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by Felix Salmon

## Subprime in Germany

Who or what is an IKB? I know there are lots of obscure European banks, but IKB is obscure even by German standards. And somehow – really, no one seems to have the foggiest notion how – IKB's Rheinland Funding vehicle seems to have contrived to amass an eye-popping €17 billion (\$23 billion) in [US subprime exposure](#).

The good news is that there isn't any systemic risk here. IKB is supporting Rheinland Funding, and KfW, the state-owned giant which, it turns out, owns 38% of IKB, [is supporting IKB](#).

The bad news is that this is proof that there are fund managers out there running truly enormous portfolios and who (a) seem to have absolutely no idea what they're doing, and (b) seem to be doing it without anything in the way of useful oversight. The FT's **Ivar Simensen** reports that "the warning came just 10 days after the bank had reassured investors about its market positions."

The FT's **Gillian Tett** says that it's a German thing:

It is a peculiar irony of Germany's business world that while the country produces hordes of sophisticated, ultra-smart engineers, it is notably poor at churning out the type of sophisticated bankers it also needs. As a result, many German financial institutions are woefully ill-equipped to handle complex derivatives risk (or indeed, capital market risks at all).

But of course Deutsche Bank is the one financial institution which seems to be *making a lot of money* out of the subprime mess.

Germany's largest bank is poised to reap a bonanza of at least \$270 million and as much as \$540 million from a strategy that enabled its traders to sell subprime mortgage loans with derivatives contracts that appreciated as the U.S. housing market suffered its worst slump in 16 years.

I'm quite sure that the Deutsche Bank trade wasn't put on by Germans, but Germans were certainly ultimately responsible for it. What's more, it was Deutsche Bank CEO **Josef Ackermann** who [dropped the dime](#) on IKB to the German regulators.

I am worried about this IKB news, however. If hedge funds lose a lot of money, I'm not going to shed too many tears. But a lot of the global liquidity glut came not from hedge funds but from large and much more boring pools of capital, like Rheinland Funding. If they start suffering, some real people – as opposed to financial-market professionals – could start to feel pain.

Quelle: <http://www.portfolio.com/views/blogs/market-movers/2007/08/03/subprime-in-germany>