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Editorial: Angus Fletcher

We are at the peak of the implementation phase of the post crisis regulatory agenda. Moreover, we continue to see new regulation on a global basis, as well as both changes and tweaks to the post crisis legislation and in relation to new threats.

This adds cost and complexity, but there are clear rational regulatory objectives behind this agenda. At the same time, we are at a key crux point as the regulatory agenda starts to move towards one of growth--governments, global standards bodies and regulators recognize that economic growth and harmonization are required, and there are moves to encourage this.

In global studies from bodies such as Financial Stability Board on financial exclusion—concerns have been raised that the reduction in correspondent banking networks is having a real knock on impact on financial institutions and their corporate clients’ ability to operate. This has opened up the global debate on the role of banks and how liable they are for the payments flows that they support. This is an encouraging step in the right direction.

We have also seen a renewed focus on growth initiatives globally, be they Capital Markets Union in Europe, ASEAN initiatives in Asia, and the internationalization of key markets such as the launch of RMB and Shanghai-Hong Kong Stock Connect initiatives from China. These initiatives offer new markets and product opportunities for banks and corporates alike.

Regulators are actively encouraging innovative technology activities in the banking industry, as can be seen through various regulatory supported initiatives everywhere in the world. The recent adoption of the second Payment Services Directive in Europe will offer greater competition across banks and allow new payment providers to offer new types of payment and wallet services to customers. Customers will have the opportunity to ask for new services, and banks will need to provide them in order to survive, but they have a unique opportunity to reinvent models and apply technologies in new ways.

The challenge for the banking industry and its clients will be to finish implementing the first agenda and provide feedback to regulators on aspects that need to be changed to improve and avoid unintended consequences on these, all whilst looking to take advantage of the new opportunities that are arising from the emerging agenda. This is the new norm that the financial industry faces.

In this fifth edition of Peloton we take a closer look at regulatory trends; with the the regulatory focus on growth being a prominent one. We will briefly analyze what constitutes them and how clients and banks will be impacted.

Moreover we touch upon one of the most significant decisions taken this year, the UK vote to leave the European Union and outline what clients may need to look for in the coming years when adjusting to the BREXIT scenario.

Another hot topic is Distributed Ledger Technology, which everybody talks about these days as being the way forward in financial transaction processing. In the meantime, regulators are closely monitoring the development and we have taken the opportunity to shed some light on regulatory aspects for the use of this emerging technology.

Last but by no means last, we show via an example from the Indian market how active engagement with regulators in a dialogue can lead to significant efficiencies and advise how a recently proposed change to anti money laundering rules in the Americas may impact the work of registered investment advisers.

With some sadness, we have determined that this Peloton edition will be the last one in this form. Going forward into 2017, the Market Advocacy Team will continue to provide you with updates on regulatory developments through Deutsche Bank Global Transaction Banking’s Flow magazine. We hope you will continue to read our insights within this new format.
## Initiative

### Anti-Money Laundering Directive IV
Safeguarding society from criminality and terrorist acts

The EC implements measures to improve cross-border transaction oversight via identification of beneficial owner information, creation of public central registries. Going forward banks are being held responsible for their KYC process

Status: Legislation

- Q4 2016 – Development of L2 standards
- Q3 2017 – Applicability of regulatory requirements
- AMLD IVa proposals under consideration

### ASEAN Economic Community (AEC) Blueprint 2025
One of the three pillars of ASEAN Community Vision 2025. Continues the work started by AEC 2015

AEC Blueprint 2025 will focus more on domestic business and SME growth, innovation and technology, governance, elimination of non-trade barriers, tax cooperation, financial services including insurance, trade in goods and services and healthcare

Status: Planning

- 2016 end – complete the implementation measures unfinished under the AEC Blueprint 2015.

### ASEAN cross-border bond settlement intermediary
Development of deep local currency bond markets and the promotion of cross-border flows

The cross-border settlement infrastructure forum (CSIF) publishes a progress report which includes the implementation roadmap for establishment of the CSD-RTGS linkages.

Status: Planning

- 2018 – CSD-RTGS linkages to be developed
- 2020 – development of integrated solution

### Asia Region Funds Passport
Creation of harmonised funds regulation across Asia

Finance officials and regulators from the seven APEC economies (Australia, Japan, New Zealand, South Korea, Thailand, Singapore and the Philippines) have broadly agreed on the content of a Memorandum of Cooperation (MOC).

The APEC group is currently evaluating the taxation differences across the economies that could hinder the competitiveness of the scheme.

Status: Implementation

- 2017 – launch with pilot countries

### Basel III / IV
New capital requirements for banks, introduction of liquidity coverage ratio and leverage ratio

Basel III standards have been published and are to be converted into local law. These introduce new measures that banks need to adhere to:

- Liquidity Coverage Ratio (LCR) – banks need to hold sufficient High-Quality Liquid Assets (HQLA) to cover the calculated total Net Cash Outflows over a 30-day period.
- Net Stable Funding Ratio (NSFR) – available stable funding has to exceed the required level.
- Leverage ratio – caps the total size of a bank’s balance sheet at a multiple of its capital.

