



19 October 2020

TO: ALL MLH ADIs

SELF-SECURITISATION FACILITIES – UPDATED GUIDANCE

Given the heightened risks in the current operating environment, APRA has maintained a strong focus on funding and liquidity. As part of this, we have sought to ensure that all ADIs have robust contingency plans in place.

In late-March 2020, APRA communicated to Minimum Liquidity Holdings (MLH) ADIs (with existing self-securitisations) that it expected these facilities to be temporarily increased to facilitate extraordinary liquidity support, if required.

Due to the material improvement in funding and liquidity positions, APRA has reduced its expectation of the size of these self-securitisations to no less than 20 per cent of the ADI's total deposits and short-term wholesale liabilities.¹ This level reflects the continued uncertain environment. Encumbered self-securitisation notes pledged as collateral for the TFF may be included in meeting the 20 per cent level.

A higher level of self-securitisation may be appropriate

Notwithstanding the above industry guidance, a higher level of self-securitisation and/or a higher minimum MLH requirement may remain appropriate for specific ADIs. This may include ADIs that are:

- reliant on higher risk funding sources;
- have a concentration of customers from a specific sector impacted by COVID-19; and/or
- unable to materially increase the size of their self-securitisation within eight weeks.

APRA will contact MLH ADIs where a higher level of self-securitisation is appropriate. MLH ADIs with a self-securitisation who are not able to meet this guidance may be subject to a higher minimum MLH requirement.

Time required to increase an ADI's self-securitisation

APRA expects ADIs to have the ability to increase their self-securitisations on short notice in the event of a crisis. To the extent that ADIs experienced operational, legal or documentation issues when increasing the size of their self-securitisation, APRA expects ADIs to determine the cause and resolve these issues promptly.

As a guide, APRA expects MLH ADIs to have the ability to complete an increase in their self-securitisation within eight weeks. Best practice for MLH ADIs is two to three weeks. To the extent MLH ADIs cannot meet the eight week expectation by the end of 2021, APRA will expect the ADI to hold a higher self-securitisation balance or may be subject to a higher minimum MLH requirement.

APRA would be unlikely to further lower the guidance outlined in this letter unless an ADI can demonstrate that it can increase the size of its self-securitisation within one month and the ongoing uncertainty of COVID-19 has subsided.

¹ The methodology for this calculation is outlined in Liquidity FAQ 13. Self-securitisations are defined as reported in item 18.7 of ARF 210.4 3-year Funding Plan. Deposits (wholesale and retail) and short-term wholesale liabilities are defined as the sum of the total of ARF 210.3.2 items 1 and 2.1.1.

APS 120

APS 120 footnote 5 and Attachment B paragraph 5(e) state the circumstances where an ADI may repurchase exposures from a self-securitisation. APRA will not take action under APS 120 as a result of ADIs reducing the size of their self-securitisation in line with this letter's guidance. If an ADI is reducing the size of its self-securitisation for other reasons, it should consult APRA prior to commencing the reduction.

If you have any queries regarding this letter, please contact your responsible supervisor.

Yours sincerely,

Clare Gibney
General Manager
Banking Division