

Consultation Paper

Draft Guidelines

On retail deposits subject to different outflows for purposes of liquidity reporting under Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR)



Consultation paper on draft guidelines on retail deposits subject to different outflows for purposes of liquidity reporting under Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR)

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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper and in particular on the specific questions summarised in section 5.2.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 01.10.2013. Please note that comments submitted after this deadline or submitted via other means may not be processed.

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please indicate clearly and prominently in your submission any part you do not wish to be publicly disclosed. A standard confidentiality statement in an e-mail message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EC) N 45/2001 of the European Parliament and of the Council of 18 December 2000 as implemented by the EBA in its implementing rules adopted by its Management Board. Further information on data protection can be found in the [Legal notice section](#) of the EBA website.

2. Executive summary

The CRR/CRD IV texts¹ (Capital Requirements Regulation ('CRR') and the Capital Requirements Directive ('CRD')) set out prudential and reporting requirements for liquidity.

Under Article 421(3) CRR the EBA is required, taking into account the behaviour of local depositors as advised by competent authorities, to issue guidelines (GL) to institutions and competent authorities on the criteria to determine the conditions of application of paragraphs 1 and 2 of that Article in relation to the identification of retail deposits subject to different outflows and the definitions of those products for purposes of liquidity reporting. The GL are to take account of the likelihood of these deposits to lead to outflows of liquidity during the next 30 days and the outflows are to be assessed under the assumption of a combined idiosyncratic and market-wide stress scenario. In this regard, the draft GL seek to provide criteria to identify less stable retail deposits, for the purposes of liquidity reporting, by defining the characteristics that can lead to higher outflows during the next 30 days under stress conditions. These higher outflows are considered to be exceptions to the outflow rates of at least 5% and 10% respectively prescribed in Article 421(1) and (2). Furthermore, to provide greater harmonisation for the purposes of reporting stable deposits in accordance with Article 421(1), these draft GL also set out criteria to aid in the identification of 'established relationships' and 'transactional accounts'.

On 21 February 2013 the EBA published a discussion paper (DP) on retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft CRR which was being negotiated at that time. The EBA's mandate extended to the definition of criteria to identify retail deposits subject to higher outflows together with the determination of appropriate outflows. The DP sought to define such criteria ranked into two groups of very high and high risk. The DP allocated these deposits to one of three categories, or 'buckets', differentiated by the number and riskiness of criteria a given product would meet. Three outflow rates of 15%, 20% and 25% were considered for each category. The DP was informed by an EBA survey of competent authorities based upon their experience and judgement regarding outflows observed during the financial crisis, taking into account the behaviour of local depositors.

The current draft GL continue to propose a three-tiered 'bucket' approach to allocating retail deposits subject to higher outflows for purposes of liquidity reporting. The allocation of every retail deposit to one of these categories will continue to depend on the risk factors inherent in that retail deposit. Furthermore, the draft GL continue to set these risk factors in line with the outcome derived from the survey of competent authorities and, to a certain extent, where prudent they have been amended to incorporate public feedback on the DP. As a change to the approach proposed in the DP, the draft GL will not prescribe the associated outflow rates for the three categories. Instead, the draft GL stipulate that institutions are to report retail deposit amounts allocated to each of the three categories together with their own estimates of expected outflows under stress conditions.

¹ <http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2013:176:SOM:EN:HTML>

3. Background and rationale

Legal background to the draft GL

The CRR is intended to implement the Basel III proposals in the EU. In particular, with a view to improving the short-term resilience of the liquidity risk profile of institutions, Part Six CRR introduces a liquidity coverage requirement and outlines a number of items subject to liquidity reporting. The liquidity coverage requirement will require institutions to hold liquid assets, the sum of the values of which covers the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days. In accordance with Article 460 CRR the Commission is expected to adopt a delegated act in 2014 to specify in detail the liquidity coverage requirement.

Under Article 421(3) CRR, the EBA is required, taking into account the behaviour of local depositors as advised by competent authorities, to issue GL by 1 January 2014 on the criteria to determine the conditions of application of paragraphs 1 and 2 of Article 421 in relation to the identification of retail deposits subject to different outflows and the definitions of those products for purposes of liquidity reporting. As required by Article 421(3), those GL are to take account of the likelihood of these deposits to lead to outflows of liquidity during the next 30 days. These outflows are to be assessed under the assumption of a combined idiosyncratic and market-wide stress scenario.

Legal and economic rationale for the content of the draft GL

Higher outflow rates

Article 420 CRR sets out the liquidity outflows to be reported for the purposes of the liquidity coverage requirement. Article 421(1) considers the amount of retail deposits covered by a Deposit Guarantee Scheme ('DGS') which are either 'part of an established relationship making withdrawal highly unlikely', or 'held in a transactional account'. These retail deposits are in principal considered the most stable and will be subject to the lowest outflow rates of at least 5%. Article 421(2) CRR groups the remaining retail deposits in a broad bucket that is subject to an outflow rate of at least 10%. Article 421(3) concerns any retail deposit which, owing to the behaviour of local depositors, is subject to different outflow rates in excess of the minima defined in paragraphs 1 and 2. Therefore such deposits are subject to higher outflow rates.

