1. **General Comments:**

We welcome the opportunity to have an ongoing dialogue with European Banking Authority (EBA) for the elaboration of Binding Technical Standards (BTS), Implementation Technical Standards (ITS), Guidelines and the Frequently Asked Question (FAQ) process. The Discussion Papers, Consultation Papers and Quantitative Impact Studies are valuable communication tools in that respect. They would be even more powerful if they were followed up with a systematically formalized feedback from EBA that would help understand policy decisions.

We acknowledge that the present consultation is a preparatory work for the consultation that EBA shall launch on the basis of the legal texts, when in force. It would be desirable to ensure consistency on the timeline for the EBA RTS and ITS and for the observation period. Inconsistency could jeopardize the work to be carried out in this regard.

In our institution’s response to the 2011 Consultation Paper, we provided historical data on outflow rates, including the historical data of an institution that experienced a combination of idiosyncratic and systemic risk (in September ’08) that showed that retail deposits, as a whole, should receive no greater than 5% to 10% outflow rate. As a consequence, if a portion of retail deposits were to be allocated a higher than 10% outflow rate, another portion should receive a lower than 5% outflow rate to compensate. **Since CRR does not enable to lower retail outflow rates, there should be no increase in outflow rates for specific portion of retail deposits.**

Considering the impacts on the Liquidity Coverage Ratio (LCR) on European banks that are subject to CRR, and the consequences on their financing capacity to the economy, the consultation process should be complemented with Quantitative Impact Studies (QIS) specifically dedicated to the EBA proposals. As a general principle, EBA proposals should not lead to a significant change of the overall calibration of regulatory ratios as agreed upon at international level.

Besides, as mentioned in Article 481, European authorities should consider the ‘international regulatory development’ in modifying the LCR parameters (such as the outflow rates that are applicable to retail deposits, as suggested in the DP). We are unaware of any other jurisdictions that are in the process of adopting binding regulation derived from BCBS-LCR with higher outflow rates for retail deposits. **We urge European authorities to avoid “gold plating” LCR, as this would have very detrimental consequences on the financing of the European economy.**

In terms of the scope of application of the EBA proposal, it should be made explicit as applying to retail deposits in EEA countries only (and not to non-EEA country retail deposits).
As for the scorecard methodology that EBA suggests to allocate higher outflow rates, it has several shortcomings that need to be addressed:

- To ensure both robustness and transparency, EBA should disclose fact-based evidence that supports its suggestion on the relevance of the proposed Risk Factors and the calibration of additional outflow rates.
- The methodology ignores the very characteristics (insurance guarantee scheme, transactional accounts, established relationship) that are recognized by Basel Committee on Banking Supervision (BCBS) and CRR to conclude that retail deposits are more stable than deposits that would not have those characteristics. This leads to outflow rates that are not differentiated across the underlying liquidity risks (e.g. a high value, maturing term deposit would receive a 20% outflow rate, irrespective of whether the deposit is covered by a Deposit Guarantee Scheme (DGS or not, and irrespective of whether the deposit is from a client with established relationship or not)

Deposits that are covered by a DGS should not be subject to higher outflow rates as the depositor are fully protected.

There should be a more gradual approach to potentially allocate higher retail outflow rate to deal with transactional and established relationship deposits. One possibility could be to adopt an ‘add-on’ approach to add increases in outflow rate (rather than prescribed values) to the outflow rate that would apply otherwise.

