



6 November 2020

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS (ADI)

AGGREGATE COMMITTED LIQUIDITY FACILITY AVAILABLE TO ADIs

The Australian Prudential Regulation Authority (APRA) has today announced a \$35 billion reduction in the aggregate amount in the Committed Liquidity Facility (CLF) established between the Reserve Bank of Australia (RBA) and certain locally incorporated ADIs that are subject to the Liquidity Coverage Ratio (LCR) from the amount at the start of 2020.

The LCR is a minimum requirement that aims to ensure that ADIs maintain sufficient unencumbered high-quality liquid assets (HQLA) to survive a severe liquidity stress scenario lasting for 30 calendar days. The LCR is part of the Basel III package of measures to strengthen the global banking system.

The CLF is intended to be sufficient in size to compensate for the lack of sufficient available HQLA, which in Australia consists of mainly Australian Government Securities and securities issued by the borrowing authorities of the states and territories (AGS and semis). ADIs are required to make every reasonable effort to manage their liquidity risk through their own balance sheet management before applying for a CLF.

Updated Committed Liquidity Facility

Due to the material improvements in ADIs' funding and liquidity along with substantial HQLA increases due to unforeseen increases in government debt since the January 2020 CLF allocations, all locally incorporated LCR ADIs were invited to apply for a reduction in their CLF, effective on or before 31 December 2020. Five ADIs applied for a reduction, reducing the aggregate CLF allocated to ADIs from \$223 billion at 1 January 2020 to \$188 billion.

(\$ billion)	2015	2016	2017	2018	2019	1-Jan-20	1-Dec-20
Total Net Cash Outflows	410	402	400	387	381	378	440
Available AGS and semis	175	195	220	226	225	243	351
Total CLF made available	275	245	223	248	243	223	188

The amount of Australian Government Securities and Semi-Government securities issued by the State and Territory governments (AUD HQLA) has increased significantly and is projected to increase further based on the government's recent budget announcement. As a result, APRA CLF allocations for 2021 will decrease further. While APRA expects to ensure measured CLF reductions to avoid financial market disruptions, it would be reasonable to expect that if government securities outstanding continue to increase beyond 2021, the CLF may no longer be required in the foreseeable future.

Further to this round of reductions which are targeted to be effective from 1 December, applications for the 2021 CLF are due to be submitted to APRA in December 2020. APRA will endeavour to announce the aggregate results of those applications by the end of first quarter of 2021.

Yours sincerely,

Therese McCarthy Hockey
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Banking Division