



Discussion Paper

Liquidity reporting requirements for authorised deposit-taking institutions


9 November 2012

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Preamble

In November 2011, the Australian Prudential Regulation Authority (APRA) released a discussion paper outlining its proposals to implement measures announced by the Basel Committee on Banking Supervision (Basel Committee) designed to strengthen global liquidity rules. These measures were set out in detail in *Basel III: International framework for liquidity risk measurement, standards and monitoring* (Basel III liquidity framework).

Implementation of the Basel III liquidity framework in Australia will require change to APRA's liquidity reporting framework for authorised deposit-taking institutions. This discussion paper outlines APRA's proposed changes.

The changes involve amendments to *Reporting Standard ARS 210 Liquidity* to incorporate reporting on the two new global standards, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), as well as some additional reporting requirements to better assist APRA in its supervision of ADI liquidity risk management.

APRA initially consulted on amendments to the ADI liquidity reporting framework in September 2009. The proposals in that consultation were superseded by the release of the Basel III liquidity reforms.

Accompanying this paper is the proposed Reporting Standard ARS 210 Liquidity, including draft forms and their associated instructions.

APRA invites written submissions on these proposed changes to the reporting framework. Following consideration of submissions received, APRA intends to issue a final reporting standard in 2013. For most ADIs, the first report under the new reporting standard will be due in January 2014, for the period ending December 2013.

APRA also intends to make further releases in coming months regarding the implementation of the Basel III liquidity framework. These will include an updated draft of *Prudential Standard APS 210 Liquidity*, a draft *Prudential Practice Guide APG 210 Liquidity* and a paper responding to submissions received on APRA's proposals in its November 2011 discussion paper.

This discussion paper is available on APRA's website at <http://www.apra.gov.au/adi/PrudentialFramework/Pages/adi-consultation-packages.aspx>. Written submissions on the paper should be forwarded by 8 February 2013 by email to Basel3liquidity@apra.gov.au and addressed to:

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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.

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Glossary

2009 discussion paper	<i>APRA's prudential approach to ADI liquidity risk, September 2009.</i>
ADI	Authorised deposit-taking institution
ALA	Alternative liquid assets
APRA	Australian Prudential Regulation Authority
APS 210	<i>Prudential Standard APS 210 Liquidity</i>
ARF 210	The series of reporting forms included in <i>Reporting Standard ARS 210 Liquidity</i>
ARS 210	<i>Reporting Standard ARS 210 Liquidity</i>
ASF	Available stable funding
AUD	Australian dollar
Basel III liquidity framework	<i>Basel III: International framework for liquidity risk measurement, standards and monitoring, Basel Committee, December 2010.</i>
Basel Committee	Basel Committee on Banking Supervision
CLF	Secured committed liquidity facility provided by the RBA
D2A	Direct to APRA. An electronic data submission system which enables regulated and registered financial entities to lodge their statutory returns with APRA.
HQLA	High-quality liquid assets
HQLA1	Equivalent to Level 1 HQLA in Basel III liquidity framework
HQLA2	Equivalent to Level 2 HQLA in Basel III liquidity framework
LCR	Liquidity Coverage Ratio
MLH	Minimum Liquidity Holdings
MLH ADI	An ADI exempt from scenario analysis and subject to the MLH requirements
NSFR	Net Stable Funding Ratio
RBA	Reserve Bank of Australia
RSF	Required stable funding
Scenario ADI	An ADI subject to the Basel III quantitative liquidity requirements
SPV	Special Purpose Vehicle

Chapter 1 – Introduction

In December 2010, the Basel Committee on Banking Supervision (Basel Committee) released *Basel III: International framework for liquidity risk measurement, standards and monitoring* (Basel III liquidity framework)¹. The Basel III liquidity framework is designed to strengthen liquidity buffers so as to promote a more resilient global banking system.

In November 2011, APRA released a discussion paper outlining its proposals to implement the Basel III liquidity framework in Australia². At the same time, APRA released a draft prudential standard that would give effect to these reforms.

In the discussion paper, APRA indicated that the Basel III liquidity reforms would entail changes to APRA's reporting standards for authorised deposit-taking institutions (ADIs). This discussion paper and the accompanying draft reporting standard set out APRA's proposed changes to its liquidity reporting requirements.

The current ADI liquidity reporting framework is over 10 years old and includes only a very limited amount of standardised reporting. APRA initially consulted on amendments to this reporting framework in September 2009. The proposals in that consultation were superseded however, by the release of the Basel III liquidity reforms, which introduced two new global liquidity standards: the Liquidity Coverage Ratio (LCR) to address an acute stress shortage and the Net Stable Funding Ratio (NSFR) to encourage longer term resilience.

