AUSTRALIA

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 size, business mix and complexity.

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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.

4. If an ADI to which this Prudential Standard applies is:

   (a) the holding company for a group of bodies corporate, the ADI must ensure that the requirements in this Prudential Standard are met on a Level 2 basis, where applicable; or

   (b) 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.

5. Where an ADI (or a member of its Level 2 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 except in the reporting of the minimum liquidity holdings (MLH) Ratio.

Interpretation

6. Terms that are defined in *Prudential Standard APS 001 Definitions* (APS 001) appear in bold the first time they are used in this Prudential Standard.

Definitions

7. The following definitions apply in this Prudential Standard:

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

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

(c) time horizon – means, for a **locally-incorporated ADI**, a period of 30 calendar days and, for a **foreign ADI**, a period of 15 calendar days.

Key principles

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

9. 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.

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

11. 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

12. An ADI's Board of Directors (**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. 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.**

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

    (a) a statement of the ADI's liquidity risk tolerance, approved 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.

14. 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.

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

16. 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 stress tests, contingency funding plans and holdings of HQLA are effective and appropriate for the ADI;

(f) 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;

(g) 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;

(h) 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

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

17. 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

18. 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.

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

20. 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.

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

22. 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, and define the responsibilities and roles of management involved in managing liquidity risk.

23. An ADI's liquidity risk management framework must be formulated to ensure that the ADI maintains sufficient liquidity, including a cushion of unencumbered HQLA, 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.

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

25. 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 liquidity risk management businesses.

26. 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; and

    (d) the approach to intraday liquidity management.

27. 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 must include quantitative and qualitative targets.

28. The liquidity management strategy must be appropriate for the nature, scale and complexity of the 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.

29. 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.

30. 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 HQLA, or changes in external market conditions that could signal future difficulties.

31. 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 approved policies, procedures, limits and controls.

32. 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

33. 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 cashflows arising from assets, liabilities and off-balance sheet items over an appropriate set of time horizons.

34. 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 limit.

35. 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.

36. 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.

37. 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.

38. 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.

39. 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.

40. An ADI active in multiple currencies must:

 (a) maintain HQLA consistent with the distribution of its liquidity needs by currency;

 (b) assess its aggregate foreign currency liquidity needs and determine an acceptable level of currency mismatches; and

 (c) undertake a separate analysis of its strategy for each currency in which it has material activities, considering potential constraints in times of stress.

Annual funding strategy

41. An ADI must:

 (a) develop and document an annual funding strategy, which must be provided to APRA on request;

 (b) maintain an ongoing presence in its chosen funding markets and strong relationships with funds providers; and

 (c) 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.

42. 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.

43. 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

44. 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.

45. 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 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.

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

47. 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 practicable. 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.

48. 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

49. APRA will determine whether an ADI is classified as a Liquidity Coverage Ratio (LCR) ADI or an ADI subject to the MLH regime for the purposes of this Prudential Standard. In making this determination, APRA will give consideration to an ADI's size and complexity with respect to liquidity risk. An ADI is required to meet the minimum quantitative requirement associated with its classification on a continuous basis, absent a situation of financial stress.

LCR ADIs

50. An LCR ADI must undertake scenario analysis on a regular basis as set out at paragraph 51 of this Prudential Standard.[1] However, APRA may also require an LCR ADI to maintain minimum liquidity holdings outlined in paragraphs 60 to 62 where it assesses that the ADI's capacity to carry out scenario analysis is inadequate.

51. An LCR ADI must undertake scenario analysis of domestic and foreign currency liquidity to ensure that it can operate under a wide range of operating conditions. At the minimum, it must complete the following scenarios:

    (a) the Liquidity Coverage Ratio (from 1 January 2015);

    (b) the 'name crisis' scenario (until 31 December 2014; refer to paragraph 53); and

    (c) the 'going concern' scenario (refer to paragraph 54).