Under a combined idiosyncratic and market-wide stress scenario, Article 421(3) focuses explicitly on the behaviour of depositors as an additional risk factor to be evaluated, to determine the liquidity risk profile of an institution, over and above those factors implicitly considered in the definitions of stressed outflows in paragraphs 1 and 2. As deposit outflows are to be considered under the assumption of a combined idiosyncratic and market-wide stress scenario, it logically follows in theory that an add-on to the minima outflow rates will arise. In practice, the EBA's survey of competent authorities corroborates

higher outflow rates during the financial crisis. Therefore, while Article 421(1) and (2) concerns minimum outflow rates, Article 421(3) relates exclusively to higher outflows.

Risk factors and tiered buckets of retail deposits subject to higher outflow rates

For the identification of retail deposits subject to higher outflows a set of risk factors will be established in the draft GL. These risk factors are derived from the feedback of the EBA's survey of competent supervisors. The prominent characteristics displayed by retail deposits that can lead to higher outflows include factors such as volatility, volume of the deposit, relationship with the customer, distribution channel, currency of the deposit and yield. As stated in Article 421(3) CRR, these deposit outflows are to be assessed under the assumption of a combined idiosyncratic and market-wide stress scenario. Therefore, the criteria to identify retail deposits subject to higher outflows seek to capture volatility observed by institutions during stress periods and assumed in stress scenarios.

In order to avoid potential cliff effects, the three-tiered bucket approach is defined on the basis of the risk factors the corresponding retail deposit will meet. Retail deposits subject to higher outflow rates will be assigned to one of the buckets depending on the number of risk factors displayed.

Determination of outflow rates

The draft CRR based on the European Commission text of July 2011, the Council of the European Union agreed text (Presidency compromise of May 2012) and the European Parliament text, on which the DP was based, expressly included the identification of appropriate higher outflow rates in the EBA's mandate. The published CRR does not now provide for this aspect of the original mandate. The EBA could, on its own initiative, stipulate rates for retail deposits subject to higher outflows in the draft GL in order to further harmonise reporting of liquidity coverage requirements. However, it seems reasonable, in view of the current wording of the CRR mandate, to gather further empirical evidence on which to develop appropriate outflow rates in future regulatory steps, if deemed appropriate.

Accordingly, the draft GL will provide the methodology for institutions to identify retail deposits subject to higher outflows and to report, as part of reporting on liquidity coverage requirements in accordance with Article 415 CRR, the resultant estimate of outflows in the relevant bucket. These outflows should reflect the responsiveness of deposits to the criteria outlined in the paper to determine higher outflows under the assumption of a combined idiosyncratic and market-wide stress scenario.

Established relationships and transactional accounts

In identifying retail deposits under Article 421(1), particular emphasis is placed on the conditions that the amount of retail deposit is covered by a DGS and that the deposit is either 'part of an established relationship making withdrawal highly unlikely', or 'held in a transactional account including accounts to which salaries are regularly credited'. To contribute to a harmonised process here the draft GL will propose some criteria to aid the identification of these deposits.

Conclusions

At this juncture, three groups of retail deposits are to be considered for the purposes of reporting liquidity outflows in the supervisory reports on liquidity requirements under Article 415(3) CRR:

- (i) Retail deposits as provided for by Article 421(1), with respect to the amount covered by a DGS and which are either 'part of an established relationship making withdrawal highly unlikely', or 'held in a transactional account, including accounts to which salaries are regularly credited'. These will be subject to an outflow rate of 5% in so far as they do not meet the criteria applicable to identifying retail deposits subject to higher outflow rates under Article 421(3)
- (ii) Retail deposits, as established by Article 421(2), which do not meet the criteria either to be categorised under Article 421(1) or identified as subject to higher outflow rates under Article 421(3). These are subject to a 10% outflow rate.
- (iii) Retail deposits subject to Article 421(3), encompassing all retail deposits that, taking into account specific characteristics of the behaviour of the depositor, should be subject to outflow rates above those provided for as minima in Articles 421(1) and (2) and for which these draft GL establish identification criteria. These deposits will be assigned, in turn, to one of the three categories established in the draft GL on the basis of the risk factors they will meet.

For each deposit group, institutions are to report the outstanding balance together with the applicable outflow amount. Specifically for retail deposits subject to higher outflows, they are also to allocate deposits to one of the three categories, having applied the criteria outlined in the draft GL to identify these higher outflows.

It is envisaged that as part of the supervisory review process, competent authorities will review the assessment process completed by institutions to implement these draft GL and report deposits subject to higher outflows.

The approach outlined in these draft GL will allow the necessary data to be collected on deposits subject to higher outflows and inform the Commission's calibration of the liquidity coverage requirement.

