



15 September 2022

TO: ALL ADIs SUBJECT TO MINIMUM LIQUIDITY HOLDINGS (MLH) REQUIREMENTS

CONTINGENT LIQUIDITY: PROPOSED GUIDANCE

APRA is consulting on proposed updates to guidance on contingent liquidity, for those locally-incorporated ADIs subject to the minimum liquidity holdings (MLH) requirements in *Prudential Standard APS 210 Liquidity* (APS 210).

The updated guidance sets expectations for the level of self-securitised assets to be maintained by MLH ADIs on an ongoing basis. The updates will reduce the level of contingent liquidity that APRA expects MLH ADIs to hold, on the expectation that these ADIs will be able to increase holdings on a timely basis if needed as stress conditions emerge.

Background

During the period of funding market volatility in response to COVID-19, APRA set expectations that MLH ADIs hold higher levels of contingent liquidity to cater for adverse conditions. In 2020, APRA wrote to the industry with guidance that MLH ADIs should hold a higher level of self-securitised assets as contingent liquidity from 10 per cent to no less than 20 per cent of the ADI's total deposits and short-term wholesale liabilities.¹

Given the improvement in conditions, APRA is now returning this expectation for the level of self-securitised assets to 10 per cent. However, APRA also expects that ADIs will be able to increase their self-securitisation levels on a timely basis if needed in stress.² As a general guide, APRA considers it is prudent for MLH ADIs to have the ability to sufficiently increase the size of their self-securitisations within one month.

Accordingly, APRA is proposing to update its existing guidance for self-securitisations. The proposed guidance as outlined below will supersede Liquidity FAQ 13 on APRA's website and the self-securitisation facilities – updated guidance outlined in APRA's 19 October 2020 letter.

Proposed updated guidance – for consultation

APRA proposes to update its guidance on self-securitisations for MLH ADIs by including two new paragraphs in *Prudential Practice Guide APG 210 Liquidity* (APG 210), as outlined below. Notwithstanding the proposed update, APRA may contact select MLH ADIs where a higher level of self-securitised assets than that proposed in the guidance is appropriate.

¹[Letter to MLH ADIs, Self-securitisation Facilities – Updated Guidance \(19 October 2020\)](#).

² A key lesson from the COVID-19 stress was that most MLH ADIs took longer than expected to increase the size of their self-securitisations when asked to do so promptly. There is a risk that the size of an ADI's self-securitisation may not be increased in a timely manner in a future stress event due to operational issues or that ADI not having sufficient eligible loans.

For locally-incorporated MLH ADIs with more than \$1 billion in liabilities, a prudent approach would be to hold self-securitised assets equivalent to at least 10 per cent of their total deposits and short-term wholesale liabilities as contingency for periods of stress.³ APRA would expect the self-securitised assets to be unencumbered, and not held as collateral for any other purpose.

APRA expects MLH ADIs to ensure they have the capacity including the operational capability to increase their self-securitisations to at least 20 per cent within one month. If there are concerns about an ADI's operational capability to increase their self-securitisation within one month or its liquidity risk profile, it would be prudent for the ADI to hold a higher level of self-securitised assets. APRA may also require the ADI to maintain higher minimum liquidity holdings under APS 210 (paragraph 58) where there are certain liquidity risk concerns.

Consultation

APRA invites feedback on the proposed guidance. Written submissions on the proposal should be sent to liquidity@apra.gov.au by 29 September 2022, copying in your responsible supervisor. APRA expects to release an updated version of APG 210 with the above additions, subject to feedback received in the consultation, later this year or early in 2023.

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

Yours sincerely,

John Lonsdale
Deputy Chair

³ Self-securitisation is defined as reported in item 18.7 of ARF 210.4. Total deposits and short-term wholesale liabilities are defined as the sum of the total of ARF 210.3.2 items 1 and 2.1.1. APRA does not expect MLH ADIs to have offshore wholesale funding, but if one does, it should also include ARF 210.3.2 items 2.2.1, 2.2.2 and 2.2.3.