**EBA Consultation Paper [EBA/CP/2013/24]:**

**Retail deposits subject to different outflows for purposes of liquidity reporting**

**Response by RBS Group plc**

**01 October 2013**

The Royal Bank of Scotland Group [RBSG] welcomes the opportunity to the comment on Consultation Paper [CP] relating to the draft guidelines for Retail deposits subject to different outflows for the purposes of liquidity reporting. RBSG has a number of general concerns and comments for the EBA’s consideration based on the disclosures and representations. Responses to the specific questions raised in the CP are also provided.

**Queries on Consultation Points:**

It is our observation that a number of material issues/points of clarity are not addressed in the CP.  The natural consequence is that it is more difficult to provide meaningful feedback on the CP, which undermines the potential value of the exercise.

RBSG have observed that the Q&A for the EBA Single Rule book does not appear to accept questions on draft Technical Standards (see rejected Question 129 by way of example).  Further, the standard response time for Q&A is cited as two months.  Given this is the same period as the consultation, there seems to be no natural forum outside of the public hearing for respondents to seek clarity prior to submitting our formal response.

RBSG would welcome any means whereby the EBA could provide clarification on any points of uncertainty prior to the completion of the CP period. RBSG believes that the provision of such a forum would materially enhance the objectives of the consultation process for all parties.

**Scorecard Methodology:**

The operation of the scorecard methodology can lead to counter intuitive results under its current construct. One of the more obvious casualties is Retail Deposits which are protected by an eligible deposit guarantee scheme. Under the CP, the presence of 2 or more attributes means that Banks are not able to treat customers under the rules in Article 421(1). However, our empirical evidence and experience suggests that the presence of Deposit Guarantee Schemes [DGS] to be the single most persuasive factor on depositor’s stability in a stress event. By over-riding the benefits of DGS scheme due to product or depositor characteristics, this could appear to undermine the EBA’s confidence in the operation of the scheme, which has already proven its ability in duress.RBSG asks that the EBA reconsider applying the test to customers who are fully covered by an eligible DGS by applying the Higher Outflow tests only to“High Value” customers i.e. EUR 100,000 and over.

**Application of the Scorecard:**

RBSG notes that a number of the criteria are targeted at depositor level characteristics (for example, High Value depositors) but a number of the criteria are targeted at product level (for example, rate driven deposits”). In order to clarify the application of the scorecard methodology, RBSG should be grateful if the EBA could provide some examples to demonstrate the appropriate reporting classifications. RBSG has provided the EBA with a number of worked scenario’s under separate cover.

**Complexity of Scorecard:**

The EBA’s scorecard metrics are complex when compared to solutions presented by other international jurisdictions. The complexity of the scorecard will lead to divergent cost implications at a customer level, which due to the nature of Retail portfolios, allocation of costs will bepractically impossible to manage. The implication of this is that institutions will find it harder to transfer higher risk business on to perceived higher risk customers. As a result the wider population will invariably have to share the costs. The complexity of the mechanic proposed will also result in significant IT costs, again with similar implications for the end customers as noted above. RBSG encourages the EBA to consider the merits of using a simpler methodology to achieve the desired result.

**Maturing Fixed Term or Notice Period Deposits:**

RBSG would like the EBA to reconsider its assessment of both term and notice products within the same risk category.In our opinion, when notice is received and a customer has signalled their intension to withdraw funds, RBSGlargely expectfunds to leave the institution or be moved to an alternative deposit product. Therefore, this metric is appropriately flagged under the highest risk metric, Category Two. However, for maturing term products, institutions will frequently have tranches of maturing term issuances reaching their natural maturity, whereby some or even all might be reinvested in a new tranche. Whilst RBSG appreciates that the measure is designed to reflect customer behaviours during a stress period, we note reinvestment did occur especially where customers are protected under a DGS scheme. Therefore, we recommend that the EBA revisit the classification of the two products mentioned above.