- Risk Factors should be simplified and decreased in numbers:
  - The open-ended ‘Other characteristics’ Risk Factor should be deleted. Indeed, it is far too open as the bank has to prove the existence as well as the non-existence (!) of other characteristics that may indicate a higher outflow rate. Further the approach is unbalanced as banks may not benefit from historical experience and/or factors that would warrant lower outflows. This requirement would create incentives to lower sophistication in liquidity risk management.
    To be consistent with the scorecard approach and the Single Rule book objective, the methodology should enable to be applied similarly to different banks and jurisdictions, and hence avoid create non level playing field. The open-ended ‘Other characteristics’ Risk Factor should not apply.
  - Several suggested Risk Factors are extremely correlated which leads to artificially grossing up the score.
    This applies to:
    - ‘High Value Deposit’ and ‘Very High Value Deposit’ Risk Factors on the one hand and the ‘Sophisticated Depositor’ Risk Factor on the other hand as a client with high deposits balances is usually handled individually. Similarly, if the ‘High Value Deposit’ and ‘Very High Value Deposit’ Risk Factors are considered, there is no reason to add a concentration risk analysis.
    - ‘Deposits from non-residents’ and ‘Currency and Location’ Risk Factors and as non residents’ deposits are often in foreign currencies.
    As an illustration of the magnifying effect of those redundancies, a bank that would offer a Private Bank-service across Europe the Risk Factors ‘High Value Deposit’ / ‘Very High Value Deposit’, ‘Deposits from non-Residents’ and ‘Sophisticated Depositors’ would be extremely correlated.
    As European banking Groups should not be penalized for having deposit activities in several European countries, and to foster a single European market, all European clients should be considered as resident (ie: resident should mean EEA-resident).
Actually, as there is no evidence that non-resident clients behave differently than resident clients, we recommend that the ‘non-resident’ factor does not apply.

- There should be no stigma to term deposits. Considering them as less stable would create an incentive to favor overnight deposits which is quite paradoxical as it would mean that regulator prefer overnight deposits to term deposits.
- The DP seems to be based on an old version of draft CRR since the €1mm threshold mentioned in Article 400 applies to Small and Medium Enterprises (SMEs) and not to natural persons. As a consequence, the €1mm should not apply to natural person deposit.

- To be consistent with the objective of the Single Rule Book, cross border groups should not be at competitive disadvantage with non-cross border groups: the requirement for cross border groups to consider risk factors that may apply in other specific jurisdictions and to consider them for all jurisdictions they operate in should be deleted. Similarly, banks that would have access to broader or longer historical data should not be at competitive disadvantage with bank that would not have those data.
- The suggested outflow rates’ values (15%, 20%, 25%) are overly penalizing compared to our experience. It is essential that EBA discloses the evidence on which those suggested outflow rates have been derived.
- The governance for a national competent authority to adopt even more punitive outflow rate should be explained and detailed, notably to avoid local gold plating (on top of a potential European gold plating).
- The operational costs of implementing the suggested methodology would be high since the method requires investigating 10 characteristics and all the potential combination of those characteristics.

As for the ‘brokered deposits’ Risk Factor, it should be clarified that Wealth Planning Structures could be considered as brokering deposits for their retail clients, which we agree with.

Alternative approach

Should there be higher outflow rates allocated to some categories of retail deposits:

- 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.
2. Answers to Specific Questions:

a. **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?**

As a preliminary remark, actual historical runoff rates that were evidenced before the newly introduced binding Basel III requirements (capital, leverage, liquidity...) are not so relevant to apply to banks since they are now subject to far more demanding prudential requirements, notably on liquidity. As a consequence, the potential outflow rates in a Basel III-binding prudential environment should be expected to be lower than the outflow rates observed in a pre-Basel III prudential environment.

It would be valuable that EBA discloses the evidence it has collected from regulators and from the responses to the 2011 consultation paper.

Our institution provided historical data on runoff rates in our response to the 2011 consultation paper. In our institution’s response, we provided historical data of an institution that experienced a combination of idiosyncratic and systemic risk (in September ‘08) that showed that retail deposits, as a whole, should receive no greater than 5% to 10% outflow rate. As a consequence, if a portion of retail deposits were to be allocated a higher than 10% outflow rate, another portion should receive a lower than 5% outflow rate to compensate. Since CRR does not enable to lower retail outflow rates, there should be no increase in outflow rates for specific portion of retail deposits.

As the suggested methodology is very complex in the number of suggested Risk Factors and on the potential combination of those Risk Factors, it would be very difficult to empirically substantiate the outflow rates.

If we were given more time (than the mere 1 month for the response to this DP) to give a feedback to EBA, we could launch specific analyses on some, but most probably not all, suggested Risk Factor so as to indicate whether or not a Risk Factor has an effect on stressed outflow rate.

b. **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?**

The deposits that are ‘covered by a deposit guarantee scheme’, ‘transactional accounts’ and ‘established relationship’ should be allocated lower outflow rates.

