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EBF Response to EBA DP on Retail Deposits subject to higher outflows for the purposes of liquidity reporting under CRR

General Remarks

We welcome the efforts the EBA is undertaking to harmonise the approach for retail outflows in Europe, as this enhances the level playing field. We note that practices vary to a significant extent from one country to another and we appreciate the challenge for the EBA to reconcile both differences on definition of deposits and determination of outflow rates.

We also recognise that the CRR is likely to require the EBA to set out the guidelines for identification of those retail deposits which could be subject to higher outflows. We believe that any such guidelines should not be used to change the method of calculation of the LCR "pillar" 1" ratio but rather sit alongside the other metrics which need to be used to understand a bank's liquidity risk profile. It will be important to have an LCR which is calculated on a globally consistent basis i.e. using the minimum outflows suggested by the Basel Committee. This we define as the pillar 1 LCR. However, this globally consistent LCR is not, in the words of the Basel Committee (see BCBS 238 paragraph 7), sufficient to measure all dimensions of a bank's liquidity profile. So additional metrics are required and an idiosyncratic LCR taking account of the guidelines now being developed by the EBA. These metrics will form part of a bank's internal liquidity risk management process as well as the discussion it has with its local supervisor and will finally it will also form the basis for its liquidity disclosure.

Alignment with Basel III and level playing field

The discussion paper appears to suggest that individual balances over €1m would not be treated as retail despite that treatment in the Basel Accord. We are not sure that this provision will be in the final CRR text (and we hope it will not be the case). Such a cap on deposits will lead to such balances being offered better rates outside Europe, as members have highlighted to the EBA/European Commission/European Parliament and the European Council.

We think that the outflow rates system proposed by Basel already consider higher outflow risk of some categories of retail deposit (the not stable one). Most banks did not observe nearly such outflow rates for their own institution during the crisis. **Therefore we believe the current suggested regular outflow rates are appropriate and do not require further increase.**

Scope of the EBA methodology

The EBA proposes to include in the scope of its methodology all retail deposits, i.e. those (i) covered by a Deposit Guarantee Scheme as per article 409.1 of CRR and (ii) those that are part of an established relationship or held in transactional accounts as per articles 409.1 (a) and (b) of CRR. We believe that the conditions set out in article 409.1 are already sufficient to ensure the stability of these deposits, materialised by the outflow rate of 5%, and we suggest excluding them from the scope of the EBA methodology. **Retail deposits that are covered by a Deposit Guarantee Scheme and/or which are either part of an established relationship making withdrawal highly unlikely or held in a transactional account, should not under any circumstances be subject to higher outflows.** It is not logical that retail deposits that have already been defined as “stable deposits” by the Capital Requirement Regulation (CRR) will not be regarded as such if they comply with a set of risk factors.

Intended impact and consequences

The suggested criteria would apply to a large proportion of retail deposits otherwise considered stable e.g. insured deposits. Additionally, we are concerned that there is some double counting, e.g. accounts placed by non-resident and currency accounts; high net worth accounts and balance banding. It would be useful to understand to which extent the EBA are expecting higher outflows to apply. Will there be an impact assessment? Which EU jurisdictions and which non EU jurisdictions already impose or are in the process of imposing higher outflows?

Complexity and additional administrative burden

The proposal put forward by EBA is too complex. This complexity will be felt during the development of the required IT systems and it will also be felt by clients. The intransparency of the requirements will probably translate to intransparent behaviour of banks toward the various groups of ‘less stable deposit clients’ which might not be in the interest of those clients.

In addition the effort required by banks to implement the methodology proposed (efforts primarily linked to the collection of new information on single deposits) has been assessed as one of the most relevant in the ranking of all different sub-projects of the main CRR/LCR activities and one of the less useful in order to better mitigate liquidity risk. Operational costs of this proposal will offset any potential benefit.

EBA data sourcing and empirical evidence

We would be interested to receive information on the empirical data the EBA used throughout the analysis. We believe it would be helpful to understand, if there is any (regional) pattern to be observed and to analyse in more detail what the drivers behind such potential regional differences could be, should they exist.

We note the differences in the behavior of retail depositors and products during stressed periods for credit institutions across countries and your statement that “Circumstances are too different to allow any robust inferences to be drawn” (pg 9/21). In our view this means that due care needs to be taken when devising criteria for classifying the degree of volatility of retail deposits and that common factors may not be entirely suitable to apply in the same manner across financial jurisdictions.