Status: Implementation

- Ongoing Consultation process on several elements of the BASEL rules
- CRD IV/CRR amendment proposals with focus on Leverage Ratio and NSFR expected Q4 2016
<table>
<thead>
<tr>
<th>Initiative</th>
<th>Latest</th>
<th>Status</th>
<th>What’s next</th>
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<tbody>
<tr>
<td>Capital Markets Union</td>
<td>The initiative is launched by the European Commission to bring more investments into the European market through development of EU capital market. Particular focus on SME financing, long-term investments, securitization, free flow of investments across EU, improvement of infrastructure and harmonization of EU insolvency laws. The European Post Trade Forum is to report on barriers existing for cross-border investments in post trade space, and to how they could be overcome.</td>
<td>Planning</td>
<td>– Q4 2016: EC to publish an action plan on changes of the regulations in financial services space (follows the EU call for evidence on regulatory framework for financial services) – Q4 2016 – Legislative proposal on insolvency – Q4 2016: Agreement on proposals for securitisations and prospectuses – Q2 2017 – European Post Trade Forum to publish report on existing Barriers for Cross Border Settlement</td>
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<td>CRA3</td>
<td>The CRA III package comprises a directive (2013/14/EU) and a regulation (EU 462/2013) (“CRA 3”). The CRA III package came into force in June 2013, although it is not yet possible to comply with all aspects.</td>
<td>Implementation</td>
<td>– Q4 2016 and 2017: Additional RTS on SFI disclosure and treatment of private/bilateral transactions</td>
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<td>CSDR</td>
<td>Proposal covers elements of settlement efficiency and also CSD Governance and set-up. CSDR entered into force in September 2014. Current focus is on the finalization of measures for settlement discipline, prescribing fines for late settlement and processes around the buy-in of late deliveries.</td>
<td>Implementation</td>
<td>– Q4 2016 – Adoption of some L2 measures for CSDR – Q1 2017 – adoption of remaining L2 measures – Q1 2017 – CSD to start re-authorization process</td>
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<tr>
<td>Customer Due Diligence (CDD) Requirements for Financial Institutions</td>
<td>Final rules contain explicit customer due diligence requirements, whereby banks will need to identify and verify the identity of beneficial owners of legal entity customers.</td>
<td>Implementation</td>
<td>– Q1 2018 – Rule conformance</td>
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<td>US Shortened Settlement Cycle (SSC T+2)</td>
<td>The Depository Trust &amp; Clearing Corporation (DTCC) announced its intention to shorten the settlement cycle for US securities, following the publication of a study conducted in 2012. In September 2016, the SEC released proposed to shorten the settlement cycle.</td>
<td>Industry initiative /Legislation</td>
<td>– Q4 016 – finalization of industry requirements and process alignments – Q4 2016 – Proposal comments due – Q1 2017 – SEC rule finalized (TBC) – Q1 2017 – Start of industry wide testing for T+2 migration – Q3 2017 – T+2 implementation</td>
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<tr>
<td>Initiative</td>
<td>Latest</td>
<td>Status</td>
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<td><strong>EMIR</strong></td>
<td>Regulation covering OTC derivatives (central clearing)</td>
<td>Initial compliance dates have already been reached. Current focus is on preparation for mandatory clearing to start. EMIR review process started by European Commission to analyse potential changes to legislation.</td>
<td>Compliance</td>
</tr>
<tr>
<td><strong>Enhanced Prudential Standards for Foreign Banking Organisations (FBO)</strong></td>
<td>Applies enhanced prudential standards and early remediation framework for FBOs</td>
<td>All large FBOs with a balance sheet of USD 50 billion of assets or more are required to create a separately capitalised top-tier US intermediate holding company (IHC) to harbour all US bank and non-bank subsidiaries (excludes branches). IHC will be subject to US capital/leverage requirements, stress testing, and liquidity management standards.</td>
<td>Implementation</td>
</tr>
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<td><strong>Financial Transaction Tax</strong></td>
<td>Introduction of a Europe-wide tax on financial transactions</td>
<td>FTT regimes already exist in France and Italy. 10 EU countries wish to implement a harmonised regime through enhanced cooperation. There is political commitment to an FTT on equities and some derivatives but final details residence and issuer principles have yet to be fleshed out. Potential extension of scope to global FTT under the coordination of OECD.</td>
<td>Legislation</td>
</tr>
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<td><strong>Fund Regulation</strong></td>
<td>Regulating the investment fund industry</td>
<td>Since July 2013, the alternative investment industry has been regulated through AIFMD. There is a strong focus on investor protection and increased liability for depositories. This also reflected on UCITS instruments through the fifth revision of UCTIS Directive.</td>
<td>Implementation (UCITS V) Compliance (AIFMD)</td>
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<td><strong>Funds Transfer Regulation</strong></td>
<td>Alignment of EU standards to Global Payment standards</td>
<td>The EU Commission introduced an obligation on payment service providers to have transfers of funds accompanied by information on the payer and the payee. This aligns European payment process to global FATF standards.</td>
<td>Implementation</td>
</tr>
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<td><strong>Global Payments Innovation Initiative</strong></td>
<td>SWIFT collaboration with the industry</td>
<td>Primary aim of the initiative is to improve the customer experience in correspondent banking. This will be achieved by increasing the speed, transparency and predictability of cross-border payments. Initial focus will be on a B2B payments service</td>
<td>Industry Initiative</td>
</tr>
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<td><strong>Instant Retail Payments across Europe</strong></td>
<td>Initiative of the European Retail Payments Board</td>
<td>European Payments Council (EPC) prepared a proposal for the design of an instant SEPA Credit Transfer scheme in euro which could be adhered to by EU payment service providers on a voluntary basis.</td>
<td>Industry Initiative</td>
</tr>
<tr>
<td><strong>MiFID II/MiFIR</strong></td>
<td>Addresses market regulation and investor protection. Also includes new products and venues</td>
<td>New safeguards for algorithmic and high frequency trading have now been added. This will improve the transparency of trading activities in equity markets, including so-called ‘dark pools’. There is also stronger investor protection in the form of stricter requirements for portfolio management, investment advice and the offering of complex financial products, for the safeguarding of client assets and for clearing members. Current focus is on implementing measures.</td>
<td>Implementation</td>
</tr>
<tr>
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<td><strong>Money Market Funds Reform</strong>&lt;br&gt;Amendments to the rules that govern money market mutual funds</td>
<td>Published in August 2014, the final rule intends to (i) reduce the risk of runs in money market funds and (ii) provide tools (fees and gates) that will help protect investors and the financial system, thereby ensuring resilience and transparency in the market. There is also a requirement for institutional funds to maintain floating NAVs</td>
<td>Implementation</td>
<td>– October 14, 2016 conformance date for floating NAV, fees and gates</td>
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<td><strong>Payment Services Directive</strong>&lt;br&gt;The revision of the original Directive on payment services (PSD)</td>
<td>The main components of the directive include the introduction of licensing of online payment initiation &amp; account information services (third parties providers) performed by non-banking institutions, extended transparency, improved consumer protection against fraud (through implementation of two factor authentication and secure communication measures). Current focus is on L2 measures. In Q3 EBA consulted on draft RTS on Strong customer authentication and secure communication.</td>
<td>Implementation</td>
<td>– Q4: EBA consults on draft guidelines on professional indemnity insurance of third parties providers. (ongoing) – 2017 – EC to adopt Level 2 measures – January 2018: PSD 2 comes into force</td>
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<td><strong>EU Structural reform</strong>&lt;br&gt;The separation of certain trading activity from deposit taking at national and EU level</td>
<td>Several EU countries (FR, UK, DE) have already passed legislation but have very different approaches to separation. The European structural reform proposal, published January 2014, aims to harmonise these. This is being negotiated so there is a lack of clarity as to what will actually be required.</td>
<td>Legislation (European Proposal) Implementation (national laws)</td>
<td>– 2017 Trilogue negotiations</td>
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<td><strong>Same Day ACH</strong>&lt;br&gt;Reduces exposure by settling transactions between parties more frequently.</td>
<td>Enabled same day processing of all ACH transactions (debits &amp; credits) valued at no more than US$25k.</td>
<td>Implementation</td>
<td>– Q3 2016 – Phase 1 (credit transactions only) – Q3 2017 – Phase 2 (debit transactions) – Q1 2018 – Phase 3 (introduction of faster availability requirements)</td>
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<td><strong>Section 385 (IRS)</strong>&lt;br&gt;To combat inversions and other cross-border tax avoidance tactics</td>
<td>Final rule amends the treatment of intercompany loans or debt equity and re-classifies them for US federal income tax purposes.</td>
<td>Implementation</td>
<td>– Jan 2018 – Rule conformance</td>
</tr>
<tr>
<td><strong>Securities Financing Transaction Regulation (SFT-R)</strong></td>
<td>Regulation to increase transparency in the securities financing industry by mandatory reporting and revision of certain contracts</td>
<td>Regulation</td>
<td>– Jan 2017 – Reporting of SFT in UCITS reports – Jan 2017 – ESMA to propose Implementing Standards</td>
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<td><strong>T2/T2S Platform adaptation</strong>&lt;br&gt;“ECB Vision 2020”</td>
<td>European Central Bank has started a review of its system infra-structure. Long-term objective would be the consolidation of the technical infrastructure so that TARGET2 can benefit from state-of-the-art features currently available in T2S.</td>
<td>Industry Initiative</td>
<td>– Q4 2016 further consultation on T2/T2S platform consolidation expected</td>
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<td><strong>TARGET2-Securities (T2S)</strong>&lt;br&gt;A single, harmonised, pan-Europe securities settlement platform</td>
<td>T2S platform went live in June 2015. Portuguese and Belgian CSD migrated to T2S in March 2016. Euroclear group CSDs have announced delay in testing activity and will have to migrate at a later stage.</td>
<td>Industry initiative</td>
<td>– Nov 2016 – Advisory Group meeting – Feb 2017 – Migration Wave 4</td>
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**Status Legend:**
- **Planning:** Initiative under general discussion, no legislative text available
- **Legislation:** Initiative in political process, legislative text available
- **Implementation:** Legislative text agreed, implementation measures under discussion
- **Compliance:** Compliance milestone reached, rules fully in force
- **Industry initiative:** No political development, but industry led change
The Regulatory Wheel

