EBA Banking Stakeholder Group

EBA Discussion Papers on Defining Liquid Assets in the LCR under the draft CRR and on retail deposits subject to higher outflows for the purposes of liquidity reporting

EBA/DP/2013/01 and EBA/DP/2013/02

Comments and answers to listed questions

March 21, 2013

Introduction

The EBA Banking Stakeholder Group ("BSG") welcomes the opportunity to comment on the discussion papers EBA/DP/2013/01 ("On Defining Liquid Assets in the LCR under the draft CRR") and EBA/DP/2013/02 ("On retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR)") issued on February 23, 2013. The discussion papers were presented and briefly discussed at the BSG February 2012 meeting and this response has been prepared on the basis of these comments and shared among the BSG members.

The BSG supports two initiatives that aim at harmonizing regulatory practices across Europe in order to ensure fair conditions of competition between institutions and more efficiency for cross-border groups. The BSG also expects these initiatives to facilitate data sharing between European supervisors and more transparency towards all involved stakeholders.

This document presents detailed answers to the DPs, as well as several general comments.

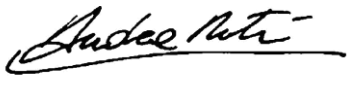
We start by briefly stating our views on the amendment agreed by the Basel Committee in January 2013, as we feel that it is important to recall and discuss the regulatory backdrop against which EBA is conducting its work on liquid assets and cash outflows.

We then deal with the first discussion paper, providing our views on the criteria for the definition of high quality liquid assets. Whilst we understand EBA's choice to make use of a wide array of quantitative metrics based on past data, we emphasize that qualitative criteria should also be used, to ensure that the proposed rules are forward looking and do not risk to quickly become obsolete.

We finally turn to the discussion paper on retail deposits subject to higher outflow rates. While all factors proposed by the EBA to identify such deposits may prove relevant in principle, focusing on a smaller subset would simplify the day-to-day management of outflow rates. Additionally, the correlation between individual factors should be taken into account in the final scorecard, to avoid double counting: e.g., some factors could be used to proxy other ones when the latter are not readily available.

This document is submitted on behalf of David T. Llewellyn and Christian Lajoie, respectively Chair and Vice Chair of the BSG, in my capacity as Head of the BSG Working Group on Liquidity.

Best regards,



(Andrea Resti)

Response to discussion papers EBA/DP/2013/01 ("On Defining Liquid Assets in the LCR under the draft CRR") and EBA/DP/2013/02 ("On retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR)") issued on February 23, 2013

Replies and comments by the EBA Banking Stakeholder Group

Background: the decisions issued by the Basel Committee in January 2013

We believe that, generally speaking, the revision of the LCR agreed by the Basel Committee in January 2013 (including a broader definition of eligible assets, a less conservative calibration of some outflow rates and a revised timetable for phasing-in the new standard) as a positive development. Many of these changes are in line with recommendations made in an earlier BSG report on bank liquidity.

We welcome the move towards a broader range of eligible High Quality Liquid Assets (HQLAs), both at Level 1 and at Level 2 (including securitization assets, corporate debt securities and some equity assets). Recent market developments are a clear reminder that that a broader set of eligible assets is needed to mitigate the fact that instruments issued by sovereign States are not necessarily liquid in times of market disruption, and cannot be considered unconditionally more liquid than the best private debt instruments.

Nevertheless (also in light of the remaining potential shortfalls of liquid assets), we believe that more flexibility in the definition of HQLAs would prove helpful, for example to account for differences across individual domestic markets and for changes over time. An augmented role for Level 2 may also be considered for those countries where a limited supply of government debt may pose constraints on the composition of HQLAs[1].

There is also further scope for improvement in the treatment of intra-group committed credit lines where a 0% inflow rate might prove to be overly conservative under most circumstances. As for institutional protection schemes, a fully symmetric treatment should be evaluated instead of the proposed asymmetric one (25% inflow, 0% outflow) for depositors and central institutions[2].

As concerns retail deposits qualifying for 3% (instead of 5%) outflow, the exclusion of deposits covered by *ex post* funded guarantees should be carefully reconsidered[3]..