**Currency of deposits:**

The EBA is separately designating local from non-local currency. Because the CP does not provide any further clarification in relation to the definitions of “local”, RBSG is concerned that the ordinary meaning would infer that EU Members that are not part of the Single Currency Union may trigger this risk factor when holding deposits from other EU Member States. Under this interpretation, this could place depositors with non-local EU member currencies at a disadvantage, leading to potential discrimination and potentially impedingEU principles (i.e. movement of capital). RBSG encourages the EBA to clarify to the industry that a non-local currency relates to non-EU member state currencies.

**Consolidation of LCR outputs from non-EU Subsidiaries:**

RBSG understands that deposits from non-EU subsidiaries need to be re-calculated on consolidation for EU reporting. Further, it would appear that an institution is to report the higher of the EU rules and the local LCR rules for reporting. RBSG encourages the EBA to reconsider applying the Higher Outflows methodology on Retail deposits held in non-EU subsidiaries. The reasons are twofold: First, the EBA definition of a Retail Depositor is not consistent with Basel and this will lead to international variations. As a result, Institutions are unlikely to classify the same populations as being Retail depositors resulting in significant re-application costs. Second, the current framework will result in the EBA over-riding local LCR frameworks and potentially imposing higher than “necessary” European buffers over and above the expert judgment of local regulators. This could result in EU Headquarter Institutions with an international presence being disadvantaged. RBSG request that the EBA remove the requirement to recalculate non-EU LCR requirements.

**Q1: Do you agree with these criteria for assessing the existence of an ‘established relationship’? In your view, what other criteria could be considered to qualify deposits as being part of an ‘established relationship making withdrawal highly unlikely’ under a combined idiosyncratic and market-wide stress scenario?**

In principle, the criteria suggested by the EBA are similar to other operational liquidity metrics used to manage liquidity risk. However, RBSG is not in a position to comment whether the established relationship criteria would make an “established relationship making withdrawal highly unlikely’ in reality. As stated above, our experience suggests that having a deposit guarantee protection to be the single most influential factor in deposit stability during a stress period.

With regard to the suggested criteria, RBSG suggest that the EBA provide some clarity on “other long-term loans” to capture the main product sets that can be either included or excluded per the standard. This is to prevent variations in reporting across institutions.

**Q2: Do you agree with this criterion for identifying a transactional account?**

In principle, RBSG agrees with the criteria as suggested in the CP. However, the criterion suggested does not naturally fit with all segments of depositors who fall within the Retail Depositor definition per Article 411(2). Our principle concerns are in relation to the application of the definition to corporate depositors and segments of the wealth market, as the language is orientated to high-street Retail depositors. RBSG would be grateful if the final Technical Standard clarifies the application to other Retail Depositors - for example, corporate and wealth management clients who may not have regular “salary” credits.

RBSG is also concerned that without setting prescriptive limits on the more subjective elements (i.e. number of transactions; application of “regular”), wide variations in classifications between institutions will occur.

**Q3: Regarding established relationships, how would you assess that the contractual relationship with the institution and the minimum number of products are active in the sense of being actively managed?**

Given the Retail market operates on a mass market basis, the only reliable means of assessing contractual relationships will be a minimum duration of product activity. However, in our view this will not be sufficient as a stand alone measure as it may be a symptom of apathy rather than loyalty per se.

RBSG does agree with the EBA that customer’s who hold multiple products does hold a correlation to the customers commitment to that institution. However, we would like to take the opportunity to remind the EBA that given the relatively simple finance product sets for customers, we would not expect many customers to hold more than 2 active products. RBSG believes 2 or more products would represent a relatively embedded Retail relationship with a customer and we recommend that the EBA prescribe this level in the standard.