Timeline

- Adoption of Level 2 standards for CSDs: Q4 2016
- EC publication of harmonised Insolvency regime: Q4 2016
- First surcharge payment reflected in Q3 assessment (Dec). Q3 assessment payment due (Dec 31): Q4 2016
On June 23, the UK voted in favour of leaving the EU. Angus Fletcher, GTB’s Head of Market Advocacy discusses what BREXIT means for Deutsche Bank and its clients, and what might come next.

**Feature**

**BREXIT – the consequences of the UK referendum**

The referendum came as a big surprise to many. Can you provide some background and insights on the short-term consequences in the aftermath of the BREXIT decision?

There was significant volatility in the run up to the vote, and then the markets (indices and exchange rates) stabilized on polling day as it appeared according to the polls as though the “remain” vote would win out. By the early hours of the following morning it was clear that the polls were incorrect, and the markets had got it wrong. The GBP, USD and EUR all collapsed by 10 percent, global indices plummeted several percent, and transaction volumes dramatically increased as customers tried to adjust their positions. Fortunately, within the Global Transaction Banking division here at Deutsche Bank, we had prepared well for either outcome, completing Day 1 +2 risk assessments based on different scenarios in the run up to the vote. We also had established enhanced links across the wider organization (legal, Government and Regulatory Affairs, Credit Risk, Global Technology and Operations etc). We set up a command centre between London and Frankfurt, and ensured constant open communication across business lines, infrastructure functions, clients, and regulators. Fortunately, our preparations paid off, and we experienced no issues.

What will happen next?

This is the million dollar question. There are several formal steps that the British government will need to take, such as triggering article 50, following parliamentary backing (which will start the clock ticking on a two-year negotiation) to enact BREXIT. We understand that this is planned for March 2017. However, there is not a clear timeline to work from until the negotiations start, and as this will be a negotiation with multiple parties across Europe, there may be several twists and turns to come. Only the results of this negotiation will determine the shape of the UK relationship with the EU (and perhaps just as important the EU relationship with the UK) – this is a two way relationship after all and each side will look to protect their interests, whilst hopefully looking to achieve the most positive outcome for Europe as a whole. The only certainty at this stage is uncertainty. There are also several other contagion risks that the industry will need to monitor, such as the Italian senate referendum planned for early December, which could introduce further volatility into the market.

How did Deutsche Bank prepare for the Referendum? What did the first weeks following the referendum look like for the bank and the processing of our client’s business?

We reviewed all businesses that would likely be impacted by the vote (in the UK and the rest of Europe), and carried out risk assessments for them to determine possible outcomes. We ensured that we had coordinated escalation trees in place, enhanced system tracking where we had anticipated spikes in volumes, and additional resourcing. At the same time, we ensured links into the rest of our organisation and into the industry to keep abreast of all possible issues that could impact us. In the days and weeks following the referendum, we have continued to monitor and track...
against the scenarios we determined, maintaining a dialogue with our customers (directly and via webinars/ conference calls), and with our regulators. It is now several months since the vote, but we continue to monitor events both relating to the next steps that the UK will take (such as when article 50 will be triggered), but also the significant political decisions that will take place in Europe over the coming 6 – 8 months or so that could increase market volatility, such as the Italian referendum on their constitution and the re-run of the Austrian election in December.

What will BREXIT mean for your business in the UK?
At this stage, there is no change for clients and how they interact with us, so all product offerings will continue in their current form, including payments processing. The BREXIT vote was a vote of the people to signify a desire to leave the EU. Article 50 is the formal mechanism for starting the approach for leaving, and this will take a minimum of two years and possibly more depending on negotiations. So for now and the foreseeable future, there will be no change to the way we do business. We will continue to monitor negotiations, and will adapt our models if required depending on the EU/UK relationship. We believe that regardless of the final model, we are well placed as we are a German entity with a branch in the UK. This means we have a significant presence in mainland Europe and the UK and can therefore adapt our model to suit the needs of our clients and any final outcome.

A lot of discussion has circled around passporting in a post-Brexit world, but how do you believe BREXIT will impact the market infrastructure?
Financial markets are very interlinked and so are the different market infrastructures. You have securities which are listed at multiple stock exchanges. There are multiple links between European Central Securities Depositories. Would those between the UK and the rest of Europe have to be reassessed or even be closed? They probably would have to be assessed against a third country standard rather than the inner-European standards.

Also there is the question whether most clearing activity in euro denominated derivatives, currently taking place in the UK, could be maintained in a post-BREXIT scenario? Regulators will scrutinize the clearing processes to ensure they adhere to European processes or even prescribe that the clearing has to be done on European soil.

It also remains to be seen whether the UK banks can still make use of the access to the euro settlement system supported by the Bank of England, if this would no longer be possible, new cash correspondent relationships would be needed.

However, to be clear, these are all speculative points, and are therefore only considerations at this stage. They are points that we will be discussing with our market infrastructure partners over the coming months and years.

Which strategies should treasurers, who manage cash flows on a daily basis, put in place for post-BREXIT scenario?
As a treasurer, I would be determining a checklist to ensure that my corporation and the banks that I use are well prepared. Very importantly would be the question of, how well is my bank set up to manage ongoing volatility in the markets? Would it be open for business and still support me with access to the markets I need? Also a legal review might be prudent to understand what are the legal arrangements that I have with my bank(s) and under what contract law? It should be clarified in what circumstances, would that change? When looking at the cash flows one should look at which of those might be impacted by a change of UK circumstances and which would be unaffected? Also the cross-border flow of cashmay have tax implications with the UK not being part of the EU any more - would my corporation be exposed to this? Where does my organisation rely on “passported” activities and how might my bank look to handle these activities in the event that a passport no longer exists? Lastly treasurers should also ask whether there are opportunities that this brings to their business and subsequent cash flows and account structures and set up supporting those flows.
The Financial crisis in 2008 revealed certain risks in the banking sector that few people had considered before it actually happened. Since then, we have seen the evolution of many regulations predominantly focusing around financial system stability, investor protection and transparency:

- **Basel, Bank Recovery and Resolution** were implemented to ensure the liquidity and capital allocation necessary to face market shocks without letting down the financial system and redress to taxpayers money;
- **Volker and Banking Separation Act** – to segregate risky business that caused system instability in the past;
- **MiFID, EMIR, CSDR and funds regulations (such as AIFMD and UCITS)** – a set of regulations which aim to ensure investor protection;
- **Enhanced KYC, reporting requirements as well as custody accounts scrutiny and custody accounts scrutiny** – aim to ensure transparency within financial services and accountability of financial services providers.

