

# Prudential Standard

## APS 210 – Liquidity

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# Prudential Standard

## APS 210 - Liquidity

### Objective

*This standard aims to ensure that all ADIs have sufficient liquidity to meet obligations as they fall due across a wide range of operating circumstances.*

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### Principles

#### Responsibility for Liquidity Management

1. The board of directors and management of an ADI shall implement and maintain a liquidity management strategy that is appropriate for the operations of the ADI to ensure that it has sufficient liquidity to meet its obligations as they fall due.
2. An ADI shall adhere to its liquidity management strategy at all times and review it regularly (at least annually) to take account of changing operating circumstances.
3. An ADI shall inform APRA immediately of any concerns it has about its current or future liquidity, as well as its plans to address these concerns.

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#### Liquidity Management Strategy

4. APRA will review and agree with an ADI the adequacy and appropriateness of the ADI's liquidity management strategy, having regard to the ADI's size and nature of operations. The ADI shall consult APRA prior to making any material changes to the agreed liquidity management strategy.

5. An ADI's liquidity management strategy shall include the following elements:
  - (a) a liquidity management policy statement approved by the board of directors or a board committee. For foreign ADIs, the policy statement should be approved by an appropriate senior officer from outside Australia;
  - (b) a system for measuring, assessing and reporting liquidity;
  - (c) procedures for managing liquidity;
  - (d) clearly defined managerial responsibilities and controls; and
  - (e) a formal contingency plan for dealing with a liquidity crisis.
6. An ADI's liquidity management strategy shall cover both the local and overseas operations of the ADI, as well as all related entities which have impact on the ADI's liquidity. Where an ADI manages liquidity on a group basis, the strategy shall cover both the ADI and the group as a whole. The strategy shall address all on- and off-balance sheet activities of the ADI and, where relevant, the ADI group as a whole across all currencies.

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### **Scenario Analysis**

7. An ADI's liquidity management strategy should, where appropriate, include scenario analysis of domestic and foreign currency liquidity to ensure that the ADI can operate under a wide range of operating conditions. At least two scenarios are to be addressed:
  - (a) "going-concern" refers to the "normal" behaviour of cash flows in the ordinary course of business; and
  - (b) "name crisis" refers to the behaviour of cash flows in adverse operating circumstances specific to the ADI, where it has significant difficulty in rolling over or replacing its liabilities.
8. The ADI's scenario analyses performed under [paragraph 7](#) shall demonstrate:

- (a) how obligations and commitments are met on a day-to-day basis; and
  - (b) that there is sufficient liquidity available to the ADI to keep it operating for at least five business days in a name crisis.
9. An ADI should undertake scenario analysis on a regular basis as per [paragraph 7](#) except where APRA accepts, after discussion with the ADI concerned, that the nature and scale of its operations do not warrant employing sophisticated liquidity management strategies. Instead, the ADI will be subject to APRA's minimum liquidity holdings requirement as stipulated in [paragraph 10](#) below. APRA may also require an ADI to maintain minimum liquid holdings where it assesses that the ADI's capacity to carry out scenario analysis is inadequate.

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### **Minimum Liquidity Holdings**

10. An ADI exempted from scenario analysis under [paragraph 9](#) will be required to maintain a minimum holding of 9% of its liabilities in specified high quality liquid assets at all times.
11. "Liabilities", for the purpose of this Standard, is defined as total on-balance sheet liabilities (including equity) and irrevocable commitments, less eligible capital base defined in accordance with [APS 111 – Capital Adequacy: Measurement of Capital](#).
12. For the purpose of APRA's minimum liquidity holdings requirement, "high quality liquid assets" must be free from encumbrances (except where approved for a prudential purpose by APRA) and include:
- (a) cash;
  - (b) securities eligible for repurchase transactions with the Reserve Bank;
  - (c) bank bills and CDs issued by ADIs provided the issue is rated at least "investment grade" as set out in [AGN 113.3 – The Standard Method](#) (Table 1);
  - (d) deposits (at call and any other deposits readily convertible into cash within two business days) held with other ADIs net of placements by the other ADIs; and

- (e) any other securities approved by APRA.
13. Notwithstanding paragraphs 7 and 10, APRA may, where it is not satisfied with the adequacy of an ADI's liquidity management strategy, or where it has particular concerns about an ADI's liquidity, direct the ADI to hold specified amounts of high quality liquid assets as defined in [paragraph 12](#) above.
14. An ADI shall inform APRA immediately when in danger of breaching the minimum requirement and the remedial action taken / planned to avert any breaches.

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### **Reporting Arrangements**

15. An ADI must provide APRA each quarter (or more frequently if required by APRA) with liquidity reports as agreed. These shall include reports of scenario analysis under both the "going-concern" and "name crisis" scenarios described in [paragraph 7](#) or details of high quality liquid asset holdings for the purposes of [paragraph 10](#), as appropriate.

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