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Association for Financial Markets in Europe

CRD IV

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Liquidity - Treatment of Corporate Deposits

Corporate Deposits

CRD IV Article 410 (5) states that insitutuions should multiply liabilities arising from client deposits from non-financial customers by 75% to the extent that they are not maintained for clearing, custody or cash management purposes or as part of a task-sharing arrangement within an institutuional protection scheme.

The 75% run-off rate is considered punitive. In practice, corporate deposits have been seen to be far more stable during times of crisis and the current treatment will have a significant impact on banks with large corporate business activities. In addition, the category 'corporates' encompasses a very large range of organsiations from large multinationals to comparatively small organisations.

Furthermore, the categorisation of corporate deposits maintained for clearing, custody or cash management purposes as a proxy for the identification of 'more stable' funding in CRD IV Article 410 (4) does not properly consider the nature of relationships that corporates often have with banks in Europe which differs significantly from more transactional driven approaches in some other large economies (notably the US).

AFME would recommend therefore that run-off factors used in the LCR calculations must be reconsidered to reflect the main characteristics of corporate deposits in Europe. The criteria for classifiying deposits as 'more stable', and thus allowing reduced outflow factors, should also be sufficiently structured to allow consideration of the real nature of 'operational relationships'.

AFME suggests that the EBA should, during the observation period, assess and reconsider run-off factors used in the LCR calculation, and that the EBA should draft technical standards to determine the criteria for 'established relationships'. It is envisaged that these studies would be undertaken with the close engagement of industry experts and market participants to reflect the real nature and level of the risks.