At the same time, since 2008, low economic growth has persisted and governments are under pressure to create an environment where growth can be enhanced. Clearly, this has to involve the financial sector.

The **Capital Markets Union initiative in Europe**, launched almost two years ago now, is a response to slower economic growth in Europe and is driven by European Commission. The initiative looks to bring more investment into the real economy and increase funding capacity by making capital markets products available to a wider group of investors, channelling the largely untapped household savings held in home equity and bank deposits into those products. The initiative plans to make this possible through several means including the reduction of the barriers for cross border trade, simplifying prospectus requirements for SMEs and the harmonisation of securities legislation in Europe.

As a part of Capital Markets union initiative, earlier this year, the European Commission called for evidence on a EU Regulatory Framework for
Financial Services\(^2\) to understand if the post 2008 regulatory framework has achieved the desired effect i.e. greater stability of the system, and better investor protection, resulting in a more attractive market in which to invest. The feedback received by European Commission\(^3\) showed that the financial markets believed, that some of the legislation introduced has contributed to a low growth environment. Among feedback received capital requirements under CRD/CRR were seen as creating constraints on financing and having a detrimental impact on market liquidity. Increased reporting and monitoring required to comply with the fourth Anti-Money Laundering Directive (in particular the new due diligence requirements) were also noted. Similarly, respondents voiced concerns about the impact of asset segregation rules in AIMFD and UCITS on liquidity in collateral and securities lending markets. In particular, it was suggested that mandating segregated accounts structures for clients’ assets held in custody would result in the reduction of liquidity.

Meanwhile, in Asia, the following set of growth initiatives can be seen:

- ASEAN Economic Community 2025 which aims to create an integrated and cohesive economy that support high economic growth and resilience
- Cross border funds initiatives in the region: Asia Region Funds Passport and the ASEAN Collective Investment Scheme which allows the cross-border sale of mutual funds in the region.
- Opening up of China with initiatives such as:
  - Stock Connect which allows international investors to access the Shanghai and Shenzhen stock exchange
  - China Interbank Bond Market (CIBM) allowing foreign institutional investors to access the country’s onshore bond market
  - Liberalisation of the Qualified Foreign Institutional Investors (QFII) rules, RMB Internationalisation and the One Belt, One Road Initiative.

Another important element that is starting to drive the growth agenda is the emergence of fintech and technology innovation. New technologies penetrate each area of business, and the financial services industry is no exemption. Customers are expecting user-friendly solutions, enhanced access channels and faster connectivity with their financial institution. We see new players entering the market. They offer new services – such as third party payments providers and account information services providers, creating competition for banks and reducing costs and pricing. Banks themselves are seeing this as an opportunity to improve their processes and systems both in house and to work with established partners and new entrants alike.

Blockchain (the current technology buzzword) and distributed ledger technology have immense potential and could transform the business model of many parts of the financial services industry and beyond. The technology could alter the roles service providers play today by requiring them to review which products they deliver and how efficiently they can do it.

However, the growth of new technologies and innovation creates new set of risks. Cyber-attacks have become a more real threat. Recent hacking attacks in the payments space are a worrying sign. As a result, client data protection, and network & information security have become a top regulatory priority\(^4\).

All of these trends show the varied and challenging the agenda facing regulators and the financial industry. Striking a balance between client and business convenience, security and financial stability is not an easy task. The regulators are called upon to achieve policy objectives brought to life by financial crisis and, at the same time, to respond to the new economic reality and the need for growth. Liquidity issues, the rising cost of doing business and other unintended consequences of post-crisis regulations require adequate and timely reaction. Their careful scrutiny and adjustment to the growth agenda would be a significant step towards bringing a balanced response to divergent market needs.

\(^4\)Payments Services Directive 2 and Network and Information Security Directive in Europe, Proposal on the enhanced cyber risk management standards for certain large entities by US regulators and Cybersecurity Act in Singapore (which adoption is expected soon) - are the examples of how the regulators are addressing cybersecurity issues.
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<th>Trend Name</th>
<th>Description</th>
<th>Implications</th>
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<tr>
<td>Changing Account Structure</td>
<td>– segregated accounts versus omnibus &amp; pooled accounts</td>
<td>– service offering, risk profile, cost model</td>
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<td>Regulatory reporting requirements</td>
<td>– Extraction of quantifiable data regular reporting to regulators (&amp; for our client’s compliance)</td>
<td>– Impact on technology, data management, client management</td>
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<td>Increased operational risk through new liabilities on intermediaries</td>
<td>– Delegated liabilities for events somewhere in the service chain</td>
<td>– Changing operational risk models, Changes to pricing structures to account for risk</td>
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<td>Activity moving to market infrastructures:</td>
<td>– potential change of risk profile by concentrating risks in market infrastructures - exchanges, clearing houses, securities depositories, payment systems, data repositories</td>
<td>– connectivity, business model changes, risk model changes, new customer segments</td>
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<tr>
<td>Focus on enhanced financial stability</td>
<td>– business impacts resulting from BASEL, Recovery &amp; Resolution and Banking Separation</td>
<td>– viability of banking products &amp; customer impact</td>
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<td>On-shoring vs. off-shoring of data and resourcing</td>
<td>– fragmentation of processes globally due to local regulatory requirements to protect consumer + control financial data &amp; possible capital flight</td>
<td>– cost implications, business model consideration, operational and infrastructural risk</td>
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<td>Digitalization, cyber threats &amp; cyber security</td>
<td>– Regulatory concerns that they are lagging behind and policy developments in new areas will be needed.</td>
<td>– Areas in focus include technology standards, legal uncertainty, new costs, risks and opportunities</td>
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<td>– liquidity management, customer expectation, technology upgrade, new costs and potential risks from service model</td>
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<td>Regulatory focus on business growth</td>
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<td>Increased KYC &amp; AML requirements (&amp; tax avoidance)</td>
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European Post Trade Forum to publish final report

Capital Markets Union

Transposition of Directive to become applicable

MIFIR / MiFID

Go-Live of Wave 4 Migration

TARGET2-Securities
Segment Focus
Distributed Ledger Technology – The regulatory perspective

Everyone in financial services has been eyeing and discussing Distributed Ledger Technology (DLT) or Blockchain. And, with the European Securities Markets Authority’s (ESMA) consultation on potential regulatory aspects of the DLT, the topic has gained additional attention. Marko Niederheide from GTB’s Market Advocacy team takes a closer look at the regulatory question marks that this technology might raise in the post-trade securities services space.

Imagine a world where the Central Securities Depository (CSD) no longer settles transactions of its participants, but rather all the participants are the “Decentralised Securities Depository” and all store a copy of all transactions in their own system. In this scenario, it is not a central entity determining when a transaction in a security is finally settled. Instead, the different participating entities in the network will define this moment in time and once the moment has come it cannot be revoked. And with the ledger being updated in all instances of the network simultaneously, it is almost impossible to manipulate the transactions.

This is one promise of Distributed Ledger Technology (DLT). DLT is a database technology that creates an auditable distributed ledger of transactions recorded digitally via one common infrastructure. Deutsche Bank believes that DLT will have a significant impact on financial services and the business models of its industry participants. The implied changes lead to regulators also asking questions about the technology and the potential implications that arise when market participants would connect to each other using DLT. One could also highlight that DLT would oppose the post-2008 crisis regulatory approach to centralise data and activity in central market infrastructures.

