Prudential Standard APS 210

Liquidity

Objectives and key requirements of this Prudential Standard

This Prudential Standard requires an authorised deposit-taking institution to adopt prudent practices in managing its liquidity risks and to maintain an adequate level of liquidity to meet its obligations as they fall due across a wide range of operating circumstances.

The key requirements of this Prudential Standard are that an authorised deposit-taking institution must:

- have a risk management framework to measure, monitor and manage liquidity risk that is commensurate with the nature, scale and complexity of the institution;
- maintain a portfolio of high-quality liquid assets sufficient in size to enable the institution to withstand a severe liquidity stress; and
- maintain a robust funding structure appropriate for its activities.

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Authority

1. This Prudential Standard is made under section 11AF of the *Banking Act 1959* (**Banking Act**).

Application

2. This Prudential Standard applies to all authorised deposit-taking institutions (**ADIs**) under the Banking Act.

3. A reference to an ADI in this Prudential Standard is a reference to:

   (a) an ADI on a **Level 1** basis; and

   (b) a group of which an ADI is a member on a **Level 2** basis.

   Level 1 and Level 2 have the meaning in *Prudential Standard APS 110 Capital Adequacy* (**APS 110).**

   Where an ADI to which this Prudential Standard applies is a subsidiary of an authorised non-operating holding company (**authorised NOHC**), the authorised NOHC must ensure that the requirements in this Prudential Standard are met on a Level 2 basis, where applicable[1].

Definitions

4. The following definitions apply in this Prudential Standard:

   (a) **associated entity –** an associated entity of an ADI within the meaning of section 50AAA of the *Corporations Act 2001*;

   (b) **financial institution –** an entity within the meaning of paragraph 4 of *Prudential Standard APS 001 Definitions.* This definition includes money market corporations, finance companies, superannuation/pension funds, public unit trusts/mutual funds, cash management trusts and friendly societies;

   (c) **liquidity facility –** a facility provided by an ADI to another entity primarily for the purpose of funding cashflow timing mismatches or to cover the inability of the entity to obtain funding due to market disruptions.

Key principles

[1] Other than for reporting Minimum Liquidity Holdings Ratio; where an ADI (or a member of its Level 2 consolidated group) participates in a securitisation (including where the securitisation meets APRA's operational requirements for regulatory capital relief under Prudential Standard APS 120 Securitisation (APS 120)), the assets and liabilities of the relevant special purpose vehicles (SPVs) must be included in the ADI's reported amounts.

5. An ADI is responsible for the sound management of its liquidity risk and must have a robust framework to manage its liquidity risk accordingly.

6. An ADI must at all times maintain sufficient liquidity to meet its obligations as they fall due and hold a minimum level of high-quality liquid assets (HQLA) to survive a severe liquidity stress.

7. An ADI must ensure that its activities are funded with stable sources of funding on an ongoing basis.

8. An ADI must inform APRA as soon as possible of any concerns it has about its current or future liquidity and its plans to address these concerns. In particular, if an ADI experiences a severe liquidity stress, it must notify APRA immediately and advise the action that is being taken to address the situation.

Board and senior management responsibilities

9. An ADI's Board of Directors[2] (**Board**) is ultimately responsible for the sound and prudent management of the liquidity risk of the ADI. An ADI must maintain a liquidity risk management framework, commensurate with the level and extent of liquidity risk to which the ADI is exposed from its activities.

10. The liquidity risk management framework must include, at a minimum:

    (a) the liquidity risk tolerance of the ADI, set by the Board;

    (b) the liquidity management strategy and policy of the ADI, approved by the Board;

    (c) the ADI's operating standards (e.g. in the form of policies, procedures and controls) for identifying, measuring, monitoring and controlling its liquidity risk in accordance with its liquidity risk tolerance;

    (d) the ADI's funding strategy, approved by the Board; and

    (e) a contingency funding plan.

11. The Board must ensure that:

    (a) senior management and other relevant personnel have the necessary experience to manage liquidity risk; and

    (b) the ADI's liquidity risk management framework and liquidity risk management practices are documented and reviewed at least annually.

[2] In relation to a foreign ADI, the responsibilities of the Board in this Prudential Standard are to be fulfilled by the senior officer outside Australia with delegated authority from the Board, as outlined in paragraph 37 of *Prudential Standard CPS 510 Governance* (**CPS 510**).

12. The Board must review regular reports on the liquidity of the ADI and, where necessary, information on new or emerging liquidity risks.

13. An ADI's senior management must, at a minimum:

    (a) develop a liquidity management strategy, policies and processes in accordance with the Board-approved liquidity tolerance;

    (b) ensure that the ADI maintains sufficient liquidity at all times;

    (c) determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity positions of all legal entities, branches and subsidiaries in the jurisdictions in which the ADI is active, and outline these elements clearly in the ADI's liquidity policies;

    (d) ensure that the ADI has adequate internal controls to ensure the integrity of its liquidity risk management processes;

    (e) ensure that operationally independent, appropriately trained and competent personnel are responsible for implementing the internal controls;

    (f) ensure that stress tests, contingency funding plans and holdings of high-quality liquid assets are effective and appropriate for the ADI;

    (g) establish a set of reporting criteria, specifying the scope, manner and frequency of reporting for various recipients (such as the Board, senior management and the asset/liability committee) and the parties responsible for preparing the reports;

    (h) establish the specific procedures and approvals necessary for exceptions to policies and limits, including the escalation procedures and follow-up actions to be taken for breaches of limits;

    (i) closely monitor current trends and potential market developments that may present significant, unprecedented and complex challenges for managing liquidity risk so that appropriate and timely changes to the liquidity management strategy can be made as needed; and

    (j) continuously review information on the ADI's liquidity developments and report to the Board on a regular basis.

14. Senior management and the Board must be able to demonstrate a thorough understanding of the links between funding liquidity risk (the risk that an ADI may not be able to meet its financial obligations as they fall due) and market liquidity risk (the risk that liquidity in financial markets, such as the market for debt securities, may reduce significantly), as well as how other risks, including credit, market, operational and reputation risks, affect the ADI's overall liquidity risk management strategy.

Liquidity risk management framework

15. An ADI's liquidity risk tolerance defines the level of liquidity risk that the ADI is willing to assume. An ADI's liquidity risk tolerance must be documented and appropriate for the ADI's operations and strategy and its role in the financial system.

16. The liquidity risk tolerance must be reviewed, at least annually, to reflect the ADI's financial condition and funding capacity.

17. In setting the liquidity risk tolerance, the Board and senior management must ensure that the risk tolerance allows the ADI to effectively manage its liquidity in such a way that it is able to withstand a prolonged period of stress.

18. The liquidity risk tolerance must be articulated in such a way that clearly states the trade-off between risks and profits.

19. An ADI's liquidity risk management framework must clearly set out the organisational structure as it relates to liquidity for the ADI on both a Level 1 and Level 2 basis[3], and define the responsibilities and roles of management involved in managing liquidity risk.

20. An ADI's liquidity risk management framework must be formulated to ensure that the ADI maintains sufficient liquidity, including a cushion of unencumbered, high-quality liquid assets, to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources. The source of liquidity stress could be specific to the ADI or market-wide, or a combination of the two.

