

**ABI Response to EBA Discussion
Paper On retail deposits subject
to higher outflows for the
purposes of liquidity reporting
under the draft Capital
Requirements Regulation (CRR)**

March 2013

Index

Introduction	4
General comments	4
Q1: How do respondents assess the availability of data to empirically substantiate work on criteria for identification of retail deposits subject to higher outflows, as well as setting such outflow rates?	5
Q2: Can you identify any other factors that may lead to higher outflows, especially in relation to the introduction of innovative products designed to lower outflow rates? .	5
Q3: Do you agree with this characteristic? Should the local DGS amount be used instead of a fixed 100.000 EUR? Is it sensible to distinguish between high and very high value deposits? What are the concentration analysis and management tools used internally as regards high value deposits?	5
Q4: Do you agree with the criteria for deciding which products can be considered as rate-driven?.....	6
Q5: What criteria do you propose to address potentially higher outflow rates connected to term deposits?.....	6
Q6: What are the other characteristics identified capture the key attributes of retail deposits subject to higher outflows? What is the internal policy extended to detect other characteristics ?	7
Q7: In your view are the descriptions applied to the characteristics and their analysis sufficiently comprehensive?.....	7
Q8: Is the threshold based on the guaranteed amount and the threshold of 500 000 EUR appropriate? If not what in your opinion could be the uniform benchmark for the thresholds?	8
Q9: Is the definition of products with rate-driven and preferential features precise enough? If not please specify what additional specification would you include?.....	8
Q10: Is it feasible to assess the proposed characteristics on robust operational grounds?	8
Q11 How much and what additional resources will be needed by institutions to implement this assessment? How much and what additional resources will be needed by institutions to run the assessment on an ongoing basis? Could you explain what will drive the costs (for instance, IT resources, additional staff, etc.)?.....	8
Q12: Are there any other factors which appear to be associated with higher outflows on retail deposits? If yes, which factors? Please justify your answer.....	8
Q13: Do institutions view the combination of any of these (or any additional) factors as more prone to lead to liquidity risks?.....	8
Q14: What is your opinion on the feasibility and resource-intensiveness of implementing the proposed methodology in your jurisdiction?.....	8

Q15: What is your opinion on the composition of the 2 groups of the characteristics ranked according to riskiness?..... 8

Q17: Do you believe it would be appropriate to allow derogations from the application of outflow rates on the basis of uniform strict criteria?..... 9

Q18: What are in your opinion factors that could lead to the application of the above-described derogation mechanism?..... 9

Introduction

ABI thanks the EBA for the possibility to comment upon the Discussion Paper.

This Position Paper is the outcome of observations collected from amongst the Associates as well as the activities of an interbank working group.

General comments

- a. The discussion paper appears to suggest that individual balances over €1m would not be treated as retail despite that treatment in the Basel Accord. We are not sure that this provision will be in the final CRR text (and we hope it will not be the case). Such a cap on deposits will lead to such balances being offered better rates outside Europe, as members have highlighted to the EBA/Commission/MEPs and the presidency previously.
- b. According to the EBA proposed methodology, the increased outflow rates dealt with in the discussion paper could (unexpectedly) be applied also to deposit fulfilling the stable deposits conditions. This means that a 5% run-off rate could be dramatically increased to 15%, 20% or 25% according to the combination of risk factors set out in Table 2 of the DP. We fear that this approach will be excessively conservative and that the approach will put EU banks at a competitive disadvantage vis-à-vis other jurisdictions which are not front running or ‘gold plating’ the retail deposit outflows for banks.
- c. In other words, we think that the outflow rates system proposed by Basel already considers higher outflow risk of some categories of retail deposit (the not stable one) . Most Italian banks did not observe nearly such outflow rates for their own institution during the crisis.
- d. On the basis of an analysis conducted by an ABI interbank working sub-group – implemented with reference to the period July – December 2011 (following the period of stress involving a BTP-BUND spread of more than 590 points) and involving more than 400,000 bank accounts from four banks of average to small size – it was noted that circa 75% of the latter had a run-off of less than 10%, with more than 40% that had a negative run-off
- e. Therefore we believe that the current outflow rates suggested in the Basel Accord are appropriate and do not require further increase or additional higher risk categories.
- f. The proposal put forward by EBA is too complex. This complexity will be felt during the development of the required IT systems and it will also be felt by clients. In addition the effort required by banks to implement the methodology proposed (efforts primarily linked to the collection of new information on single deposits) has been assessed as one of the most relevant in the ranking of all different sub-projects of the main CRR/LCR activities and one of the less useful in order to better mitigate

liquidity risk. We don't believe that the factors identified are related with higher run-offs. Nevertheless, in answering the questions (from Q1 to Q18) we'll give our view on some of the proposed criteria.