With the securities market being global and technology generally location agnostic, DLT participants could connect to the network from different jurisdictions with different securities laws but also different ‘know your client’ (KYC) rules or Anti Money Laundering (AML) requirements. But this could also raise fundamental questions such as how securities could be generated in a DLT network? How could they be transferred and how could the protection of investors’ rights be ensured?

One of the industry’s biggest concerns is the issue of KYC and how to maintain transparency around who banks are dealing with. In a “permissionless” network, which Bitcoin uses, all that one has to do would be to download the software for a wallet and the code
for the DLT. No checks on the person, no validation of their ‘competence’ takes place. This could be problematic in a situation where such a network participant would sit in a country where certain restrictions apply or where data is less protected. It seems to be industry consensus that a DLT network in the post-trade space could only work in a “permissioned” context. By introducing safeguards and identification procedures, participants in the network could be sure that they know who they are interacting with and that no fraudulent activity would take place in the chain.

Such restrictions might be considered by regulators as potential for oligopolies which tend to be seen as exploiting market power and being bad for competition. Most would agree that imposing significant conditions to participate in the system would not help increase the level of trust. However, with transparent access requirements strong enough to deter parties with improper intentions, but not too high to exclude competing participants, such permissioned network could work successfully. This is already the case in today’s markets.

However, with the DLT being used in multiple legal jurisdictions this may raise a conflict of legal issues. In order to circumvent this, the network will require a governance framework to which participants have to sign up to. If all transactions are subject to a legal regime, there is less protection. It seems to be industry consensus that a DLT network in the post-trade space could only work in a “permissioned” context. By introducing safeguards and identification procedures, participants in the network could be sure that they know who they are interacting with and that no fraudulent activity would take place in the chain.

With regards to securities settlement CSDR has set the framework for European activity. As a result, new technology should have to comply with the legal requirements. As the law can only set the framework, regulators may have to see how CSDR needs to be interpreted so that DLT can work under this regime. In this context the question needs to be asked: what is the regulatory intention and does the technology meet these requirements?

As it stands today, the technology itself is considered secure. In fact, the main issues for the security of the DLT seem to stem from the way the technology is applied. To achieve this a constant technical assurance needs to be conducted in order to avoid the exploitation of potential weaknesses in the code. Also, the technology could be subject to inappropriate behaviour from the actual users and the fact that credentials to access the system have been obtained by unauthorized persons.

One could also see a potential challenge in the data privacy space if the distributed ledgers have different data protection requirements. In a “permissionless” set up this might be of particular importance as the data would be distributed across different jurisdictions with different data protection standards. Even in a permissioned network an agreement on how data privacy could be ensured across the different jurisdictions would be required. A compromise could be the acceptance of the highest standards as minimum for the DLT network.

Another issue within a DLT-supported environment could be that if applied correctly separate accounts at banks may no longer be needed as the DLT would provide the Golden Source of data. Applications would then cater for the collection of data from different DLTs.

So what is the way forward?

DLT has the potential to change the way post-trade services are facilitated in the future, but given the technological challenges and regulatory questions, this will be a gradual process rather than a big bang. Market players will likely start concentrating on use cases in niche markets with less regulation to prove that the technology is working.

At the same time, regulators are encouraged to look at the current regulatory framework and how this can be brought in line with technology developments. In the end regulation should be technology-neutral and every entity should be free to decide which technology to use. The focus of the regulation should be activities or outcomes rather than a given technology. Without this approach, regulation might actually stifle innovation.

Regulators can provide a broad framework for DLT to be applied in securities markets (e.g. clearing & settlement) if the DLT is going to provide “intermediary”-like functions with multiple members using the service. This approach should be coordinated on a global level as DLT is global technology. The broadly accepted Principles for Financial Market Infrastructures issued by the CPMI-IOSCO would be a good starting point to ensure that DLT solutions meet certain requirements, such as governance structure, risk assessment, access control and data protection. While not all principles may be relevant, the regulators could pick the appropriate ones, ensuring the satisfaction of the DLT governance body and then review the “application” of the technology.
Local Focus:
How the Indian regulators simplified a complex Market Entry regime

India has been an attractive investment destination for over two decades now. Sriram Krishnan, Head, Investor Services India explains how entry into this market has been made easier.

Overview of the Indian Market
In the past, successive governments have consistently pursued the economic reforms process in India. As a result, positive business-friendly policies have turned India into one of the fastest-growing economies with growth estimated at 7.5 percent this year, and further at around 7.9 percent levels over the next eight years. According to a Harvard study, this makes India extremely attractive compared to other countries. What’s more, the key economic parameters are in good shape – e.g. FX reserves, inflation, current account deficit, fiscal deficit etc. At USD 363bn, India’s foreign exchange reserves are considered rock solid in terms of fall back protection. India’s growth is expected to come from large scale spends, particularly around Infrastructure and Real Estate. India is also slowly turning into a consumption fuelled economy, with steady foreign investment inflows seen over several years. Foreign investments are now relatively easy to undertake, with a liberalized regime in place, both for portfolio investments as well as direct investments. It is felt that the country has the potential to attract further foreign investments. At the same time India has replaced China as top Foreign Direct Investment destination in 2015 with USD 63bn of inflows.

Regulator’s initivatives
To attract this amount of foreign investment, a market has to be open for foreign investors. However, in the past, market entry was viewed as somewhat restrictive and quite complicated. Only a select set of 16 entities / institutions could access the market. Investors felt the registration processes were drawn-out and tedious. The Foreign Institutional Investor (FII) regulations had hardly undergone any significant amendments since being introduced in 1995. That’s where the Regulators stepped in to break down the complexity. In 2012, the capital market regulator set up the Committee for Rationalisation of Investment Routes (Chandrasekhar Committee). Deutsche Bank India was part of this committee, and played a significant role in defining the shape of things to come, together with other market participants such as Stock Exchanges, the Depository, Lawyers and Tax consultants.

The outcome was the creation of a single route of entry for various types of Foreign Portfolio Investors (FPI) by merging the erstwhile FII, Sub Account and Qualified Foreign Investor (QFI) regimes. As a result, going forward the Indian market will have common market entry, and will limit monitoring and reporting norms. At the same time the eligibility process was made jurisdiction dependent irrespective of the constitution type of the entity.

Sriram Krishnan
Head, Investor Services

Timeline

Q3/Q4 2016 – Test of new message header for greater transparency
2HY 2016 – specification for “cloud” payment tracking
Global Payments Innovation Initiative

Q3/Q4 2016

Q4 2017

Nov 2017 – implementation of proposal
Instant Retail Payments across Europe

Q1 2018

January 2018 -MiFID II implementation into national law in Member States
MiFID II/MiFIR
With the additional introduction of a Risk Based Approach, the KYC requirements for:

- Category I investors - sovereign entities, central banks, multilateral agencies
- Category II investors - regulated broad based entities such as mutual funds, insurance funds, pension funds etc.

have been eased significantly. Any other investors would be classified as Category III investor, which entails slightly heavier KYC requirements.

While the ideas of the committee have been debated at great lengths, the realisation that a “one size fits all” approach does not help Category I or II investors was the turning point in the entire process. The recommendations of the committee indeed made it possible for foreign investors to have easier access to the Indian market and the new regime went live in June 2014.