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[1] Supervisors may also want to consider inclusion of government-guaranteed bank debt, with a grandfathering mechanism in place to avoid creating incentives towards the issuance for new state-guaranteed bonds as a way to mitigate liquidity constraints.

[2] Additionally, liquidity held with central institutions could be included in the HQLA pool, instead of generating a 100% inflow.

[3] As concerns Europe, it would be very helpful if EBA could publicly clarify whether all deposit guarantee systems operating in the Member States and compliant with the 94/19/EC Directive on Deposit Guarantee Schemes qualify for the 3% run-off factor or, alternatively, which DGSs meet the eligibility criteria.

Generally speaking, the BSG is constantly aware of the fact that Basel rules, while originally aimed at large and internationally active banks, are in fact used by many local regulators (including the European Union) as a basis for supervising all lenders (e.g. to avoid regulatory arbitrage and ensure a level playing field). We believe that rules should be flexible enough to account for the specificities of different institutions (including, for example, small-sized banks which are less likely to participate directly in the central banks' settlement systems, and therefore hold less of their liquid reserves in the form of central bank money).

Comments on EBA/DP/2013/01 ("On Defining Liquid Assets in the LCR under the draft CRR")

General comments

The EBA has produced an outstanding review of the main methodologies for measuring the liquidity of financial assets. However, a number of concerns remain.

Future regulatory developments (including, for instance, Basel 3 and the Financial Transactions Tax) will have a significant impact on market liquidity, which means that a methodology that defines liquid assets on the basis of past data only may lead to results that quickly become obsolete. We therefore suggest that a more forward looking approach be evaluated, making use of qualitative aspects as well as quantitative metrics.

On the other hand, it is also important to note that asset liquidity is not entirely endogenous. An asset's liquidity can be significantly increased by the certification effect due to institutional recognition (including, for example, central bank eligibility or inclusion in the Basel 3 eligibility). This may transform the definition of liquid assets into a self-fulfilling prophecy. Accordingly, eligibility criteria should be set in a way that is compatible with Europe's long term ambitions of fostering the development of capital markets and providing non-financial companies with a wide range of funding options.

While we understand that the EBA may not want to engage in assessing eligibility on a single ISIN basis, we believe that publishing an ISIN list with LCR-compliant securities, at some stage, would have its own merits, as it would prevent inconsistencies across individual institutions. Even if such a list were not exhaustive, it would still provide guidance on actual examples of securities which comply with the EBA's criteria. Failing this, inclusion criteria should be clear enough to ensure that the inclusion/exclusion of individual securities issued in a given currency will not significantly depend on each bank's individual assessment.

We believe that the EBA's decision to restrict their analysis to assets issued in EU currencies could prove to be problematic. This approach would not take into account assets issued, for example, in USD (possibly the world's major reserve currency) which among other things play a key role in repo markets. The same might be true for MENA, CEE/SEE and Asian currencies which global, international banks should be incentivized to hold for the sake of diversification and sound risk management. This has the potential for overlooking or under-estimating the liquidity of non-EU asset classes. Additionally, limiting the scope to EU-denominated assets may not be

consistent with the goal of pursing global regulatory harmonisation and a level playing field[4].

We believe that whilst European specificities should be accounted for in the EBA's analysis, the EBA must also be aware of the costs that would arise for large international institutions from a European regulation that is not as consistent as possible with the international framework agreed in Basel.

Most of the literature cited in the discussion papers is based on studies covering large and liquid markets, as opposed to smaller, local ones. Accordingly, there is a risk that the proposed metrics cannot be applied (or will generate misleading results) in the case of small, non-investment grade countries. We endorse the principle, set out in the discussion paper, that if "a certain asset class is liquid in a specific EU jurisdiction does not imply that the same asset class would be liquid in all EU jurisdictions." However, we think that it should work both ways, so that, for example, some degree of flexibility can be applied when evaluating the liquidity of assets that are used for covering the net cash-outflows denominated in currencies where there is a lack of highly-rated securities. This means, for example, that thresholds based on absolute values should always be evaluated in light of the total size of the market for the financial securities denominated in those currencies (especially in the case of small, non-Eurozone EU countries); qualitative criteria may also help to deal with special situations without encountering rigidities due to hard constraints.