21. An ADI's liquidity risk management framework must be well integrated into the ADI's overall risk management process.

22. An ADI's liquidity risk management oversight function must be operationally independent and staffed with personnel who have the skills and authority to challenge the ADI's treasury and other profit-making businesses.

23. The liquidity management strategy must include specific policies on liquidity management, such as:

    (a) the composition and maturity of assets and liabilities;

    (b) the diversity and stability of funding sources;

    (c) the approach to managing liquidity in different currencies, across borders, and across business lines and legal entities;

    (d) the approach to intraday liquidity management; and

[3] Level 1 and Level 2 have the meaning in *Prudential Standard APS 110 Capital Adequacy* (**APS 110**).

(e) the assumptions on the liquidity and marketability of assets.

24. The liquidity management strategy must take account of the ADI's liquidity needs under normal conditions as well as periods of liquidity stress. The strategy should include quantitative and qualitative targets.

25. The liquidity management strategy must be appropriate for the nature, scale and complexity of an ADI. In formulating this strategy, the ADI must consider its legal structure, key business lines, the breadth and diversity of markets, products and jurisdictions in which it operates, and home and host regulatory requirements.

26. The liquidity management strategy, key policies for implementing the strategy and the liquidity risk management structure must be communicated throughout the organisation by senior management.

27. An ADI must have adequate policies, procedures and controls in place to ensure that the Board and senior management are informed immediately of new and emerging liquidity concerns. These include increasing funding costs or concentrations, increases in any funding requirements, the lack of availability of alternative sources of liquidity, material and/or persistent breaches of limits, a significant decline in the cushion of unencumbered, high-quality liquid assets, or changes in external market conditions that could signal future difficulties.

28. Senior management must be satisfied that all business units conducting activities that have an impact on liquidity are fully aware of the liquidity management strategy and operate in accordance with the approved policies, procedures, limits and controls.

29. The liquidity risk management framework must be subject to effective and comprehensive independent review on an ongoing basis. In most cases, the independent reviews could be facilitated by an ADI's internal audit function but may require the engagement of independent parties outside of this function.

Management of liquidity risk

30. An ADI must have a sound process for identifying, measuring, monitoring and controlling liquidity risk. This process must include a robust framework for comprehensively projecting cash flows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons.

31. An ADI must set limits to control its liquidity risk exposure and vulnerabilities. Limits and corresponding escalation procedures must be reviewed regularly. Limits must be relevant to the business in terms of its location, complexity of activity, nature of products, currencies and markets served. Where a liquidity risk limit is breached, an ADI must implement a plan of action to review the exposure and reduce it to a level that is within the acceptable limit.

32. An ADI must actively manage its collateral positions, differentiating between encumbered and unencumbered assets. An ADI must monitor the legal entity and physical location where collateral is held and how it may be mobilised in a timely manner.

33. An ADI must design a set of early warning indicators to aid its daily liquidity risk management processes in identifying the emergence of increased risk or vulnerabilities in its liquidity risk position or potential funding needs. Such early warning indicators must be structured so as to assist in the identification of any negative trends in the ADI's liquidity position and lead to an assessment and potential response by management to mitigate the ADI's exposure to these trends.

34. An ADI must have a reliable management information system that provides the Board, senior management and other appropriate personnel with timely and forward-looking information on the liquidity position of the ADI.

35. An ADI must actively manage its intraday liquidity positions and risks in order to meet payment and settlement obligations on a timely basis under both normal and stressed conditions, thus contributing to the orderly functioning of payment and settlement systems.

36. An ADI must develop and implement a costs and benefits allocation process for funding and liquidity that appropriately apportions the costs of prudent liquidity management to the sources of liquidity risk, and provides appropriate incentives to manage liquidity risk.

Annual funding strategy

37. An ADI must develop and document an annual funding strategy, which must be provided to APRA on request. An ADI must maintain an ongoing presence in its chosen funding markets and strong relationships with funds providers. An ADI must regularly gauge its capacity to raise funds quickly. It must identify the main factors that affect its ability to raise funds and monitor those factors closely to ensure that estimates of fund-raising capacity remain valid.

38. The annual funding strategy must be approved by the Board and supported by robust assumptions in line with the ADI's liquidity management strategy and business objectives.

39. The funding strategy must be reviewed on a regular basis and updated as necessary in light of changed funding conditions and/or a change in the ADI's strategy. An ADI must advise APRA of any material changes to the ADI's funding strategy.

Contingency funding plan

40. An ADI must have a formal contingency funding plan that clearly sets out the strategies for addressing liquidity shortfalls in emergency situations. The plan must outline policies to manage a range of stress environments, establish clear lines of responsibility, include clear invocation and escalation procedures and be regularly tested and updated to ensure that it is operationally robust.

41. An ADI's contingency funding plan must be commensurate with its complexity, risk profile, scope of operations and role in the financial systems in which it operates. The plan must articulate available potential contingency funding sources and the amount of funds an ADI estimates can be derived from these sources; clear escalation/prioritisation procedures detailing when and how each of the actions can and must be activated; and the lead time needed to tap additional funds from each of the contingency sources. The contingency funding plan must provide a framework with a high degree of flexibility so that an ADI can respond quickly in a variety of situations.

42. The plan's design, scope and procedures must be closely integrated with the ADI's ongoing analysis of liquidity risk and with the results of the scenarios and assumptions used in stress tests. As such, the plan must address issues over a range of different time horizons, including intraday.

43. For an ADI that has retail deposits, the plan must address a retail deposit run and must include measures to repay retail depositors as soon as practical. The retail run contingency plan must not rely upon closing distribution channels to retail depositors. The retail run contingency plan must seek to ensure that in the event of a loss of market confidence in the ADI, retail depositors wishing to retrieve their deposits may do so as quickly and as conveniently as is practicable in the circumstances, and within the contractual terms and conditions applicable to the relevant deposit products.

44. An ADI's contingency funding plan must be reviewed and tested regularly to ensure its effectiveness and operational feasibility. An ADI must review and update its plan at least annually for the Board's approval, or more often as changing business or market circumstances require.

Minimum quantitative requirements

45. APRA will determine whether an ADI is classified as a scenario analysis ADI or an ADI subject to the Minimum Liquidity Holdings (MLH) regime for the purposes of this Prudential Standard.

Scenario analysis ADIs

46. Scenario analysis ADIs must undertake scenario analysis on a regular basis as set out at paragraph 47 of this prudential standard.[4] However, APRA may also

[4] Note the implementation provisions in paragraph 60.

require an ADI to maintain minimum liquidity holdings outlined in paragraphs 57-59 of this prudential standard where it assesses that the ADI's capacity to carry out scenario analysis is inadequate.

47. Scenario analysis ADIs must undertake scenario analysis of domestic and foreign currency liquidity to ensure that they can operate under a wide range of operating conditions. At the minimum, they must complete the following scenarios:

    (a) the Liquidity Coverage Ratio;

    (b) the Net Stable Funding Ratio;

    (c) the 'name crisis' scenario (until 31 December 2014); and

    (d) the 'going concern' scenario.

