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

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on the EBA Discussion Paper on retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR)and would like to submit the following position:

I. General Remarks

1. EBA, unfortunately, does not provide any guidance on the definition of established retail relationships (base criterion for „stable" retail deposits). Instead, it proposes 3 new higher outflow rates for specific retail deposits: 15%-20%-25% (based on EBA's preceding survey of nationally competent authorities). The DP clearly goes against the most recent BCBS proposal (BCBS 238), in which retail deposits were on average given lower outflow rates (5% assumed outflow for stable retail deposits was reduced to 3%).

2. Selected identified factors of retail deposits prone to higher outflows:
   - High value deposits (volumes above the deposit guarantee scheme)
   - Term deposits and deposits with a period of notice
   - FX deposits and deposits by non-residents
   - Internet deposits or brokered deposits
   - Rate-driven (campaign) deposits

   Two or more factors for a given deposit would mean that the higher outflow rates have to be applied in the LCR calculation.

3. Currently we are not able to judge the exact extent of the impact of introducing higher outflow rates for certain deposits, as we do not have information about the amounts in the entities that could be affected. The introduction of new outflow rates could mean substantial additional cash outflows (and therefore higher required buffer) at all.

4. The definition of the factor sophisticated or high network individuals as provided by the EBA paper is unclear.

5. From a pure risk point of view the approach to apply higher outflow rates for high risk retail deposits is comprehensible. However, the proposed rates (up to 25%) are more than doubling the original rates (10% for less stable retail deposits). In fact a high risk retail deposit comes close to outflow rates of a corporate deposit (40% without deposit insurance). In general the proposed rates not only seem to be very high, but own data also show a much more differentiated picture. Therefore we would appreciate to go for more research especially with more local/regional entities. The outcome can be used to create a more detailled model instead of finding a „one-size-fits-all" approach.

6. Specific factors for SME should be defined as well.

7. Beside the above mentioned facts we also want to highlight the effort already made so far to establish the new LCR regime. By raising these issues as proposed by the discussion papers the timeline for monitoring and introduction of the LCR regime seems to be very questionable. Especially necessary technical implementations already made would need a time schedule which would not be in line with the LCR starting point.

8. We want to underline that the recent BCBS proposal on the LCR from January 2013 on retail outflows should thoroughly be taken into account also on EU level.

9. The proposal could mean that we have to allocate the respective ratios to the single deposit level. This would mean an enormous effort for banks and a very high cost burden. A single deposit view should therefore be avoided in any instance. We would propose a more general approach.

II. 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?
A1: Historical data are available but not with the very specific dimensions (i.e. product/client type, amount, currency, rate, product linked, resident non resident) proposed by the EBA. Moreover a quantitative analysis on internal data will be biased by the fact that most of the institutions did not suffer a name crisis.

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?
A2: Due to non availability of data and complexity of IT implementations, explanatory variables/categories should be kept as simple as possible. In section 3 "Background and rationale", EBA states "sight/current deposits proved to be the most stable retail product type, during stress periods, followed by saving deposits and finally term deposits". In our opinionthis ranking is sufficient to define 3 main classes to which different run-off factors in combination with the definition of stable/less stable depositsapply. The main effort should be devoted to the calibration of the run-off factors. Creating more classes of deposits would lead to less robust statistical results for the calibration of the run-off factors, due to a lack of granular historical data.

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?
A3: As explained in A2, creating too many classes will bring less robust results. It is questionable why customers with higher balances should be considered as less stable, since in many circumstances it could be argued that placing higher deposits is a sign of trust in the institution. From a technical point of view implementing a screening based on many different thresholds on the balance of the accounts would be a big effort given the high number of accounts. It is not clear why in the document the proposed Very High Value deposits should be limited up to Eur 1 mn (according to CRR draft the Eur 1 mn limit does not apply to natural persons but only to small businesses).

Q4: Do you agree with the criteria for deciding which products can be considered as rate-driven?
A4: The proposed 25% relative margin to the average rate is not appropriate (especially in a very low rate environment as is the Euro; e.g. if average market rate for sight deposits is 0.10% than the threshold would be set at 0.125%, only 2.5 bps of margin). It is also technically very difficult to collect external market prices for all different retail products and test it on a regular basis against the internal pricing. This practice could also be perceived as an anti-competitive practice, in violation of anti-trust legislation. Penalizing higher rate deposits would also have the negative effect to penalize an institution that is trying to improve its stable funding base expanding its retail deposit via more aggressive pricing to the customers.

Q5: What criteria do you propose to address potentially higher outflow rates connected to term deposits?
A5: See A2

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 ?
A6: See A2

Q7: In your view are the descriptions applied to the characteristics and their analysis sufficiently comprehensive?
A7: See A2

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?
A8: see A3

Q9: Is the definition of products with rate-driven and preferential features precise enough? If not please specify what additional specification would you include?
A9: See A4.

Q10: Is it feasible to assess the proposed characteristics on robust operational grounds?
A10: No it is not feasible, due to data availability and data management issues coping with millions of accounts.

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.)?
A11: Very likely it would be less expensive for the bank to assign, as a prudent approach, to all retail customers the highest run-off rate prescribed for less stable deposits rather than being required to implement all the IT changes and devote internal resources to the regular performance of these assessments, considering that the approach will likely need to be customized for each jurisdiction, based on national discretions.

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.
A12: No, see A2

Q13: Do institutions view the combination of any of these (or any additional) factors as more prone to lead to liquidity risks?
A 13: Creating too many regulatory classes, not even supported by statistical evidence, would lead to a poor regulation that will distract resources from developing effective internal monitoring tools and early warning indicators to manage in a proper way liquidity risk. See also comment A9.

Q14: What is your opinion on the feasibility and resource-intensiveness of implementing the proposed methodology in your jurisdiction?
A14: Proposed methodology are not feasible due to technical and resource constrains.

Q15: What is your opinion on the composition of the 2 groups of the characteristics ranked according to riskiness?
A15: The proposed scoring system seems to be only based on expert opinion and cannot fit all different market situations and customer behaviors in different jurisdictions.
Some product classification is clearly not consistent with Basel definitions (i.e. product-linked deposits are, according to the Basel text, established relationship deposits and should receive a favorable treatment as stable source of funding). The approach based on transaction level instead of customer level is also increasing inconsistency, since a single customer could have products that are considered stable and others that are subject to higher run-off.

Q17: Do you believe it would be appropriate to allow derogations from the application of outflow rates on the basis of uniform strict criteria?
A17: No, a level playing field should be preserved

Kindly give our remarks due consideration.

Yours sincerely,

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