The proposed changes to the ADI liquidity reporting framework are substantial and necessary. Currently, APRA only receives standardised liquidity reporting from ADIs that are supervised under APRA's Minimum Liquidity Holdings (MLH) approach. This reporting is received via APRA's D2A portal, while all other liquidity reporting is submitted to APRA via spreadsheet.

APRA is proposing to introduce standardised reporting for all ADIs in addition to scenario reporting for scenario ADIs and enhancements to the reports for ADIs subject to the MLH regime.

The proposed reporting framework satisfies the requirements of the Basel III liquidity framework released in December 2010. If the Basel Committee were to make any amendments to the liquidity framework, APRA's reporting requirements would be amended accordingly.

APRA will consult on liquidity reporting in crisis situations in 2013. At this stage however, APRA is seeking feedback on certain elements of the crisis reporting framework (see section 2.8 below). This consultation does not include a reporting form for crisis reporting as APRA is not proposing to collect crisis reports via the D2A portal.

The proposed changes to ADI reporting standards and the associated reporting forms will involve amendments to the existing *Reporting Standard ARS 210 Liquidity* (ARS 210) and the associated reporting forms.

Following consideration of submissions received, APRA will issue final reporting standard and forms in 2013. The first submission of quarterly data required from ADIs will relate to the reporting period ending 31 December 2013.

1 <http://www.bis.org/publ/bcbs188.htm>

2 <http://www.apra.gov.au/adi/PrudentialFramework/Pages/Implementing-Basel-III-Liquidity-Reforms-in-Australia-November2011.aspx>

Chapter 2– Changes to liquidity reporting

2.1 Liquidity Coverage Ratio

APRA proposes to introduce a new reporting form ARF 210.1 Liquidity Coverage Ratio to facilitate the reporting of data required for the calculation of the LCR. The categories in the reporting form reflect those outlined in draft *Prudential Standard APS 210 Liquidity*, Attachment A.

Only Scenario ADIs will be required to complete this reporting form. For locally incorporated ADIs, the form is to be completed on the following basis:

- Level 2;
- Level 2 AUD only; and
- Level 1.

For branches of foreign banks, the form is to be completed on the following basis:

- domestic books; and
- domestic books AUD only.

The reporting form is separated into four sections covering liquid assets, cash inflows, cash outflows and the calculation of the LCR.

ADIs will be required to submit this reporting form on a quarterly basis.

Section A: Liquid Assets

In this section, ADIs are to report holdings of high quality liquid assets (HQLA) as per draft APS 210 Attachment A (paragraphs 8 to 10) as well as the value of liquid assets that are eligible for an alternative liquid assets (ALA) treatment as per draft APS 210 Attachment A (paragraphs 11 to 19). Data is also to be provided on other liquid assets that do not satisfy the definitions of HQLA and ALA as well as on the size of any committed liquidity facility that an ADI has with the RBA.

Items in this section are to be reported at market value. For liquid assets that are eligible for an ALA treatment, values are to be reported after applicable margins.

Section B: Cash Inflows

In this section ADIs are to report expected cash inflows under the stress conditions outlined in draft APS 210 Attachment A (paragraphs 44 to 55).

Section C: Cash Outflows

In this section ADIs are to report expected cash outflows under the stress conditions outlined in draft APS 210 Attachment A (paragraphs 29 to 43).

Section D: Calculation of the Liquidity Coverage Ratio

In this section the calculation of the LCR is completed. All fields are derived based on the data provided in sections A, B and C.

2.2 Net Stable Funding Ratio

APRA proposes to introduce a new reporting form ARF 210.2 Net Stable Funding Ratio to facilitate the reporting of data required for the calculation of the NSFR. The categories in the reporting form reflect those outlined in draft *Prudential Standard APS 210 Liquidity*, Attachment B.

Only Scenario ADIs will be required to complete this reporting form. For locally incorporated ADIs, the form is to be completed on the following basis:

- Level 2; and
- Level 1.

For branches of foreign banks, the form is to be completed on a domestic books basis only.

The reporting form is separated into four sections covering assets, contingent items, liabilities and equity and the calculation of the NSFR.

ADIs will be required to submit this reporting form on a quarterly basis.

Section A: Assets (Required Stable Funding)

In this section ADIs are to report on-balance sheet assets. The form incorporates the associated required stable funding against these assets.

Section B: Contingent Items (Required Stable Funding)

In this section ADIs are to report contingent items. The form incorporates the associated required stable funding against these items.

Section C: Liabilities and Equity (Available Stable Funding)

In this section ADIs are to report liability and equity items. The form incorporates the associated available stable funding against these items.

