



Alain Lamassoure  
Chair Special Committee TAXE  
European Parliament  
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BELGIUM

Deutsche Bank AG  
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14<sup>th</sup> April 2016

Dear Mr. Lamassoure,

Further to Deutsche Bank's appearance before the Committee on Monday, April 4<sup>th</sup>, as requested, below we provide written comments on certain questions raised in the course of the exchange of views. We have now also received your letter of April 8<sup>th</sup> in which further clarification is provided on the third question. Our response below takes that into account.

#### **Question 1**

The first question related to links Deutsche Bank (or DB Group's entities) has with the Mossack Fonseca group. At this time, we can confirm that certain clients of Deutsche Bank (Suisse) SA ("DBS") have used the services of Mossack Fonseca.

As mentioned during the Committee hearing, Deutsche Bank's policies, procedures and systems are designed to ensure that the Bank complies with all applicable rules and regulations in relation to 'Know-Your-Client' (KYC) and anti-money laundering. These include systems and controls designed to identify and verify clients, understand the nature and purpose of the proposed relationship, and detect and prevent financial crime.

Under its current procedures DBS seeks confirmation from clients who are serviced on an offshore basis that they comply with all applicable tax requirements. DBS has ended relationships, and will continue to seek to end relationships, with such clients who do not provide DBS with the necessary information regarding their tax compliance.

#### **Question 2**

The second question concerned the number of tax rulings obtained for Deutsche Bank's own operations in Luxembourg subsequent to those identified in the so called "Lux Leaks", and what the difference was between these later rulings and those previously obtained.

Three rulings were obtained in each of 2014 and 2015. These rulings were confirmatory in nature; that is, they sought confirmation as to the application of tax laws to underlying commercial transactions. They were not focused on questions of transfer pricing and did not seek agreement that only a certain amount of profits would be taxable with respect to a specified commercial position.



The difference between older rulings and current practice relates to the internal procedure undertaken by Deutsche Bank. Previously, for a transaction to obtain internal approval to proceed to the stage of seeking a ruling, it had to be determined that the transaction was compliant with applicable laws. Now, under the principles in Deutsche Bank's Code of Business Conduct and Ethics, a transaction, as well as being determined to be compliant with applicable laws, would be assessed by reference to the spirit of the law and the social context in which the Bank operates.

Wherever practicable, Deutsche Bank seeks to obtain certainty on its tax affairs and appreciates the opportunity to engage with tax authorities to achieve this. Such certainty is desirable with respect to major commercial transactions, and provides an assurance that the Bank's interpretation and application of relevant taxation laws is fully aligned with the approach of local tax authorities.

### Question 3

The third question was generally directed towards the basis and nature of commercial activities undertaken in jurisdictions ("financial centers") which themselves impose no or low tax with respect to those activities. As to the specific comment made in connection with the US Senate Report, the referenced transaction was discontinued some years ago.

Financial centers commonly have a stable, accessible, and predictable regulatory and legal framework, which additionally provides bankruptcy protection for transactions. Financial centers are also usually characterized by concentrations of commercial and professional expertise in specific transaction types. These provide certainty and comfort to investors, as well as tending to keep the administrative costs of transactions low.

Additionally, and importantly, financial centers generally allow for funds to be pooled, or money borrowed from investors or lenders in multiple different countries, without imposing significant additional layers of taxation. This does not mean that transactions carried out in these jurisdictions will not be taxable. Investors and lenders will still be subject to the taxation rules of their home country on income arising from activities in financial centers. From a taxation perspective, the net result of the use in a financial center of an entity to pool funds, distribute risks, or apply specific legal features is that an undue second layer of tax does not arise on a single underlying income source.

Compliance with home country tax obligations for clients of the Bank is supported by the Bank's KYC procedures described above, reporting obligations with respect to beneficial ownership of holdings, and the exchange of information between authorities.

Some general examples of the nature of commercial activities in financial centers are:

- Repackaging and Securitization Activities: Repackaging and securitization entities are established to match investors' needs with demand for financing, and facilitate the smooth functioning of credit markets. Such entities acquire financial assets (e.g. corporate loans, consumer debt). The instruments issued by the entities to fund the asset acquisition are then structured to partition the credit risk and return on the assets according to the risk particular investors are prepared to take. The structure of the entities also provides bankruptcy protection; that is, the only credit risk investors are taking is against the designated pool of assets.
- Asset Financing: The acquisition of major assets (e.g. aircraft) is frequently funded through financial centers using a single purpose entity. The funding is collateralized by the asset. Such structures provide protection to participants from credit exposure to financial institutions as the only exposure of the entity is to the asset, and risks can be shared across several parties who may themselves be in different countries.



- Managed Funds: Funds allow retail investors to invest in many different asset classes, such as shares, real property, and commodities. A financial center may provide for the establishment of funds with several compartments, each one legally insulated from the others, with each one having a different investment strategy and with different currencies, depending upon investor requirements. The financial center will be one which is well recognized as having a robust legal and regulatory framework.

We trust that the Committee finds these additional answers helpful and that the information provided proves useful in informing its deliberations.

Yours sincerely,

Deutsche Bank AG

A handwritten signature in blue ink, appearing to read 'B. Bomm'.

Brigitte Bomm  
Global Head of Tax, Group Tax

A handwritten signature in blue ink, appearing to read 'M. Holmes'.

Matt Holmes  
Managing Director, Group Regulatory Affairs