The consultation paper includes a case study which seems to be based on the average liquidity of asset classes, rather than on their vulnerability/resilience to liquidity shocks. This fact should not be overemphasized, as the case study is clearly provided as a simplified example. Nevertheless, a different approach, based on contingent liquidity (i.e., liquidity contingent on a market shock) rather than on average liquidity, might prove more consistent with the provisions of the Basel 3 documents (e.g., where they claim that "the correlation between proxies of market liquidity and banking system stress is one simple measure that could be used").

Finally, we consider it very unfortunate that EBA will not share with the BSG and other external experts the Mifid-based data that will be used to define the metrics, criteria, and thresholds for inclusion in the HQLAs. The lack of publicly available and transparent databases on the secondary market activity of many asset classes puts Europe at a clear disadvantage vis-à-vis other countries, including, for example, the U.S., where the TRACE database reports all trades taking place in a wide set of corporate bonds. Shared databases such as TRACE have prompted a significant flow of new analyses, which in turn have shown the advantages of higher transparency, in terms of greater competition and lower transaction costs. Although we understand that EBA faces some external constraints because Mifid-based data are owned by national authorities, it would be greatly appreciated if EBA could publicly endorse the BSG's requests for increased transparency on liquidity-related data. Better transparency would enhance the robustness of EBA's analyses on liquid assets and it would ensure that they are better received by market participants and bank experts. This is desirable also in the light of the fact that, as indicated in the discussion paper, the dataset that EBA plans to use for its analyses is likely to be affected by significant data quality issues.

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[4] In case the scope of analysis is not extended, a more detailed guidance for banks on how to select HQLAs in other currencies will be needed.

Question 1:
Given the difficulties with obtaining transactional data outlined here, do you think a data sample cover 2008-2012 is sufficient for this analysis? Would you see merit in extending the sample in those countries where more data is available?

The 2008-2012 period certainly provides a good example of liquidity pressures. As such, it may prove adequate for the purposes of the EBA exercise. In fact, if securities have stayed liquid during that period (not only in cash markets but also in repo markets), then they should definitely qualify as HQLAs.

Liquidity patterns in 2008-2012, however, did not respond only to the financial crisis, but also to the subsequent regulatory response. This latter phenomenon is likely to affect the analysis of liquid assets. For example, since the Basel 3 liquidity framework was published in December 2010, institutions have begun to build up their buffers of HQLAs according to the Basel 3 definitions. This will have affected market data (e.g. trading volumes were inflated from 2010 onwards for those assets designated as Basel-compliant). This source of possible bias should be carefully monitored if it cannot be overcome by extending the available time-frame.

Also, while 2008-2012 clearly was a time of significant market turmoil, using that sample might skew the results towards a specific type of stress scenario, creating a bias against bank-related paper and/or government-related securities.

One should also consider that, during the crisis, whilst some assets suffered a reduced capacity to generate liquidity (e.g. due to haircut widening or price movements), they did not cease to be liquid. In fact, many assets retained a strong capacity to generate liquidity, albeit at a lower rate compared to pre-crisis levels. This was also the result of more conservative risk management practices and increasingly prudent approaches to collateral management. The statistical analyses to be performed by EBA should not overlook the fact that, although such assets may have proven relatively illiquid in comparison to others, they remained a reliable source of cash inflows when needed.

Finally, market liquidity can be difficult to forecast based on historical analysis as the market is currently undergoing some significant regulatory developments, such as Basel 3 and the EU's proposed Financial Transaction Tax. The latter is expected to have a significant negative impact on the liquidity of debt securities and repo markets. If that is the case, then a careful analysis of the current market situation, to complement a statistical estimate based on past data, might help improve our understanding of future liquidity conditions.

Question 2:
Do you have additional data sources to suggest? Specifically, can you suggest a source of repo data and gold that would fit our needs?

The use of MiFID data as a transaction-based database for debt securities seems reasonable. However, the EBA might wish to complement those data with additional data sources that can also be used to validate the results based on the main dataset.

For debt securities such sources could be third-party providers which receive and aggregate trade information provided by market participants, including clearing agents (such as LCH Clearnet, Clearstream or BoNY) and data providers (like Bloomberg or Mark-it).

