APB's Response to

EBA/DP/2013/02

DISCUSSION PAPER

On retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR)

21 February 2013 - 21 March 2013

20 March 2013

I – Preliminary Notes

This document contains the comments to the above mentioned Discussion Paper which was published by EBA on 21 February 2013.

The DP highlights on the preliminary nature of the whole exercise, as shown by the EBA's results on the several surveys conducted:

1. Practices vary to a significant extent from one country to another. EBA highlights both differences on definition of deposits and determination of outflow rates;

2. Differences in the behaviour of retail depositors and products during stressed periods for credit institutions across countries;

3. "Circumstances are too different to allow any robust inferences to be drawn" (pg 9/21);

This means due care needs to be taken when devising criteria for classifying the degree of volatility of retail deposits and common factors may not be entirely suitable to apply in the same manner across financial jurisdictions. Given this, it should be pointed out that:

- Most of the criteria rely on product specification that we take as a proxy for trying to infer customer behaviour - the defining factor underlying deposits stability. Maybe this could be better addressed through other factors, like CRM techniques. Past behaviour is subject to change, for instance changes in regulation, fiscal or similar.

- All the document seems to point into the direction that institutions should seek out for evidence that higher outflows rate should be used. However, we have not seen flexibility to allow institutions to apply lower outflow rates whenever warranted by historical data/other fundamental indicators.

Since, throughout the document, several references are made for institutions to develop a kind of internal statistical models for the purpose of classification de degree of volatility of retail deposits, we wonder whether authorities would be open to the idea of institutions developing internal advanced models to typify deposits and according to it compute the LCR.

I – Answers to the 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?

Generally speaking, behaviours seem to be too rich for a single or clear categorization.

Portuguese Banks operate in a country that has been under stress for some time, giving them the advantage of better understanding and categorizing deposits volatility in current market conditions.

Furthermore, since customer behaviours differ from country to country, some methodologies or models may lead to different results.

The Portuguese banks rate the factors in terms of availability of data from <u>difficult to fair</u> as follows:

<table>
<tr><th></th><th></th><th colspan="3">Assessment of the availability of data</th></tr>
<tr><th></th><th></th><th>Difficult</th><th>Fair</th><th>Observations</th></tr>
<tr><td rowspan="7"><u>Category 1:</u>

High risk factors</td><td>1. The currency and location of deposits</td><td></td><td>X</td><td></td></tr>
<tr><td>2. Product-linked deposits</td><td>X</td><td></td><td>Except for those that collateralise loans, deposits have no reliable information on its linkage to other products.</td></tr>
<tr><td>3. Products that are rate-driven or have preferential conditions</td><td colspan="2">X</td><td>As far as the information regarding average rate for different retail products offered by peers is provided by the supervisory authorities.</td></tr>
<tr><td>4. High risk distribution channels including Internet only access and brokered deposits</td><td colspan="2">X</td><td>Might require improvements on internal data systems.</td></tr>
<tr><td>5. Depositors are sophisticated or high net worth individuals</td><td></td><td>X</td><td></td></tr>
<tr><td>6. High value deposits</td><td></td><td>X</td><td></td></tr>
<tr><td>7. Other characteristics</td><td></td><td></td><td></td></tr>
<tr><td rowspan="3"><u>Category 2:</u>

Very high risk factors</td><td>1. Maturing Fixed Term or Notice Period Deposits</td><td></td><td>X</td><td></td></tr>
<tr><td>2. Non-resident deposits</td><td></td><td>X</td><td></td></tr>
<tr><td>3. Very high value of the deposit</td><td></td><td>X</td><td></td></tr>
</table>

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?

We believe the main factors have already been identified. However, these factors should be considered only in cases where deposits values are above DGS amount and the client is himself seen as volatile. Hence, it should not be considered as higher risk factors 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.

Other factors that could be considered:

- Perceived financial condition of the bank;
- Seasoned rumors;
- Country specific factors (sovereign risk);

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?

We agree that local DGS should be applied, instead of a fixed amount. We agree to differentiate between stable and less stable (high and very high value) deposits according to national deposit guarantee scheme (DGS) amounts.

We do not have formal studies that support the adequacy of the proposed values or other values. However, 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 occurred. Also, distributions of deposits per amount and per interest rate are assessed.

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

We agree with the criteria as long as it is combined with the fact that the deposit value is above DGS amount and the client is himself seen as volatile. It should not be considered as higher risk factors deposits that are below the DGS level since that amount is guaranteed even under stress conditions.

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.

Nevertheless, we reinforce that the information regarding average rate for different retail products offered by peers must be provided by the supervisory authorities.

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.

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

Although we understand the rationale behind the higher outflow category of term-deposits, in practice depending on the type of term deposits they can be classified as higher outflow or not. Term deposits could potentially have higher outflow rates if they actually are captured in funds from outside the bank, but step-up term deposits tend to be more stable than sight deposits.

Most of term deposits contain amounts that were already applied in other products in the same bank and so the vulnerability to withdrawal is the same as before.

Therefore, a higher outflow rate for term deposits could eventually be applied only to the amount that exceeds the previous balance held by the client. However, the application of these criteria can be burdensome in terms of a precise definition and implementation.

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. In that regard no distinction should be made to the less penalized deposits (sights vs terms).

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?

The differentiation of the type of non residents: emigrants or nationals living abroad vs others, should be taken in consideration as they have very different proven behaviours.

Local vs foreign currency can be very country condition dependent as it can be seen safer to hold foreign currency deposits than local currency, in times of domestic stress; or dependent on forex volatility.

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

The text of DP seems to open the possibility of "IRB" techniques for identifying degree of deposits stability / age of depositor might also be considered / Country specific factors (sovereign).

Please refer to the answer in Q2.

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

Yes but, for example, specific product-linked deposits are difficult to be identified, except for those that collateralise loans.

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

Please refer to the answer in Q6.

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?

We do not have studies that support the adequacy of the proposed values or other values.

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 deposits types and the availability of the average rate for those different retail products categories offered by peers.

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, and aligning the information with other subsidiaries of Banking Groups (cross-border).

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.)?

Both IT additional developments and additional risk analysts would be required. At this point, we cannot estimate the impact of the introduction of these reporting requirements.

In spite of the existing customer information databases (CRM), criteria aligned parallel with the present requirements of the LCR needs to be developed.

Aligning the information with other subsidiaries of a Group (cross-border) is also a problem.

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.

Please refer to the answer in Q2.

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 deposits values are above DGS amount and the client is himself seen as volatile.

In addition, we are concerned that non-residents with high value deposits are seen as high liquidity riskier 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?

Please refer to the answers in Q9, Q10 and Q11. They would be pretty intensive, on top of all other changes associated to regulatory changes that are ongoing.

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

We disagree on the composition, namely non-residents, as emigrant's deposits are much more stable than EBA implies. We also do not agree that a Term Deposit above DGS amount will be considered automatically high or even very high risk factor.

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?

EBA acknowledges "uniformization" to be difficult to achieve, due to intrinsic differences among countries and customers behaviours. In cases where they are well sustained and clearly evident, yes, we believe it would be appropriate to allow derogations from the application of outflow rates on the basis of uniform strict criteria.

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 behaviours.

Although the document refers that some institutions are perceived as 'safe heavens', no differentiation is made on the proposed outflow rates according to this characteristic. Portugal didn´t assist an outflow of deposits to foreign countries as other countries under assistance did, and that fact is also not being taken into consideration.

Furthermore during periods of stress deposits inflows were experienced due to funding behaviour changing which should also be considered on the total stress outflows.