Stages prior to the draft GL

Survey of Supervisors

To address the mandate outlined in Article 421(3) CRR the EBA surveyed national competent authorities regarding the behaviour of local depositors, in particular during stress periods. Competent authorities responded on the basis of a sample of institutions deemed to be representative for the sectors in each country.

In this survey, the EBA also considered the supervisory experience of the parties involved and institutions' practices. In this respect, the results of the survey suggested that practices vary to a significant extent from one country to another. With regard to the definition of deposits, the majority of competent authorities (but not all) categorise retail deposits. Some competent authorities prescribe

quantitative and/or qualitative requirements to determine outflow rates for retail deposits, while others require institutions to use the results of internal assessments. In general, among EU jurisdictions, outflow rates are required for a number of purposes, including quantitative supervisory liquidity ratios, prudential requirements, stress tests, reporting/monitoring and liquidity management. The outflow rates prescribed by supervisors tend to take into account or reflect the stress scenario assumptions. The majority of competent authorities, however, rely on either the institutions' methodologies for risk management purposes or on quantitative liquidity requirements.

Regarding institutions' experience of retail depositors' behaviour during stress events, the EBA's analysis found that most institutions experienced increased outflows during periods of stress, ranging from a low to a moderate level of retail deposit withdrawals. However, a minority of institutions, perceived as 'safe havens', experienced deposit inflows and others experienced changes in funding behaviour. The latter related to both inter-product transfer as customers exited debt instruments perceived as entailing a higher risk than deposits, and a deposit migration from short-term and sight accounts to longer-term products.

The experience of competent authorities and the increased volatility observed during stress periods provided the basis for the criteria outlined in the draft GL to identify retail deposits subject to higher outflows. Their experience also supports the application of higher retail deposit outflow rates to certain products.

Discussion Paper

On 21 February 2013 the EBA published the DP on retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft CRR. 25 responses were received, of which 21 were published on the EBA website. Part 5.3 of this document provides the detailed feedback and the EBA's response thereto.

According to feedback, respondents were of the view that risk factors should be based particularly on the characteristics of the 'depositor' rather than the 'deposit' and specific consideration should be given to the financial position of the countries and institutions where deposits are placed. Furthermore, respondents noted that the existence of a possible correlation between risk factors within the proposed methodology should be mitigated. Finally, clarification was sought on some references to specific definitions or treatment of particular risk factors such as Internet accounts, non-resident deposits and rate-driven deposits. The draft GL, which are deemed feasible and prudent, seek to address the feedback received following the discussion process.

4. Draft EBA guidelines on retail deposits subject to different outflows for purposes of liquidity reporting under Regulation (EU) No 575/2013 (Capital Requirements Regulation - CRR)

In between the text of the draft guidelines that follow, further explanations on specific aspects of the proposed text are occasionally provided, which either offer examples or provide the rationale behind a provision, or set out specific questions for the consultation process. Where this is the case, this explanatory text appears in a framed text box.

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Title I - Subject matter, scope and definitions

1. Subject matter

These Guidelines are intended to harmonise the criteria for identifying and categorising retail deposits subject to different outflows from those specified in Article 421(1) and (2) CRR as minima, as well as those for defining these products for purposes of liquidity reporting. Accordingly, the scope of application of these GL will focus on deposits subject to higher outflows.

2. Scope and level of application

These Guidelines apply to institutions at the solo, sub-consolidated and consolidated level in accordance with Part 1, Title IICRR.

Explanatory text for consultation purposes

The scope of the GL covers all retail deposits under Article 421 CRR, including deposits that meet the conditions specified in Article 421(1), that is, those which are covered by a deposit guarantee scheme and are either part of an established relationship or held in transactional accounts, which display criteria linked with higher outflows. Accordingly, to ensure that potential retail deposit outflows are appropriately considered under the assumption of a combined idiosyncratic and market-wide stress scenario, it should be emphasised that the criteria for identifying retail deposits subject to higher outflow risk are also applicable to these deposits.

Article 421(1) refers explicitly to both retail deposits as part of an '*established relationship making withdrawal highly unlikely*' and held in a '*transactional account*', including accounts to which salaries are regularly credited. However the CRR does not provide a definition of these two features. Therefore, to provide clarity, the following criteria for their identification are included:

The EBA considers that a set of factors should underlie these criteria:

- (iv) Deposits must be highly unlikely to be withdrawn under a combined idiosyncratic and market-wide stress scenario.
- (v) Their existence is substantiated on depositor-based criteria rather than on deposit-based criteria.
- (vi) For liquidity reporting, their assessment would rest on a set of harmonised criteria.

Title II- Guidance regarding the identification of retail deposit products subject to higher outflows

Part 1 – General considerations

3. Determination of ‘established relationship making withdrawal highly unlikely’

A retail deposit should be considered to be part of an established relationship for purposes of liquidity reporting under a combined idiosyncratic and market-wide stress scenario when the depositor meets at least one of the following criteria:

- (a) has an active contractual relationship with the institution of a minimum duration,
- (b) has a borrowing relationship with the institution for mortgage loans or other long term loans, or
- (c) has a minimum number of active products, other than loans, with the institution.