We have not identified other Risk Factor that may lead to higher outflow, including in relationship to the introduction of innovative products since our business model is to build strong and lasting relationship with our clients, based on offering as broad a service/product offer as possible, and not to attract retail deposit for the sole effect on the Group’s LCR.

The number of EBA-suggested Risk Factors should be modified and reduced in numbers:
- **The open-ended ‘Other characteristics’ Risk Factor should be deleted.** Indeed, it is far too open as the bank has to prove the existence as well as the non-existence (!) of other characteristics that may indicate a higher outflow rate. Further the approach is unbalanced as banks may not benefit from historical experience and/or factors that would warrant lower outflows. This requirement would create incentives to lower sophistication in liquidity risk management. To be consistent with the scorecard approach and the Single Rule book objective, the methodology should enable to be applied identically to different banks and jurisdictions, and
hence avoid create non level playing field. The open-ended 'Other characteristics' Risk Factor should not apply.

- Several suggested Risk Factors are extremely correlated which leads to artificially grossing up the score. This applies to:
  - ‘High Value Deposit’ and ‘Very High Value Deposit’ Risk Factors on the one hand and the ‘Sophisticated Depositor’ Risk Factor on the other hand as a client with high deposits balances is usually handled individually. Similarly, if the ‘High Value Deposit’ and ‘Very High Value Deposit’ Risk Factors are considered, there is no reason to add a concentration risk analysis.
  - ‘Deposits from non-residents’ and ‘Currency and Location’ Risk Factors and as non-residents’ deposits are often in foreign currencies. As an illustration of the magnifying effect of those redundancies, a bank that would offer a Private Bank-service across Europe the Risk Factors ‘High Value Deposit’ / ‘Very High Value Deposit’, ‘Deposits from non-Residents’ and ‘Sophisticated Depositors’ would be extremely correlated.

- There should be no stigma to term deposits. Considering them as less stable would create an incentive to favor overnight deposits which is quite paradoxical as it would mean that regulator prefer overnight deposits to term deposits.
- The DP seems to be based on an old version of draft CRR since the €1mm threshold mentioned in Article 400 applies to Small and Medium Enterprises (SMEs) and not to natural persons. As a consequence, the €1mm should not apply to natural person deposit.

c. 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?

It would be valuable that EBA discloses the evidence it has collected from regulators and from the 2011 Consultation Paper to suggest that a break down by balances has been evidenced as a leading to higher first month outflow rate. In our analyses, we have no evidence that a €1mm threshold enables to identify differences in outflow rates between sub-€1mm balance and above-€1mm balance.

The local DGS should be used rather than the €100k threshold, as this is what will drive customers’ behaviours.

Most often, retail deposits are the most diversified source of funding as balances are spread over numerous clients.

We analyze the concentration through a metric that represents the portion of the deposits that come from the 10% of clients with the most important deposits. As an illustration, if deposits from the 10% most important depositors don’t represent more than 80% of the total balances, the client base deposit is deemed well-diversified.
d. Q4: Do you agree with the criteria for deciding which products can be considered as rate-driven?

Our business model is to build strong and lasting relationship with our clients, based on offering as broad a service/product offer as possible. Isolating a single product among the products we offer to our clients is consistent neither with our practice nor with our analyses of historical data. Those analyses show that the global balance of clients’ deposits is more stable than the balance on a specific product from the very same clients, which results from fluctuation in our clients’ deposit mix over time.

In other words, outflow rates are more client-driven than product-driven: product-driven Risk Factors should not apply.

Should it be retained, and considering the current low level of interest rates, the percentage-based 125% threshold should be complemented with an absolute threshold, such as:

\[
\text{client rates} > \text{maximum}(125\% \times \text{benchmark rate}, 1\% + \text{benchmark rate})
\]

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

Our business model is to build strong and lasting relationship with our clients, based on offering as broad a service/product offer as possible. Isolating a single product among the products we offer to our clients is consistent neither with our practice nor with our analyses of historical data. Those analyses show that the global balance of clients’ deposits is more stable than the balance on a specific product from the very same clients, which results from fluctuation in our clients’ deposit mix over time.

