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APRA

14 July 2021

TO: ALL LOCALLY-INCORPORATED ADIs SUBJECT TO APS 210 LIQUIDITY COVERAGE RATIO (LCR) REQUIREMENTS

CONTINGENT LIQUIDITY: PROPOSED GUIDANCE

Given the 2020 experience of volatility in financial markets, it is important that ADIs maintain prudent levels of contingent liquidity reserves for times of stress. Self-securitised assets are a key source of contingent liquidity in stress. APRA is consulting with authorised deposit-taking institutions (ADIs) on proposed guidance for the level of self-securitised assets to be maintained on an ongoing basis.

Existing guidance

In March 2020, as a response to the COVID-19 stress, APRA communicated to ADIs with existing self-securitised assets that it expected these assets to be temporarily increased to facilitate extraordinary liquidity support, if required. Self-securitised assets were subsequently used to support drawings under the Reserve Bank of Australia's (RBA) Term Funding Facility and to support increases in the Committed Liquidity Facility (CLF).

APRA considers it is prudent for an ADI to maintain contingent liquidity reserves for use, if required, at short notice. APRA recognises self-securitised assets that are in excess of those used as collateral for the CLF as a form of contingent liquidity, and notes the risk that these assets may not be increased in a timely manner in a future stress due to operational issues and/or insufficient eligible loans.

Given this risk, *Prudential Practice Guide APG 210 Liquidity* (APG 210) states that for an ADI with a CLF with the RBA, APRA expects *"the level of the ADI's self-securitised assets would be well in excess of that used as collateral for the CLF*" (paragraph 67). While the CLF has decreased materially APRA maintains its view that it is prudent for an ADI to hold contingent liquidity reserves regardless of the size and presence of the CLF.

Accordingly, APRA intends to revise its guidance for self-securitised assets to de-link it from the CLF as outlined below.

Proposed revised guidance – for consultation

Based on APRA's analysis and experience of the liquidity impacts through the early stages of COVID-19, APRA considers that it would be prudent for an ADI to maintain surplus self-securitised assets amounting to at least 30 per cent of its LCR Net Cash Outflows. By maintaining surplus self-securitised assets at this level, an ADI would be better placed to access material extraordinary liquidity support in a future stress, if required, at short notice.

Accordingly, APRA proposes to replace APG 210 paragraph 67 with the following:

For a locally-incorporated LCR ADI, it would be prudent to hold self-securitised assets with a cash value equivalent to at least 30 per cent of group net cash outflows as contingency for *periods of stress.[1] APRA would expect the self-securitised assets to be unencumbered, and not held as collateral for any other purpose.*

[1] Using a 12-month average of net cash outflows would reduce the volatility in the level of self-securitised assets that would be held.

Consultation

APRA invites feedback on the proposed guidance outlined above. Written submissions on the proposal should be sent to liquidity@apra.gov.au by 20 August 2021, copying your responsible supervisor. APRA expects to release an updated version of APG 210 with the above amendment, subject to feedback received in the consultation, in late 2021.

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

Yours sincerely,

John Lonsdale
Deputy Chair