burden should be on the Commission to demonstrate that it would be contrary to the public interest to permit the holding company to use the Basel II standards. Moreover, bank holding companies and foreign banks currently using Basel I standards should presumptively be able to continue to use these standards until the Basel II standards are adopted.

(b) Conditions Regarding Reporting Requirements

Subparagraph (1) requires a holding company to file a monthly report within 17 days after the end of each month consisting of: a consolidated balance sheet and income statement (including notes and computations of allowable capital and allowances for market, credit, and operational risk); daily intra-month VaR; detailed consolidated credit risk information for exposures, listed by counterparty, for the largest credit exposures; aggregate maximum potential exposures; a summation of the geographic distribution of the holding company's
exposures on a consolidated basis; and certain risk reports to management. Consistent with
our comment that the Commission should obtain information from a Consolidated
Supervisor whenever possible, the Commission should not require that information be
required more frequently than banking organizations provide identical information to their
Consolidated Supervisors.

In addition, banking organizations that provide the Commission with the information on
credit counterparties could be exposed to liability where release of such information
violated applicable laws, particularly absent assurance of the Commission's ability to
maintain the confidentiality of the information. As discussed above, there is serious doubt
about the Commission's ability to preserve the confidential nature of such information in
the face of a FOIA request from the public or a discovery request in third-party litigation,
unless the information is obtained only from another Consolidated Supervisor or from the
U.S. broker-dealer, so that the Commission can assert the exemption for examination
information.

Subparagraph (2) requires quarterly descriptions of all material pending legal or arbitration
proceedings. To the extent this requires reporting only of information that would be
publicly disclosed anyway, we have no objection. However, if the Commission wants
follow-up information (e.g., pursuant to subparagraph (3)), it should obtain such
information from banks or bank holding companies through the procedures in section 17(h)
of the Securities Exchange Act of 1934 to preserve the confidentiality of such information,
which could include litigation strategy and privileged attorney-client communications and
attorney work product, the public disclosure of which could seriously prejudice the
reporting holding company and its affiliates. Therefore, subparagraph (3) should be deleted,
or made inapplicable to bank holding companies and foreign banks, for which the
Commission should follow the procedures in section 17(h).

To reiterate, in the instance where the broker-dealer is the subsidiary of a holding company
with a Consolidated Supervisor, we believe the Commission should draft the rule in such a
way as to require only the registered U.S. broker-dealer to submit the information being
requested by the Commission, including information about entities other than the broker-
dealer.

(d) Conditions Regarding Preservation of Records

This paragraph requires a holding company to preserve certain information, documents and
reports "in an easily accessible place." Since the Commission is requiring a foreign bank to
file information about its operations on a consolidated basis, this rule should not require
such a bank to create duplicate file systems in the U.S. Subparagraph (2) should be revised
so that a foreign bank would not be deemed to violate this rule merely because it stores
information and documents in the ordinary course of business at the foreign bank's home
office or other non-U.S. location.

(e) Conditions Regarding Notification

Subparagraph (1) requires a holding company to give notification to the Commission of
specified events "promptly (but within 24 hours)" of certain specified events. We believe
that the 24-hour requirement would be unreasonable in certain circumstances. For example,
such a short period would not give a holding company the opportunity to verify that a
backtesting exception had occurred before having to report it pursuant to subparagraph (1) (i).

Subparagraph (1)(iii) requires the immediate reporting of the "default" of any affiliate. While the words "otherwise goes into default" seems to be used as a synonym for "bankruptcy", the word "default" could be read to mean a default on any contractual obligation, such as delivery of securities, or failure to timely credit a deposit. Those "defaults" should be of no immediate, if any, consequences to this process. We recommend that the phrase "or otherwise goes into default" be substituted with the phrase "or otherwise enters into insolvency proceedings."

Subparagraph 1(iv) requires the holding company to notify the Commission immediately of a rating downgrade of any affiliates. We recommend that this provision be limited to rating downgrades of wholly or majority-owned material affiliates. Imposing this requirement on downgrades of other entities would be burdensome without necessarily providing the Commission relevant information.

Finally, we reiterate our belief that the rule should provide that, for a U.S. broker-dealer subsidiary of a holding company with a Consolidated Supervisor, the Commission should obtain information from the Consolidated Supervisor; and, that the Commission should request only the registered U.S. broker-dealer to submit any necessary information, including information about entities other than the U.S. broker-dealer, that the Commission cannot obtain from the Consolidated Supervisor.  

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We hope that the Commission will seriously consider our comments, and revise this innovative proposal so that U.S. broker-dealer subsidiaries of foreign banks and bank holding companies will be able to take advantage of the proposal to the same extent as subsidiaries of Investment Bank Holding Companies. If you would like to discuss any of the matters addressed in this letter, please do not hesitate to contact either Michael Kadish (212-250-5081) or Marianna Maffucci (212-250-8481) of Deutsche Bank's Legal Department.

DEUTSCHE BANK AG

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