



## Prudential Standard CPS 900

### Resolution Planning

#### **Objectives and key requirements of this Prudential Standard**

The objective of this Prudential Standard is to ensure that APRA-regulated entities can be resolved by APRA in an orderly manner if needed, where bespoke planning and pre-positioning is required. The aim of resolution is to protect beneficiaries, minimise disruption to the financial system, and provide continuity of critical functions in the event an entity becomes non-viable.

This Prudential Standard requires significant financial institutions (SFIs), and non-SFIs that provide critical functions, to support resolution planning when notified by APRA.

The key requirements of this Prudential Standard are for an APRA-regulated entity to:

- conduct a resolvability assessment to identify any barriers to resolution;
- develop and implement a pre-positioning plan to remove any barriers to resolution;
- establish and maintain the capabilities to support APRA in effecting a resolution; and
- review and update the resolvability assessment at least every three years.

## Authority

1. This Prudential Standard is made under:
  - (a) section 11AF of the **Banking Act**;
  - (b) section 32 of the *Insurance Act 1973* (Insurance Act);
  - (c) section 230A of the *Life Insurance Act 1995* (Life Insurance Act);
  - (d) section 92 of the *Private Health Insurance (Prudential Supervision) Act 2015* (PHIPS Act); and
  - (e) section 34C of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

## Application and commencement

2. Subject to paragraphs 3 and 4, this Prudential Standard applies to all ‘APRA-regulated entities’ defined as:
  - (a) **authorised deposit-taking institutions (ADIs)**, including **foreign ADIs**, and **non-operating holding companies** authorised under the Banking Act (authorised banking NOHCs);
  - (b) **general insurers**, including **Category C insurers**, non-operating holding companies authorised under the Insurance Act (authorised insurance NOHCs) and **parent entities of Level 2 insurance groups**;
  - (c) **life companies**, including **friendly societies** and **eligible foreign life insurance companies** (EFLICs), and **registered NOHCs**;
  - (d) **private health insurers**; and
  - (e) RSE licensees in respect of their business operations.<sup>1</sup>
3. The obligations imposed by this Prudential Standard on, or in relation to, a foreign ADI, a Category C insurer or an EFLIC apply only in relation to the Australian branch operations of that entity.
4. For the purposes of this Prudential Standard, an APRA-regulated entity is either a **significant financial institution (SFI)** or a **non-significant financial institution (non-SFI)**. This Prudential Standard applies to SFIs, and non-SFIs determined by APRA to provide critical functions.

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<sup>1</sup> For the purposes of this Prudential Standard, an RSE licensee has the meaning given in subsection 10(1) of the SIS Act. An RSE licensee’s business operations includes all activities of an RSE licensee (including the activities of each RSE of which it is the licensee), and all other activities of the RSE licensee to the extent that they are relevant to, or may impact on, its activities as an RSE licensee.

5. Where an APRA-regulated entity is the Head of a group,<sup>2, 3</sup> it must comply with an applicable requirement of this Prudential Standard:
  - (a) in its capacity as an APRA-regulated entity;
  - (b) by ensuring that the requirement is applied appropriately throughout the group,<sup>4</sup> including in relation to entities that are not APRA-regulated; and
  - (c) on a group basis.
6. In applying the requirements of this Prudential Standard on a group basis, references to an ‘APRA-regulated entity’ must be read as ‘Head of a group’ and references to ‘entity’ must be read as ‘group’.
7. This Prudential Standard commences on 1 January 2024. An APRA-regulated entity will be subject to the requirements of this Prudential Standard following notification from APRA.

### Interpretation

8. Terms that are defined in *Prudential Standard 3PS 001 Definitions* (3PS 001), *Prudential Standard APS 001 Definitions* (APS 001), *Prudential Standard GPS 001 Definitions* (GPS 001), *Prudential Standard LPS 001 Definitions* (LPS 001) or *Prudential Standard HPS 001 Definitions* (HPS 001) appear in bold the first time they are used in this Prudential Standard.
9. In this Prudential Standard, unless the contrary intention appears, a reference to an Act, Regulations or Prudential Standard is a reference to the Act, Regulations or Prudential Standard as in force from time to time.
10. Where this Prudential Standard provides for APRA to exercise a power or discretion, the power or discretion is to be exercised in writing.