4. Determination of ‘transactional account, including accounts to which salaries are regularly credited’

A retail deposit should be considered as being held in a transactional account when salaries and transactions are regularly credited and debited respectively against that account.

For both considerations, institutions should have available historical data, including on the behaviour of depositors, to substantiate the classification of their deposits.

Explanatory text for consultation purposes

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?

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

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?

5. Methodology for the identification of retail deposit products subject to higher outflows

5.1. Retail deposits should be grouped in three buckets of deposits subject to higher outflows on the basis of the number and riskiness of risk factors they meet, among those described in Part 2 of the Guidelines below. Nevertheless, the list of factors provided therein is non-exhaustive and institutions that identify additional criteria leading to higher outflows should include these in their analysis.

5.2. Institutions should estimate, for purposes of liquidity reporting, the appropriate higher outflows for each of these buckets in accordance with Part 3 of the Guidelines below.

Part 2 - Factors affecting the stability of retail deposit products

6. The value of the retail deposit

Explanatory text for consultation purposes

High value deposits are particularly sensitive in a combined idiosyncratic and market-wide stress scenario and may therefore be subject to higher and faster outflows. These deposits tend to be managed by clients in a semi-professional manner and are generally not placed for transactional purposes, but based on investment criteria. For these reasons, high value depositors are deemed more responsive to market-wide and idiosyncratic stress than regular retail depositors. In addition, high value deposits contribute to the concentration of the deposit base in institutions and over-reliance on such deposits can compromise the stability of the deposit base.

6.1. Institutions should consider as high value deposits those which fulfil all the following requirements:

(a) they exceed the lower of one of the following two amounts:

(i) EUR 100 000 or

(ii) the local deposit guarantee scheme amount

(b) they are lower than EUR 500 000.

6.2. Institutions should consider as very high value deposits those of at least EUR 500 000.

6.3. For the purposes of calculating the value of a client's deposits, institutions should include all the client's deposit accounts at that institution in the calculation.

6.4. In addition, institutions should carry out a concentration analysis of their deposit base; adequate thresholds and/or limits to define high value retail deposits need to be introduced for internal purposes.

6.5. There are a number of methods that may be employed to identify the concentration of the deposit base. For example, institutions might identify a 'certain number' of large retail deposits or identify the 'number of largest retail deposits' that represent a certain percentage of the retail deposit base. To identify high value retail deposits institutions may use the threshold tailored to the local market for the deposit guarantee amount, the amount above which the interest rate is negotiated or any special arrangement agreed with the depositor that may limit the risk of outflows.

Explanatory text for consultation purposes

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

7. Products that are rate-driven or have preferential conditions

Explanatory text for consultation purposes

Retail deposits that are rate driven or have preferential conditions tend to be more sensitive in market-wide and idiosyncratic stress scenarios. During periods of market-wide stress the level of price competition tends to increase. Depositors influenced by higher yield, preferential conditions or negotiated rates can be more responsive to competitors and other attractive offers. Consequently, these deposits may prove to be less stable. High yield deposits can also represent excess funds that can be easily withdrawn at times of stress.

7.1. A deposit should be considered to be rate-driven where an institution offers an interest rate:

- (a) that significantly exceeds the average rate for similar retail products offered by their peers, given the specificities of the local deposit market,
- (b) or whose return is derived from the return on a market index or set of indices,
- (c) or whose return is derived from any market variable other than a floating interest rate.

7.2. Institutions can identify 'rate-driven' products by comparing the rate that applies to each deposit to the average paid by their peers for similar products. 'Peers' in this regard refers to institutions with a comparable business model and size, to be defined by the institution and verified by the national supervisor.

Explanatory text for consultation purposes

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

8. Maturing fixed-term or notice period deposits

Explanatory text for consultation purposes

Maturing fixed-term retail deposits or deposits with fixed notice periods may be less stable during stress periods as they are more likely to be funds that depositors do not need for day-to-day transactions. They may be more vulnerable to withdrawal during stress periods as they are likely to be subject to active management.

8.1. Deposits which should be considered as falling within this category are:

- (a) deposits originally placed as fixed-term with an expiry date maturing within the 30-day period or
- (b) deposits with fixed notice periods shorter than 30 days, in accordance with contractual arrangements, other than those that qualify for the treatment provided for in Article 421(5).

8.2. When assessing retail deposit outflows, institutions should consider the impact of:

- (a) withdrawal limits or notice periods;
- (b) the cost of withdrawal for retail deposit products which can legally be terminated prior to their original maturity date.

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- (c) the consequence, on the reputation of the institution, of not allowing deposit withdrawals, where institutions have developed a practice of allowing early redemption of such deposit products.

