

1st October 2013

EBA

Via email

Response to EBA Consultation on Draft Guidelines on retail deposits subject to different outflows for purposes of liquidity reporting under Regulation (EU) No 575/2013 (CRR) (the “Draft Guidelines”)

Dear Sir/Madam,

J&E Davy, trading as Davy, welcomes the opportunity to comment on the EBA consultation paper Draft Guidelines on retail deposits subject to different outflows for purposes of liquidity reporting under Regulation (EU) No 575/2013 (CRR).

Davy is Ireland's leading provider of stockbroking, wealth management, asset management and financial advisory services. As at 31st July 2013 Davy held client assets on behalf of our clients of €9.7billion which includes client money of €2.4billion. It is in this context that we have identified significant concerns in relation to the proposed treatment of client money arising from the implementation of liquidity rules under Regulation No 575/2013. In particular, we note that under Section 9 of the Draft Guidelines brokered deposits are identified as being potentially more unstable than retail deposits. The purpose of this response is to distinguish between different features of brokered deposits and to request that the EBA takes due consideration of such when finalising the methodology in identifying those retail deposits that might be subject to higher outflow rates under the LCR.

Our concerns are based on the business model we operate and the service we provide. In compliance with the Central Bank of Ireland's Client Asset Requirements and with MiFID, all client funds held by Davy are held in designated accounts with third party credit institutions. Davy's practice when we receive client funds to be placed on deposit is to open individually designated segregated accounts on a client by client basis so that each client deposit in Davy's records corresponds to an account with the relevant deposit taker. The accounts are distinguishable in the records of the deposit taker as each account designation includes the name of the relevant client. The number of individually designated accounts currently stands at over 22,000. This is in contrast to many investment firms where client deposits are pooled. Individually segregated accounts are maintained at considerable administrative expense to Davy but were set up in this manner for the following reasons:

- a) As part of our overall offering we wanted to ensure that clients have the ability to make individual decisions in respect of cash deposits. Davy facilitates a selection of counterparties and terms of varying duration so that individual client preferences may be met. Clients have the ability to place funds on call in addition to term deposit accounts for a period of their choosing.
- b) Eligible deposits are covered under the Deposit Guarantee Scheme (DGS).

- c) Individual statements from the relevant financial institutions confirm that the cash balances held on each client's behalf and which are shown on Davy valuations, agree with the bank records. Importantly there is therefore a complete "look through" from Davy's records to those of the relevant financial institution. This provides a greater level of reassurance to clients as to the security and location of their funds.

We accept that the EBA is trying to identify characteristics of retail deposits which might validate a higher outflow rate than those specified in Articles 421 (1) and (2) CRR. With Recital 101 CRR¹ in mind, we think that it is important that the EBA gives due consideration to the different business and investment models when identifying risk factors. Therefore in highlighting brokered deposits under Section 9 of the Draft Guidelines, it is important that the EBA specifies the characteristics of such deposits because certain accounts which are sourced through a broker may not warrant a higher outflow rate.

Deposits which are sourced through a broker and which meet all of the criteria below should be subject to the outflow rates specified in Articles 421 (1) and (2) CRR:

- a) The deposits are placed on behalf of natural persons.
- b) The natural persons may be identified.
- c) The natural persons have the ability to make individual decisions in respect of their deposits.

In contrast, pooled brokered deposits which are fully under the discretionary control of the broker may warrant a higher outflow rate as under Article 421 (3) CRR. It is important that these characteristics are distinguished and reflected accordingly in the Guidelines issued by the EBA.

We thank you for your consideration. Please do not hesitate to contact us if you require further information.

Yours faithfully,



Peter Newman
Chief Financial Officer

¹ "The level of liquidity needs in a short term liquidity stress should be determined in a standardised manner so as to ensure a uniform soundness standard and a level playing field. It should be ensured that such a standardised determination [of liquidity needs] has no unintended consequences for financial markets, credit extension and economic growth, also taking into account different business and investment models and funding environments of institutions across the Union." (Recital 101 CRR)