**Q4: What is your view concerning the threshold proposed for high and very high value deposits? Please give your reasons.**

RBSG acknowledges the existence of a positive correlation between a depositor’s propensity to withdraw funds and the value of the deposit. However, the high value criteria threshold is set at too low a level at EUR 100,000, which may mean that Institutions are holding unnecessary high buffers for this segment of the market. Again, this may lead to unintended consequences should institutions look to pass through the incremental costs. RBSG encourages the EBA to consider having one single threshold for High Value Deposits at above EUR 1,000,000.

**Q5: Do you agree with the criterion for considering a deposit to be rate driven?**

Whilst in principle RBSG agrees with the EBA’s presumed intention to monitor liquidity risk for “rate-driven” depositors, we do not believe that the metrics proposed will capture the desired population. In particular, focusing on the average rate amongst peer pools may not identify “rate driven” depositors in a highly competitive market for Retail Deposits, particularly in a low base rate environment. The other impact may be that the definition may lead to constant fluctuations in deposits thattemporarily exceed average market rates as Institution’s take varying amounts of time to respond to exogenous changes inmarket conditions, for example a change in the base rate.

RBSG agrees that Retail customers choosing more structured products (index linked; non floating rate) to be more likely to represent investment funds but does not see the correlation in short-term volatility. More often, these products have barriers to exit (either through non-cancellation or high breakage charges) that will naturally meet the provisions in Article 421 (5) regardless. Therefore, it is unclear why the EBA is focusing on this class of product as per the draft rules.

RBSG requests that the EBA reconsider its approach to identify rate driven deposits. Our suggestion to the EBA would be that a generic test to identify “rate driven” deposits may be more effective, for example, deposits that are heavily marketed on rate alone or deposits “X” bps above base rate.

**Q6: Do you agree with the criteria to identify this risk factor?**

RBSG do not agree that deposits from non- EU residents are less stable than EU resident depositors.As noted in the Survey of Supervisors, deposits flight tended to be within national institutions perceived as “Safe Havens” rather than deposit flight outside the EU. Further, for institutions with an international presence, there is a risk that the EBA standard could overlay buffers on consolidation i.e. a non-EU subsidiary deposit might have attract higher outflows over and above those required by local regulators. This would place EU head quartered Institutions at a disadvantage when trying to compete in non-EU markets.

RBSG request that the EBA reconsidersapplying the technical standard on consolidation for non-EU deposits. Our suggestion would be to not require re-calculation of local LCR buffer on the proviso that the territory has implemented Basel III. That way, any concerns (if any) on deposits to subsidiaries of EU banks could be addressed by the local experts. Article 421 (4) adequately deals with deposits with higher local standards.

**Q7: Do you agree with the above analysis of the cost and benefit impact of the proposals?**

RBSG believes a simpler methodology could be employed yet still deliver the EBA’s intended benefits. RBSG encourages the EBA to look at alternative metrics focusing on the key determinants of potential volatility to avoid both over provision of Liquid Asset Buffers and significant IT investment infrastructure costs. For the avoidance of doubt, RBSG believes both these measure could result higher costs having to be transferred to the Retail market without giving either the EBA any additional assurance on the stability of the Institution.

If the EBA does choose to employ the scorecard metrics as proposed then credence to the implementation time required should properly reflect the complexity of the IT build. The architecture required to deliver this information is significant and is likely to require new infrastructure to deliver accurate reporting. The EBA should not underestimate either the cost or lead times to be able to report under the proposed technical standard.

**Q8: Please provide any evidence or data that would further inform the analysis of the likely cost-benefit impact of the proposals.**

RBSG is currently unable to comment pending final regulations. Whilst the wider benefits and objectives of the LCR are fully understood, RBSG encourage the EBA to look at simplifying the scorecard metrics to minimise the costs of implementation. Whilst it is too early to provide specific cost-benefits impacts, it is our natural observation is that the EBA’s proposal could result in a significant cost-transfer to consumers. RBSG encourages the EBA to consider a simplified scorecard metric, which we believe would deliver similar Outflows but avoid inflated costs to the industry and ultimately consumers.