Better Markets Responds to Deutsche Bank's CFO

Last week, Deutsche Bank Chief Financial Officer, James von Moltke, published a letter in The American Banker responding to our Op Ed the week before last. In our Op Ed, we discussed Deutsche Bank's reported intent to ***decrease capital*** and return that capital to its shareholders. We said that would be irresponsible and jeopardize the financial resiliency of the single bank that the IMF recently concluded was the most important net contributor to systemic risk in the global banking system.

We also explained that Deutsche Bank's planned reduction in capital was coming at the worst time and that the bank instead should have been planning conservatively. We pointed out that Deutsche Bank's complex restructuring effort, recent credit ratings downgrades, reported increase in funding costs, reported revenue sensitivity to the low interest rate environment, reported difficulties selling troubled or unwanted assets and derivatives positions, and other matters should be addressed responsibly by ***increasing capital***, or at least maintaining it, until the coming economic downturn concludes and the results from the bank's restructuring are beyond doubt.

Mr. von Moltke asserts that our Op Ed "grossly misrepresents" Deutsche Bank's plans. But in fact, he confirms our most critical points that Deutsche Bank plans to ***decrease capital*** near-term and return it to shareholders in time. On these two points, he essentially confirms that it is a matter of when, not if. Thus, Mr. von Moltke acknowledges that Deutsche Bank will have less capital available to weather future economic downturns at this very late stage in the business cycle.

Importantly, Mr. von Moltke's letter is consistent with statements of other Deutsche Bank senior executives, including chief executive officer, Christian Sewing. A recent Reuters article reported that the bank received "regulatory approval for its common equity to drop from its current level." In that article, Sewing is quoted as stating that he "hopes to free up capital that can be returned to shareholders." And, Bloomberg reported that the Chairman of the Board of Directors, Paul Achleitner, is similarly focused on a "substantial return of capital [to shareholders] over time."

In our Op Ed, we also mentioned that Deutsche Bank may have trouble selling and closing out assets and positions in the "bad bank" unit of Deutsche Bank tellingly labeled the "Capital Release Unit." Mr. von Moltke asserts that "[t]he assets in our Capital Release Unit . . . will likely run off relatively quickly" and that "[o]verall, we believe these assets to be readily saleable." The material fact he fails to mention is that those assets and positions may be "readily saleable" but only at significant discounts, meaning that selling and closing out such assets and positions would require Deutsche Bank to realize significant losses.

Recent reporting by Reuters confirms this concern among Deutsche Bank's own executives, with some cautioning that "[i]t is doubtful that the bank would be able to sell the [derivatives] positions [in the Capital Release Unit] in their entirety without taking a large write-down requiring the bank to raise capital from shareholders." Moreover, Reuters reports that previous "sales did not [ultimately] happen because the prices offered would have resulted in hundreds of millions of euros in losses for the bank."

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This is all very important to the US because Deutsche Bank remains too-big-to-fail and a global systemic threat. Remember, the US bailed out Deutsche Bank during the 2008 crash, which received more than $350 billion from US rescue programs according to the GAO. Even then, however, rather than build up its capital, Deutsche Bank's US operations actually reduced capital and by 2011 had a Tier 1 risk-based capital ratio of -6.37% as we detailed in comment letters here and here. That's why everyone should pay careful attention to the latest restructuring plan, which must include ***increasing capital not reducing it***.

We will be sending a fulsome response to Mr. von Moltke's numerous claims in the coming days. Stay tuned.

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Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street and make our financial system work for all Americans again. Better Markets works with allies – including many in finance – to promote pro-market, pro-business and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements and more. To learn more, visit www.bettermarkets.com.

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