For equity, data could be obtained from trading venues such as Eurex.

Data on repo transactions could be sourced by Central Clearing Houses, as well as Astec (Sungard), Equilend, and the data used by ICMA to compile its European Repo Council bi-annual survey.

We also support the EBA's effort to make use of the data obtained from the World Gold Council and to include gold in its assessment of eligibility criteria for "extremely high" and "high" liquid assets.

Finally, the data sources could be extended to include regulation-mandated reporting templates and industry surveys, where these are available. This includes, for example, the very extensive information on UK banks collected by the FSA, especially over the past few years.

Question 3:
Do you agree with the list of liquidity metrics under consideration to be used in the EBA assessment, as mentioned in this section and Annex 5? Can you suggest further metrics the EBA should make use of, where information would be available?

There is no disagreement with regard to the individual measures proposed in the DP[5]. However, usage perimeters for these metrics must be calibrated carefully so as to avoid eliminating assets which are seen as fundamentally liquid by market participants, but fail to meet the "litmus test" of an individual metric. For example, bid/ask differentials, while being useful liquidity indicators for equities, might prove questionable when used for other asset classes such as fixed income instruments.

EBA should therefore consider whether all the criteria need to be met and whether all criteria should have the same weighting. Another example is (agency) credit ratings: some unrated corporate bonds (e.g. in Germany) may enjoy an excellent credit profile and a favourable issuance track record. We wonder whether they should be given the same importance as other factors.

Additionally, some liquidity measures might suffer strongly from the introduction of new regulatory initiatives. For instance, the Financial Transaction Tax legislation will have a serious impact on the volume of trades in assets (both minimum and average); the average size of trades, and maximum bid/ask spreads are also likely to be affected.

One may also wonder whether the proposed metrics focus too much on the liquidity of cash markets. In a liquidity crisis, the private repo market can be used to generate cash, possibly to a greater extent than outright sales. As liquidity can also be generated via repo markets, the eligibility criteria for liquid repo baskets should also

[5] Note that, however, some tests based on market data have shown that the joint usage of all metrics might lead to over-fitting issues, with German government bonds potentially being the only liquid asset class.

be investigated. This is particularly true of repos that are traded in an organized market with a central counterpart, such as Eurex (GC Pooling). Assets that the clearer considers eligible for a basket ("classic", "extended") should be considered for inclusion in HQLAs and might be seen as a separate "asset class". Additionally, if a limited portion of the basket is considered ineligible, this should be accounted for by a higher haircut, but the basket should remain eligible.

Finally there is a risk that different metrics are computed and ranked across asset classes based on absolute values, without considering the total size of individual currency areas.

Given these limitations (as well as the difficulties with obtaining and updating transactions-based data), it might be feasible to choose to limit the number of quantitative indicators (there are nine currently proposed in the DP) and to rely more on qualitative criteria. For example, quantitative metrics could be limited to traded and outstanding volumes and bid/ask spread.

Additionally, the list of liquidity metrics and explanatory characteristics could be usefully complemented with institution-specific aspects (e.g., the share of an asset class that the institution owns relative to the total outstanding amount in the market). Concentration measures (based on the share of an asset class in a bank's total liquidity buffer) could also be explored.

Qualitative criteria may also help mitigate the consequences of a lack of historical data for certain asset classes. For example, covered bonds that are generally held to maturity may score badly according to measures based on traded volumes.

Whilst we understand EBA's approach (which would first test the link between quantitative liquidity indicators and qualitative "explanatory characteristics", then use the latter as eligibility criteria subject to the results of the test), we believe that some qualitative criteria which are widely used by banks and market participants may be worth considering regardless of their statistical link to quantitative measures. Relying on quantitative measures as a necessary condition for the inclusion of an "explanatory characteristic" into the eligibility criteria may also lead to serious data selection biases.

Question 4:
Do you agree with the list of explanatory characteristics whose linkage to liquidity is proposed to be tested in the EBA assessment? Can you suggest further characteristics the EBA should assess?

