Bank of New York Mellon eyes charging clients for euro deposits

Bank of New York Mellon said it was considering charging clients for depositing euros if the European Central Bank decides to cut key interest rates below zero. The potential move by the world’s biggest custody bank comes after Mario Draghi, president of the ECB, said last week that the region could require “further monetary stimulus” to offset a strengthening euro.

Several officials have said cutting the rate the central bank pays on deposits held at the ECB below the present level of zero would be their preferred option – raising the prospect that customers may have to pay to park their savings as commercial banks seek to offset the lower interest rates.

“If the eurozone were to go to negative rates that would actually present the opportunity for us to charge for deposits and we are giving that very serious consideration,” Todd Gibbons, BNY Mellon’s chief financial officer, said on a conference call as the bank unveiled its first-quarter earnings.

BNY Mellon rode a wave of rising global asset prices to swing to a profit in the first three months of the year.

The lender reported $661m of net profits in the first quarter, compared with a loss of $266m in the same period a year earlier, when a US court blocked the bank from using $850m worth of foreign tax credits. Assets under management jumped 6 per cent thanks mainly to “higher market values”, the company said in a statement.

The first-quarter profit equated to 57 cents a share – higher than the 53 cents forecast by analysts. Revenues in the period were flat at $3.6bn, however, missing expectations of $3.73bn for the period.

BNY Mellon has been grappling with low interest rates which eat into the amount of money it can make from safeguarding trillions of dollars worth of clients’ assets. At the same time, the bank has been criticised by some investors and analysts for failing to rein in expenses to offset its shrinking profit margins.

“The management team is focused on actively realigning the business model for the new regulatory environment, controlling expenses and generating strong returns on tangible common equity,” Gerald Hassell, chief executive, said in the statement.

In addition to low interest rates, BNY Mellon has been dealing with new rules including the so-called “supplementary leverage ratio”, which requires big banks to hold capital against all of their assets. The rule is particularly onerous for custody banks since they hold huge portfolios of assets on behalf of their customers.
Mr Gibbons said the bank’s supplementary leverage ratio was 4.7 per cent at the end of March, compared with the “low fours” estimate BNY Mellon gave last year when the US regulators first proposed the new 5 to 6 per cent requirement.

Charging clients for deposits is controversial since many customers balk at the idea of paying for what they consider a basic financial service. BNY Mellon has previously charged depositors to hold Danish kroner and Swiss francs after the two countries cut interest rates to stem their currencies from appreciating.