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BANCAIRE
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Banking supervision
And Accounting issues Unit

The Director

Paris, October 1st 2013

French Banking Federation comments on the European Banking Authority's consultation on retail deposits subject to different outflows (CP/2013/34)

Dear Madam,

The French Banking Federation (FBF) represents the interests of the banking industry in France. Its membership is composed of all credit institutions authorized as banks and doing business in France, i.e. more than 390 commercial, cooperative and mutual banks. FBF member banks have more than 38,000 permanent branches in France. They employ 370,000 people in France and around the world, and service 48 million customers.

FBF appreciates the opportunity to comment on this consultation paper on retail deposits subject to different outflows. As we explained in our response to the previous discussion paper on this subject, we do not think that applying higher outflow rates to certain retail deposits is appropriate in all the cases mentioned by EBA. That's why we noticed with interest that the proposal is a little less prescriptive as it leaves now to each institution the task of computing its own run-off rates.

We regret that EBA has not taken into account our concerns that had been highlighted during the previous consultation period (the Discussion Paper) regarding the complexity of the proposed method and its implementation difficulties.

Moreover the industry regrets that EBA did not consider in this consultation the possibility of retaining the outflow rate of 3% for stable retail deposits as proposed by the Basel Committee (BCBS 238 LCR and Monitoring tools § 75).

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We do not see clearly why EBA prescribe to group retail deposits into three different buckets; by virtue of their underlying risks and require banks to calculate their own outflow rates. This is inconsistent with the possibility for institutions to assess themselves whether a higher outflow should be applied or not. We also recommend that EBA leaves more categories open to set different outflow rates.

You will find in the appendix attached our answers and comments to the questions raised in the consultation paper.

We thank for your consideration and remain at your disposal for any question or additional information you might have.

Yours sincerely,

Jean-Paul Caudal

French Banking Federation response to EBA CP/2013/34 draft guidelines on retail deposits subject to higher outflows

FBF welcomes the opportunity to share its comments with EBA regarding its consultation paper on guidelines on retail deposits subject to different outflows for purposes of liquidity reporting under CRR. As we explained in our response to the previous discussion paper on this subject, we do not think that applying higher outflow rates to certain retail deposits is appropriate in all the cases mentioned by EBA. That's why we noticed with interest that the proposal is a little less prescriptive as it leaves now to each institution the task of computing its own run-off rates.

General comments

We regret that EBA has not taken into account our concerns that had been highlighted during the previous consultation period (the Discussion Paper) regarding the complexity of the proposed method and its implementation difficulties.

Moreover the industry regrets that EBA did not consider in this consultation the possibility of retaining the outflow rate of 3% for stable retail deposits as proposed by the Basel Committee (BCBS 238 LCR and Monitoring tools § 75). To the extent the CRR text now provides for **different** outflow rather than **higher**, it was open to EBA to explore this way as one of the elements to be analyzed, among others, in its future report (see section 509-2-g of CRR).

We therefore disagree with the assessment of EBA that in the event of a stress scenario with market and idiosyncratic stress, the outflow rate can only be set higher than the minimum (see bottom of page 5). We observed that in a global market crisis, there are still institutions that are viewed as less risky than others because they have the best rating in the country or they are perceived as less risky than other institutions, so they will potentially benefit from lower run-off rates of their retail deposits, **or even from an increase of the deposit basis due to new customers who would seek to protect their assets by depositing them in banks viewed as more resilient**. Although this fact is well identified by EBA (in the page 8 of the CP), the Authority take no account of this in its proposal, because those "different outflows" cannot in its view be less than the minimum set forth in European regulation (i.e. 5 or 10 %).

We note that the consultation paper does not prescribe outflow rates and that firms are required instead to apply their own estimates of outflow rates for each of the 3 higher outflow buckets in accordance to historical and expected assessments of volatility. We would favour increased discretion to allow the application of more granular and accurate outflow rates with the possibility of a "peer review" process to ensure consistency in application.

We appreciate that the EBA is in charge of developing guidelines for circumstances under which different outflows for retail deposits might be applicable. However, we are still 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 our opinion, only uninsured deposits should be submitted to higher outflow rates

<u>Specific comments on the draft guidelines</u>

Definition of “established relationship”

We welcome the proposed definition of “established relationship” and the introduction of deposits coming from established relationship customers “making withdrawal highly unlikely”.
We understand EBA has taken into account the fact that those kinds of customers are characterized by a high stability in their deposits.

