

**1 September 2014**

**To: All authorised deposit-taking institutions (ADIs)**

### **APRA releases proposed amendments to liquidity standard and reporting instructions**

The Australian Prudential Regulation Authority (APRA) today released for consultation an amended *Prudential Standard APS 210 Liquidity*, as well as amended reporting instructions. These amendments relate to the Liquidity Coverage Ratio (LCR) which comes into effect on 1 January 2015. Except for the proposals under the heading ‘Derivatives’ below, there is no proposed change to arrangements for locally-incorporated ADIs or foreign bank branches already subject to the Minimum Liquidity Holdings (MLH) regime.

Note that all paragraph references in this letter relate to the current *Prudential Standard APS 210 Liquidity* issued in January 2014, not to the proposed amended standard.

#### Derivatives

APRA is proposing to amend the definition of expected derivative cash inflows and cash outflows that may be shown on a net basis and has clarified reporting instructions relating to this matter. This affects all ADIs classified as ‘LCR ADIs’ per *Prudential Standard APS 210 Liquidity*, paragraph 49. Other minor amendments to reporting instructions are also proposed.

#### Foreign Bank Branches

It has been APRA’s longstanding policy to require foreign bank branches to hold liquid assets locally in Australia.

The process of assessing applications for a Committed Liquidity Facility (CLF) from the Reserve Bank of Australia (RBA) has raised a number of challenges in applying the LCR, in its current form, to foreign bank branches. Accordingly, APRA plans to reassess the nature of and rationale underlying its application of liquid asset requirements to foreign bank branches in Australia, and intends to publish a consultation paper on this topic in 2015.

In the interim, and without prejudging the outcome of this reassessment, APRA proposes to amend certain aspects of the LCR regime that will apply from 1 January 2015 to foreign bank branches classified as LCR ADIs per *Prudential Standard APS 210 Liquidity*, paragraph 49. Specifically:

- APRA will apply an LCR with a 15 calendar day time horizon to branches (rather than the full 30 calendar day time horizon applied to locally-incorporated ADIs); and
- branches will be allowed to meet the liquid asset requirement arising using both:

- (i) assets defined as High Quality Liquid Assets in *Prudential Standard APS 210 Liquidity*, Attachment A paragraphs 6-11(HQLA); and
- (ii) assets listed in *Prudential Standard APS 210 Liquidity*, Attachment C paragraphs 3(c), 3(d), 3(e) and 3(g), subject to paragraph 4 of Attachment C (MLH securities).

For the sake of clarity, there is no proposed change to the definition of HQLA. It is proposed that MLH securities comprise an additional class of asset that will be deemed to form part of the 'Stock of high-quality liquid assets' in the numerator of the formula in *Prudential Standard APS 210 Liquidity*, paragraph 52.

The application of these changes is expected to impact foreign bank branches in a number of ways:

- APRA anticipates that the liquid asset requirement for foreign bank branches will either reduce or remain unchanged;
- there is no shortage of MLH securities in Australia, and consequently no foreign bank branch will require a CLF in order to meet its liquid assets requirement. This in turn removes the need for branches to pay a CLF fee to the RBA;
- foreign bank branches may calculate the contribution of MLH securities to their liquid asset requirement on a full market value basis; this is in contrast to MLH securities held as collateral for the CLF, whose contribution is subject to a repo valuation haircut; and
- the amount of CLF granted to LCR ADIs is limited as a proportion of Net Cash Outflows ('NCOs'). The remainder of the liquid asset requirement must be met by holding HQLA. For foreign bank branches, however, there will be no explicit restriction on the amount of MLH securities that may be held as a proportion of NCOs.

The amendments to the reporting instructions mostly arise as a direct consequence of amendments to the Prudential Standard outlined above, but also include some minor changes to improve clarity.

For the sake of clarity, APRA confirms there is no proposed change to the time horizon for locally-incorporated ADIs subject to the LCR, nor to the definition of liquid assets for them.

Amended *Prudential Standard APS 210 Liquidity* and amended reporting instructions can be found on the APRA website at: <http://www.apra.gov.au/adi/PrudentialFramework/Pages/adi-consultation-packages.aspx>. APRA welcomes comments on the amended prudential standard and reporting instructions. Comments can be provided to [PolicyDevelopment@apra.gov.au](mailto:PolicyDevelopment@apra.gov.au) by not later than 12 September 2014 and addressed to:

Mr Pat Brennan  
General Manager, Policy Development  
Policy, Statistics and International Division  
Australian Prudential Regulation Authority

#### Request for cost-benefit analysis information

To improve the quality of regulation, the Australian Government requires all proposals to undergo an assessment to establish whether it is likely that there will be business

compliance costs. In order to perform a comprehensive cost-benefit analysis, APRA welcomes information from interested parties on the financial impact of the changes proposed and any other substantive costs associated with the changes.

Consistent with the Government's approach, APRA will use the methodology behind the Regulatory Burden Measure (RBM) to assess compliance costs. This is designed to capture the relevant costs in a structured way, including assessment of upfront costs and ongoing costs separately. The RBM is available at: <http://www.dpmc.gov.au/deregulation/obpr/rbm/index.cfm>. Respondents are requested to use the methodology to estimate costs to ensure that the data supplied to APRA can be aggregated and used in an industry-wide assessment.

Yours sincerely,



Charles Littrell  
Executive General Manager  
Policy, Statistics and International

**Important disclosure notice - publication of submissions**

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the Freedom of Information Act 1982 (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the Australian Prudential Regulation Authority Act 1998 and will therefore be exempt from production under the FOIA.