In other words, outflow rates are more client-driven than product-driven: product-driven Risk Factors should not apply.

The term deposits should not be stigmatized as being more risky than overnight deposits, since it would have the (most probably unintended consequence) of incentivizing banks to concentrate client deposits on overnight deposits.

Our analyses show that all the deposits from a client should be analyzed as a whole, as the client may switch from one product to another without changing its global deposits to the bank.

The articulation between the recognition of the term of a retail deposit and the suggested Risk Factor needs to be clarified:

- If the term of a retail deposit is not recognized because of early withdrawal penalties deemed not significant enough, the deposit should not be penalized as meeting the suggested Risk Factor. In other words, this Risk Factor, if retained, should apply only to term deposit with significant early withdrawal penalties.

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

Our business model is to build strong and lasting relationship with our clients, based on offering as broad a service/product offer as possible.

Our policy is to:

- analyze the actual client deposit behavior, for each business line in each entity, on an at least yearly basis, to measure the actual runoff rates including their potential switch behavior to other types of deposits in the banks, and the sensitivity of those runoff factors to rate
movements. Our analyses show that all the deposits from a client should be analyzed as a whole, as the client may switch from one product to another without changing its global deposits to the bank.

- model the runoff rates;
- derive expected future deposits’ balances from those models, with conservative assumptions, such as the application of a stressed runoff factor for the first month.

Globally, runoff factors are all the smaller as the relationship with the client is strong (number of products, length of the relationship): a multiproduct client has lower deposit runoff rate than a single-product client.

Our institution provided historical data on runoff rates in our response to the 2011 Consultation Paper. In our institution’s response, we provided historical data of an institution that experienced a combination of idiosyncratic and systemic risk (in September ‘08) that showed that retail deposits, as a whole, should receive no greater than 5% to 10% outflow rate. As a consequence, if a portion of retail deposits were to be allocated a higher than 10% outflow rate, another portion should receive a lower than 5% outflow rate to compensate. Since CRR does not enable to lower retail runoff rates, there should be no increase in outflow rates for specific portion of retail deposits.

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

- **Risk Factors should be simplified and decreased in numbers:**
  - The open-ended ‘Other characteristics’ Risk Factor should be deleted. Indeed, it is far too open as the bank has to prove the existence as well as the non-existence (!) of other characteristics that may indicate a higher outflow rate. Further the approach is unbalanced as banks may not benefit from historical experience and/or factors that would warrant lower outflows. This requirement would create incentives to lower sophistication in liquidity risk management.
  - To be consistent with the scorecard approach and the Single Rule book objective, the methodology should enable to be applied similarly to different banks and jurisdictions, and hence avoid create non level playing field. The open-ended ‘Other characteristics’ Risk Factor should not apply.
  - Several suggested Risk Factors are extremely correlated which leads to artificially grossing up the score.
  - This applies to:
    - ‘High Value Deposit’ and ‘Very High Value Deposit’ Risk Factors on the one hand and the ‘Sophisticated Depositor’ Risk Factor on the other hand as a client with high deposits balances is usually handled individually. Similarly, if the ‘High Value Deposit’ and ‘Very High Value Deposit’ Risk Factors are considered, there is no reason to add a concentration risk analysis.
    - ‘Deposits from non-residents’ and ‘Currency and Location’ Risk Factors and as non-residents’ deposits are often in foreign currencies.
    - As an illustration of the magnifying effect of those redundancies, a bank that would offer a Private Bank-service across Europe the Risk Factors ‘High Value Deposit’ / ‘Very High Value Deposit’, ‘Deposits from non-Residents’ and ‘Sophisticated Depositors’ would be extremely correlated.
    - As European banking Groups should not be penalized for having deposit activities in several European countries, and to foster a single European market, all
European clients should be considered as resident (ie: resident should mean EEA-resident)
Actually, as there is no evidence that non-resident clients behave differently than resident clients, we recommend that the ‘non-resident’ factor does not apply.