Prescription vs internal experience for outflow rates

We recognise that the Basel outflows are the minima and that the EBA is tasked with reviewing the criteria for which higher outflows might be considered. It is unclear, however, why EBA wants to specify fixed values for higher outflow rates. Liquidity is a continuum and hard rates lead to discontinuity in treatment. Since, throughout the document, several references are made for institutions to develop a kind of internal statistical models for the purpose of classifying the degree of volatility of retail deposits, we wonder whether authorities would be open to the idea of institutions developing/utilising advanced internal models to typify deposits and to compute the local LCR. As different jurisdictions and even institutions have different experiences, it would be preferable and more realistic for institutions to determine their own characteristics, undertake their own stress tests and liaise with their own supervisor. Institutions can set their own risk appetite based on experience and react when breaching the LCR accordingly.

Considering Behavioral factors

Behavioural aspects of are not taken into account. It is *not* necessarily the case that high net worth individuals always portray more volatile behaviour. Alternatively, a ‘look through’ approach for Wealth Planning Structures that considered as ‘brokering deposits’ could be used.

Currency and location of deposits

The link between the currency and the stability of a deposit is not obvious. We invite the EBA to refine this risk factor.

Non-resident deposits

We disagree with the factor “Non-resident deposits” (Table 1, category 2), which considers that non-resident deposits are less stable than the deposits placed by resident. We believe the concept of non-residence should not apply to EU customers, for example living in EU Member State A and placing deposits in a bank established in EU Member State B. Indeed, in the context of the EU internal market in the way of increasing integration, it is not appropriate to discriminate the deposits placed in an EU jurisdiction by non-resident customers having their residence in another EU Member State. Such a measure is of less relevance from a risk perspective, and it would go against the principle of the free movement of capital, which is the essence of the internal market. **We suggest that the ‘non-resident deposit’ factor does *not* apply.**

High value and Very high value deposits

The threshold based on the amount guaranteed by the national Deposit Guarantee Scheme (i.e EUR 100,000 across the EU) makes sense, as it is a factor of *greater* stability for the deposits covered by the DGS. By contrast, the further threshold of EUR 500,000 delimiting the High Value deposits (below EUR 500,000 and greater than EUR 100,000) and the Very High Value deposits (greater than EUR 500,000 and below EUR 1,000,000) is somewhat artificial as it is not the only representation of the customers’ behaviour.

We believe that the degree of sophistication of customers (i.e. factor number 5 in Table 1, sophisticated or High Net Worth Individuals) better reflects their behaviour in times of stress. As a consequence, we suggest to remove the category ‘high value deposits’ and to increase the threshold of ‘very high value deposits’ to EUR 1 million”. This approach would also better align the European implementation of the liquidity requirements to the Basel III text, as Basel recognises all deposits from natural persons as retail deposits, while the EU might not regard deposits in excess of EUR 1 or 1.5 million retail deposits,

depending on the outcome of the CRR negotiations, which were not yet available at the time this letter was written.

Mitigating factor reducing the risk of instability

The DP seems to only consider evidence that higher outflow rates ought to be used, but does not appear to consider when stability factors may offset the need to apply the higher risk factors.

For example

- Where a deposit is insured, a minus one in the assessment, could be applied. We appreciate that the total risk factors cannot be negative overall. Consider a transactional client has EUR 10,000 in transaction account; and EUR 70,000 in Product X – an internet access only savings account - which matures in 29 days. The deposit is fully protected by qualifying DGS. The rules seem to suggest that because the Product X ticked a Category 1 and Category 2 box, a bank would be required to hold 20% [4x current] against the EUR 80,000? For a non-resident, that would be 25% (5x). This is not clear in 4.3 [pg.17].

Furthermore, we see the following criteria reducing the risk of instability

- The length of the business relationship: a number of banks have experienced that the stability of deposits increases with the length of the business relationship with customers.
- The use of deposits as collateral: deposits used as collateral for a loan contract and therefore linked to this product do not bear an outflow risk during the maturity of the loan.
- The number of products used by a customer: If a customer is a single product user, the risk of deposit outflow in a stress scenario seems to be elevated to us.

We suggest that these positive factors are considered in the determination of outflow rates.