Liquidity Coverage Ratio

48. Under the Liquidity Coverage Ratio (LCR), ADIs are required to maintain an adequate level of unencumbered, high-quality liquid assets to meet their liquidity needs for a 30-day period under a severe stress scenario, as described in Attachment A. The value of the LCR must not be less than 100 per cent:

$$\frac{\text{Stock of high-quality liquid assets}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100 \text{ per cent}$$

Net Stable Funding Ratio

49. Under the Net Stable Funding Ratio (NSFR), ADIs are required to maintain a minimum acceptable amount of stable funding based on the liquidity characteristics of their assets and activities over a one-year horizon, as described in Attachment B. The value of the NSFR must not be less than 100 per cent:

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100 \text{ per cent}$$

'Name crisis' scenario

50. The 'name crisis' scenario requires ADIs to prove that they can continue to operate for at least five business days in adverse operating circumstances specific to the ADI, as described in Attachment C. Under the 'name crisis' scenario, the ADI must have a positive cumulative mismatch out to five business days. The assumptions under the 'name crisis' scenario must be agreed with APRA.

'Going concern' scenario

51. The 'going concern' scenario requires ADIs to model the expected behaviour of cashflows in the ordinary course of business for a future period at least equal to 15 months, as described in Attachment C.

Stress testing

52. In addition to the requirements contained in paragraphs 46-51 of this prudential standard, a scenario analysis ADI must conduct stress tests on a regular basis for a variety of short-term and protracted institution-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential liquidity strain and to ensure that current exposures remain in accordance with the ADI's established liquidity risk tolerance.

53. The stress test outcomes must be used to adjust the ADI's liquidity management strategy, policies and positions, and to develop effective contingency plans to deal with events of liquidity stress.

54. Stress tests must enable an ADI to analyse the impact of stress scenarios on its Level 1 and Level 2 liquidity positions, as well as on the liquidity positions of individual business lines.

55. An ADI must review stress test scenarios and assumptions as well as the results of the stress tests. The ADI's choice of scenarios and related assumptions must be well documented and reviewed together with the stress test results. Stress test results and vulnerabilities and any resulting actions must be reported to and discussed with the Board and APRA. Results of the stress tests must be integrated into the ADI's strategic planning process and its day-to-day risk management practices. The results of the stress tests must be explicitly considered in the setting of internal limits.

56. An ADI must decide how to incorporate the results of stress tests in assessing and planning for related potential funding shortfalls in its contingency funding plan.

MLH ADIs

57. ADIs determined by APRA to be subject to the MLH regime will be required to maintain a minimum holding of nine per cent of their liabilities in specified liquid assets, as described in Attachment D.

58. Notwithstanding paragraph 57 of this prudential standard, APRA may, where it is not satisfied with the adequacy of an ADI's liquidity management framework or where it has particular concerns about an ADI's liquidity, require the ADI to hold a higher specified amount of liquid assets.

59. MLH ADIs are also required to complete the 'going concern' scenario outlined in paragraph 51 of this prudential standard.

Implementation

60. ADIs are required to comply with this Prudential Standard from 1 January 2014 with the following exceptions:

   (a) scenario analysis ADIs are not required to comply with the LCR requirements as set out in Attachment A until 1 January 2015;

   (b) scenario analysis ADIs are not required to comply with the NSFR requirements as set out in Attachment B until 1 January 2018; and

   (c) scenario analysis ADIs are not required to comply with the 'name crisis' scenario requirements after 31 December 2014.

Adjustments and exclusions

61. APRA may by notice in writing to a regulated institution adjust or exclude a specific prudential requirement in this Prudential Standard in relation to that regulated institution.[5]

[5] Refer to subsection 11AF(2) of the Act.

Attachment A

Liquidity Coverage Ratio (LCR)

1. The LCR requirement aims to ensure that an ADI maintains an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet its liquidity needs for a 30 calendar day time period under a severe liquidity stress scenario.

2. The LCR has two components:

   (a) the value of the stock of high-quality liquid assets; and

   (b) total net cash outflows, calculated according to the scenario parameters outlined below.

3. The LCR requirement is:

$$\frac{\text{Stock of high-quality liquid assets}}{\text{Total net cash outflows over the next 30 calendar days}} \geq 100 \text{ per cent}$$

4. An ADI must include an appropriate buffer of high-quality liquid assets over the LCR requirement in line with its liquidity risk tolerance.

5. During a period of financial stress, an ADI may need to liquidate part of its stock of HQLA and/or draw on its Committed Liquidity Facility (CLF) with the Reserve Bank of Australia (RBA), using the cash generated to cover cash outflows and, thereby, falling below the 100 per cent LCR requirement. An ADI must inform APRA immediately in the event that it becomes aware of circumstances that will result in a breach its LCR requirement.

Eligible stock of high-quality liquid assets

6. There are two categories of assets that can be included in the stock of high-quality liquid assets. Assets to be included in each category are those that the ADI is holding on the first day of the stress period, irrespective of their residual maturity. The highest quality liquid assets (HQLA1) can be included without limit, while other high-quality liquid assets (HQLA2) can only comprise up to 40 per cent of the stock.

7. The calculation of the 40 per cent cap must take into account the impact on the amounts held in cash or other HQLA1 or HQLA2 from secured funding transactions (or collateral swaps) maturing within 30 calendar days undertaken with any non-HQLA1. The maximum amount of adjusted HQLA2 in the stock of high-quality liquid assets is equal to two-thirds of the adjusted amount of HQLA1 after haircuts have been applied.

8. The adjusted amount of HQLA1 is defined as the amount of HQLA1 that

would result if all short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA1 for any non-HQLA1 were unwound. The adjusted amount of HQLA2 is defined as the amount of HQLA2 that would result if all short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA2 for any non-HQLA2 were unwound, and includes cash or other HQLA1. In this context, short-term transactions are transactions with a maturity date up to and including 30 calendar days. Relevant haircuts are applied prior to calculation of the cap.

HQLA1

9. HQLA1 can comprise an unlimited share of the stock of eligible high-quality liquid assets, are held at market value and are not subject to a haircut under the LCR. These assets are limited to:

(a) cash;

(b) central bank reserves, to the extent that these reserves can be drawn down in times of stress;

(c) marketable securities representing claims on or claims guaranteed by sovereigns, central banks, non-central government public sector entities (PSEs), the Bank for International Settlements, the International Monetary Fund, the European Central Bank and European Community or multilateral development banks, and satisfying all of the following conditions:

(i) assigned a zero per cent risk-weight under Attachment A of *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (**APS 112**);

(ii) traded in large, deep and active repo or cash markets characterised by a low level of concentration;

(iii) proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions; and

(iv) not an obligation of a financial institution or any of its associated entities;

(d) for non-zero per cent risk-weighted sovereigns: sovereign or central bank debt securities issued in domestic currencies by the sovereign or central bank in the country in which the liquidity risk is being taken or in the ADI's home country; and

(e) for non-zero per cent risk-weighted sovereigns: domestic sovereign or central bank debt securities issued in foreign currencies are eligible up to the amount of the ADI's stressed net cash outflows in that specific foreign currency stemming from the ADI's operations in the jurisdiction where the ADI's liquidity risk is being taken.