Generally speaking, the characteristics proposed in the DP look adequate. Collateral eligibility, however, can refer to various concepts (e.g. eligibility for central bank operations, as opposed to usability in repo transactions in the private market). The EBA may wish to clarify what type of collateral eligibility it considers to be a symptom of high or extremely high liquidity.

Whilst we understand that central bank eligibility might not, per se, be an eligibility criterion according to Basel and EU regulations, we believe that EBA should carefully clarify the interaction between HQLAs and central bank eligible collateral.

Question 5:
Q5. Do you agree with the methodology proposed? Do you have alternative approaches that might be used?

We recognize the importance of liquidity metrics, including bid/ask spreads, turnover, volume and others, as indicated in Annex 5 of the DP. The way these metrics will be used to identify liquid assets, however, may prove a matter of concern.

For instance, simply ranking the bid/ask spreads of five asset classes and classifying the last one (i.e., the one with a larger spread) as illiquid, might prove ill conceived, as long as that asset has a proven record of remaining a viable source of liquidity throughout periods of stress.

As mentioned above, qualitative judgments should also be used to complement quantitative measures and improve the robustness of the results. Additionally, qualitative criteria may prove harder to game than quantitative thresholds, and thus be more robust to regulatory arbitrage. In this way, the backward-looking methodology proposed by EBA could usefully be complemented with a more forward-looking approach. Recent history has shown that market circumstances can quickly change, also due to regulatory developments. This makes history comparatively less relevant.

As mentioned in our general remarks, the methodology used by EBA should also take into account, at least to some extent, the size of the currency area where an asset class is traded.

EBA/DP/2013/02 ("On retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft Capital Requirements Regulation (CRR)")

General comments

According to Basel 3, less stable deposits (which can be mapped to higher run-off rates by national supervisors) include[6]:

- deposits that are not fully covered by an effective deposit insurance scheme or sovereign deposit guarantee;
- high-value deposits;
- deposits from sophisticated or high net worth individuals;
- deposits that can be withdrawn quickly (eg. internet deposits), and
- foreign currency deposits.

[6] See: Basel Committee on Banking Supervision - Basel III: *The Liquidity Coverage Ratio and liquidity risk monitoring tools* – January 2013, paragraph 79.

The EBA DP adds the following factors[7]:

- deposits from non-residents;
- the location of deposits (and currency denomination);
- product-linked deposits;
- rate-driven deposits or deposits with preferential rates;
- fixed term deposits maturing within the next 30 days or fixed term deposits with less than 30 days of notice period.

Generally speaking, this list of factors looks appropriate. A number of qualifications may, however, prove helpful.

While term deposits may sometimes prove more stable than sight ones, this is not necessarily the case. The choice between fixed-term, notice-period or sight deposits may in fact be driven by interest rates, as well as by "historical" national preferences; these factors do not imply, in themselves, a higher outflow risk. Additionally, the attitude of depositors towards term deposits may be affected by the country-specific legal framework.

In countries where a large share of retail banking is conducted through the Internet (as in some Nordic countries), that channel is likely to be used also by "stable" customers who do not use remote banking to quickly move funds across banks. Under those circumstances, most Internet deposits would not require a higher outflow.

While all nine factors may prove relevant in principle, the EBA may wish to focus on a smaller subset, in order to simplify the day-to-day management of outflow rates. We anticipate that it will be a challenge for banks to record, update and assess all nine divers, especially at a group-wide level. The diversity of IT systems across individual subsidiaries can be huge, which means that customer-related information may prove hard to extract and consolidate.

Some of the factors listed by EBA are clearly not independent of each other (e.g. high net worth individuals generally place high value deposits, which in turn are often "rate-driven" as they enjoy preferential conditions). The correlation between individual factors should be taken into account when setting weights underlying the final scorecard, since otherwise correlation may result in double counting. Alternatively, some factors could be used to proxy other factors when the latter are not readily available (e.g., high net worth individuals could be proxied by high-value, preferential-rate deposits).

Regarding the scorecard, EBA should show how deeply the distinction between two factor categories is rooted in empirical data, to ensure that it does not bring about an unnecessary complication.

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[7] The DP motivates these additional criteria by reference to empirical analyses or data collected from national regulators. More details of such analyses should be made available to allow financial institutions and other stakeholders to assess the robustness of the results, especially for those criteria which are not totally intuitive.

