AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY
1 Martin Place (Level 12), Sydney, NSW 2000
GPO Box 9836, Sydney, NSW 2001

T 02 9210 3000 | W www.apra.gov.au

10 September 2021

TO: ALL LOCALLY INCORPORATED LCR ADIs

COMMITTED LIQUIDITY FACILITY UPDATE

A key feature of the Liquidity Coverage Ratio (LCR), as set out in *Prudential Standard APS 210 Liquidity* (APS 210), is that eligible authorised deposit-taking institutions (ADIs) may apply for a Committed Liquidity Facility (CLF) provided by the Reserve Bank of Australia (RBA) to meet the LCR requirement. The CLF was introduced to the LCR framework in Australia in 2015 in response to the relatively low levels of government debt on issue at that time.

APRA annually assesses the size of the CLF that an ADI may recognise in its LCR. In conducting its assessment, APRA considers the extent to which an ADI demonstrates that it meets the requirement to make every reasonable effort to manage its liquidity risk through its own balance sheet management before applying for a CLF for LCR purposes[1].

In late 2020 and early 2021[2], APRA wrote to ADIs noting that the amount of Australian government securities (AGS) and semi-government securities (semis) had increased significantly, and future CLF allocations were likely to continue to decrease as the amount of AGS and semis on issue was projected to increase. Furthermore it would be reasonable to expect that if government securities outstanding continued to increase beyond 2021, CLF allocations would no longer be required.

APRA and the RBA consider there to be sufficient HQLA for locally incorporated LCR ADIs to meet LCR requirements now and for some time without the need to utilise the CLF, and therefore use of the CLF should no longer be required beyond 2022. The combined AGS and semis and ESA balances as projected by the RBA exceed the required HQLA to meet ADIs' combined LCR plus buffer, in particular:

- The amount of outstanding AGS and semis is expected to continue to increase in 2022. The RBA has assessed that the AGS and semis that can be reasonably held by locally-incorporated LCR ADIs at the end of 2022 will be around $560 billion. The RBA's latest reasonable holdings estimate is available on its website (https://www.rba.gov.au/mkt-operations/committed-liquidity-facility.html); and

- Surplus Exchange Settlement Account (ESA) balances with the RBA have increased significantly to be $361 billion as at 31 August 2021. Further, the RBA expects ESA balances to remain elevated for some years given the package of policy measures it has implemented.

APRA therefore expects ADIs to purchase the HQLA necessary to eliminate the need for the CLF. In particular:

- No ADI should rely on the CLF to meet their minimum 100% LCR requirements from the beginning of 2022. ADIs may continue to count any remaining CLF as part of their liquidity buffer.

---

1 Refer to paragraph 18 of Attachment A to *Prudential Standard APS 210 Liquidity*.
2 Letter to ADIs dated 19 February 2021 available on APRA's website.

- ADIs should reduce their usage of the CLF to zero by the end of 2022.

APRA will continue to review financial market conditions, and will adjust these expectations should circumstances materially change. For avoidance of doubt, the CLF will remain available should it need to be reactivated in future to meet shortfalls in the availability of HQLA.

Transition period

An ADI's current CLF allocation will decrease to zero through equal reductions on 1 January, 30 April, 31 August and 31 December 2022. An ADI may opt to reduce its CLF early if it considers it has sufficient surplus funding and liquidity. If an ADI wishes to reduce its CLF before the above dates, please inform APRA by 30 September 2021.

If an ADI considers it needs more time to transition to a zero CLF, it should provide a funding strategy to APRA that incorporates the proposed transition. The strategy will need to satisfy APRA that the ADI is meeting the 'every reasonable effort' requirement.

The funding strategy should be submitted to both your APRA supervisor and to liquidity@apra.gov.au by 31 October 2021. If a longer transition period is warranted, APRA will notify the ADI by 3 December 2021.

Queries can be directed to your responsible supervisor.

Yours sincerely,

John Lonsdale
Deputy Chair