HQLA2

10. A minimum 15 per cent haircut is applied to the current market value of each HQLA2 held in the stock of eligible HQLA. HQLA2 are limited to:

    (a) marketable securities representing claims on or claims guaranteed by sovereigns, central banks, non-central government PSEs or multilateral development banks that satisfy all of the following conditions:

        (i) assigned a 20 per cent risk-weight under Attachment A of APS 112;

        (ii) traded in large, deep and active repo or cash markets characterised by a low level of concentration;

        (iii) proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. maximum decline of price not exceeding 10 per cent or increase in haircut not exceeding 10 percentage points over a 30-day period during a relevant period of significant liquidity stress not exceeding 10 per cent); and

        (iv) not an obligation of a financial institution or any of its associated entities;

    (b) corporate debt securities (including commercial paper) and covered bonds that satisfy all of the following conditions:

        (i) in the case of corporate debt securities: are not issued by a financial institution or any of its associated entities and are plain vanilla assets whose valuation is readily available based on standard methods and does not depend on private knowledge;

        (ii) in the case of covered bonds: are not issued by the ADI itself or any of its associated entities and the assets have a credit rating from a recognised external credit assessment institution (**ECAI**) of at least AA-[6] or do not have a credit assessment by a recognised ECAI and are internally rated as having a probability of default (PD) corresponding to a credit rating of at least AA-;

        (iii) traded in large, deep and active repo or cash markets characterised by a low level of concentration; and

        (iv) proven record as a reliable source of liquidity in the markets (repo or sale) even during stressed market conditions (i.e. maximum decline of price or increase in haircut over a 30-day period during a

[6] In the event of split ratings, the applicable rating should be determined according to the method used in *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (**APS 112**).

relevant period of significant liquidity stress not exceeding 10 per cent).

11. The portfolio of HQLA2 held by the ADI should be well diversified in terms of type of assets, type of issuer and specific counterparty or issuer.

Use of alternative liquid asset treatment for LCR

12. A scenario analysis ADI is able to establish a secured committed liquidity facility with the Reserve Bank of Australia, sufficient in size to cover any shortfall in Australian dollars between the ADI's holdings of HQLA and the LCR requirement. Qualifying collateral for the CLF will comprise all assets eligible for repurchase transactions with the RBA under normal market conditions and any other assets nominated by the RBA.

13. The CLF must only be used by an ADI to manage any shortfall in Australian dollars between its holding of HQLA and its net cash outflows.

14. The amount that can be included in the numerator of an ADI's LCR calculation is the market value of HQLA1 and HQLA2 held by the ADI, after applicable haircuts as outlined in paragraph 10 of this Attachment, plus the lesser of:

    (a) the contractual amount of the CLF an ADI has signed with the RBA, as approved by APRA for LCR purposes; or

    (b) the market value of the assets held by an ADI as collateral for the CLF after applicable RBA haircuts have been applied.

15. Assets held by an ADI for the purposes of the CLF must:

    (a) meet the operational requirements for HQLA as outlined in paragraphs 21-24 of this Attachment; and

    (b) be well diversified in terms of type of assets, type of issuer and specific counterparty or issuer.

16. An ADI that requires a CLF from the RBA for LCR purposes must apply to APRA for approval before entering into the CLF.

17. To facilitate APRA's approval process, the ADI's annual funding strategy must clearly state the amount of the CLF required in the forecast period. An ADI must make every reasonable effort to manage its liquidity risk through its own balance sheet management before applying for a CLF for LCR purposes.

18. Following the initial approval, an ADI must apply on an annual basis for APRA approval of the size of the CLF that can be recognised for LCR purposes.

19. In the case of unforeseen changes in requirements, an ADI can apply to APRA

at any time for an increase in the amount of its CLF to be recognised for LCR purposes by submitting an updated Board-approved funding and liquidity plan. A reduction in the amount of the CLF can only occur as part of an annual review.

20. In the event that an ADI draws funds under its CLF other than for intraday purposes or the funding of end-of-day balances held at the RBA, senior management must attest that the proceeds of the drawdown will be used for Australian dollar liquidity needs only. APRA must be advised of any proposed drawdown of the CLF that is not for intraday purposes or the funding of end-of-day balances held at the RBA.

Operational requirements

21. All assets in the stock of eligible HQLA must be managed as part of that stock and are subject to the following operational requirements. The assets must be available for the ADI to convert into cash at any time. The assets must be unencumbered and be under the control of the specific function or functions charged with managing the liquidity risk of the ADI, typically the treasurer who must have the continuous authority, and legal and operational capability, to monetise any asset in the stock. Control must be evidenced either by maintaining assets in a separate pool managed by the function with the sole intent to use as a source of contingent funds, or by demonstrating that the function can monetise the asset at any point in the 30-day stress period and that the proceeds of doing so are available to the function throughout the 30-day stress period without directly conflicting with a stated business or risk management strategy.

22. The stock of eligible HQLA must not be designated as collateral or be designated as credit enhancements in structured transactions or be designated to cover operational costs (such as rents and salaries). Assets received in reverse repo and securities financing transactions that are held at the ADI, have not been rehypothecated and are legally and contractually available for the ADI's use can be considered as part of the stock of HQLA.

23. At Level 2, an ADI may also include in the stock qualifying liquid assets that are held to meet legal entity requirements (where applicable), to the extent that the related risks (as measured by the legal entity's net cash outflows) are also reflected in the LCR. Any surplus of liquid assets held at the legal entity can only be included in the Level 2 consolidated banking group stock if those assets would be freely available to the consolidated (parent) entity in times of stress.

24. If an eligible HQLA or eligible CLF debt security becomes ineligible (e.g. due to rating downgrade), an ADI is allowed to keep the asset in its stock of liquid assets for an additional 30 calendar days. This allows the ADI time to adjust its stock as needed or replace the asset.

Level 2 consolidated banking group

25. The LCR is to be met by an ADI on both a Level 1 and Level 2 basis. Where an ADI has a banking presence (branch or subsidiary) in other jurisdictions, the ADI in calculating its Level 2 LCR must apply the requirements outlined in this Prudential Standard. The only exceptions are:

    (a) for retail and small and medium enterprise (**SME**) deposits, where the host jurisdiction supervisors outflow assumptions must be applied; and

    (b) alternative liquid assets, as provided for in the Basel Committee on Banking Supervision's global framework for liquidity risk and allowed by the host supervisor, can be included.

26. Where an ADI has a banking presence (branch or subsidiary) in jurisdictions that do not apply the Basel Committee on Banking Supervision's global framework for liquidity risk, the cashflow assumptions outlined in this Prudential Standard must be applied in calculating its Level 2 LCR.

27. ADIs with material banking subsidiaries in other jurisdictions must ensure that the subsidiary maintains at least a 100 per cent LCR. APRA may allow an ADI to include assets that are formally recognised as eligible liquid assets by the host supervisor to meet host supervisor LCR requirements.