The impact of the proposed outflow rates might be significant. We wonder whether existing data are deemed adequate to assess this impact, or whether a new QIS will be launched to calculate their impact for banks before finalization.

The measurement of some factors (e.g. rate-driven deposits) may prove complex for small banks (where IT systems do not allow for a smooth retrieval of detailed information); a simplified methodology for smaller institutions may therefore prove helpful, while being consistent with the proportionality principle.

Question 1.
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?

Although we understand and support the EBA's effort to identify retail deposits subject to higher outflows than specified in Article 409, we believe that this objective should be balanced with respect to feasibility, given the planned implementation date of 1 January 2014. Where possible, existing data should be leveraged in the EBA's analysis of retail deposits and their behavior. The data requirements considered within the Retail discussion paper are overwhelming and banks are likely to reach the point of diminishing returns fairly quickly. Providing this level of data to the exact specifications as outlined in the paper would be costly. Banks already track the stability of their retail deposits to ensure alignment with internal risk appetite, and information on UK banks in particular will be plentiful given that a similar exercise would have been performed in establishing the stability of retail deposits under the Financial Services Authority's (FSA) BIPRU guidelines.

Some of the risk factors considered in the paper do not necessarily reflect indicators of higher outflow (see responses to some of the questions below) Other criteria would be difficult to apply (e.g. identifying 'rate-driven' products would seem open to subjective views and operationally extremely challenging to do on a dynamic basis). Using existing data would help on both fronts, as it would help identify the most influential risk factors and ensure that methodology could be implemented.

Question 2.

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?

The listed factors are mainly product- or price-related, while it is the customer who eventually decides to withdraw funds. Accordingly, customer-related characteristics should be enhanced (e.g. by reference to the length of the relationship, the number

and type of additional products held by the customer, the number of banks she is doing business with, her past behavior, etc)[8].

In a stressed situation, the deposit outflow is highly dependent on customers' confidence. Hence, institution-related characteristics may also prove significant (e.g, the business model of the bank, its credit standing, the fact that it is considered a SIFI/G-SIB and consequently enjoys some implicit public support). Small institutions, which are not members of a group or network providing some form of institutional protection (for instance, as per Article 9 or Article 108(8) of the CRR), are considerably more vulnerable to higher retail deposit outflows.

Question 3.

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?

A three-bucket approach could be devised, where deposits below €100,000 (or the local DGS limit) are mapped to the lowest run-off factors, deposits in the €100,000-€500,000 are mapped to the non-preferential retail run off-factor, and only deposits above €500,000 or €1,000,000 are mapped to higher outflow rates. Alternatively, in the interest of simplicity, it might be feasible to opt for one single category of high value deposits (with no distinction between "high" and "very high"); in this case, however, a higher threshold for high value deposits (beyond € 100,000) would make sense[9].

As concerns the choice between a unified €100,000 limit and country-specific ceilings, it should be noted that "safe havens"' which during the crisis have benefited from more effective DGSs have done so not only because of different coverage limits but also because of the size, stability and speed (in providing pay-outs) of their DGS.

Question 4.

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

The proposed criteria may prove overly complex. Additionally, it should be noticed that the concepts of "peers" and "similar products" are subject to multiple interpretation, which means they could generate ambiguity and heterogeneous practices. We look more at the absolute interest rate difference than the relative difference. Simpler criteria (such as a fixed threshold or a threshold that depends on official rates plus a fixed spread) could be tested.

[8] The existence of an operational relationship with the client is a key criterion in order to determine a retail deposit with higher outflows. While this is mentioned in the DP's introduction, we are not sure this is thoroughly addressed in the rest of the paper.

[9] An alternative criterion would be to set the threshold to €100.000 per person, that is, n * €100.000 for a household consisting of n persons.

Question 5.

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

As mentioned above, while term deposits may sometimes prove more stable than sight deposits, this is not necessarily the case. The choice between fixed-term, notice-period or sight deposits may in fact be driven by interest rates, as well as by "historical" national preferences. However, these factors do not imply, in themselves, a higher outflow risk. Additionally, the attitude of depositors towards term deposits may be affected by the country-specific legal framework.