Section D: Net Stable Funding Ratio

In this section the calculation of the NSFR is completed. All fields are derived based on the data provided in sections A, B and C.

2.3 Balance sheet maturity

APRA proposes to introduce a new reporting form ARF 210.3 Balance Sheet Maturity to facilitate the reporting of data required for detailed balance sheet gap and maturity analysis. Where appropriate, the categories in the reporting form reconcile in definition to those on *ARF 210.2 Net Stable Funding Ratio*.

While the LCR and NSFR reports will provide APRA with the data necessary to monitor compliance with APS 210, additional maturity gap analysis provided on the balance sheet maturity report will assist APRA in monitoring the funding requirements of individual ADIs and the industry as a whole.

All ADIs will be required to complete this reporting form. For Scenario ADIs that are locally incorporated, the form is to be completed on the following basis:

- Level 2; and
- Level 1.

For branches of foreign banks, the form is to be completed on a domestic books basis only.

For MLH ADIs that are locally incorporated, the form is to be completed on a licensed ADI basis only.

The reporting form is separated into two sections covering assets and liabilities and equity.

ADIs will be required to submit this reporting form on a quarterly basis.

2.4 Forecast balance

APRA proposes to introduce a new reporting form ARF 210.4 Forecast Balance to facilitate the reporting of data required for use in balance sheet projections and funding task analysis. Where appropriate, the categories in the reporting form reconcile in definition to those on *ARF 210.2 Net Stable Funding Ratio*.

All ADIs will be required to complete this reporting form. For Scenario ADIs that are locally incorporated, the form is to be completed on the following basis:

- Level 2; and
- Level 1.

For branches of foreign banks, the form is to be completed on a domestic books basis only.

For MLH ADIs that are locally incorporated, the form is to be completed on a licensed ADI basis only.

The reporting form is separated into two sections covering assets and liabilities and equity.

ADIs will be required to submit this reporting form on a quarterly basis.

2.5 Minimum Liquidity Holdings ratio

APRA proposes to amend the existing reporting form *ARF 210.0 Statement of High Quality Liquid Assets Calculation* to incorporate updated terminology and provide additional information necessary for the supervision of MLH ADIs. APRA proposes to collect this information on reporting form *ARF 210.5 Minimum Liquidity Holdings Ratio*.

This reporting form is to only be completed by ADIs subject to the MLH regime. The reporting form is to be completed on a licensed ADI basis only for locally incorporated ADIs and on domestic books basis for branches of foreign banks.

2.6 Supplementary information

APRA proposes to introduce a new reporting form *ARF 210.6 Supplementary Information* to facilitate the reporting of data required to quantify counterparty funding concentration risk.

All ADIs will be required to complete this reporting form. For Scenario ADIs that are locally incorporated, the form is to be completed on the following basis:

- Level 2; and
- Level 1.

For branches of foreign banks, the form is to be completed on a domestic books basis only.

For MLH ADIs that are locally incorporated, the form is to be completed on a licensed ADI basis only.

ADIs will be required to report the top 20 known funding exposures by counterparty. Known funding exposures will include all liability exposures except those originated through debt issuance programs, where counterparties are not generally known to the issuing entity.

ADIs will be required to submit this reporting form on a quarterly basis.

2.7 Intraday liquidity monitoring

APRA proposes to introduce a new reporting form *ARF 210.7 Intraday Liquidity Monitoring* to facilitate the reporting of data required to quantify intraday liquidity risk.

The Basel Committee has recently released the consultation document *Monitoring indicators for intraday liquidity management* (July 2012)³. Consistent with the proposals in this document, APRA is proposing to introduce this reporting form for the reporting of intraday liquidity.

At this time, it is anticipated that only select larger or more complex ADIs will be required to submit the form and only when requested to do so by APRA. The information collected will be used for monitoring purposes only. Reporting consolidations and frequency for this form will be agreed between APRA and the reporting ADI.

The reporting form captures information on:

- daily maximum liquidity requirement;
- available intraday liquidity;
- total payments;
- time-specific and other critical obligations;
- correspondent banking indicators;
- correspondent banking indicators - for each of the largest five financial institution customers;
- timing of intraday payments; and
- intraday throughput.

³ <http://www.bis.org/publ/bcbs225.htm>

2.8 Crisis reporting

APRA proposes to formally incorporate crisis reporting into the ADI liquidity reporting framework. APRA's crisis reporting requirements will be similar in concept to the Mini Liquidity and Funding report currently provided to APRA in Microsoft Excel spreadsheets by select larger and more complex ADIs. This report summarises available liquid assets and upcoming maturities, short-term balance sheet growth for selected portfolios and collateral positions. A copy of the Mini Liquidity and Funding reporting template can be found in the reporting form spreadsheet included in this consultation package.