28. For the calculation of the Level 2 LCR, an ADI is to take into account restrictions on the transferability of liquids across borders. No excess liquidity is to be recognised in the consolidated LCR unless there is reasonable certainty about the availability of such liquidity.

Net cash outflows

29. Total net cash outflows represent the total expected cash outflows minus total expected cash inflows in the specified stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in under the scenario, up to an aggregate cap of 75 per cent of total expected cash outflows.

Total net cash outflows over the next 30 calendar days = **outflows – Min {inflows; 75 per cent of outflows}**

30. An ADI must not double-count items. That is, if assets are included as part of the stock of HQLA (the numerator of the LCR), the assets cannot also be counted as cash inflows.

31. APRA will assess and agree with an ADI the suitability of the assumptions made for those cashflow items that are derived. An ADI must be in a position to provide analysis and evidence to justify the assumptions.

32. Where APRA determines that an ADI is actively using collateral swaps for liquidity management purposes, APRA may require that the ADI include in its LCR calculation the net cashflow impact of collateral swaps based on a method determined by APRA at that time.

Cash outflows

Retail deposit outflows

33. Retail deposits are defined as deposits placed with an ADI by a natural person. Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories. Retail deposits subject to the LCR include demand deposits and term deposits, unless otherwise excluded under the criteria set out in paragraphs 40 and 41 of this Attachment.

34. Where a natural person places funds with an intermediary that then places those funds with an ADI, the deposit with the ADI is considered to be a deposit from a financial institution unless:

    (a) the natural person retains all legal rights regarding the placement, withdrawal or other movement of the funds;

    (b) the natural person exercises these rights in practice and cannot transfer these rights to the intermediary;

    (c) there is clear disclosure to the natural person that the funds will be placed with the ADI; and

    (d) the intermediary has no duty to make investment decisions on behalf of the natural person.

    If all the conditions above are satisfied, an ADI can treat the deposit as a retail deposit.

35. Retail deposits are divided into ‘stable’ and ‘less stable’ portions of funds, as described below.

36. Stable deposits are the portion of deposits that are fully covered by the Financial Claims Scheme (or an effective government deposit insurance scheme) where:

    (a) the depositor has other established relationships with the ADI that make deposit withdrawal highly unlikely; or

(b) the deposits are in transactional accounts (e.g. accounts where salaries are automatically credited).

37. Less stable deposits are the portion of deposits that do not meet the requirements of stable deposits.

38. Certain types of deposits are considered more likely to be withdrawn in a time of stress. These include high-value deposits (i.e. deposits above any government deposit guarantee limit), deposits from customers who do not have other established relationships with an ADI that make the deposit withdrawal unlikely, deposits where the internet is integral to the design, marketing and usage of the account and deposits with promotional interest rates.

39. An ADI must assess each less stable account or product balance against the following scorecard:

Table 1 – The scorecard

Criteria	Score
Deposit balance is greater than any government deposit guarantee limit where it exists and, in its absence, where the deposit balance is greater than the equivalent of AUD250,000	2
Deposit is an on-line account	2
Absence of an established customer relationship	1
Deposit is heavily rate-driven	1

The total score is then used to allocate the account or product deposit outflow as follows:

Table 2 – Less stable deposit allocations

Score	Outflow rate
0 – 2	10 per cent
3 or more	25 per cent

Retail fixed-term deposits

40. The maturity of fixed or time deposits with a residual maturity or withdrawal notice period of greater than 30 days will be recognised (i.e. excluded from the LCR) if the depositor has no legal right to withdraw deposits within the 30-day horizon of the LCR, or if early withdrawal results in a significant penalty that is materially greater than the loss of interest.

41. If an ADI allows a depositor to withdraw such deposits despite a clause that

says the depositor has no legal right to withdraw, the entire category of these funds would then have to be treated as demand deposits.

42. An ADI can allow depositors experiencing hardship to withdraw their term deposits without changing the treatment of the entire pool of deposits.

Unsecured wholesale funding run-off

43. For the purposes of the LCR, 'unsecured wholesale funding' is defined as those liabilities and general obligations that are raised from non-natural persons (i.e. legal entities, including sole proprietorships and partnerships) and are not collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to derivative contracts are explicitly excluded from this definition.

44. The wholesale funding included in the LCR is defined as all funding that is callable within the LCR's horizon of 30 days or that has its earliest possible contractual maturity date within this horizon (such as maturing term deposits and unsecured debt securities), as well as funding with an undetermined maturity. This must include all funding with options that are exercisable at the investor's discretion within the 30- day horizon.

45. Wholesale funding that is callable by the funds provider subject to a contractually defined and binding notice period surpassing the 30-day horizon is not included.

46. Unsecured wholesale funding provided by SME customers can be treated as retail. This includes deposits and other extensions of funds made by non-financial SME customers that are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts, provided the total aggregated funding raised from each SME customer is less than AUD 2 million (on a consolidated basis where applicable).

Operational deposits

47. For the purpose of the LCR, operational deposits are those where customers place, or leave, deposits with an ADI in order to facilitate their access and ability to use payment and settlement systems and otherwise make payments. Balances can only be included if the customer has a substantive dependency with the ADI and the deposit is required for such activities.

48. Qualifying activities in this context refer to clearing, custody or cash management activities where the customer is reliant on the ADI to perform these services as an independent third-party intermediary in order to fulfil its normal banking activities over the next 30 days. These services must be provided to institutional customers under a legally binding agreement and the termination of such agreements must be subject either to a notice period of at

least 30 days or significant switching costs to be borne by the customer if the operational deposits are moved before 30 days.

49. Qualifying operational deposits generated by such an activity are ones where the deposits are by-products of the underlying services provided by the ADI and not sought out in the wholesale market in the sole interest of offering interest income and where the deposits are held in specifically designated accounts and priced without giving an economic incentive to the customer to leave any excess funds on these accounts.

50. Any excess balances that could be withdrawn and would still leave enough funds to fulfil these clearing, custody and cash management activities do not qualify as operational deposits.

Liquidity facilities

51. A liquidity facility is any committed, undrawn back-up facility that would be used to refinance the debt obligations of a customer in situations where such a customer is unable to rollover that debt in financial markets. The amount of any commitment to be treated as a liquidity facility is the amount of the currently outstanding debt issued by the customer (or proportionate share of a syndicated facility) maturing within a 30-day period that is backstopped by the facility. Any additional capacity of the facility is to be treated as a committed credit facility. General working capital facilities for corporate entities (e.g. revolving credit facilities in place for general corporate or working capital purposes) will not be classified as liquidity facilities, but as credit facilities.

52. Notwithstanding paragraph 51 of this Attachment, any facilities provided to hedge funds, money market funds and special purpose funding vehicles, or other vehicles used to finance the ADI's own assets, must be captured in their entirety as a liquidity facility to a financial institution.

53. The following table summarises the cash outflow run-off rates applicable to each liability and off-balance sheet category.