### Definitions

11. The following definitions are used in this Prudential Standard:

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<sup>2</sup> Head of a group means a Level 2 Head or a **Level 3 Head** as relevant. Level 2 Head means: where an ADI that is a member of a Level 2 group is not a **subsidiary** of an authorised banking NOHC or another ADI, that ADI; where an ADI that is a member of a Level 2 group is a subsidiary of an authorised banking NOHC, that authorised banking NOHC; or the parent entity of a Level 2 insurance group. For life companies, Head of a group includes: where a relevant group of bodies corporate is headed by a life company that is not a subsidiary of a registered NOHC, that life company; or where a relevant group of bodies corporate is headed by a registered NOHC, that registered NOHC.

<sup>3</sup> Where a Level 2 group operates within a **Level 3 group**, a requirement expressed as applying to a Head of a group is to be read as applying to the Level 3 Head. For the avoidance of doubt, the reference to Head of a group does not apply to an RSE licensee or a private health insurer.

<sup>4</sup> Group means a Level 2 group, Level 3 group or a group comprising the RSE licensee and all connected entities (as defined in subsection 10(1) of the SIS Act) and all related bodies corporate (with the meaning given in section 50 of the *Corporations Act 2001*) of the RSE licensee, as relevant. Level 2 group means the entities that comprise **Level 2** (for ADIs) or Level 2 insurance groups (for general insurers). For the avoidance of doubt, group includes a group as defined in APS 001 and, for an RSE licensee, where the RSE licensee is part of a corporate group.

- (a) critical function – means any function provided by an APRA-regulated entity that is important to financial system stability or the availability of essential financial services to a particular industry or community;
- (b) non-significant financial institution (non-SFI) – means, in relation to RSE licensees, an RSE licensee that is not a significant financial institution;<sup>5</sup>
- (c) resolution – means the process by which APRA or other relevant persons manage or respond to an APRA-regulated entity:
  - (i) being unable to meet its obligations; or
  - (ii) being considered likely to be unable, or being considered likely to become unable, to meet its obligations; or
  - (iii) suspending payment, or being considered likely to suspend payment; including through the exercise of powers and functions under prudential standards or any other law;
- (d) resolution option – means a strategy that APRA may use to effect a resolution;
- (e) resolution plan – means a plan developed by APRA under paragraph 13 of this Prudential Standard; and
- (f) significant financial institution (SFI) – means, in relation to RSE licensees, an RSE licensee that either:
  - (i) has total assets in excess of AUD \$30 billion in the case of a single RSE operated by an RSE licensee, or if the RSE licensee operates more than one RSE, where the combined total assets of all RSEs exceed this amount; or
  - (ii) is determined as such by APRA, having regard to matters such as complexity in its operations or its membership of a group.<sup>6</sup>

### **Adjustments and exclusions**

12. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to an APRA-regulated entity.

### **Resolution planning**

13. APRA may determine a bespoke resolution plan for an APRA-regulated entity or APRA-regulated entities, setting out the steps that APRA may take to protect beneficiaries and maintain critical functions in the event of a resolution.

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<sup>5</sup> APS 001, GPS 001, LPS 001 and HPS 001 define this term in relation to other APRA-regulated entities.

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Resolution options may include a wind-down, transfer, or recapitalisation of an entity.

14. An APRA-regulated entity must support APRA in the development and maintenance of a resolution plan.
15. An APRA-regulated entity with overseas operations must support the development and maintenance of cross-border components of the resolution plan.

### **Role of the Board**

16. The Board of an APRA-regulated entity must support APRA in resolution planning and is ultimately responsible for ensuring that the entity meets the requirements of this Prudential Standard. The Board must ensure that there are clear roles and responsibilities at a senior executive level for the purpose of meeting the requirements in this Prudential Standard.
17. The Board must provide oversight of and approve, where applicable:
  - (a) a resolvability assessment; and
  - (b) a pre-positioning plan.