APRA proposes to include crisis reporting as a reporting requirement for all ADIs under *Reporting Standard ARS 210 Liquidity*. As set out in APRA's 2009 discussion paper, ADIs will only need to submit the report when requested; however, APRA will require that it can be provided on short notice on a one-day time lag. The ability to provide the reporting form to APRA will be regularly and randomly tested.

APRA's detailed crisis reporting requirements will be subject to further consultation in 2013.

2.9 Application of the securitisation deconsolidation principle

Across a number of ADI reporting forms a securitisation deconsolidation principle is applied. This principle allows ADIs that have undertaken a securitisation that meets APRA's operational requirements for regulatory capital relief under *Prudential Standard APS 120 Securitisation* to exclude the assets and liabilities of the relevant SPVs.

For funding and liquidity reporting purposes, these assets and liabilities provide important information on the funding structure of the ADI. As such, APRA is proposing that this principle not be applied to the newly introduced reporting forms. As a result, assets and liabilities of relevant SPVs are to be reported as though they are on balance sheet.

However, under the current *ARF 210 Statement of High Quality Liquid Assets Calculation*, the securitisation deconsolidation principle is applied and APRA does not propose to change this arrangement when this form is changed to *ARF 210.5 Minimum Liquidity Holdings Ratio*.

2.10 Confidentiality of ADI liquidity data

APRA proposes to determine that data provided on the ADI liquidity forms are non-confidential. The proposed determinations will facilitate transparency and public access to aggregated ADI liquidity statistics.

APRA will use the ADI liquidity data for prudential purposes, including assessing ADI's funding and liquidity positions. APRA will also provide the data to the RBA, which uses the data in its financial stability role. The RBA publishes summarised data in its statistical tables and often includes data and analysis in its half-yearly *Financial Stability Review*.

Determining data to be non-confidential

ADI liquidity data will be collected under the *Financial Sector (Collection of Data) Act 2001* (FSCOD Act). This data is protected under section 56 of the *Australian Prudential Regulation Authority Act 1998* (APRA Act).

Under Section 57 of the APRA Act, APRA may, by legislative instrument, determine whether liquidity data submitted to it by ADIs under section 13 of the FSCOD Act contains confidential information. Where determined not to be confidential, APRA can release the data under subsection 56(5C) of the APRA Act. APRA must not make a determination unless it has:

- given all relevant ADIs a reasonable opportunity to make representations as to whether information of the kind that is proposed to be released is confidential; and
- taken any such representations into account.

APRA is proposing to determine under section 57 of the APRA Act that data collected under reporting standard ARS 210 Liquidity is not confidential. APRA invites ADIs to make representations regarding this proposed determination.

By determining the data to be non-confidential, APRA will be able to release complete datasets. This will include data that is provided to the Basel Committee as a part of the Basel III monitoring process⁴, avoiding a duplication of process that would otherwise be required by participating banks.

In addition, the RBA would not need to mask the data for publication purposes.

The proposed determinations will also assist Australia to fulfil its responsibilities as a G-20 member.

The proposed determinations will not limit the disclosure or use of ADI liquidity data to the statistics published by the RBA. Individual entity data (or analysis based on that data) would be publishable by APRA, although APRA has no immediate plans to publish this data. A section 57 determination removes the protection of section 56 from all documents that are subject to the determination. APRA's ability to decline an FOI application for release of those documents would consequently be greatly diminished or removed.

Representations on the proposed determinations

APRA requests that any representations that seek to have the data remain confidential include:

- specifications on exactly which data items should be considered confidential; and
- justification of why these specific data items should be considered confidential.

⁴ <https://www.bis.org/bcbs/qis/index.htm>

Chapter 3– Request for cost-benefit analysis information

To improve the quality of regulation, the Australian Government requires all proposals to undergo a preliminary 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.

As part of the consultation process, APRA requests respondents to provide an assessment of the impact of the proposed changes and, specifically, the marginal compliance costs ADIs are likely to face. Given that APRA's proposed reporting requirements may impose some compliance costs, respondents may also indicate whether there are any other requirements relating to ADI liquidity that should be improved or removed to reduce compliance costs. In doing so, please explain what they are and why they need to be improved or removed.

Respondents are requested to use the Business Cost Calculator (BCC) to estimate costs to ensure that the data supplied to APRA can be aggregated and used in an industry-wide assessment. APRA would appreciate being provided with the input to the BCC as well as the final result. The BCC can be accessed at www.finance.gov.au/obpr/bcc/index.html



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