9. High-risk distribution channels, including Internet-only access and brokered deposits

Explanatory text for consultation purposes

The distribution channel may be an explanatory factor of a potential higher risk of instability of retail deposits under idiosyncratic and market-wide stress conditions.

The clients of Internet-only (virtual) banks have operational access to their bank only through remote delivery channels / the Internet. The absence of a branch network deprives the depositor of direct or 'face to face' contact with staff of the bank and this can have a negative effect on confidence and stability under stress conditions. Such customers have the ability to react remotely and instantaneously to market developments, more attractive offers from competitors' or negative publicity concerning the institution, generally without any personal assistance from staff of the bank.

Deposits placed by brokers (who collect funds from individual natural persons) can be prone to quicker withdrawal or reduced roll-overs in comparison to other distribution channels at times of stress. This category also tends to be the subject of active management.

Institutions should assign higher outflow rates to retail deposits accessed via high-risk distribution channels taking into consideration:

- (a) plausible existing contractual limits to withdrawals;
- (b) the consequence, for the reputation of the institution, of not allowing deposit withdrawals, where institutions have developed a practice of allowing higher redemption levels for these products.

10. The currency of deposits

Explanatory text for consultation practices

In some jurisdictions deposits denominated in foreign currencies may be less stable than deposits denominated in the local currency. Moreover, exchange rate volatility can also affect the stability of both foreign and local currency denominated deposits; this will ultimately depend on the national economic circumstances and the depositor type.

Institutions should distinguish between local and foreign currency denominated retail deposits.

11. Non-resident deposits

Explanatory text for consultation practices

The residence of the retail depositor can significantly influence the stability of the underlying deposit. Non-resident deposits may, in certain circumstances, be less stable than resident deposits. The ability of retail depositors to transfer deposits, perhaps in an attempt to eliminate adverse market risk, may impact the stability of deposits placed by non residents. These deposits tend to be more reactive to institution or market-specific stress and therefore to be less stable.

Q6: Do you agree with the criteria to identify this risk factor?

Institutions should distinguish between resident and non-resident retail deposits. This distinction should be defined in terms of non-EU resident and EU resident deposits with respect to deposits with institutions whose headquarters are based in the EU. The definition of 'residence' for the purposes of liquidity coverage requirements should generally follow the statistical or tax definition applicable.

12. Product-linked deposits

Explanatory text for consultation purposes

The stability of a deposit linked to another product can be affected by the evolution of the latter. For example, the deposit may be linked to other factors, such as the requirement to place it to gain access to other products or the fact that it acts as a lien to a loan provided by the institution. Such a deposit may be less stable if the product to which it is linked terminates during the 30-day period and the client can then disburse the accumulated savings.

Institutions should identify retail deposit products with linkages to other factors which may change during the 30-day period and result in a higher outflow risk.

13. Other characteristics

13.1. Institutions should consider their retail deposit base to identify any other characteristics that indicate or might indicate a retail deposit type with higher outflow rates than those specified in Article 421(1) and (2) CRR. The identification or non-existence of other characteristics should be documented.

13.2. In order to identify such characteristics, institutions should assess the observed (historical) and expected stability/volatility for the specific retail deposit products offered and identify product types that proved, or are believed might prove, to be unstable.

13.3. For this purpose, institutions should conduct a stress test scenario assuming a combined severe idiosyncratic and market-wide event. Internal statistical and mathematical models could be used to assess the volatility of retail deposit products. The inputs for these methods should generally

comprise data derived from the past behaviour of deposits and from hypothetical assumptions based on stress scenarios.

13.4. Small and less sophisticated institutions could use simplified methods based on statistical models, such as models identifying the maximum decrease observed in a 30-day period for a given deposit on a given time horizon including a stressed period.

13.5. The use of expert judgement is encouraged in order to include factors not taken into account by a model, especially in the case of innovative products without a long history.

13.6. A ranking of retail deposit products in terms of volatility or perceived volatility would be a very useful tool in the analysis. This would assist in consistent implementation across an institution's retail deposit products. The comparison of the results obtained for different products and the identification of outliers may help identify less stable deposits.

13.7. The assumptions underpinning these methods should comprise a 30-day prediction and be frequently reviewed, in particular to capture any material change in market conditions. In addition, institutions should consider correlation, contagion effects and seasonal effects to improve the quality of this assessment.

Part 3

14. Determining higher outflows

Explanatory text for consultation purposes

The approach for determining higher outflows follows a scorecard methodology. The risk factors as previously described are classified into two different categories based on their riskiness (high and very high risk factors). The combination of the factors a given product would meet, taking into account the number of factors and their riskiness, would define three-tiered buckets of deposits subject to higher outflows.

The product should generally meet at least two factors in order for it to be subject to higher outflows. If only one factor is met the 5% or 10% rate may be maintained. Furthermore, a granular approach for higher outflow rates is assumed in providing three buckets, in order to avoid potential 'cliff effects' resulting from a single higher outflow rate. For the purposes of liquidity reporting, institutions are to estimate the higher outflow rates applying to each of these buckets.

