



6 October 2015

**To: All authorised deposit-taking institutions (ADIs)**

## AGGREGATE RESULTS ON THE SECURED COMMITTED LIQUIDITY FACILITY

The Australian Prudential Regulation Authority (APRA) is today releasing aggregate results on the secured Committed Liquidity Facility (CLF) that ADIs have established with the Reserve Bank of Australia (RBA).

APRA implemented the Liquidity Coverage Ratio (LCR) on 1 January 2015. The LCR is a minimum requirement that aims to ensure that ADIs have sufficient High Quality Liquid Assets (HQLA) to survive a stress scenario lasting for 30 days. The LCR is part of the Basel III liquidity package of measures to strengthen the global banking system.

The CLF will be sufficient in size to cover any shortfall between the ADI's holdings of HQLA and the requirement to hold such assets under the LCR. ADIs will be required to demonstrate that they have taken 'all reasonable steps' towards meeting their LCR requirements through their own balance sheet management, before relying on the CLF.

### Committed Liquidity Facility for 2016

All locally-incorporated LCR ADIs were invited to apply for a CLF to take effect on 1 January 2016. Thirteen ADIs applied for CLFs totalling approximately \$272 billion.

CLF amounts were granted using the process outlined in the letter to ADIs dated 8 August 2013<sup>1</sup>. This process can be summarised as:

#### *Step 1: Estimation of available Australian dollar HQLA*

The RBA provided an estimate of the amount of Australian dollar HQLA that could reasonably be held by locally-incorporated LCR ADIs over the calendar year 2016. This estimate took into account factors such as the total amount of Australian dollar HQLA securities on issue, the market participants that are holding that stock and the need for the continued smooth functioning of markets.

#### *Step 2: Submission of a three-year funding plan and APRA's assessment of projected net cash outflows*

Each LCR ADI that requested a CLF was required to submit a three-year funding plan to APRA that included, amongst other things, a projection of Australian dollar net cash outflows over the CLF approval period<sup>2</sup>.

<sup>1</sup> <http://www.apra.gov.au/adi/Publications/Documents/130808-CLF-letter-final.pdf>

<sup>2</sup> APRA assumed that NCOs as at 31 December 2016 represent 'peak' NCOs over the 2016 calendar year.

APRA assessed each funding plan and, in particular, the projected Australian dollar net cash outflows, giving consideration to the planned program of actions that each ADI has in place to minimise reliance on the CLF. As a result of this assessment, APRA agreed with each ADI a projected Australian dollar net cash outflow that was then used to determine the CLF size.

*Step 3: Maximum CLF for an LCR of 100 per cent*

The size of the CLF for each ADI was set in equal proportion to each ADI's projected Australian dollar net cash outflows. The system-wide CLF size at 100 per cent LCR coverage was calculated as follows:

$CLF_{\text{system}} = NCO_{\text{system}} - HQLA_{\text{est.}}$ , where:

- $NCO_{\text{system}}$  is the sum of Australian dollar projected net cash outflows as agreed between each ADI and APRA; and
- $HQLA_{\text{est.}}$  is the amount of Australian dollar HQLA that the RBA estimated could reasonably be held by locally-incorporated LCR ADIs.

The CLF amount for each ADI was then calculated as follows:

$CLF_{\text{ADI}} = (NCO_{\text{ADI}} / NCO_{\text{system}}) \times CLF_{\text{system}}$ , where:

- $NCO_{\text{ADI}}$  is the Australian dollar projected net cash outflow for each ADI as agreed by APRA.

*Step 4: Allowance for an appropriate buffer above an LCR of 100 per cent*

The CLF amount was set in the context of an LCR requirement of 100 per cent. APRA expects that ADIs will maintain a liquidity buffer such that their LCR is at all times greater than 100 per cent. As such, the size of the CLF was increased to account for unexpected outflow volatility and a reasonable buffer of approximately 10 per cent was assumed.

*Outcome of the assessments*

Following APRA assessment of the applications, the aggregate Australian dollar net cash outflow of the thirteen ADIs projected for end-2016 was calculated as approximately \$402 billion. This amount represented  $NCO_{\text{system}}$ .

The RBA determined that the amount of Australian Government Securities and securities issued by state and territory governments that could reasonably be held by locally-incorporated LCR ADIs in 2016 was \$195 billion. This amount represented  $HQLA_{\text{est.}}$ .

On this basis,  $CLF_{\text{system}}$  was determined to be approximately \$207 billion and the total CLF granted (including buffers over 100 per cent) was approximately \$245 billion.

Yours sincerely,



Charles Littrell  
Executive General Manager  
Supervisory Support Division