

Discussion Paper Response

Retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation ('CRR').

21 March 2013

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the EBA's recent discussion paper on retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation ('CRR'). AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.

We summarise below our over-arching response to the discussion paper, which is followed by a section with more detailed thinking around some of the main topics and questions asked. We have noted also that the EBA intends to launch a consultation on this topic at a later stage and AFME and its members would be available and keen to engage on work with the EBA in preparation for this.

Main response

AFME and its members are of the impression overall that the framework suggested in the discussion paper appears overly complex ; that it would give rise to very significant challenges in data collection and the development of the necessary supporting infrastructure; and, that it is likely to result in material unintended consequences. An alternative would be to implement a more straight-forward 'standardised' type approach to retail deposits with the possibility of more detailed and firm specific Pillar 2 type assessments. This would nevertheless give rise to challenges for the EBA and other regulators in ensuring a consistency of implementation.

We appreciate that the EBA are charged by CRD IV with developing technical standards for circumstances under which higher outflows for retail deposits might be applicable. However, we are concerned that unless these are aligned with global standards, in particular with Basel

Committee for Banking Supervision requirements, the standards could disadvantage European banks in bidding for this important source of stable funding.

In addition, if there is significant change to the cost benefit relationship between retail and wholesale deposits (i.e. a narrowing of the differential in run-off factors so that rates of 25% or more are applicable to retail deposits in comparison to 40% for corporates) this could incentivise firms to change their mix of funding more towards wholesale sources.

More detailed considerations/responses to questions

Question 1

In many jurisdictions, regulators' liquidity policies mean that banks have looked to this type of data to prepare internal assessments of the adequacy of their liquidity. The banks have, however, broken down this data to the levels of granularity necessary to form an assessment of their business and the associated liquidity profiles and risks. These breakdowns of data are unlikely to align with those suggested in the Discussion Paper and revisiting the data to provide information in the form proposed by the EBA may be costly and is unlikely to contribute to firms' actual management of liquidity.

In addition, it can be noted that different banks experienced very different levels of outflows and sometimes inflows during the crisis, depending on whether they benefitted from 'flights to quality' or were suffering idiosyncratic stress. We believe that proposed consolidated data gathering will not therefore adequately reflect the behaviour of retail deposits subject to higher outflows, and we would instead propose taking a single-bank view using internal stress testing which has been supervised by the home regulator.

More widely, owing to the implementation challenges and costs firms might experience in seeking to adhere to a new approach for assigning outflow rates to retail deposits, we would recommend that the EBA should first define the characteristics and definitions of established relationships, transactional accounts and operational deposits in order to ensure a consistent and effective implementation.

Questions 3 and 8

AFME and its members consider that the value of the local deposit guarantee scheme is the main driver of customer behaviour rather than an arbitrary figure of €100k. We would mention also that the reference to 'very high value' retail deposits as deposits of between €500k and €1m suggests that there will be a cap which is not consistent with the approach taken at BCBS level and is likely also to lead to issues arising from a data collection perspective as balances will vary from day to day and it is not clear how fluctuations around the limits should be treated.

We disagree also with the proposed granular categorisation of deposits as it is not commensurate with the experience banks have had in practice. In particular, it has been noted that a deposit exceeding the amount covered by a deposit guarantee scheme may not necessarily be less stable than a smaller deposit, and that there can sometimes be factors that mean higher value deposits might in fact be very stable. More widely, it is noted that the discussion paper suggests that over-reliance on high value deposits is not desirable. There is, however, a wider issue in relation to the diversification of firms' deposit bases and other measures would be needed to consider this.

Question 5

The evidence suggests that term deposits are more stable than EBA has suggested in this Discussion Paper, and we do not think that higher outflow rates should automatically apply to them. It is important that a distinction is drawn between fixed term deposits where there is the potential that these can roll-over and notice accounts where the customer has requested payment and the run-off almost certain. We believe that EBA should take into account savings practice currently in place in different Member States, in particular as the proposed 30 day notice period does not match longer notice periods currently in place in some EU jurisdictions.

In addition, it is possible that customers might switch from one product to another without changing the total amount on deposit with the bank.

Question 6

In relation to higher risk distribution channels, it is important to note that most accounts have limits on the amounts that can be accessed using the internet. AFME's members considered that the EBA in this area might be seeking to deal more with 'virtual banks' offering products through the internet rather than normal retail deposits that can be accessed online.

Question 9

AFME and its members do not consider that the definition of products with preferential features is precise enough and would welcome illustrative examples together with indicative benchmarks.

Question 10

It is in practice very difficult for firms to identify products that have preferential conditions and there would be additional complications for firms in having to try to monitor back books as market conditions change. There is the added challenge also of monitoring rate-driven products over time. The comparison of the rate on a particular deposit versus a benchmark rate/peer average will change over time, meaning that the classification of a particular deposit could change over the tenor of the deposit. It may be the intention of the EBA only to classify those deposits which are rate driven at inception and this is an area that needs clarification.

Banks are also likely to experience difficulties in identifying connected and product linked accounts.

Question 11

It is likely to be challenging to identify and assess appropriately all of the factors suggested in the discussion paper. The main driver of the costs would be likely therefore to be in relation to IT owing the diversity of systems that banks use and the difficulties in obtaining customer data in some areas. There would also be significant costs, however, in terms of additional personnel needed to run the assessments on an on-going basis, to ensure systems maintenance, and the integrity of the surrounding control environment.

Question 14

Owing to its complexity, the methodology proposed would as mentioned entail a resource intensive development of IT systems and the recruitment of additional personnel. There could be difficulties also in processing data within the 15 day remittance period envisaged by the EBA.

Question 15

It is difficult to assess the likely appropriateness of the composition of the two groups of characteristics without an assessment of historic data. We are in addition concerned that the approach suggested could give rise to level playing field issues both within Europe and for

European banks competing with banks in other jurisdictions which apply the Basel III standards for retail deposits.

Question 17

AFME and its members believe that it would be appropriate to allow derogations from the application of outflow rates. By way of illustration, it can be noted that at present the existence of two 'Category 1' factors will result in application of a 15% outflow rate notwithstanding the possibility that the deposit might be covered by a deposit guarantee scheme. AFME and its members consider that the existence of a deposit guarantee should normally lead to a lower outflow factor vis a vis an otherwise identical deposit and that this needs to be considered.