- There should be no stigma to term deposits. Considering them as less stable would create an incentive to favor overnight deposits which is quite paradoxical as it would mean that regulator prefer overnight deposits to term deposits.
- The DP seems to be based on an old version of draft CRR since the €1mm threshold mentioned in Article 400 applies to Small and Medium Enterprises (SMEs) and not to natural persons. As a consequence, the €1mm should not apply to natural person deposit.

h. 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?

A threshold would need to be substantiated by evidence: it would be valuable that EBA discloses the evidence it has collected from regulators and from the 2011 Consultation Paper to suggest that a break down by balances has been evidenced as leading to higher first month outflow rate.

In our analyses, we have no evidence that a €1mm threshold enables to identify differences in outflow rates between sub-€1mm balance and above-€1mm balance.

It should be noted that BCBS does not envisage a balance threshold/cap to deposits from natural person.

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

Our business model is to build strong and lasting relationship with our clients, based on offering as broad a service/product offer as possible. Isolating a single product among the products we offer to our clients is consistent neither with our practice nor with our analyses of historical data. Those analyses show that the global balance of clients’ deposits is more stable than the balance on a specific product from the very same clients, which results from fluctuation in our clients’ deposit mix over time.

In other words, outflow rates are more client-driven than product-driven: product-driven Risk Factors should not apply.

Considering the current low level of interest rates, the percentage-based 125% threshold should be complemented with an absolute threshold, such as:

\[ \text{client rates} > \max(125\% \times \text{benchmark rate}, 1\% + \text{benchmark rate}) \]

This could serve as the simpler definition of ‘rate-driven and preferential features’.

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

The analysis of the suggested methodology leads to concluding that the scorecard is too complex as there are 10 Risk Factors to analyze and numerous potential combinations of Risk Factors, and as those Risk Factors are redundant.
We recommend that EBA first simplifies the scorecard as described above, and then launched specific QIS’s to determine the assessment robustness and the impacts of the proposal. QIS’s should be allocated enough response time for banks to be able to deliver reliable data.

k. **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.)?**

The allocated response time was too short to have an in-depth analysis of the implementation and running costs of the suggested methodology.

l. **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.**

Our business model is to build strong and lasting relationship with our clients, based on offering as broad a service/product offer as possible. The single Risk Factor to measure is the strength of the relationship with our clients, which could be measured by the number of services/products sold to our clients and the time-length of the relationship.

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

No.

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

On a ‘run-mode’, there will be no alternative than using operational shortcuts to deliver LCR within the remittance period that is envisaged by EBA (15 days in running mode).

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

Several suggested Risk Factors are extremely correlated which leads to artificially grossing up the score.

This applies to:
- ‘High Value Deposit’ and ‘Very High Value Deposit’ Risk Factors on the one hand and the ‘Sophisticated Depositor’ Risk Factor on the other hand as a client with high deposits balances is usually handled individually. Similarly, if the ‘High Value Deposit’ and ‘Very High Value Deposit’ Risk Factors are considered, there is no reason to add a concentration risk analysis.
- ‘Deposits from non-residents’ and ‘Currency and Location’ Risk Factors and as non-residents’ deposits are often in foreign currencies.

As an illustration of the magnifying effect of those redundancies, a bank that would offer a Private Bank-service across Europe the Risk Factors ‘High Value Deposit’ / ‘Very High Value Deposit’, ‘Deposits from non-Residents’ and ‘Sophisticated Depositors’ would be extremely correlated.

As European banking Groups should not be penalized for having deposit activities in several European countries, and to foster a single European market, **all European clients should be considered as resident** (ie: resident should mean EEA-resident)
Actually, as there is no evidence that non-resident clients behave differently than resident clients, we recommend that the ‘non-resident’ factor does not apply.

p. Q17: Do you believe it would be appropriate to allow derogations from the application of outflow rates on the basis of uniform strict criteria?
Yes, it should be possible to depart from a one-size-fits-all approach. However, the governance to apply for and validate the departure should be clarified. As an illustration, banks should be able to apply for specific treatment if they provide material to substantiate their proposals.

q. Q18: What are in your opinion factors that could lead to the application of the above-described derogation mechanism?
The most important factors are:
- actual data invalidate the LCR runoff rates.
- products / practices so specific to receive a specific outflow rate.