- g. We strongly underline that higher risk factors should in any case not be considered for deposits:
- that **are stable** or
 - (even if not stable) that are below the amount guaranteed by national deposit guarantee schemes (see bullet 1 of answer to Q3).

Q1: How do respondents assess the availability of data to empirically substantiate work on criteria for identification of retail deposits subject to higher outflows, as well as setting such outflow rates?

Therefore we believe outflow rates suggested in the Basel Accord are appropriate and do not require further increase.

Q2: Can you identify any other factors that may lead to higher outflows, especially in relation to the introduction of innovative products designed to lower outflow rates?

Q3: Do you agree with this characteristic? Should the local DGS amount be used instead of a fixed 100.000 EUR? Is it sensible to distinguish between high and very high value deposits? What are the concentration analysis and management tools used internally as regards high value deposits?

The identification of the few deposits in which a significant part of the total amount is concentrated (concentration) could potentially be, in our view one of the few factors (the most reasonable among those proposed) to take into account for prudential reasons in order to assign a higher run-off factor (exclusively for this reduced number of deposits and given what stated in point g of the general comments).

Given the above, the concentration must be **cut out for each individual bank** (with homogeneous methodologies). As a result:

- 1) in order to more effectively incorporate local specificities, the concentration must be analyzed by using the **minimum amount covered by DGS in each country as a floor and not a fixed amount of Euro 100,000** (for eg, the Euro 100,000 covered amount in Italy is applicable for each co-account / joint account holder and not for each individual account);
- 2) No regulatory source was noted which would require the introduction of a second fixed threshold for all banks (Euro 500,000). Besides, the reasons behind the use of that criterion to identify higher outflows rates during a stress period do not

seem to be all clear (similarly it is not clear the threshold of one million as a cap for retail deposits).

Q4: Do you agree with the criteria for deciding which products can be considered as rate-driven?

The proposed criterion – based on a comparison between the client rate and the average rate applied by peer competitors for an equivalent product – appears to be **difficult to implement** in addition to being complex and expensive. First of all, it would be necessary to **distinguish non-term product (bank account) categories from term categories** (time depo, retail issues, etc..) which are significantly more sensitive to rate changes. Secondly, credit and country risk factors should be taken into account, in addition to product analogies, when identifying peers.

With regard to bank account products, it may be sufficient to **isolate the products which are indexed to market parameters or construct an internal benchmark as an average of the rates that are only applied to “typical” retail commercial clients** (excluding, for eg, the private aggregate total or clients with specific forms of remuneration).

With regard to products with expiration dates, it would perhaps be more correct to include **equivalent products (in terms of alternative investments)** for peer competitors which adequately take into account of **credit and country risks**.

We would be interested on what basis the national supervisors determines the peer group of a bank.

Q5: What criteria do you propose to address potentially higher outflow rates connected to term deposits?

We do not agree that term deposits should be penalised by the highest outflow rates.

Term deposits undoubtedly provide stable funds to the bank given the application of sound penalties for early withdrawal.

Having said this, it would be contradictory, if such deposits would be subject to higher outflows when they run into the 30-days period. We consider that charging term deposits on regulatory grounds seems to be counterintuitive to the whole purpose of the LCR which is to increase liquidity stability of the institutions

It would potentially be feasible to assign a greater run-off **only and exclusively to the category of time deposits with new clients** (with reference to term deposits and not other bank products). This assumes that previously consolidated client - on the expiration date of the deposit - renews the latter or selects other products offered by the bank (for eg bank accounts, retail issues); on the other hand, the new client - attracted by specific rate conditions or decreases in commissions which could end on the expiration date of the deposit - could be less loyal and thereby not renew the deposit and transfer the liquidity to another bank.