Table 3 – Cash outflow categories

Run-off rate (%)	Cash outflow category
	Retail cash outflows Retail deposits and SME deposits where total deposits from each customer with the ADI do not exceed AUD 2m. Includes call deposits and term deposits with residual maturity or notice period within 30 days:
5	• Stable deposits
10	• Less stable retail deposits

Run-off rate (%)	Cash outflow category
	Retail cash outflows (continued)
25	• Higher run-off less stable retail deposits
	Unsecured wholesale funding
5	• Operational deposit balances from all counterparties fully covered by deposit insurance
25	• Operational deposit balances from all counterparties not fully covered by deposit insurance
	• Non-financial corporate, sovereigns, central banks, PSEs and SME deposits of greater than AUD 2m, all other call deposits and term deposits with residual maturity or notice period within 30 days:
20	o that are fully covered by deposit insurance
40	o that are not fully covered by deposit insurance
100	• All other call deposits and term deposits with residual maturity or notice period within 30 days from other legal entities
100	• Unsecured debt issuance
	Secured funding
0	• Secured funding transactions backed by HQLA1, with any counterparty
0	• Secured funding transactions with any counterparty backed by CLF eligible debt securities, where the ADI pledging assets has a CLF with the RBA subject to the ADI's CLF limit
15	• Secured funding transactions with any counterparty backed by HQLA2
25	• Secured funding transactions that are not eligible for inclusion in the 0 or 15 per cent categories above where the counterparties are domestic sovereigns or PSEs with a risk weight of 20 per cent or lower

Run-off rate (%)	Cash outflow category
	Secured funding (continued)
100	• All other secured funding transactions
	Derivatives and other transactions
100	• Derivatives cash outflows[7]
100	• Collateral that would need to be posted as a result of a downgrade of 3-notches
100	• Excess non-segregated collateral held by the bank that could contractually be called at any time by the counterparty
100	• Contractually required collateral on transactions for which the counterparty has not yet demanded the collateral be posted
100	• Contracts that allow collateral substitution to non-HQLA assets – the amount of HQLA that can be substituted without the ADI's consent
100 per cent of the largest absolute net 30-day collateral flow realised in the past 24 months	• Collateral outflows due to market valuation changes on derivative transactions
20	• Valuation changes on posted collateral securing derivative transactions that is comprised of non-HQLA1 assets
	Asset-backed commercial paper (ABCP), structured investment vehicles (SIVs), conduits, etc
100	• Liabilities from maturing ABCP, SIVs, conduits, etc
100	• Asset-backed securities including covered bonds

[7] Known derivative amounts payable and receivable are taken into account on a net basis by counterparty, only where a valid master netting agreement exists. Amounts must also be net of HQLA1 and HQLA2 collateral, to the extent that this collateral is not already counted in the stock of HQLA, in line with the principle in paragraph 30 of this attachment that items cannot be double-counted in the LCR.

Run-off rate (%)	Cash outflow category
	Committed facilities • For the undrawn portion of committed credit and liquidity facilities:
5	o to retail and SME
	o to non-financial corporate, sovereigns and central banks, PSEs:
10	▪ credit facilities
30	▪ liquidity facilities
40	o to banks subject to prudential supervision
	o to other financial institutions:
40	▪ credit facilities
100	▪ liquidity facilities
100	• Other legal entity customers
	Other contingent funding obligations
5	• Revocable credit and liquidity facilities
50 per cent of the average of actual monthly outflows in a recent 12-month period	• Guarantees where lending is wholly contingent on events independent of the ADI
Average of actual monthly outflows in a recent 12-month period	• Other guarantees not include above, letters of credit and other trade finance instruments
10 for short-term securities and 5 for long-term securities unless otherwise agreed with APRA	• Debt buybacks – domestic Australian debt securities
5	• Non-contractual obligations related to structured products and managed funds
To be set in consultation with APRA	• Issuers with an affiliated dealer or market maker
To be set in consultation with APRA	• Other non-contractual contingent funding obligations
100	**Other contractual cash outflows**

Cash inflows

54. When considering its available cash inflows, an ADI must only include contractual inflows from outstanding exposures that are fully performing and for which it has no reason to expect a default within the 30-day time horizon.

Secured lending, including reverse repos and securities borrowing

55. An ADI must assume that maturing reverse repurchase or securities borrowing agreements secured by HQLA1 will be rolled over and will not give rise to any cash inflows (zero per cent). Maturing reverse repurchase or securities borrowing agreements secured by other HQLA are to be modelled as cash inflows as outlined in table 4 below due to the reduction of funds extended against the collateral. Collateralised loans extended to customers for the purpose of taking leveraged trading positions are to be modelled with a 50 per cent cash inflow against contractual inflows against non-HQLA collateral.

56. As an exception to paragraph 55 of this Attachment, if the collateral obtained through reverse repo, securities borrowing or collateral swaps, which matures within the 30-day horizon, is re-used (i.e. rehypothecated) and is tied up for 30 days or longer to cover short positions, an ADI must assume that such reverse repo or securities borrowing arrangements will be rolled over and will not give rise to any cash inflows (zero per cent), reflecting its need to continue to cover the short position or to re-purchase the relevant securities.

Table 4 – Maturing secured lending inflow rates

Maturing secured lending backed by the following asset category	Inflow rate (%) (if collateral is not used to cover short positions)	Inflow rate (%) (if collateral is used to cover short positions)
HQLA1	0	0
HQLA2	15	0
Margin lending backed by all other collateral	50	0
All other collateral	100	0

Lines of credit

57. Lines of credit, liquidity facilities and other contingent funding facilities that an ADI holds at other institutions for its own purposes receive a zero per cent inflow rate.

58. APRA may allow recognition of access to head office funds via a committed funding facility if the ADI is a foreign bank branch. In such instances, the head office committed funding facility must meet all of the following criteria:

(a) the committed funding facility is an irrevocable commitment from the branch's head office and is appropriately documented;

(b) the committed funding facility is quantified; and

(c) the branch's head office must recognise the committed funding facility as a cash outflow in its stand-alone LCR.

This paragraph does not apply to foreign bank branches that are part of a group that also have a locally incorporated bank subsidiary in Australia.

59. The availability of any head office committed funding facility for foreign bank branches will only be recognised as a cash inflow from Day 16 of the LCR scenario.

Other inflows by counterparty

60. All inflows are to be taken only at the latest possible date, based on the contractual rights available to counterparties. Inflows from loans that have no specific maturity are not included with the exception of minimum payments of principal, fee or interest associated with an open maturity loan.

61. *Retail and SME inflows*. An ADI is assumed to receive all fully performing contractual inflows from retail and SME[8] customers. At the same time, however, an ADI is assumed to continue to extend loans to retail and SME customers, at a rate of 50 per cent of contractual inflows. This results in a net inflow rate of 50 per cent of the contractual amount.

62. *Other wholesale inflows*. An ADI is assumed to receive all fully performing contractual wholesale cash inflows. In addition, an ADI is assumed to continue to extend loans to wholesale clients, at a rate of zero per cent of inflows for financial institutions and central banks, and 50 per cent for all others, including non-financial corporates, sovereigns and PSEs. This will result in an inflow rate of:

- 100 per cent from financial institution and central bank counterparties; and

- 50 per cent for non-financial wholesale counterparties.

[8] Where the definition for an SME customer as per Attachment A paragraph 46 cannot be applied due to the absence of liability products, the definition under paragraph 47 of *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* can be used instead.