**Deutsche Bank India’s efforts**

As India’s leading custodian, Deutsche Bank India introduced the much acclaimed Simplified A to L Checklist to help foreign investors understand the simplified documentation requirements post the above liberalisation in the form of the Risk Based Approach:

<table>
<thead>
<tr>
<th>S No</th>
<th>Requirement</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Account Opening Instruction, Application Form / Declaration &amp; Undertaking, RF</td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>Basic Tax Consultant Letter &amp; FATCA/CRS declaration</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td>Constitutive Documents - MOA, COI, Bus License, Prospectus / PPM</td>
<td>✓</td>
</tr>
<tr>
<td>4</td>
<td>Details of Ultimate Beneficial Ownership i.e. Shareholding Structure</td>
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</tr>
<tr>
<td>5</td>
<td>Essential enablement for DB India via Power of Attorney</td>
<td>✓</td>
</tr>
<tr>
<td>6</td>
<td>For Cat III, Qualifying Track Record (Certificate of Good Standing from Bank)</td>
<td>X</td>
</tr>
<tr>
<td>7</td>
<td>Grid of authorised signatories with specimen signatures</td>
<td>✓</td>
</tr>
<tr>
<td>8</td>
<td>Hard copy (notarised) of proof of address of the organisation</td>
<td>X</td>
</tr>
<tr>
<td>9</td>
<td>Investment Management Agreement &amp; FPI Certificate of IM</td>
<td>X</td>
</tr>
<tr>
<td>10</td>
<td>Joint KYC Forms (Annexure K - Part I &amp; II)</td>
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<tr>
<td>11</td>
<td>Key Undertakings - Source of Funds (Cat III clients)</td>
<td>X</td>
</tr>
<tr>
<td>12</td>
<td>Legalised ID &amp; address proof for Senior Managing officials (SMO) / Ultimate Beneficial Owner (UBO) (if any)</td>
<td>X</td>
</tr>
</tbody>
</table>

Table 1: Deutsche Bank India’s Simplified A to L checklist for India market entry
The Indian market under the new regime

Inflows from foreign investors as well as the number of accounts opened have been on the rise after the new market entry simplifications. The total net inflows from FPI/FII in the month of Jan 2015 (after the regulatory simplifications) alone stood at around USD 5bn compared to USD 2bn in Jan 2014\(^7\). Much of 2016 has again been another stellar year for Indian foreign investments and the country is expected to maintain the upward trend into the future.

Figure 1- Net Foreign Inflows in recent years (USD Bn)

Source: RBI Publications The official data for 2016 is not available yet

The Way Forward

Encouraged by the success, the Indian regulators have now embarked on making the market more investor friendly. In particular the regulators are looking at the following areas to improve the Indian market:

A. Put an end to the auction mechanism for investing in Government Securities

Indian fixed income securities (particularly Government bonds) have always been attractive, given the good track record and attractive yields. While there is a market level threshold for foreign investments into Indian Government bonds, the earlier complex regime has now been simplified, and there is already a great deal of transparency around utilisation. The proposed way forward is to further replace the auction mechanism with an online real time system that will reflect the foreign investor limit utilisation levels.

B. Doing away with the requirement for a broker for corporate bond transactions

Trading in corporate bonds directly has been a long standing ask of the foreign investor community, and the regulator has proposed to remove the requirement for a broker, thus bringing about the level playing field between domestic and foreign portfolio investors.

C. Simpler & Comprehensive Application Form

Deutsche Bank India is working with the capital markets regulator to make possible a simpler and comprehensive Application Form for Foreign Portfolio Investors (FPIs).

D. Expanding the list of eligible asset classes

Permitting FPIs to invest in unlisted bonds, for instance, is one such move. There are other discussions at play to enable investments into new asset classes that were previously not available to foreign investors.

In summary, Indian regulators have been open to feedback from investors and the stakeholders in the market. The openness has already brought a significant amount of positive change, and more is on the way.

\(^7\)https://www.fpi.nsdl.co.in/web/Reports/Yearwise.aspx?RptType=6
Local Focus:

Americas – Revised Anti-Money Laundering rules for Investment Advisers

A new rule proposed by the U.S. Department of the Treasury may require hedge fund and private equity fund managers to implement further Anti Money Laundering safeguards.

Georges Archibald from GTB’s Fund Services Team provides an overview of the key aspects related to the proposed new rule, enabling managers to prepare for more nuanced regulatory requirements.

Recent Developments

On August 25, 2015, the U.S. Department of the Treasury’s Financial Crimes Enforcement Network (“FinCEN”) issued a notice of proposed rule (the “Proposed Rule”) which scoped certain investment advisers into the definition of “financial institution” and subjected them to certain requirements under the anti-money laundering (AML) program and Bank Secrecy Act (BSA). If the Proposed Rule is enacted, all Investment Advisers registered (“RIAs”) with the U.S. Securities and Exchange Commission will be required to implement an own anti-money laundering program as well cater for the reporting of suspicious transactions to FinCEN.

In particular the Proposed Rule foresees the implementation of an AML program with the following key features:

- written policies and procedures reasonably designed to prevent the RIA from being used for money laundering or terrorist financing;
- periodic independent testing of the program;
- designation of people responsible for monitoring the operations and internal controls of the program; and
- ongoing training of appropriate personnel.

RIAs will also be required to apply their AML policies, procedures and controls to investors in investment funds managed by the adviser and make a risk-based assessment of the money laundering and terrorist financing risks provided by such investors. This should avoid that money from illegal activity can transposed into clean money.

File suspicious activity reports (“SARs”)

RIAs will have to report suspicious activity to FinCEN pursuant to the BSA in accordance with specified filing and notification procedures. In particular, The Proposed Rule would require RIAs to file a SAR with respect to certain suspicious activity involving at least $5,000 within 30 days after becoming aware of a suspicious transaction. The proposal also permits RIAs to file SARs voluntarily (e.g. in connection with suspicious activity involving less than $5,000).

Possibility of Delegation of duties

The Proposed Rule allows RIAs to delegate the implementation of certain elements of the compliance programs to agents or third-party service providers “in which case it is permissible for an investment adviser to delegate contractually the implementation and operation of those aspects of its AML program to such an entity.” RIAs will ultimately remain fully responsible for the effectiveness of the AML program and, therefore, must audit its relationship with the administrator and the administrator’s implementation of the AML program. To that end, the audit should include a review of the following areas:

1. A comparison of the administrator’s AML policies and procedures versus the RIA’s AML procedures; and
2. A review of investor account documentation that includes high-risk investors, investors from jurisdictions with greater known risk of money laundering, large investors, and investors that have had activity in their accounts during the review period.

Conclusion

The Proposed Rule will hold RIAs to higher standards. As it is uncertain when the Proposed Rule will be finalized and because the subsequent window for compliance will be short, RIAs should begin to develop their AML programs now so that compliance with the Proposed Rule is achieved prior to the SEC examinations.