But in the established relationship criteria *(a) “has an active contractual relationship with the institution of a minimum duration”:* the item “minimum duration” is not relevant, we propose to exclude it or at least the two items (“active relationship” and “minimum duration”) should be split into two different criteria. We do not believe that duration is an indicator of stability, particularly in relation to retail customers who change their banking service provider infrequently, and we would support the view that “active” means “not dormant”.

Buckets

We do not see clearly why EBA prescribes to group retail deposits into three different buckets by virtue of their underlying risks. This is inconsistent with the possibility for institutions to assess themselves whether a higher outflow should be applied or not. This remark is very important as this discrepancy between the categories that are set by the EBA and the outflow rates that are fixed by the institutions might lead to inconsistencies between the split of retail deposits and the outflow rates that are applied to them.

Therefore, we recommend that EBA:

- leaves more categories open to set different outflow rates;
- give up the distinction between high risk and very high risk factors, as institutions might not find in their internal data the same ranking of risk between retail deposits as prescribed by EBA

and more generally, that the combination of criteria does not lead to a pre-defined order of riskiness, as institutions will not necessarily find in their historical data the same order.

Moreover, we draw the attention of EBA that some sub-categories might be so small for institutions that the volatility of deposits that is calculated is not representative. There should be a materiality threshold under which it is not necessary to treat differently the retail deposits (for example under 50M€, it is not necessary to treat the sub-category differently compared to the other categories, as statistical data may not be representative).

We also recommend giving the institutions the possibility to treat the sub-categories as the other retail deposits, if the historical volatility found is not superior to the volatility found for other retail deposits.

<u>Issue to be discussed with EBA:</u>

The EBA method supposes the listed risk factors have the same importance to distinguish stable and unstable deposits all over the businesses and the countries.

At this stage, all criteria are not taken into account in our internal models. So the associated run-off factors are unknown. Our proposed run-off factors can be adjusted globally to our internal models with a different combination of risk factors. We think that without any suitable time series a split by category will be arbitrarily defined.

Moreover, it will be useful to define precisely several risk factors : term deposits (which maturity?), rate driven deposits and product linked deposits.

<u>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?</u>

We generally agree with these criteria allowing a definition of what an "established relationship" is.
However we think deposits coming from customers complying with this definition should be considered as sufficiently stable not to be subject to higher outflows and the notion of "active relationship" should not be mixed up with the one of "minimum duration" and of "minimum number". We do not believe that duration is an indicator of stability, particularly in relation to retail customers who change their banking service provider infrequently, and we would support the view that "active" mean "not dormant".

It will be useful to precise the method to distinguish deposits from clients with an established relationship with their bank.

Precisely, to determine clients with an "established relationship", there are 2 steps:

- First, identify criteria (ex: number/type of products): these are already provided by the EBA in the consultation paper and are generally agreed;
- Second, calibrate the threshold (how many products?): these are to be defined by the institutions and could take into account the specificities of each institution.

This second steps is the most difficult as this specific criterion is not taken into account in our internal models.

We ask EBA to exclude deposits that are demonstrated to be stable according to those criteria from the scoring of additional outflows

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

We agree with this general definition, but we modulate the rule as following.

To determine transactional accounts, there are 2 steps :

- First, identify criteria (ex: number/type of transactions or/and amount): these are provided by the EBA in the consultation and are generally admitted;
- Second, calibrate the threshold (how many transactions? How many types of transactions?): these are to be defined by the institutions and could take into account the specificities of each institution.

Again we recommend that deposits that are demonstrated to be stable according to those criteria be excluded from the scoring of additional outflows.

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?

As already explained we do not think that the notion of "active" should be mixed up with the one of "established relationship", as our most sticky deposits might be those which are not really actively managed. The notion of "active" should be taken into account with the notion of "transactional accounts".

To determine clients with an "established relationship", there are 2 steps:

- First, identify criteria (ex: number/type of products): these are provided by the EBA in the consultation and are generally admitted;
- Second, calibrate the threshold (how many products?): these are to be defined by the institutions by taking into account the specificities of each institution.

This second step is the most difficult as this specific criterion is not taken into account in our internal models.

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

Generally, we would have preferred a definition of counterparties which is more aligned with the actual organization of bank institutions and with the nature of the clients the bank has to manage. We do not favor the maintenance of such thresholds to define retail deposits and to split them between less stable and more stable deposits.