Inflows from maturing securities not included in the stock of HQLA receive an inflow rate of 100 per cent.

63. *Operational deposits.* A zero per cent inflow rate applies to deposits held at other financial institutions for operational purposes.

64. Likewise, the depositing ADI must not count any inflow for deposits held at the centralised institution in a cooperative banking network, which are assumed to stay at the centralised institution. These funds will receive a zero per cent inflow rate.

Other cash inflows

65. *Derivatives cash inflow*[9]. These items receive an inflow rate of 100 per cent.

66. *Other contractual cash inflows.* Other contractual cash inflows must be captured here, with explanation given as to what comprises this bucket. Cash inflows related to non-financial revenues are not taken into account in the calculation of the net cash outflows for the purposes of the LCR. These items receive an inflow rate of 100 per cent.

[9] The treatment in footnote 7 also applies here.

Attachment B

Net Stable Funding Ratio (NSFR)

1. The NSFR requirement establishes a minimum acceptable amount of stable funding based on the liquidity characteristics of an ADI's assets and activities over a one-year horizon. In particular, the NSFR standard is structured to ensure that long-term assets are funded with at least a minimum amount of stable liabilities in relation to their liquidity risk profiles.

2. The NSFR has two components:

   (a) available stable funding; and

   (b) required stable funding.

3. The NSFR requirement is:

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100 \text{ per cent}$$

4. Stable funding is defined as the portion of those types and amounts of equity and liability financing expected to be reliable sources of funds over a one-year time horizon under conditions of extended stress.

Available amount of stable funding

5. Available stable funding is defined as the total amount of an ADI's:

   (a) capital;

   (b) preferred stock with maturity of equal to or greater than one year;

   (c) liabilities with effective maturities of one year or greater;

   (d) that portion of non-maturity deposits and/or term deposits with maturities of less than one year that would be expected to stay with the ADI for an extended period in an idiosyncratic stress event; and

   (e) the portion of wholesale funding with maturities of less than a year that is expected to stay with the ADI for an extended period in an idiosyncratic stress event.

6. The available amount of stable funding is calculated by first assigning the carrying value of an ADI's equity and liabilities to one of five categories, as presented in Table 1 below. The amount assigned to each category is to be multiplied by an available stable funding (ASF) factor and the total ASF is the sum of the weighted amounts.

Table 1 - Components of available stable funding and associated ASF factors

ASF factor (%)	Components of ASF category
100	• The total amount of capital, including both Tier 1 and Tier 2 as defined in *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.[10] • The total amount of any preferred stock not included in Tier 2 that has an effective remaining maturity of one year or greater taking into account any explicit or embedded options that would reduce the expected maturity to less than one year. • The total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective remaining maturities of one year or greater excluding any instruments with explicit or embedded options that would reduce the expected maturity to less than one year. Such options include those exercisable at the investor's discretion within the one-year horizon.[11]
90	• Stable non-maturity (demand) deposits and/or term deposits (as defined in the LCR in paragraph 36 of Attachment A) with residual maturities of less than one year provided by retail[12] and SME customers.
80	• Less stable non-maturity (demand) deposits and/or term deposits (as defined in the LCR in paragraph 37 of Attachment A) with residual maturities of less than one year provided by retail[13] and SME customers.
50	• Unsecured wholesale funding, non-maturity deposits and/or term deposits with a residual maturity of less than one year, provided by non-financial corporates, sovereigns, central banks, multilateral development banks and PSEs.
0	• All other liabilities and equity categories not included in the above categories.

[10] Tier 1 and Tier 2 capital is considered after deductions.

[11] When determining the maturity of an instrument, investors are assumed to redeem a call option at the earliest possible date.

[12] This includes deposits that meet the conditions of Paragraph 36 *Attachment A of Prudential Standard 210 Liquidity*

[13] This includes deposits that meet the conditions of Paragraph 36 *Attachment A of Prudential Standard 210 Liquidity*

Required amount of stable funding

7. The required amount of stable funding is calculated as the sum of the value of the assets held and funded by the ADI, multiplied by a specific required stable funding (RSF) factor assigned to each particular asset type, added to the amount of off-balance sheet activity (or potential liquidity exposure) multiplied by its associated RSF factor.

8. For secured funding arrangements that are assets of an ADI maturing within the one-year horizon, the ADI must look through the secured funding transaction to determine which asset will be used to settle the transaction at the maturity date, and use the corresponding RSF factor for that asset. If the ADI will receive cash, then the RSF of the transaction would be zero per cent. If the ADI will receive another asset, the RSF factor of that asset would be used.

9. Encumbered assets on the balance sheet receive a 100 per cent RSF, unless there is less than one year remaining in the encumbrance period. In that case, the assets are treated as unencumbered.

10. The specific types of assets to be assigned to each asset category and their associated RSF factor are summarised in Table 2. For amortising loans, the portion that comes due within the one-year horizon can be treated in the 'less than a year' residual maturity category. The definitions are the same as those outlined in Attachment A for determining the LCR, unless specified otherwise.

Table 2 - Composition of asset categories and associated RSF factors

RSF factor (%)	Components of RSF category
0	• Cash immediately available to meet obligations, not currently encumbered as collateral and not held for planned use (as contingent collateral, salary payments, or for other reasons). • Unencumbered short-term unsecured instruments and transactions with outstanding maturities of less than one year. • Unencumbered securities with stated remaining maturities of less than one year with no embedded options that would increase the expected maturity to more than one year. • Unencumbered securities held where the ADI has an offsetting reverse repurchase transaction when the security on each transaction has the same unique identifier. • Unencumbered loans to financial institutions with effective remaining maturities of less than one year that are not

RSF factor (%)	Components of RSF category
	renewable and for which the lender has an irrevocable right to call.
5	• Unencumbered marketable securities with residual maturities of one year or greater representing claims on or claims guaranteed by sovereigns, central banks, BIS, IMF, EC, non-central government PSEs or multilateral development banks that are assigned a zero per cent risk-weight under the standardised approach to credit risk in APS 112, provided that active repo or sale-markets exist for these securities.
10	• Unencumbered securities held, for the sole purpose of compliance with the LCR, under the ADI's committed secured liquidity facility with the RBA. This excludes all self-securitisations, to which in accordance with this Table 2, a 65, 85 or 100 per cent RSF factor must apply, depending on the RSF of the underlying loans.
20	• Unencumbered corporate bonds or covered bonds rated AA- or higher with residual maturities of one year or greater satisfying all of the conditions for HQLA2 in the LCR, outlined in paragraph 10 of Attachment A. • Unencumbered marketable securities with residual maturities of one year or greater representing claims on or claims guaranteed by sovereigns, central banks, non-central government PSEs that are assigned a 20 per cent risk-weight under the standardised approach to credit risk in APS 112, provided that they meet all of the conditions for HQLA2 in the LCR, outlined in paragraph 10 of Attachment A.
50	• Unencumbered gold. • Unencumbered equity securities, not issued by financial institutions or their affiliates, listed on a recognised exchange and included in a large cap market index. • Unencumbered corporate bonds and covered bonds that satisfy all of the following conditions: (a) central bank eligibility for intraday liquidity needs and overnight liquidity shortages in relevant jurisdictions; (b) not issued by financial institutions or their affiliates (except in the case of covered bonds);

