AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY
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7 December 2022

TO: ALL LOCALLY INCORPORATED ADIs SUBJECT TO APS 210 MINIMUM LIQUIDITY HOLDINGS (MLH) REQUIREMENTS

CONTINGENT LIQUIDITY: FINAL GUIDANCE

The Australian Prudential Regulation Authority (APRA) is today releasing updated guidance on the level of self-securitised assets expected to be maintained by locally-incorporated MLH ADIs on an ongoing basis.

Background

On 15 September 2022, APRA released a consultation which proposed updates to its guidance on contingent liquidity for MLH ADIs. The impact of the proposal would be to reduce the level of self-securitised assets that APRA expects the MLH ADIs hold to at least 10 per cent of an ADI's total deposits and short-term wholesale liabilities, subject to an additional expectation that these ADIs will be able to increase holdings within a one-month timeframe.

An important consideration for APRA is that funding and liquidity resilience is maintained particularly given the uncertainty in the global macroeconomic environment. The updated guidance aims to strike the right balance to ensure ADIs' liquidity resilience for periods of stress, while freeing up collateral for ADIs to access secured funding.

Submissions received

APRA received 3 submissions, of which 2 were confidential. Submissions commented on three aspects of the updated guidance.

Comments received	APRA response
One submission said that the one-month timeframe expectation where ADIs should be able to increase their self-securitised assets is not appropriate as it is too short and should be extended.	The expectation that ADIs increase their self-securitised assets within one month will ensure ADIs' liquidity resilience for periods of stress and incorporates a key lesson from the COVID-19 stress that it took longer than expected for most MLH ADIs to increase these facilities when asked to do so. APRA considers that the one-month timeframe strikes an appropriate balance between providing ADIs sufficient time to increase their self-securitised assets and ensuring that contingent funding is available, if required, at short notice. Accordingly, it would be prudent for MLH ADIs that do not have the capability to increase their self-securitised assets within one

	month to maintain a higher level of self-securitisation on an ongoing basis.
One submission suggested that the timeframe over which ADIs should be expected to increase their self-securitised assets should be based on other factors such as the stress at the time (i.e., whether it is systemic or idiosyncratic).	The guidance aims to ensure ADIs are appropriately prepared for periods of stress and therefore tailoring the guidance to a specific potential stress event would not achieve this objective, given that a stress can occur at any time and be of any severity.
One submission sought clarification on whether encumbered self-securitised assets pledged as collateral for the RBA's Term Funding Facility (TFF) may still be included in meeting the guidance.	For MLH ADIs that are eligible to return to the 10 per cent level of self-securitisation, APRA would expect the guidance is met with unencumbered self-securitised assets that are not held as collateral for any other purpose. MLH ADIs that are expected to maintain a higher level of self-securitisation may continue to include encumbered self-securitised assets pledged as collateral for the TFF to meet the guidance.

Final guidance: APG 210 paragraphs 68 and 69

APRA will include two new paragraphs in *Prudential Practice Guide APG 210 Liquidity* (APG 210). APRA expects to release the updated version of APG 210 on 7 December 2022.

APRA has amended the draft guidance as follows:

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.[1] *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, with this capability tested on a regular basis.*

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.

Supervision of the final guidance

MLH ADIs that are eligible for the 10 per cent level of self-securitisation are requested to provide confirmation that they meet the guidance as per paragraphs 68 and 69 of APG 210 outlined above to their APRA Responsible Supervisor. In addition to operational capability testing by the MLH ADI, APRA may conduct periodic and random 'fire drill' exercises to test

[1] 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.

an ADI's capability to increase their self-securitised assets to the 20 per cent level within one month and the sufficiency of eligible mortgages that would be used for this purpose.

If you have any queries regarding this letter, please contact your Responsible Supervisor.

Yours sincerely,

Therese McCarthy Hockey
Member