In particular, we agree with the fact that deposits which are not covered by a DGS are less stable than covered deposits. But this is already dealt in the CRR with the run-off rates of 5% and 10% on these deposits, depending if they are covered or not. We therefore think that setting a risk threshold at 100,000€ duplicates the taking into account of the deposit insurance.

Concerning a threshold to keep apart "high value deposits" from "very high value deposits", as already explained in our response to the DP, there is no valuable economic reason to distinguish these deposits. According to data gathered in Private Banking entities, nothing indicates that deposits above 500 000 € are less stable than deposits below this threshold. We however recognize that “sophisticated clients” are more likely to withdraw their deposits than traditional retail clients. But, should the commercial segmentation not be retained, we believe the threshold of 500 K€ is not suitable to identify the deposits of sophisticated clients and should be higher depending on volatility studies that should be done at the European level.

We observed that the amount of guarantees could be very different between countries. Could EBA precise this calculation for countries outside Europe?

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

Again, this criterion does not seem to be relevant for an institution that has a long-lasting relationship with its customer. In that case even for a rate-driven product, the deposit will be sticky. Moreover the LCR creates an incentive for banks to collect retail deposits and force them to adapt existing products in order to increase stability. EBA's proposal is therefore inconsistent with this general incentive from the Basel text.

An innovative product will be less sticky if the bank is a new player on the retail deposit market for example or when the customer has only one product with the bank. But when the bank has an established relationship, there is no rationale to penalize innovative products or term deposits or rate-driven deposits with higher outflows rates. Once again, client-driven factors are more valuable than product-driven factors.

Moreover, we find the criteria used to define rate driven deposits are difficult to implement. For example, it seems very tough to industrialize the notion of “peer group”, all the more as the rate practiced by our competitors might not be public.
Finally, we don’t think this criterion will work in a small market because there will be a limited number of peers to measure against.
This factor is not taken into account specifically in our internal models but through the business or type of clients.

Consequently, we recommend the EBA authorizes the institutions to define on their own the criteria to identify the rate-driven products, these criteria will be based for instance on their own funding cost, the type of product (ex: structured deposits) or internal business organization.

Should this recommendation not be retained, EBA should specify more precisely the criteria to define rate driven deposits. Their identification will be difficult over time:

- which difference between an interest rate of a rate driven deposit and the average of similar products in the local market is such significant to classify rate-driven deposit? (1 bp, 100 bp? Mean/var?)
- is it exact to suppose a rate driven product only during the period of preferential conditions? At the end of this period, the deposit collected during period of preferential conditions is not eligible to the “rate driven product” criteria?

<u>Q6: Do you agree with the criteria to identify this risk factor?</u>

Data gathered in Private Banking entities do not show that nonresident deposits are less stable than resident deposits.

We are also skeptical on the fact that currency and Internet-only access deposits should suffer from a higher outflow rate.

We think a consistent approach would be to admit that should an institution find that its deposits do not behave differently than other even if they do fulfill the EBA criteria, then they should be treated as other retail deposits.

Could EBA specify the following point: for non EU entity included in an EU group, the depositor of the non EU entity is non-resident if they are EU resident or foreign customers (in comparison with the country of the entity)?

<u>Q7: Do you agree with the above analysis of the cost and benefit impact of the proposals?</u>

We draw the attention of EBA to the fact that this ITS might entail not only implementation costs, but also on-going costs, as the methodologies to define and set the outflow rates for retail deposits should be maintained by specific staff. We are not sure that these costs are worth the added-value as far as supervision is concerned.

The most difficult point in the framework proposed by the EBA is the fact that the combination of all factors has to be checked. This could raise the costs of identifying the deposits a lot while not bringing clarity to the system and then study of historical data to propose run-off factors.
We recommend defining few criteria in order to implement a simple and robust management tool and to be confident in our data quality and results.
We would prefer an approach based on empirical and business analysis. The advantage of this method is:

- to have run-off rates that make economic sense;
- to adapt the granularity of data according to the business specificities of each institution

Historical data will not have the granularity required by the proposed EBA methodology. It would be very challenging and costly (in terms of human resources) to collect the data to empirically substantiate the criteria.

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

We consider this methodology redundant with our internal models: actually, to manage our liquidity risk, we analyze our retail deposits, define criteria (risk factor) and calibrate run-off factors to improve our risk management based on historical data. Our internal models take into account the particularities of businesses, countries and therefore types of customers. This methodology is based on the same logic except the way we identify risk factors. We prefer using existing works and conclusions regarding retail deposit’s volatility.