Possible double counting

Table 2 on page 18 has the potential for double counting. If a retail deposit meets two criteria in category 1 and one from category 2, it is automatically considered a “very high deposit”. However, in cases where category 2, criterion 3 is true, criterion 5 of category 1 will automatically apply as well. This is possible double counting, which does not make sense (unless EBA was aware of this and hence requires two of the indicators in category 1 to be true).

Alternative approach

Should there be higher outflow rates allocated to some categories of retail deposits then we suggest the following:

- **lower outflow rates should be allocated to some other categories of retail deposits;**
- **they should *not* apply to deposits covered by deposit guarantee scheme;**
- **they should be based on two factors:**
 - **a client relationship-driven factor** (and not product-relationship factors) and
 - **a ‘sophisticated clients’-factor**, which should include retail deposits that are brokered, notably through Wealth Planning Structures, without redundant criteria based on balances.
- **they should be derived from *adding on* outflow rates to the usual 5% to 10% applicable outflow rates.** As an illustration, deposits from clients with which the bank has *no* established relationship or clients that are deemed *sophisticated clients* could be added an *incremental* 5% outflow rate.

Further detailed comments and questions to consider:

- Are tests biased to individuals, given definition of retail includes SME deposits
- In using balance banding EBA needs to be clear how connected they think accounts of individuals are (household, family etc).
- We do not consider that a fixed term or notice period is a very high risk, as the choice between sight and term deposits is often dependent on the interest rate term structure, which does not imply a higher outflow risk.
- The definition of investment trusts and brokered deposits appears less clear. We make the point that the 'look through' approach should apply to Wealth Planning Structures (WPS) that are offered to few clients, and that those WPS should be considered as brokering deposits.
- The treatment of deposits of small medium enterprises remains unclear in the proposal.
- It is unclear for example how EBA specified the percentages on page 17. It appears EBA produced its own incrementally increasing scale. The CRR does not dictate these percentages and may therefore turn out to be too high.

Responses to Questions

Q1: How do respondents assess the availability of data to empirically substantiate work on criteria for identification of retail deposits subject to higher outflows, as well as setting such outflow rates?

The challenge in general is that all historic data available do not indicate any unexpected or unmanaged outflow of deposits, even through the recent financial crisis. So it is difficult to calibrate or to validate hypothetical stress scenarios with significant outflows.

The time series analysis is hampered by the fact, that the data is not available with regard to all dimensions that need to be considered going forward but is only available at a relatively high aggregated level (for example changes in the portfolio structure make it difficult to generate consistent time series on business unit level). Required time series (with relevant attributes) have to be built over time.

The current proposal broadens the already existing criteria (like established relationship or transaction accounts) by ten additional criteria. We propose to find a balance between the criteria that are essential from a risk perspective but are still manageable for the steering of these deposits.

We propose to use the number of products used by a customer as a differentiation criterion as it shows the relationship with the bank. In case of a multi-product user we believe the risk of an outflow in a stress scenario is smaller than in the case of a single-product user. Additionally, it is less costly to implement.

Furthermore, we note that deposit outflows observed in some jurisdictions should not be generalised as they are due to specific regional economic causes rather than general customer or product related behaviour.

Also, behaviours seem to be too varied for a single/clear categorisation. In the past years of financial crisis and stress some countries have not experienced as high outflow rates as proposed. In contrast,

overall deposits increased. If LCR already considers these high rates, we assume an even stricter approach in NSFR which does not seem to be appropriate. Historic data in these countries indicate that retail deposits are a stable source of funding. On the other hand, some countries will have experienced stress for some time, which gives the advantage of better understanding and categorising deposits volatility. Furthermore since customer behaviors differ from country to country same methodologies/models may lead to different results. This should be reflected in regulatory requirements.

The complexity of the suggested scorecard lies in having to combine all the possibilities of the suggested 10 Risk Factors, several of which aim at similar characteristics which artificially gross up the score.

Q2: Can you identify any other factors that may lead to higher outflows, especially in relation to the introduction of innovative products designed to lower outflow rates?

These factors should be considered only in cases where deposit values are above DGS amount and the client is himself seen as volatile. Hence, higher risk factors should not be considered for deposits that are below the amount guaranteed by national deposit guarantee schemes or clients that maintain a long relationship with the bank and have been showing a stable behaviour in terms of funds placed in the bank.

