Guidance Note

AGN 210.2 - Scenario Analysis

1. Scenario analysis reports provided to APRA under both the "going-concern" and "name crisis" scenarios should take the form of maturity profiles of cash flows (in domestic and foreign currencies separately) based on assumptions agreed with APRA.

   (a) To demonstrate that an ADI can meet commitments and obligations under normal operating conditions, the short term deficits (up to 1 month) reported under the "going-concern" scenario must not exceed the ADI's normal capacity to fund.

   (b) To prove that the ADI is capable of operating for at least five business days under adverse operating circumstances, the cumulative mismatch reported under the "name crisis" scenario must be positive out to five days.

   For foreign owned ADIs operating in Australia (either as branches or subsidiaries), a name crisis may take two forms – it could be restricted to local operations or it could affect the foreign ADI's global operations. APRA expects the analyses of these foreign ADIs to cover both these scenarios.

2. Scenario analysis depends heavily on the assumptions of future cash flows associated with the behaviour of an ADI's assets, liabilities and off-balance sheet activities under different operating scenarios. APRA recognises that considerable judgement and discretion is involved in making these underlying assumptions, which may vary substantially among ADIs depending on their individual business profiles. ADIs are expected to take a conservative approach in assessing future cash flows. APRA will assess and agree with an ADI the suitability of the assumptions made for the "going-concern" and "name crisis" scenarios. An ADI should be in a position to provide analysis and evidence to justify the assumptions underlying these two scenarios.

3. APRA will pay particular attention to an ADI's policies to address a name crisis. Assumptions under this scenario would represent a "worst case" for an ADI, as evidenced by significant difficulty in rolling over or replacing liabilities. In addition to assumptions regarding the behaviour

of maturing and at call assets and liabilities, and estimates of cash flows from off-balance sheet activities, an ADI must assess the effect of pressure on it to support its paper in the market and of requests to redeem term liabilities before their due dates. An ADI should evaluate the marketability of its assets, and the likely values generated from a fire sale. For inflows from industry liquidity support schemes, standby facilities and intra-group funding to be included, the arrangements must either be fully committed and irrevocable or demonstrate an acceptable level of certainty.

4. An ADI should document in its liquidity management policy statement the underlying assumptions adopted for its scenario analysis. The assumptions should be subject to regular review to take account of changes in the ADI's operations and/or market environment. An ADI should consult APRA prior to making any material changes to these agreed assumptions.

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