Liquidity Coverage Ratio

52. Under the LCR, ADIs are required to maintain an adequate level of unencumbered HQLA to meet their liquidity needs for a ~~30 calendar day period~~time horizon under a severe stress scenario, as described in Attachment A. Absent a situation of financial stress (refer to paragraph 5 of Attachment A), the value of the LCR must not be less than 100 per cent:

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

'Name crisis' scenario

53. The 'name crisis' scenario requires an ADI to demonstrate that it can continue to operate for at least five business days in adverse operating circumstances specific to the ADI, as described in Attachment B. 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.

[1] Note the implementation provisions in paragraph 63.

'Going concern' scenario

54. The 'going concern' scenario requires an ADI 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 B.

Stress testing

55. In addition to the requirements contained in paragraphs 49-54 of this prudential standard, an LCR 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 liquidity risk tolerance.

56. 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.

57. 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.

58. An ADI's stress test 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.

59. 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

60. An ADI determined by APRA to be subject to the MLH regime will be required to maintain a minimum holding of nine per cent of its liabilities in specified liquid assets, as described in Attachment C.

61. Notwithstanding paragraph 60 of this Prudential Standard, where APRA is not satisfied with the adequacy of an ADI's liquidity management framework or where it has particular concerns about an ADI's liquidity, it may require the ADI to hold a higher specified amount of liquid assets.

62. An MLH ADI is also required to complete the 'going concern' scenario outlined in paragraph 54 of this Prudential Standard.

Implementation

63. An ADI is required to comply with this Prudential Standard from 1 January 2014 with the following exceptions:

    (a) an LCR ADI is required to comply with the LCR requirements as set out in Attachment A on and from 1 January 2015;

    (b) an LCR ADI is required to comply with the 'name crisis' scenario requirements as set out in Attachment B until 31 December 2014.

Adjustments and exclusions

64. APRA may by notice in writing to an ADI adjust or exclude a specific prudential requirement in this Prudential Standard in relation to that ADI.[2]

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

Attachment A

Liquidity Coverage Ratio (LCR)

1. The objective of the LCR is to ensure that an ADI maintains an adequate level of unencumbered HQLA that can be converted into cash to meet its liquidity needs for a ~~30 calendar day time period~~time horizon under a severe liquidity stress scenario.

2. The LCR has two components:

   (a) the value of the stock of HQLA; and

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

3. The LCR requirement is:

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

4. An ADI must include an appropriate buffer of HQLA 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; the LCR will fall below 100 per cent as a consequence. An ADI must inform APRA immediately in the event of an actual breach of its LCR requirement or if it becomes aware of circumstances that may result in a breach of 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 HQLA. 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 stock of HQLA of the amounts of HQLA1 and HQLA2 involved in secured funding, secured lending and collateral swaps transactions maturing within ~~30 calendar days~~the time horizon. 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 after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any HQLA1 that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in paragraphs ~~21~~22 to ~~24~~25 of this Attachment. The adjusted amount of HQLA2 is defined as the amount of HQLA2 that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any HQLA2 that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in paragraphs ~~21~~22 to ~~24~~25 of this attachment. In this context, short-term transactions are transactions with a maturity date up to and including ~~30 calendar days~~the end of the time horizon. Relevant haircuts are applied prior to calculation of the cap.

HQLA1

9. HQLA1 can comprise an unlimited share of the stock of eligible HQLA. HQLA1 are included at market value and are not subject to a haircut under the LCR. These assets are limited to:

(a) notes and coin;

(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, public sector entities (PSEs), the Bank for International Settlements (BIS), the International Monetary Fund (IMF), the European Central Bank (ECB) and European Union (EU) or multilateral development banks (MDBs), and that satisfy 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 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 guaranteed by sovereigns, central banks, PSEs or MDBs 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); 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;

(iii) the assets have a credit rating from a recognised external credit assessment institution (**ECAI**) of at least AA-[3] 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-;

(iv) traded in large, deep and active repo or cash markets characterised

[3] In the event of an asset having multiple assessments, the applicable rating must be determined according to the method used in APS 112.

by a low level of concentration; and

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

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

12. Foreign ADIs may also include assets listed in paragraphs 3(c), 3(d), 3(e) and 3(g) of Attachment C to this Prudential Standard (subject to paragraph 4 of that Attachment) in their stock of high-quality liquid assets.