Georges Archibald
Fund Services
# The road ahead

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<th>Which regulation or initiative does it relate to?</th>
<th>What will happen?</th>
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<td></td>
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<td></td>
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<td>- EC to publish an action plan on changes of the regulations in financial services space (follows the EU call for evidence on regulatory framework for financial services)</td>
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<td>- Corporates</td>
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<td>DIF Surcharge Assessment</td>
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<td>Global Payments Innovation Initiative</td>
<td>- Test of new message header for greater transparency</td>
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<td>- Specification of &quot;cloud&quot; payment tracking solution</td>
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<td>Instant Retail Payments</td>
<td>- Preparation of Rule Book for Payment Service Provider</td>
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<td>- Retail clients</td>
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<td>AIFMD/UCITS V</td>
<td>- ESMA to adopt guidelines on asset segregation and custody services</td>
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<td>- Depositories</td>
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<td>- Financial institutions</td>
<td>MiFID2</td>
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<td>Who will be impacted?</td>
<td>Which regulation or initiative does it relate to?</td>
<td>What will happen?</td>
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| 2017 Q1             | - Financial Institutions  
                      - Corporates  
                      - CSDs  
                      - Market Participants  
                      - Financial Institutions  
                      - Investors  
                      - Broker Dealer  
                      - Financial institutions  
                      - Broker, Dealer  
                      - Financial Institutions  
                      - Broker / Dealer  
                      - Fund Manager  
                      - Market Participants  
                      - Financial Institutions  
                      - Investors  
                      - Broker, Dealer  
                      - CSDs,  
                      - NCBs,  
                      - Custodians  
                      - Market participants  
                      - Banking Institutions  
                      - Corporates  
                      - Payment Service Provider  
                      - Fund managers  
                      - Depositories  
                      - Financial Institutions  
                      - EDIS  
                      - Financial Institutions  
                      - Broker / Dealer  
                      - Fund Manager | Global Payments Innovation Initiative  
Global Payments Innovation Initiative  
CSDR  
Shortened Settlement Cycle (SSC) T+2  
MiFID2  
Securities Financing Transaction Regulation (SFT-R)  
Capital Markets Union  
MiFIR / MiFID2  
TARGET2-Securities  
Payment Service Directive 2  
AIFMD  
EDIS  
Securities Financing Transaction Regulation (SFT-R) | Go-Live of new message header for greater transparency  
Adoption of Level 2 Standards for CSDR Settlement Discipline  
Industry-wide testing for T+2 migration begins(Jan)  
Transposition of Directive into local law  
SFT Transparency in UCITS/AIF reporting to apply  
ESMA to propose Implementing Standards for SFT Reporting  
European Post Trade Forum to publish final report  
Main elements of Regulation are applicable  
Transposition of Directive to become applicable  
Go-Live of Wave 4 Migration  
EU to adopt implementing measures  
Assessment of AIFMD by EC due  
Re-insurance scheme completing national DGS; would apply for 3 years until 2020  
Pillar 3 – Transparency requirements in pre-contractual documents (article 14 SFTR) for UCITS and AIFs and Periodical reporting to investors of UCITS/ AIFs (article 13) – Compliance (Jan 13)  
ESMA to provide final RTS on SFT reporting |
<table>
<thead>
<tr>
<th>When will it happen?</th>
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<td><strong>Q2</strong></td>
<td>Corporates</td>
<td>Funds Transfer Regulation</td>
<td>Entry into Force of regulatory requirements</td>
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<td>Banking Institutions</td>
<td>Foreign Bank and Financial Accounts Report (FBAR)</td>
<td>FBAR filing for 2016 (Apr 15)</td>
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<td>CSDs</td>
<td>CSDR</td>
<td>CSDs to apply for CSDR license</td>
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<td>Market Participants</td>
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<td><strong>Q3</strong></td>
<td>Financial Institutions</td>
<td>Shortened Settlement Cycle (SSC) T+2</td>
<td>T+2 Migration (Sept 5)</td>
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<td>Investors</td>
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<td>Broker Dealer</td>
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<td>Fund Manager</td>
<td>Securities Financing Transaction Regulation (SFT-R)</td>
<td>Further SFT Transparency in UCITS/AIF reporting to apply</td>
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<td>EC to potentially adopt SFT Reporting standards</td>
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<td>Financial Institutions</td>
<td>Anti-Money Laundering Directive (AMLD)</td>
<td>Applicability of regulatory requirements</td>
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<td>Corporates</td>
<td>Same-Day ACH</td>
<td>Same-day processing of debit transactions (Sept 23)</td>
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<td>Financial institutions</td>
<td>MiFID2 / MiFIR</td>
<td>3 July 2017: Deadline for MiFID2 transposition into national law of Members States</td>
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<td>Broker, Dealer</td>
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<td>CSDs, NCBs, Custodians</td>
<td>TARGET2-Securities</td>
<td>Go-Live of Final Wave Migration</td>
</tr>
<tr>
<td></td>
<td>Market participants</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Q4</strong></td>
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|                     | US operations of foreign G-SIBs | Financial Institutions | - Broker / Dealer  
- Fund Manager | - Financial Institutions | - Broker, Dealer | MiFID2 / MiFIR | 3 January 2018: Compliance deadline for MiFID2 and MiFIR |
|                     | Financial Institutions |                                                |                  |
|                     | - Broker, Dealer       | MiFID2 / MiFIR                                 |                  |
| Q2                  | Corporates             | Same-Day ACH                                   | Same-day processing of all ACH transactions (Mar 16) |
|                     | Financial Institutions | Customer Due Diligence (CDD) Requirements      | Conformance (May 11) |

**2018**

- Foreign Banking Organisations
- Banking Institutions
- Financial Institutions
- Banking Institutions
- Corporates
- Payment Service Provider
- US BHCs
- FBOs
- US IHCs
- Corporates
- CSDs
- Market Participants
- Custodians
- US G-SIBs
- US operations of foreign G-SIBs
- Financial Institutions
- Broker / Dealer
- Fund Manager
- Financial institutions
- Broker, Dealer
- MiFID2 / MiFIR
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<td>Progressive introduction of a co-insurance scheme until 2024</td>
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<td>Full insurance of deposits and coverage of all liquidity needs/ losses in the event of a payout or resolution procedure</td>
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Legend: Initiatives - APAC | AMERICAS | EUROPE | GLOBAL
# Contact our Market Advocacy team

<table>
<thead>
<tr>
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                  | – Trade & Supply Chain Finance  
                  | – Cross-border securities and funds initiatives  
                  | – Market’s Clearing and Settlement changes  
                  | – Market access, KYC/AML and repatriation issues |
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Glossary

4CB – Four Central Banks
Comprise the four Central Banks of Banca d’Italia, Banque de France, Banco de Espana and Deutsche Bundesbank which have been mandated by the ECB to build and operate the T2S platform.

A
AIFMD – Alternative Investment Fund Manager Directive
European Union directive that regulates EU alternative investment fund managers, essentially hedge funds and private equity funds, as well as fund managers that manage alternative investment funds established in the EU and those that market the units or shares of such funds in the EU. (http://www.gtb.db.com/content/en/1604_2708.html)

AMLD – Anti-Money Laundering Directive
European Union directive, the fourth revision of which is currently under negotiation and expected to be finalised in Q2 2015. The latest version intends to move to a risk-based and evidence-based approach to identifying and managing money laundering and counter-terrorist risks.

APEC – Asia Pacific Economic Cooperation
The leading forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region.

ASEAN – Association of South-East Asian Nations
A political and economic organisation of 10 countries located in Southeast Asia, including the following countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam.

B
Basel III
Global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk. Agreed upon by the Basel Committee on Banking Supervision 2010-11. The global standards need implementation into local law, i.e. CRD for Europe.