14.1. Institutions should apply the following methodology in categorising deposits subject to higher outflows:

14.2. Factors described above in Part 2 of these Guidelines should be divided into two categories:

- (a) High Risk, comprising the following risk factors:
 - (i) the currency of deposits;
 - (ii) product-linked deposits;
 - (iii) products that are rate-driven or have preferential conditions;
 - (iv) high-risk distribution channels, including Internet only access and brokered deposits;
 - (v) high value deposits;
 - (vi) other characteristics that the institution considers of high risk in accordance with paragraph 13 of the draft Guidelines above.
- (b) Very High Risk, comprising the following risk factors:
 - (i) maturing fixed-term or notice period deposits;
 - (ii) non-resident deposits;
 - (iii) very high value of the deposit.

14.3. Institutions should assess retail deposits against the set of factors described above.

14.4. Institutions should assign retail deposits to one of the three following tiered buckets defined on the basis of the number of risk factors attributed to the underlying deposit:

- (a) deposits with two factors from category 1;
- (b) deposits with three factors from category 1, or with one factor from category 1 and one factor from category 2;
- (c) deposits with two factors from category 2, or with two factors from category 1 and one factor from category 2, or with any other mix of factors.

14.5. Institutions should estimate the corresponding higher outflow rates for each bucket according to the historical and expected volatility assessment.

Title III- Final provisions and implementation

15. Date of application

National competent authorities should implement these Guidelines by incorporating them in their supervisory procedures within six months after publication of the final Guidelines. Thereafter, national competent authorities should ensure that institutions comply with them effectively.

5. Accompanying documents

5.1 Draft cost-benefit analysis / impact assessment

Introduction

1. In accordance with Article 16(2) of the EBA Regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council), any draft Guidelines developed by the EBA are to be accompanied by a separate note on impact assessment (IA) which analyses 'the potential related costs and benefits'. Such analysis shall be proportionate to the scope, nature and impact of the Guidelines. This IA seeks to provide the reader with an overview of findings as regards the problems and options identified and their potential impact.
2. This IA deals with the incremental impact of the EBA's draft Guidelines to determine criteria for identifying retail deposits subject to different outflows and the definitions of those products.

Problem definition

Issues addressed by the European Commission regarding liquidity management

3. In its impact assessment of the CRD IV framework, the European Commission noted that the existing liquidity risk management approaches and supervisory regimes did not adequately capture risks inherent in the underlying market practices and trends. These shortcomings had contributed to the failure of several institutions and strongly undermined the financial resilience of many others, threatening financial stability and leading to unprecedented levels of central bank liquidity and government support.
4. To address this issue, the Commission proposed two minimum standards for funding liquidity. One of these is the liquidity coverage requirement (LCR), which is intended to ensure that an institution maintains levels of liquidity buffers which are sufficient to counter any possible imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of thirty days.

Issues addressed by the guidance

5. The liquidity coverage requirement is based on a specified scenario involving circumstances experienced in the global financial crisis that began in 2007. The scenario entails both institution-specific and systemic shocks and assumes among other things a significant loss of retail deposits. Two buckets of deposits have to be defined in the base scenario, a 'stable deposits' bucket and a 'less stable deposits' bucket, with respective run-off rates of 5% and 10%. The EBA is to consider lower outflow rates in accordance with Article 509(2) and as part of its assessment of introducing liquidity coverage requirements in EU. In this regard, the EBA is to report to the Commission, inter alia, on the need to introduce a new retail deposit category with a lower outflow based on specific characteristics of such deposits that could justify a lower outflow rate and taking into account international developments.
6. In order to provide a more realistic indicator of the short-term liquidity resilience of a credit institution, the scenario on which the calculation of the LCR is based needs to be a good proxy

of depositor behaviour in stressed market conditions. This guidance ensures that this is the case by providing a methodology for identifying retail deposits subject to higher outflow risk and for which a higher outflow rate is warranted.

Objectives of the Guidelines

7. The proposals made in these Guidelines will help institutions and the EU's national competent authorities reach a common understanding of the approach to identifying retail deposits subject to higher outflows rates by determining the characteristics that negatively affect their stability. They will also ensure a minimum of harmonisation and consistent practice in this area.