The assumption that “Internet access only” (characteristic 4) is a high risk distribution channel is not sufficiently argued for. If the loyalty argument and customer relationship are to have decisive power, it must also be possible to argue the other way around. How can one decide which banks have the most “loyal” customers, and the reduced outflow ratios this should result in? New distribution channels are vital in the process of making the industry more efficient, and must not be hampered by stricter regulation not anchored solidly and objectively. Access channels should be looked at in terms of the institution’s overall business model, with internet often the only one type of channel used.

Furthermore, the position of the institution in the market is relevant as one would expect *lower* outflows and possibly inflows to systemically important institutions in times of stress, unless the systemic institution itself, since it is suffering a stress subject to higher prudential capital requirement. Conversely if an institution has a low market share in either a home or a host market or is reliant on price this could impact the level of outflows.

The DP mentions “...In general, the identified characteristics are linked to the degree of professionalism in the management of the deposits. Under an institution-specific or systemic stress, the more actively managed deposits will be more prone to experience withdrawals.” Does this refer to the ‘professionalism in the management’ on client side or on banking side?

The characteristics 5 and 6 of category 1 seem to overlap somewhat with characteristic 3 of category 2. Are they independent enough to be separated?

Q3: Do you agree with this characteristic? Should the local DGS amount be used instead of a fixed 100.000 EUR? Is it sensible to distinguish between high and very high value deposits? What are the concentration analysis and management tools used internally as regards high value deposits?

The characteristic should be based on the amount guaranteed by national deposit guarantee schemes (DGS) and not a fixed EUR 100,000. This is effective risk mitigation to the customer against loss of deposit value, which provides more confidence which in turn leads to more stability.

The threshold of EUR 500,000 delimiting the High Value deposits (below EUR 500,000 and greater than EUR 100,000) and the Very High Value deposits (greater than EUR 500,000 and below EUR 1,000,000) is somewhat artificial as it is not representative of the customers' behaviour. Moreover, the expansion of the deposit criteria to high and very high value deposits will only add to the level of complexity of interpretation and reporting. In addition the inclusion of a cap at EUR 1million for retail would place EU regulated banks at a competitive disadvantage to Basel regulated institutions, where such a limitation does not apply.

Regarding risk analysis of high value deposits, standard concentration levels (top 1, top 5, top 100) are followed, as well as the major increases and decreases observed. Also, distributions of deposits per amount and per interest rate are assessed, as well as scenario analysis. The concentration analysis mostly takes the form of a Pillar 2 - type approach, given that it is very much specific to the bank's business model, to the distribution and to the typology of its customer base.

In case that the regulation sticks to the thresholds it should be clarified, in case a deposit exceeds a given threshold, if an adjustment is only applicable to the amount exceeding the threshold or the full amount.

We would like to seek clarification what the proposed treatment is for deposits of more than 1 million as such deposits seem not to be part of either of the two groups.

The DP mentions "...The evidence from supervisory authorities indicates that outflows ranging from 20% and substantially more seem to be warranted...". We would be interested to learn more about the underlying analysis. We assume that the observation was not equally distributed across countries, or across different type of banks. We cannot confirm this outflow rate during the years of financial crisis. But besides our individual historic data, we suspect that other countries might have seen such outflow rates. We would like to learn whether such outflows can be linked to particular circumstances in the relevant countries.

The inferior treatment of non-resident customers seems to conflict European free movement of capital and trade and may lead to discrimination. Therefore, we ask to clarify this approach within the spirit of the European Single Market.

Q4: Do you agree with the criteria for deciding which products can be considered as rate-driven?

We do not believe that this criterion on its own is relevant to determine the stability behaviour of a depositor. Even if some experience from the past may indicate higher outflow on these types of deposits there are good reasons to believe that banks in the future to a larger extent will use interest rates – or other preferential conditions - to attract deposits that are stable. If so, treating such deposits as less stable will lead to adverse effects. Therefore, as a minimum the criteria must be combined with a closer assessment of the volatility of the particular product or client. In any circumstances, deposits that are below the DGS level should not be considered as more volatile, given that the amounts are guaranteed even under stress conditions. In most cases, where a client can be seen as a ‘yield-hunter’ and should therefore be considered as not being stable, we believe this would coincide with being a single-product user. Therefore we suggest not continuing to consider these criteria.

Also, clients that maintain a long relationship with the bank and have been showing a stable behaviour in terms of funds placed in the bank are not expected to change their behaviour just because they have a preferential rate.

