

# Response to Strengthening crisis preparedness

General Manager, Policy  
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Dear Redact,

On 2 December 2021, APRA released for consultation a discussion paper, **Strengthening crisis preparedness** and two draft prudential standards (CPS 190 and CPS 900) to strengthen crisis preparedness across banks, insurers and superannuation trustees. As one of the leading consultancy firms in the banking industry, Deloitte welcomes the opportunity to respond and provide feedback on APRA's industry consultation.

Deloitte supports APRA's objectives and principles-based approach outlined within the discussion paper and draft prudential standards. We note that APRA plans to finalise CPS 190 and CPS 900 in the second half of 2022, and release draft guidance for consultation in the first half of 2022. To support the development of these documents, we have identified key topics for clarification and principles to apply in meeting the requirements of the prudential standards, based on our global experience in this area and discussions with several ADIs.

## CPS 190 – Financial contingency planning

### *Early warning Indicators*

Deloitte notes APRA's requirement for ADIs to include a range of early warning indicators to enable the timely identification and monitoring of stress. To ensure consistency and completeness, ADIs would benefit from guidance on the principles for compiling early warning indicators, as outlined below and as seen across other key jurisdictions.

- ADIs should include early warning indicators of both a quantitative and qualitative nature.
- ADI's should ideally include at least the following mandatory categories of early warning indicators – capital, asset quality, management capability, earnings, liquidity solvency (CAMELs), market (equity and spreads), macroeconomic and sovereign risk.
- Early warning indicators and their trigger calibrations should be consistent with the ADI's risk management and risk appetite framework including interactions with risk limits/thresholds identified under existing risk monitoring, escalation, and decision-making frameworks during BAU.
- ADI's should include forward looking early warning indicators with trigger calibrations, allowing them to be able to act in a timely manner in a potential stress scenario.

### *Scenario Analysis*

Deloitte notes APRA's requirement for ADIs to include scenario analysis that assesses the effectiveness of the trigger framework, shows how contingency actions would be implemented, and measures the impact and effectiveness of those actions. To ensure broad consistency with existing risk management practices, ADIs

should draw on their existing stress testing frameworks and practices. For example, ADIs should ensure that recovery actions they propose as a response to stress are part of, or consistent with, their contingency plan and/or ICAAP.

Deloitte notes APRA's requirement for scenario analysis to include at least two scenarios that are severe including a systemic and an idiosyncratic stress. In addition to these two scenarios, ideally ADIs should include a scenario that combines a systemic and idiosyncratic stress, and the range of scenarios should include both slow-moving and fast-moving stress events.

### **Recovery actions**

Deloitte notes APRA's requirement for the contingency plan to include *credible* recovery actions that could be taken to stabilise and restore financial resilience.

ADIs would benefit from guidance in relation to assessing the credibility of recovery actions. The key factors that might influence an option's credibility are:

- Detailed assessment of the recovery capacity generated by the recovery option. In doing this, ADIs should factor in the impact of a given recovery option on other recovery options.
- Detailed assessment of the operational steps to implement the recovery action.
- Detailed assessment of the impact of the recovery option on key capital, liquidity and profitability metrics including key regulatory metrics.

## **CPS 900 – Resolution planning**

### **Resolution plan**

Deloitte notes the requirement for ADIs to support APRA in the development and implementation of a resolution plan, and that the resolution plan include resolution options such as a solvent wind-down, transfer, or recapitalisation of the entity or entities.

To assist ADIs in meeting this requirement and reducing operational burden in performing a self-assessment, ADIs would benefit from principles-based guidance on which resolution options (or options) may apply to the ADI. For example, this may include guidance to ADIs to consider their size, complexity and impact on financial stability in determining which resolution option is most relevant to the ADI.

### **Resolvability assessment**

Deloitte notes APRA's requirement for ADIs to conduct a resolvability assessment which includes an assessment of any legal, structural, operational or regulatory barriers to implementation.

To assist ADIs in identifying barriers, Deloitte notes the following key barriers and categories, based on international experience:

- **Financial resources**– valuation in resolution, funding in resolution and total loss absorbing capacity (TLAC).
- **Continuity and restructuring**– continuity of financial contracts, operational continuity in resolution, continuity of access to financial markets infrastructure and corporate restructuring.

- **Coordination and communication** – management, governance and communications.

ADIs would benefit from guidance in terms of the types of valuations required as part of CPS 900 and whether the ADI must address the principle of no creditor worse off (NCWO).

## Response to Consultation questions<sup>1</sup>

Prudential standard	APRA Question	Deloitte Response
Financial contingency planning [CPS 190]	Should APRA indicate preferred contingency options?	For consistency across industry, ADIs would benefit from an illustrative, non-exhaustive list of contingency options.
	Are the proposed contents of the financial contingency plan comprehensive?	APRA should consider including a requirement for ADIs to perform a strategic analysis of the ADI as part of the contingency plan. This is to identify core business lines, critical functions, and capital requirements across business lines.
	Are the frequency and type of reviews appropriate?	Deloitte considers the frequency and type of reviews to be appropriate.
Resolution Planning [CPS] 900	Is the scope of entities subject to CPS 900 appropriate?	Deloitte considers the scope appropriate with further guidance on which resolution action is likely to be applicable to what kind of firms (by size, complexity, impact on financial stability etc).
	Is the frequency and type of review appropriate?	Deloitte considers the frequency and type of reviews to be appropriate.

<sup>1</sup> Refer to Table 4 in APRA discussion paper – Strengthening crisis preparedness, December 2021.

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