### **Critical functions**

18. An APRA-regulated entity must support APRA in the determination of whether it provides any critical functions, if required by APRA.
19. APRA may require an APRA-regulated entity to undertake critical functions analysis, taking into account the systemic impact, customer impact and the substitutability by other providers if functions were to cease. An APRA-regulated entity may also be required to identify shared services, including those provided by third parties, upon which critical functions depend.

### **Resolvability assessment**

20. APRA may require an APRA-regulated entity to conduct a resolvability assessment to assess the feasibility of resolution options. The resolvability assessment must be conducted by personnel with appropriate skills and experience.
21. For each resolution option, the resolvability assessment must assess:
  - (a) any legal, structural, operational or regulatory barriers to implementation;
  - (b) timelines for implementation;
  - (c) any execution risks; and
  - (d) pre-positioning measures required to effectively execute the option.

22. APRA may require an APRA-regulated entity to have the resolvability assessment independently reviewed.

### **Pre-positioning plan**

23. APRA may require an APRA-regulated entity to develop and implement a pre-positioning plan to remove barriers to the execution of resolution options and mitigate execution risks.
24. The pre-positioning plan must include, where applicable:
- (a) changes to organisational or legal structure, including the location of any shared services within a group;
  - (b) renegotiation of contracts, including with third-party service providers;
  - (c) development of wind-down or run-off plans for particular businesses or assets;
  - (d) measures to ensure the operational continuity of key functions and services during resolution;
  - (e) capabilities necessary to support APRA in effecting the resolution options; and
  - (f) any other actions required to remove barriers to the execution of resolution options or mitigate execution risks.
25. APRA may require an APRA-regulated entity to implement additional pre-positioning actions if necessary to support the resolution plan.

### **Financial resources and loss-absorbing capacity**

26. An APRA-regulated entity must maintain the financial resources required to support the resolution plan.
27. APRA may require an APRA-regulated entity that is not an RSE licensee to maintain an amount of loss-absorbing capacity to support the resolution plan:
- (a) for an ADI, APRA may adjust its Total Capital prudential capital requirement under *Prudential Standard APS 110 Capital Adequacy*; and
  - (b) for a general insurer, life company or private health insurer, APRA may adjust its prudential capital requirement under *Prudential Standard GPS 110 Capital Adequacy* or *Prudential Standard LPS 110 Capital Adequacy*, or a capital adequacy supervisory adjustment under *Prudential Standard HPS 110 Capital Adequacy*.

### **Capabilities for resolution**

28. An APRA-regulated entity must establish and maintain the capabilities required to support the resolution plan. These include:

- (a) resolution governance arrangements;
  - (b) operational capabilities;
  - (c) financial management;
  - (d) data and systems; and
  - (e) where appropriate, a restructuring plan.
29. APRA may require an APRA-regulated entity to establish and maintain additional capabilities if necessary to support the resolution plan.
30. APRA may adjust the prudential requirements of an APRA-regulated entity where barriers to resolution are not addressed or where capabilities to support the resolution plan are insufficient, including changes to capital requirements where relevant.

### **External advisors**

31. APRA may require an APRA-regulated entity to:
- (a) engage, at the expense of the APRA-regulated entity, expert external advisors approved by APRA, to support with any aspect of this Prudential Standard. An APRA-regulated entity must consult with APRA before finalising the terms of engagement, and must ensure that external advisors are available to meet with APRA on request. Reports prepared by external advisors must be provided to APRA and the APRA-regulated entity, including any interim or draft reports; or
  - (b) support external advisors engaged by APRA to assist in the exercise of APRA's powers and functions under this Prudential Standard as it relates to the APRA-regulated entity.

### **Review and notification**

32. An APRA-regulated entity that is subject to resolution planning under this Prudential Standard must review and update the critical functions analysis and resolvability assessment at least every three years, or as otherwise determined by APRA. The review must be conducted by operationally independent, appropriately experienced and competent persons. The APRA-regulated entity must submit to APRA a report of the review as soon as practicable after the report is finalised.
33. Where appropriate, the review must recommend changes to the pre-positioning plan to reflect any changes in organisational structure, strategy, risk profile or the external environment that could affect the APRA-regulated entity's resolvability. The review must also recommend any changes to resources and capabilities necessary to support the resolution plan.
34. An APRA-regulated entity must notify APRA of material changes to its business or operations that may create a barrier to resolution.