To some extent, we believe there is a positive correlation between a premia paid to the customer and its associated stability. There is some sort of a circular argument to be considered: Once a deposit is stable, it deserves a higher reimbursement; a higher reimbursement makes the customer willing to keep the deposit with the bank. We assume that this is accounted for by setting a sort of threshold rate (25% as suggested in the text). Given the currently low interest rate level for deposits the 25% threshold might be too small. The question from a customer’s perspective probably is: what is the absolute difference in interest and is this difference worth switching deposits from one bank to another (considering efforts of opening new accounts / switching accounts)?

The DP states “...Peers in this regard refers to institutions with a comparable business model and size, to be defined by the national supervisor, or - by consent of the supervisor - by the institution verified by the national supervisor upon request ...”. We would be interested on what basis the national supervisors determines the peer group of a bank.

According to the DP, deposits that pay their return based on a market index should be treated as rate-driven. A term deposits with several years’ maturity that pays an interest rate linked to an index is not necessarily rate-driven.

This is also the case for floating rate deposits. They are not rate-driven just because their basis is reset regularly. Their sensitivity depends mostly on the margin paid but not only on the floating basis.

It must be taken in consideration that the notion of a relative excess remuneration (25% above) at low interest rate levels, as is the case right now, could be translated into just a few basis point above the market rate that we deem could not be representative of the notion of excessive remuneration.

We also note that using the criteria ,“ by 25% (relative)”, will give distorting answers based on the level of interest rates at a point in time. Also the ‘competitive’ differential will vary by product as the rate –

driven concept doesn't take into account that products will have maximum balance caps and other features such as conditional transactional accounts linked to them. Therefore to set a blunt rate differential approach could give a misleading result.

Should this criterion be retained, the 25% threshold should be complemented by an absolute threshold such as benchmark rate + 1%

Q5: What criteria do you propose to address potentially higher outflow rates connected to term deposits?

We do not agree that term deposits should necessarily be penalised by higher outflow rates. In contrast, we believe an institution should set incentives to originate term deposits which undoubtedly provide stable funds to the bank for its tenor. It would be contradictory, if such deposits would be subject to higher outflows when they run into the 30-day period. On a portfolio basis, when such a portfolio of term deposits turns over on a regular basis, the risk of disproportional outflows is mitigated. In our view the probability of deposit outflow mainly depends (i) on the pricing of deposits and (ii) whether the customer is a single product user but not on the (initial) deposit maturity.

Further, we propose to base higher outflow rates for term deposits on historical analysis of retention rates by product. A historic analysis of breakage would show the retention rates experienced. Institutions would then set limits for such breakages and contain the outflow.

Besides we consider that charging term deposits on regulatory grounds seems to be counterintuitive to the whole purpose of the LCR which is to increase liquidity stability of the institutions.

We take note that the EBA recognises the danger of potential 'unintentional reclassification'.

The EBF considers Questions 6 -11 are institution specific and so should be replied to bilaterally between institutions and supervisors. They are not suited to industry generalisations.

We suggest that this factor does not apply.

Q6: What are the other characteristics identified to capture the key attributes of retail deposits subject to higher outflows? What is the internal policy extended to detect other characteristics?

The characteristics of the discussion paper represent a thoroughly enumeration but should concentrate on the two or three main factors:

- The customer is a single product user
- The customer is a sophisticated investor

All other relevant influencing factors should be considered individually by each bank based on an individual risk assessment which may consider other qualifying relevant criteria influencing the stability of deposits.

The DP mentions:

...For this purpose, institutions should conduct a stress test scenario assuming a combined severe idiosyncratic and market wide event. Internal statistical and mathematical models could be used to assess the volatility of retail deposit products. The inputs for these methods generally comprise data derived from the past behaviour of deposits and from hypothetical assumptions based on stress scenarios.

The issue with the proposed approach is the following: All the available information from the past is already in the time series. There is no more information that you can retrieve from applying additional scenarios (the only thing it does is to evaluate a different outcome from that 'stability information', but it does not alter the stability information from the time series itself). Hence, all simulation comes down to the scenario forecast, which is more an assumption than a precise modeling. Any assumption will be difficult to be validated objectively. Maybe that is agreed by EBA, but the text from the DP suggests that there is a well-defined mathematical process to determine stability over various scenarios, which is not the case. So the 'expert judgement' will take a higher weight in such an analysis than it may read from the DP.