Technical options considered

8. This section explains the rationale behind some of the choices that the EBA has made when designing the Guidelines.

Identification of retail deposits with higher outflows

9. The EBA considered first whether to provide a list of characteristics to identify retail deposits with a higher outflow rate or to allow national authorities the discretion to define these characteristics themselves. The following options were considered:
 - Option A.1 - To provide a list of criteria to identify retail deposits subject to higher outflow rates.
 - Option A.2 - Not to provide any list of criteria and let the national authorities develop their own methodology to identify the retail deposits subject to higher outflows.
10. Option A.1 provides a higher level of harmonisation. Pre-specified criteria will involve lower regulatory costs as the national competent authorities will not have to develop their own criteria independently. A consistent application across the EU jurisdictions will also reduce costs for cross border groups.
11. Option A.2 will involve higher regulatory and/or compliance costs as national competent authorities or credit institutions themselves will have to determine which factors, or combination of factors, would lead to the classification of a retail deposit as being at a high or very high risk of withdrawal. If competent authorities are responsible for developing the methodologies, the regulatory cost would be higher than the first option. This approach leaves some leeway for the NSA to adjust the criteria according to its judgement of stress market conditions but it also reduces the degree of harmonisation between Member States.
12. After evaluating the trade-off between the positive and negative attributes associated with each option, the EBA favoured Option A.1, as it is more likely to ensure harmonisation, comparability, transparency and a level playing field among institutions.

Comprehensiveness of the criteria

13. The objective of the Guidelines is to provide, to the maximum possible extent, precise definitions of criteria to facilitate harmonised practices among national authorities / institutions to identify retail deposits that are subject to higher outflow rates. The definition of the criteria has been difficult owing to the lack of uniform definitions of the various retail products. However, the EBA did its best to avoid excessively wide or narrow definitions for identifying retail deposits with higher outflow rates. To this end, the EBA, after consulting the national authorities on the deposit characteristics in their countries and after publishing a DP, has established a detailed list of characteristics covering most of the products subject to the higher outflow rates. This list will ensure a consistent identification of the less stable deposits across jurisdictions and that the criteria are exhaustive enough to cover all retail deposit products.

Whether or not to prescribe a methodology to estimate the level of the higher outflow rates

14. The EBA considered whether to propose concrete levels of higher outflow rates for retail deposits or to request institutions to report their best estimate of outflow rates. In both cases these rates should be applied to those retail deposits allocated to any of the three pre-defined tiered categories of retail deposits subject to higher outflow rates on the basis of the risk factors the deposits would meet. The following alternatives were considered:
- ▶ Option B.1 - To provide concrete levels of rates that should be used for deposits identified as having higher outflow rates.
 - ▶ Option B.2 – To request institutions to identify their best estimates of rates to be reported for deposits identified as having higher outflow rates.
15. Option B.1 will provide a fully harmonised methodology for producing standardised results on outflow rates which will ensure comparability, transparency and a level playing field among institutions. Option B.2 will reinforce the empirical substantiation for the next regulatory stage, while maintaining a minimum degree of harmonisation, by respecting the existence of the three pre-specified tiered categories of retail deposits subject to higher outflow rates.
16. The EBA favours Option B.2 as it achieves the operational objective of the Commission of developing a sufficiently harmonised EU regime for liquidity at this stage of the regulatory process, for purposes of liquidity reporting, while reinforcing the empirical substantiation of outflows stemming from retail deposits subject to higher outflow rates for future regulatory steps.

Impact

Costs

17. The application of higher outflow rates will cause operational and compliance costs for institutions. It has not been possible to estimate the extent to which the methodology proposed here will impact institutions. Some credit institutions might have to increase their stock of liquid assets after the implementation of the changes, depending on the level of the new LCR

compared to the target LCR. This may require changes to the institutions' business models and product pricing as well as to their structure and the nature of their distribution channels.

18. The proposed methodology will also increase compliance costs, other than LCR-related compliance costs, such as IT and staff costs. The additional compliance costs will result from the need to identify deposits subject to higher outflow rates.

Benefits

19. The benefit to be derived from the Guidelines is that they will help provide a more precise assessment of the retail deposit outflows, make the impact on the LCR quantifiable and consequently provide a more accurate estimation of the liquidity buffer needed for any institution. The requirement to estimate the potential deposit outflows should also compel institutions to focus more on funding liquidity risk when structuring and pricing retail products; this constitutes a behavioural change that could reduce systemic liquidity risk.

Explanatory text for consultation purposes

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

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

5.2 Overview of questions for consultation

- 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?
- Q2: Do you agree with this criterion for identifying a transactional account?
- 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?
- Q4: What is your view concerning the threshold proposed for high and very high value deposits? Please give your reasons.
- Q5: Do you agree with the criterion for considering a deposit to be rate driven?
- Q6: Do you agree with the criteria to identify this risk factor?
- Q7: Do you agree with the above analysis of the cost and benefit impact of the proposals?
- Q8: Please provide any evidence or data that would further inform the analysis of the likely cost-benefit impact of the proposals.

5.3 Feedback on the public consultation on the Discussion Paper

The EBA publicly consulted for one month on the DP published on 21 February 2013 on retail deposits subject to higher outflows for the purposes of liquidity reporting under the draft CRR.

25 responses were received, 21 of which were published on the EBA website. The Banking Stakeholder Group also provided an opinion.

This paper presents a summary of the key points arising from the consultation, as well as EBA views on the comments received.