C
CMU – Capital Markets Union
Initiative by the European Commission to promote and develop a single market in capital across the 28 member states. It aims to diversify bank funding to the economy and focuses particularly on SME lending, securitisation and long-term projects.

CCP – Central Counterparty
Financial market infrastructures that can reduce and ‘mutualise’ — that is, share between their members — counterparty credit risk in the markets in which they operate.

CTFC – Commodities Futures Trading Commission
US-based independent agency of the United States government that regulates futures and option markets. (http://www.cftc.gov/index.htm)

CRD – Capital Requirements Directive
European Union legislative package covering prudential rules for banks, building societies and investment firms. The fourth revision of the Directive proposal is transposing the BASEL III requirements into European law. CRD IV is made up of: the Capital Requirements Regulation (CRR), which is directly applicable to firms across the EU, and the Capital Requirements Directive (CRD), which must be implemented through national law.

CSD/CSDR – Central Securities Depository
A specialist financial organisation holding securities such as shares or bonds either in certified or uncertified form so that ownership can be easily transferred through a book-entry rather than the transfer of physical certificates. CSDR is the European Commission new legislation to govern CSDs, aimed at aligning settlement periods across European Economic Area countries, increased settlement discipline and CSD prudential requirements.

D
DCP – Directly Connected Participants
TARGET2-Securities participants that connect directly to the T2S platform. This connectivity option can be only be used if the participants are authorized by the Central Securities Depository of their choice. A DCP will in any case have to maintain an account with the CSD, but can place settlement instructions directly in T2S.

Dodd-Frank Act
Legislation aimed at promoting the financial stability of the United States by improving accountability and transparency in the financial system, and also to end ‘too big to fail’. Also protects the American taxpayer by ending bailouts and to protect consumers from abusive financial services practices.

E
EAT – Eurosystem Acceptance Testing
The EAT is the testing and acceptance process of the T2S application by the ECB project team as coded and delivered by 4CB.
EBA – European Banking Authority
European Union financial regulatory institution and European supervisory authority overall, which was set up to maintain financial stability in the EU and to safeguard the integrity, efficiency and orderly functioning of the banking sector. It took over all existing responsibilities and tasks of the Committee of European Banking Supervisors.

EC – European Commission
The executive body of the European Union responsible for proposing legislation, implementing decisions, upholding the Union’s treaties and day-to-day running of the EU. (http://ec.europa.eu/index_en.htm)

ECB – European Central Bank
The central bank for the euro and administers the monetary policy of the Eurozone, which consists of 18 EU member states and is one of the largest currency areas in the world. (http://www.ecb.europa.eu/home/html/index.en.html)

EMIR – European Market Infrastructure Regulation
European Union regulation designed to increase the stability of the over-the-counter (OTC) derivative markets throughout the EU. In addition EMIR provides strict rules for CCPs and Trade Repositories active in the European Union.

ESMA – European Securities Markets Authority
European Union financial regulatory institution and European supervisory authority which contributes to the development of a single rule book for securities transactions in Europe. It replaced the Committee of European Securities Regulators. (http://www.esma.europa.eu/)

FTFR – Funds-Transfer-Regulation
The Funds Transfers Regulation lays down rules for payment service providers to send information on the payer throughout the payment chain for the purposes of prevention, investigation and detection of money laundering and terrorist financing. The requirements are based on the recommendations by the Financial Action Task Force (FATF).

FTT – Financial Transaction Tax
A levy placed on a specific type of monetary or securities transaction. Different regimes already exist in different countries.

G20 – Group of Twenty
The Group of Twenty (G20) is the premier forum for its members’ international economic cooperation and decision-making. Its membership comprises 19 countries plus the European Union, i.e.: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, USA. (https://www.g20.org/)

FATF – Financial Action Task Force
Intergovernmental organisation which develops policies to combat money laundering and terrorism financing. The recommendations are usually transposed into local laws like the Anti-Money Laundering Directive in Europe.

FATCA – Foreign Account Tax Compliance Act
A US federal law requiring US persons, including individuals who live outside the US, to report their financial accounts held outside of the country. Also requires financial institutions to report to the Internal Revenue Service about their US clients.

FCA – Financial Conduct Authority
UK regulatory body, formed as one of the successors to the Financial Services Authority. Operating independent of the United Kingdom government, it regulates financial firms providing services to consumers and maintains the integrity of the UK’s financial markets. (http://www.fca.org.uk/)

FII – Foreign Financial Institution
The definition of an FFI is very broad and is expected to encompass a number of entities generally not considered to be financial institutions. In context with FATCA the term financial institution generally includes banking institutions but may include also other entities, such as hedge funds and private equity funds.

FMI – Financial Market Infrastructure
Are seen as the plumbing of the financial system as they provide the basis for getting the financial transactions finalised. Regulators distinguish between payment systems, securities settlement systems, central securities depositories, central counterparties and trade repositories.

MiFID2 – Revised Markets in Financial Instruments Directive
European Union law that provides harmonised regulation for investment services across the European Economic Area. The main objective of the Directive is to increase competition and consumer protection in investment services. In addition to MiFID emerged MiFIR - Markets in Financial Instruments Regulation on OTC derivatives, central counterparties and trade repositories.
**Money market fund reform**

A revision to the currently existing rules for Money Market Funds. There are similar initiatives ongoing in the United States and the EU.

**NAV – Net Asset Value**

A mutual fund’s price per share or exchange-traded fund’s (ETF) per-share value. In both cases, the per-share currency amount of the fund is calculated by dividing the total value of all the securities in its portfolio, less any liabilities, by the number of fund shares outstanding.

**NSFR – Net Stable Funding Ratio**

The NSFR is a key component of the Basel III reforms to promote a more resilient banking sector. It limits over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability.

**OTC – Over-the-Counter**

A security traded outside a formal exchange such as the NYSE, TSX, AMEX, etc. The phrase “over-the-counter” can be used to refer to stocks that trade via a dealer network as opposed to on a centralised exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

**PSD 2 – Revised Payment Services Directive**

A regulatory initiative from the European Commission which regulates payment services and payment service providers as defined in the directive throughout the European Union and European Economic Area.

**RMB Offshore**

Chinese Renminbi that can be held outside of China and have the ability to flow in and out of China for the payment of goods and services and for certain investment purposes.

**RTS – Regulatory Technical Standards**

RTS are defined by European Supervisory Authorities as part of the so called “level 2” legislation for areas indicated in the level 1 legislation.

**SEPA – Single Euro Payments Area**

A payment integration initiative of the European Union for simplification of bank transfers denominated in euro. The project’s aim is to improve the efficiency of cross-border payments and turn the fragmented national markets for euro payments into a single domestic one. ([http://www.gtb.db.com/content/en/sepa.html](http://www.gtb.db.com/content/en/sepa.html))

**T2S – Target 2-Securities**

T2S is an integrated settlement engine with multicurrency capabilities that will provide commoditised and harmonised securities settlement and clearing in central bank money across all participating European securities markets. ([http://www.gtb.db.com/content/en/t2s.html](http://www.gtb.db.com/content/en/t2s.html))

**UCITS - Undertakings in Collective Investments in Transferable Securities Directive**

A set of European Union directives that aim to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorisation from one member state.

**Volcker Rule**

Refers to the Dodd-Frank Wall Street Reform and Consumer Protection Act, and aimed at restricting US banks from making certain kinds of speculative investments that do not benefit their customers.
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