Another criterion which could lead to the exclusion of any penalization of term deposits is that of the simultaneous presence – within the same bank – of a traditional

bank account. The reason for this criterion is based on the fact that – during normal operations – many term deposits are utilized by the client as a form of optimal use of short-term liquidity. The client, as a result and for a single account, retains both a bank account for daily transactions as well as one or more term deposits in order to render more efficient the use of liquidity. Flows of exchange between a bank account and consignment account must therefore not be considered to be based on investment logic or the search for more favorable rates (for which the consignment account would be considered less stable) but rather based on a transaction logic which is analogous to that of a bank account. If the term deposit is therefore connected to a bank account, it would retain the same characteristics of stability of the associated bank account and not those of a product whose stability is exclusively linked to rate levels.

Q6: What are the other characteristics identified capture the key attributes of retail deposits subject to higher outflows? What is the internal policy extended to detect other characteristics ?

With regard to the **currency factor**, its application without distinction appears to not be very convincing given that it could also penalize certain minor jurisdictions where clients follow practices involving the holding of reserves in currencies other than local ones.

The “**product linked deposits**” characteristic is difficult to implement given that – in addition to requiring IT interventions which guarantee a connection, at the level of the individual client, between asset and liability elements – it is difficult to demonstrate whether the product (bank account, time depo, or other) was opened in order to access a specific form of financing if this is not specifically registered within the systems.

But it is even more important that deposits used as collateral for a loan contract and therefore linked to this product do not bear an outflow risk during the maturity of the loan. We propose that these positive factors are considered at determination of outflow rates. Note, that this is to some extent contra dictionary to risk factor 2 of category 1 in table 1 on page 18.

Q7: In your view are the descriptions applied to the characteristics and their analysis sufficiently comprehensive?

Given that reported in point g) above and **for the purposes of using a reference for the definition of sophisticated client, we propose using that described in the MiFid directive.**

This would guarantee homogeneity and would simplify the procedure for identifying deposits subject to increased run-offs.

With regard to this point, but not only this one, we ask whether the identified criteria have to be applied even to retail deposits classified as SMEs, because some of these criteria seem to be more related to retail deposits which are natural persons than to SME's.

Q8: Is the threshold based on the guaranteed amount and the threshold of 500 000 EUR appropriate? If not what in your opinion could be the uniform benchmark for the thresholds?

See Q3

Q9: Is the definition of products with rate-driven and preferential features precise enough? If not please specify what additional specification would you include?

See Q4

Q10: Is it feasible to assess the proposed characteristics on robust operational grounds?

Q11 How much and what additional resources will be needed by institutions to implement this assessment? How much and what additional resources will be needed by institutions to run the assessment on an ongoing basis? Could you explain what will drive the costs (for instance, IT resources, additional staff, etc.)?

See point f) of general comments

Q12: Are there any other factors which appear to be associated with higher outflows on retail deposits? If yes, which factors? Please justify your answer.

Q13: Do institutions view the combination of any of these (or any additional) factors as more prone to lead to liquidity risks?

We reinforce that any of the factors should be considered only in cases different from the referred to in bullet g) of the General comments

Q14: What is your opinion on the feasibility and resource-intensiveness of implementing the proposed methodology in your jurisdiction?

See point f) of general comments

Q15: What is your opinion on the composition of the 2 groups of the characteristics ranked according to riskiness?

We believe that the Maturity Fixed Term or Notice Period Deposits **should instead be included under category 1**. Our historic evidence does not associate maturing fixed term deposits with very high risk factors.

Q17: Do you believe it would be appropriate to allow derogations from the application of outflow rates on the basis of uniform strict criteria?

The proposed methodology is regarded as too complex in implementation and steering leading to high implementation costs.

In order to take the specificities into account, it would be opportune to introduce derogation mechanisms such as those already mentioned in relation to the currency factor: the application of this criterion without distinction could penalize certain minor jurisdictions where clients follow practices involving the holding of reserves in currencies other than local ones.

Q18: What are in your opinion factors that could lead to the application of the above-described derogation mechanism?

The modality for assigning factors to the two risk categories appears to be rather discretionary; this discretion should also be based on specificities of the market of reference. For eg, the factor “Maturing Fixed Term or Notice Period Deposits” could, in itself, not be representative of a very high risk. On the other hand, the rate-driven product could be included within category 2. Refer to Q15.