The application of the criteria should capture the cross factor impact for example while an internet channel may be used by the customer to place a deposit where the customer has an established relationship through other channels thus increasing the stability of the deposit. These mitigants are not recognised in the proposed application of the factors and they should be taken into account.

To analyse the composition of customer portfolio instead of single deposit products – portfolio stability as opposed to deposit stability (imagine a customer that every 15 days changes from one deposit to another, does it make it more volatile?) seems more adequate.

Q7: In your view are the descriptions applied to the characteristics and their analysis sufficiently comprehensive?

The definition of "sophisticated depositors" or "high net worth individuals" remains unclear. A common feature of these clients is that they conclude with their bank a mandate of wealth management, whereby they leave a degree of discretion to the bank regarding the investment policy and the choice of the investment products.

The paper differentiates between "Internet-only virtual banks" and branch-driven retail deposits which can be accessed via internet but does not state clearly how this difference is expressed in terms of outflow rates.

Beside this missing definition we do not agree that internet-only deposits necessarily suggest a higher outflow rate unless there is a statistical inference that internet-only banks attract a customer base with significant different customer behaviour compared to a branch-driven network. In case that the underlying data the EBA has access to shows such evidence, we would be interested to discuss this in more detail.

Given that also in branch based retail banks the majority of accounts can be accessed via Internet this criterion seems not to address the underlying risk factor. Again, we believe the number of products and

thus the depths of relationship between bank and customer is a good indicator for stickiness of deposits. Single-product, (rate driven) deposits generating Internet banks typically have no or only a limited relationship to their customers and therefore possibly see a lower stability of their deposits.

We seek for clarification of what is considered a 'non-resident' deposit.

- Is it a deposit from a customer resident in another country than the bank?
- Does the nationality of the customer matter? I.e. is it a difference whether e.g. French customer living in France has a deposit with a German bank or whether a German customer who moved to France has a deposit with a German bank?
- Does the time of living abroad matter? I.e. is it a difference whether a German customer living in France for 20 years has a deposit with a German bank or if the German customer is just on secondment for 12 months and is supposed to return to Germany afterwards?
- Do other criteria matter? I.e. can a deposit from a French customer be considered being stable when this customer is also using other products of that bank (credit card, saving account, home loan)

Furthermore, the focus on singular characteristics may be misleading on a standalone basis and this needs to be adjusted in the application of the factors and their definition. For example, specific product-linked deposits are difficult to be identified, except for those that collateralise loans.

The assignment of higher outflow rates to deposits with a combination of the listed characteristics is not straightforward and certain.

Q8: Is the threshold based on the guaranteed amount and the threshold of 500 000 EUR appropriate? If not what in your opinion could be the uniform benchmark for the thresholds?

The threshold based on the amount guaranteed by the national Deposit Guarantee Scheme (i.e EUR 100,000 across the EU) makes sense, as it is a factor of greater stability for the deposits covered by the DGS.

By contrast, the further threshold of EUR 500,000 delimiting the High Value deposits (below EUR 500,000 and greater than EUR 100,000) and the Very High Value deposits (greater than EUR 500,000 and below EUR 1,000,000) is somewhat artificial as it is not representative of the customers' behaviour.

We note that the inclusion of caps and higher outflow factors compared to Basel will place European banks at a competitive disadvantage.

Q9: Is the definition of products with rate-driven and preferential features precise enough? If not please specify what additional specification would you include?

The definition of the products is clear but requires a precise categorisation of deposit types and the availability of the average rate for those different retail products categories offered by peers.

Please also refer to our answer to Q4 above.

Q10: Is it feasible to assess the proposed characteristics on robust operational grounds?

We foresee operational difficulties in identification of product-linked deposits, classification of rate-driven products in order to compare with peers and identification of brokered deposits.

If the proposed approach has to be implemented operationally, this will lead to considerable implementation costs and a long preliminary lead time before steering mechanisms are changed and becoming effective. Therefore, we suggest to examine costs and benefits of all criteria and to use only the most relevant criteria which really represent a benefit in the risk assessment.

Q11 How much and what additional resources will be needed by institutions to implement this assessment? How much and what additional resources will be needed by institutions to run the assessment on an ongoing basis? Could you explain what will drive the costs (for instance, IT resources, additional staff, etc.)?