- (vii) Customer-related risk factors: Most respondents considered that the proposed risk factors regarding the DP on identifying retail deposits subject to higher outflow rates concerned the characteristics of the deposits rather than those of the depositors. Proposals of depositor-related risk factors were put forward in the responses in the form of mitigating factors such as the length of the relationship with the depositor, the number of products the customer has with the bank and the customer's past behaviour with the bank.

The EBA considers that such criteria would not be very useful since they are primarily based on business-as-usual conditions rather than stressed conditions. However, in providing criteria to identify deposits forming part of an established relationship or held in transactional accounts, the EBA has sought to incorporate factors relating to the characteristic of depositors that may infer deposit stability.

- (viii) Additional risk factors: Some respondents proposed additional risk factors that might be considered; these were basically the financial position of the bank, the financial stability of the country, the customer as a single product user and concentration risk.

The EBA considered that to expand the set of criteria in this regard would be very costly and complex for institutions. As noted above in providing criteria to identify deposits forming part of an established relationship or held in transactional accounts, the EBA has sought to incorporate factors relating to the characteristic of depositors.

- (ix) Correlation of factors: Some respondents considered that some risk factors may be closely correlated in such a way that the occurrence of some will automatically cause the occurrence of others. This potential redundancy may provoke situations where only one risk factor occurring may result in the the application of rates envisaged for at least two, thus artificially increasing the score. Such a situation was mentioned regarding sophisticated and rate-driven deposits which are by default deemed to be associated.

The EBA is of the view that there is no general automatic correlation. The EBA recognises, however, that the risk factor relating to 'depositors who are sophisticated or high net worth individuals' may infer a degree of correlation with prevailing factors such as the deposit value. The EBA has therefore removed the criteria relating to 'depositors who are sophisticated or high net worth individuals', to address correlation concerns.

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- (x) Internet accounts: Some respondents did not agree that deposits with virtual (Internet only) banks must be subject to a more stringent outflow regime than those linked to Internet accounts with traditional banks which have a network of physical branches.

The EBA considers that virtual banks are particularly exposed to withdrawals. Limits on withdrawal imposed by banks may be considered and as such they have been introduced in the proposed methodology.

- (xi) Non-resident deposits: Many respondents considered that by deeming the non-resident condition itself as a risk factor for deposits could contravene the freedom of movement of capital within the Single Market and be potentially discriminative.

The EBA considered the remarks made to be a valid point and revised the proposed methodology in order to distinguish between EU and non-EU-resident retail deposits.

- (xii) Rate-driven deposits: Some respondents rejected the idea that rate-driven deposits must be subject to higher outflow rates and in contrast were of view that they bolster deposit stability. In any case, for most respondents it would be difficult to identify these products and to define peer banking groups.

The EBA believes that this criterion must be kept as the survey of competent authorities indicated that these rate-driven deposits appeared less stable in times of stress.

- (xiii) Term deposits and notice periods: Some respondents saw the imposition of a higher outflow rate on maturing term deposits or fixed-notice accounts as counterintuitive to the LCR on the basis that these deposits should be seen as providing stable funding.

The EBA considers that this criterion is also supported by the outcome of the survey and reflects supervisory experience that they appear less stable in times of stress. Accordingly, the criterion must be kept.

- (xiv) Some respondents argued that the imposition of specific higher outflow rates place EU banks at a disadvantage vis-à-vis non-EU banks and distort the competitive playing field. They indicated that the result would negatively impact upon a bank's ability to extend credit into the economy.

The EBA considers it necessary to ensure that EU institutions identify the risks inherent in their deposit base that may lead to higher outflow rates for certain less stable deposits. This should ensure that banks hold a sufficient liquidity buffer and are more resilient in the face of liquidity strains. This should ultimately ensure that institutions have sufficient liquidity to provide credit to the economy in a sustainable manner.

- (xv) Some respondents stated that the DGS amount in each relevant jurisdiction should be the threshold for determining whether a retail deposit should be subject to a higher outflow rate. The split between high and very high-risk retail deposits and the EUR 500 000 threshold in this regard was not supported and empirical evidence was requested to validate its appropriateness. A threshold of EUR 1 million was proposed instead in most cases.

The EBA considers that these limits are appropriate from a prudential point of view and are intended to ensure harmonised treatment.

(xvi) Some respondents sought clarity on the treatment of SMEs.

SMEs are incorporated as specified in Article 410(2) CRR.

Other views:

(xvii) Technical difficulties on the data collection process: Some respondents raised concerns about the technical difficulties inherent in the data collection process. On the one hand, regarding cross-border groups, IT changes would have to be customised for each jurisdiction, on the basis of national discretion. On the other hand, they argued that collecting data to meet liquidity coverage requirements on a daily basis would be challenging, particularly for smaller institutions, and asked that the principle of proportionality be applied.

(xviii) Costly data collection process: Significant investment on IT infrastructure would be necessary to implement this process. New staff to analyse databases would also be needed.

(xix) Definitions of risk factors: As regards certain risk factors (high net worth customers, sophisticated depositors) some respondents argued that identifying deposits might be an issue if such risk factors are not objectively defined.