In some member States, such as Hungary, depositors are legally entitled to withdraw their deposits at any time without prior notice, even if they are term deposits. There are also countries where one-month roll-over deposits are very popular. Accordingly, we think that the use of a higher outflow rate for term/notice deposits should be firmly grounded on country-specific empirical data.

Question 6.

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?

Some banks within the BSG have indicated that relationship management and customer intimacy have been found to lower the outflow risk.

Question 7.

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

The factor associated with "location of deposits" " and "sophisticated or high network individuals" is not totally clear to us. Other concerns regarding the required clarifications have been expressed in the answers to specific questions (e.g. on rate-sensitive deposits).

Question 8.

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?

In our view, while deposits above €500,000 could be mapped to a higher outflow bucket, the uninsured part up to €500,000 could be adequately addressed by a non-preferential retail outflow rate of 10 per cent. Additionally, a €1,000,000 threshold could be evaluated, instead of €500,000. Supervisors should carefully calibrate such

thresholds based on past data to ensure that no unnecessary burden is imposed on banks and, indirectly, on their customers.

Question 9.

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

See our reply to Question 4.

Question 10:

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

Some of the factors leading to higher outflow rates (e.g. the value and currency of the deposit) are core information for depositors and accordingly pose no special challenges.

Other product-specific factors (such as rate-driven or preferential deposit, fixed-term or notice-period deposits, product-linked deposits) involve information that, generally speaking, should be available in bank IT systems. In some cases, however, it might be available only for individual subsidiaries, and not in centralised form for the whole liquidity subgroup. Besides, the procedure to compare the yield of rate-driven deposits or those having preferential conditions with a reference rate may prove too complex, as the higher yield (and higher risk) could be apparent only in the long run. Furthermore, in case of rate-driven structured products the volatility of the underlying rate may prove much more relevant in order to map these products to one of the outflow factors. In light of the above, many banks are likely to incur non-trivial costs to enable their central reporting systems to produce the necessary information on product-related factors.

Other factors are customer-specific, such as the case of non-resident deposits and deposits of high net worth individuals (HNWI). While the information on non-residents should be available in all systems, it is more difficult to isolate sophisticated customers or high net worth individuals. If the bank has a private banking business unit, customers of that unit can be defined as HNWI, although segmentation criteria used by different groups cannot be expected to be comparable. Also, the definition of HNWI is clearly affected by the general economic conditions of a country (e.g. in terms of income per capita). Accordingly, the size of deposits could be used as a proxy for HNWI. Alternatively, deposits of high net worth individuals could be removed from the list of factors proposed by the EBA, to focus on deposit size only.

Question 11.

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.)?

Given the heterogeneity of the institutions sitting in the BSG, it is hard to provide an estimate that fits all. However, the amount of resources needed to comply with the proposed criteria will clearly depend on the final list of factors. Simplifications (e.g. based on removing factors that are strongly correlated with others) would certainly help to keep implementation costs in check.

It will be a challenge to record and assess all relevant factors group-wide: the diversity of IT systems is huge and customer-realted information is not always readily available everywhere.

Question 12.

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

See our answer to Question 2.

Question 13.

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

We judge that these factors are interrelated and any kind of scorecard methodology should take into account the correlations between them.

Question 15.

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

This segmentation into two categories should be carefully justified in light of the available statistical data. Some choices proposed by EBA do not appear totally intuitive to some of the banks within the BSG: for instance, it is not always the case that non-resident retail deposits show an extremely high volatility. The same applies to maturing term deposits.

Question 17.

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

Yes, in some cases it would be justified such as when the behaviour of depositors depends on country-specific factors, like “historical” preferences or the legal framework. However, as this might increase the complexity of the regulatory framework, the scope for derogations should be carefully assessed from a cost/benefit perspective.

Question 18

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

Factors like FX deposits may be relevant for some non-Eurozone Member States and less relevant for Eurozone countries. Until DGSs are fully harmonised, the different financial and legal conditions of the deposit guarantee systems may also be a cause for derogations. In the case of small institutions, derogations should take into account safety nets, specifically in the case of savings bank and co-operative networks.