It is difficult at this time to cost such a proposal but given the indication in the paper of the granularity of the data required to identify the characteristics, the IT requirements and additional risk analytics will be cumbersome, demanding and hence costly. In addition more extensive data on the customer base will be required to identify elements such as High Net Worth Individuals, assuming that a standard definition will be applied. Finally the application of the logic as outlined in table 1 and table 2 will add an additional layer of complexity to an already complex calculation.

Aligning the information with other subsidiaries of the Group (cross-border) is also a problem. Furthermore, additional data gathering / analysis for identification of HQLA will increase the burden and workload during a similar timeframe is also a problem.

Please also refer to our answer to Q14 below.

Q12: Are there any other factors which appear to be associated with higher outflows on retail deposits? If yes, which factors? Please justify your answer.

The EBA may consider the financial position of the bank (e.g. in terms of its credit rating) or the size, interconnection and complexity of an institution. Furthermore, customer characteristics (number of products, duration of the relationship, primary bank for customer) are relevant in determining the stability of the savings.

In case that an institution steps back from a particular business model or business region, this may be a signal to customers to end their business relationship. Therefore deposits from a non-core business should not be considered stable. Obviously this is a rather rare situation to be considered on its one and not a characteristic to be considered under a going concern assumption.

Please also refer to the answer in Q2 above.

Q13: Do institutions view the combination of any of these (or any additional) factors as more prone to lead to liquidity risks?

We reinforce that any of the factors should be considered only in cases where deposit values are above DGS amount and the client is himself seen as volatile.

We agree that the more characteristics identified are applicable to a product under consideration the more likely it is that such product does not show up as stable compared to a product fulfilling less criteria. However, some criteria seem redundant, e.g. sophisticated and high net worth individuals have nearly “by definition” very high value depositors. Sophisticated and high net worth individuals should not be used as separate criteria.

In addition, we are concerned that non-residents with high value deposits are seen as high liquidity risk because, in the case of nationals living abroad, their deposits tend to be stable.

We also reinforce the answer to Q5.

Q14: What is your opinion on the feasibility and resource-intensiveness of implementing the proposed methodology in your jurisdiction?

There is a high complexity in implementing the proposed methodology, just because it cannot be seen in isolation but in context of the ‘full package’ of new liquidity regulation, For example, systems need to be enhanced to provide data in much more granularity and additional information. Also, it requires that internal systems are adjusted and brought into line with internal fund transfer pricing policies. For complex banks the requirements are significant. Budgets can easily become EUR 50-100 million, with an implementation time of approximately two years.

Please refer to Q9, Q10 and Q11.

Q15: What is your opinion on the composition of the 2 groups of the characteristics ranked according to riskiness?

Our historic evidence does *not* associate maturing fixed term deposits with very high risk factors. The proposed list is regarded as too complex in implementation leading to high implementation costs.

It should be made clear, that these additional criteria apply to non transactional, non established relationship and non-insured deposits only. Indeed, those deposits should not be affected, i.e. non-resident deposits are not counted as very high risk, if the deposits serve operational purposes.

Please refer to Q5 and Q13.

Q17: Do you believe it would be appropriate to allow derogations from the application of outflow rates on the basis of uniform strict criteria?

In general, deviation from application of outflow rates should be possible where economically justified.

The proposal should also consider the seasoning of the client relationship and the number of products used by a client: the longer the business relationship with the client persists and the more products the client uses, the less the outflow probability. Additionally, the diversification of a deposit portfolio can lead to a stabilization of volume over time.

EBA acknowledges “uniformisation” to be difficult to achieve due to intrinsic differences among countries and customers behaviours. We support derogations in cases where they are well sustained and clearly evident.

Q18: What are in your opinion factors that could lead to the application of the above-described derogation mechanism?

We agree with the derogation supported in historical evidence /and strong idiosyncratic behaviors. The process to apply for a derogation should be made clear, notably that banks can apply for such a derogation (i.e. not a derogation process reserved to national competent authorities only vis-à-vis EBA, as is unfortunately the case for applying for Liquidity sub-groups).

For example, on a group basis, where a subsidiary holds a portfolio of deposits, such deposits would be seen as ‘non-resident deposits’ from a group perspective, but they are resident from the subsidiary perspective. Therefore, they should be treated ‘stable’ on a group basis given they fulfil all necessary characteristics for stable deposits at the level of the subsidiary.