RSF factor (%)	Components of RSF category
	(c) not issued by the ADI itself or its affiliates; (d) low credit risk: assets have a credit assessment by a recognised ECAI of A+ to A-, or do not have a credit assessment by a recognised ECAI and are internally rated as having a PD corresponding to a credit assessment of A+ to A-; and (e) traded in large, deep and active markets characterised by a low level of concentration. • Unencumbered loans to non-financial corporate clients, sovereigns, central banks and PSEs having a remaining maturity of less than one year.
65	• Unencumbered residential mortgages of any maturity that would qualify for the 35 per cent or lower risk-weight under the standardised approach to credit risk in APS 112. • Other unencumbered loans, excluding loans to financial institutions, with a remaining maturity of one year or greater, that would qualify for the 35 per cent or lower risk weight under the standardised approach to credit risk in APS 112.
85	• Unencumbered loans to retail customers (i.e. natural persons) and SME customers (as defined in paragraph 46 of Attachment A) having a remaining maturity of less than one year (other than those that qualify for the 65 per cent RSF above).
100	• All other assets not included in the above categories.

Off-balance sheet exposures

11. Table 3 identifies the specific types of off-balance sheet exposures to be assigned to each off-balance sheet category and their associated RSF factor.

Table 3 - Composition of off-balance sheet categories and associated RSF factors

RSF factor	Components of RSF category
5 per cent of the currently undrawn portion	Conditionally revocable and irrevocable credit and liquidity facilities to any client.

Level 2 consolidated banking group

12. The NSFR is to be met by an ADI on both a Level 1 and Level 2 basis.

Attachment C

‘Going concern’ and ‘name crisis’ scenarios

1. An ADI that is subject to scenario analysis for liquidity management must include scenario analysis of domestic and foreign currency liquidity to ensure that it can operate under a wide range of operating conditions. It must address:

   (a) a ‘going-concern’ scenario, which refers to the normal behaviour of cash flows in the ordinary course of business; and

   (b) a ‘name crisis’ scenario, which refers to the behaviour of cash flows in adverse operating circumstances specific to the ADI, where it has significant difficulty in rolling over or replacing its liabilities.

2. The ADI’s scenario analyses performed under paragraph 1 of this Attachment must demonstrate:

   (a) how obligations and commitments are met on a day-to-day basis; and

   (b) that there is sufficient liquidity available to the ADI to meet obligations for at least five business days in a name crisis.

3. Scenario analysis reports provided to APRA under both the ‘going concern’ and ‘name crisis’ scenarios must take the form of maturity profiles of cash flows (in domestic and foreign currencies separately) based on assumptions agreed with APRA.

4. To demonstrate that an ADI can meet commitments and obligations under normal operating conditions, the deficits reported under the ‘going concern’ scenario (up to 15 months) must not exceed the ADI’s normal capacity to fund.

5. To prove that the ADI is capable of operating for at least five business days under adverse operating circumstances, the cumulative mismatch reported under the ‘name crisis’ scenario must be positive out to five days.

6. An ADI must inform APRA immediately in the event that it becomes aware of circumstances that will result in a negative cumulative mismatch under the ‘name crisis’.

7. For foreign-owned ADIs operating in Australia (either as branches or subsidiaries), a name crisis may take two forms – it could be restricted to local operations or it could affect the foreign ADI’s global operations. APRA expects the analyses of these foreign ADIs to cover both these scenarios.

5\. Scenario analysis depends heavily on the assumptions of future cash flows associated with the behaviour of an ADI’s assets, liabilities and off-balance sheet activities under different operating scenarios. APRA recognises that considerable judgement and discretion is involved in making these underlying assumptions, which may vary substantially among ADIs depending on their individual business profiles. An ADI is expected to take a conservative approach in assessing future cash flows. APRA will assess and agree with an ADI the suitability of the assumptions made for the 'going concern' and 'name crisis' scenarios. An ADI must be in a position to provide analysis and evidence to justify the assumptions underlying these two scenarios.

6. APRA will pay particular attention to an ADI's policies to address a name crisis. Assumptions under this scenario would represent a severe liquidity stress for an ADI, as evidenced by significant difficulty in rolling over or replacing liabilities. In addition to assumptions regarding the behaviour of maturing and at-call assets and liabilities, and estimates of cash flows from off-balance sheet activities, an ADI must assess the effect of pressure on it to support its paper in the market and of requests to redeem term liabilities before their due dates. An ADI should evaluate the marketability of its assets and the likely values generated from a fire sale. For inflows from industry liquidity support schemes, standby facilities and intra-group funding to be included, the arrangements must either be fully committed and irrevocable or demonstrate an acceptable level of certainty.

7. An ADI must document in its liquidity management policy statement the underlying assumptions adopted for its scenario analyses. The assumptions should be subject to regular review to take account of changes in the ADI's operations and/or market environment. An ADI should consult APRA prior to making any material changes to these agreed assumptions.

Attachment D

Minimum liquidity holdings (MLH) approach

1. An MLH ADI will be required to maintain a portfolio of liquid assets (referred to as minimum liquidity holdings (MLH)) of nine per cent of its liabilities in specified liquid assets as defined in paragraph 3 of this Attachment.

2. For the purpose of this Prudential Standard, liabilities are defined as total on-balance sheet liabilities (including equity) and irrevocable commitments (except where approved for a prudential purpose by APRA), less the capital base defined in accordance with *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital*.

3. For the purpose of APRA's MLH requirement, liquid assets must be free from encumbrances (except where approved for a prudential purpose by APRA) and include:

   (a) cash;

   (b) Commonwealth Government and semi-government securities;

   (c) debt securities guaranteed by the Commonwealth Government, the government of an Australian State or Territory or other foreign governments;

   (d) bank bills, certificate of deposits (CDs) and debt securities issued by ADIs;

   (e) debt securities issued by supranationals and other foreign governments;

   (f) deposits (at call and any other deposits readily convertible into cash within two business days) held with other ADIs net of placements by the other ADIs; and

   (g) any other securities approved by APRA.

4. All debt securities must be eligible for repurchase agreement with the RBA and must not be subordinated.

5. An MLH ADI must ensure it has the operational capacity to liquidate any securities held as liquid assets within two business days.

6. Notwithstanding paragraph 1 of this Attachment, APRA may, where it is not satisfied with the adequacy of an ADI's liquidity management framework, or where it has particular concerns about an ADI's liquidity, require the ADI to hold a higher amount of liquid assets, as defined in paragraph 3 of this Attachment.

7. In order to ensure the MLH ratio requirement is not breached, an ADI must set a trigger ratio above its MLH ratio requirement and must ensure that it manages its liquidity in accordance with its trigger ratio.

8. An ADI must inform APRA immediately when it becomes aware that its liquid assets may fall below its MLH ratio requirement and advise APRA of the remedial action taken or planned to restore its liquidity position above its MLH ratio requirement.