Use of alternative liquid asset treatment for LCR

13. A~~n~~ locally-incorporated LCR ADI is able to establish a CLF with the RBA, sufficient in size to cover any shortfall in Australian dollars between the ADI's holdings of HQLA and net cash outflows. 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.

14. 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.

15. 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 lowest of:

(a) the contractual amount of the CLF an ADI has agreed with the RBA that is approved by APRA for LCR purposes (refer to paragraphs ~~16~~17 to ~~19~~20 of this Attachment); or

(b) the contractual amount of the CLF as defined in paragraph 1~~4~~5 (a),

less the market value after RBA margins have been applied of eligible CLF securities that have been pledged as collateral under maturing secured funding transactions to a counterparty and to which a zero per cent run-off rate applies,

plus the market value after RBA margins have been applied of eligible CLF securities that have been received by the ADI as collateral under maturing secured lending transactions, where the collateral received is not used to cover short positions as outlined in paragraph ~~56~~57 of this Attachment, and to which a zero per cent inflow rate applies; or

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

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

(a) meet the operational requirements for HQLA as outlined in paragraphs ~~21~~22-~~24~~25 of this Attachment; and

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

17. An ADI that requires a CLF from the RBA for LCR purposes must apply to APRA for approval before establishing the CLF.

18. 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.

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

20. In the case of unforeseen changes in circumstances, 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.

21. 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 for the funding of end-of-day balances held at the RBA.

Operational requirements

22. 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~~time

horizon and that the proceeds of doing so are available to the function throughout the ~~30-day stress period~~time horizon without directly conflicting with a stated business or risk management strategy.

23. The assets must not be pledged to secure, collateralise or credit enhance any 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.

24. At Level 2, an ADI may also include in the stock, liquid assets that qualify for inclusion in the numerator of the LCR as per paragraphs 9 to ~~16~~17, ~~21~~22 to ~~22~~23 and ~~27~~28 of this Attachment, 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.

25. For the purpose of calculating the LCR, 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

26. 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 supervisors' outflow assumptions must be applied; and

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

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

28. 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.

29. For the calculation of the Level 2 LCR, an ADI must 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

30. 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~~time horizon. 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~~time horizon = Total expected cash outflows – Min {total expected cash inflows; 75 per cent of total expected cash outflows}

31. 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 associated cash inflows cannot also be counted as cash inflows.

32. 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.

33. 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

34. For the purposes of the LCR, '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 include demand deposits and term deposits, unless otherwise excluded under the criteria set out in paragraphs ~~40~~41 and ~~41~~42 of this Attachment.

35. Where a natural person places funds with an intermediary, which 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. An ADI is required to notify APRA prior to applying a retail deposit treatment to a category of intermediated deposits in the LCR and must be able to demonstrate how this treatment satisfies the conditions outlined in this paragraph.

36. Retail deposits are divided into 'stable' and 'less stable' portions of funds, as described below.

37. 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).

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

39. 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 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 (on-line accounts) and deposits with promotional interest rates (heavily rate-driven).

40. 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	Run-off rate
0 – 2	10 per cent
3 or more	25 per cent

Retail fixed-term deposits

41. Cash outflows related to fixed or term deposits with a residual maturity or withdrawal notice period of greater than ~~30 days~~the time horizon will be excluded from LCR calculations if the depositor has no legal right to withdraw deposits within the ~~30-day~~time horizon~~ of the LCR~~, or if early withdrawal results in a significant penalty that is materially greater than the loss of interest.

42. 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 must be treated as demand deposits.

43. However, 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

44. 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.

45. The wholesale funding included in the LCR is defined as all funding that is callable within the ~~LCR’s~~ time 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~~time horizon.

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

47. Unsecured wholesale funding provided by SME customers can be treated as retail deposits where:

    (a) the deposits and other extensions of funds made by non-financial SME customers are managed as retail exposures and are generally considered as having similar liquidity risk characteristics to retail accounts; and

    (b) the total aggregated funding raised from an SME customer is less than AUD 2 million (on a consolidated basis where applicable).

Operational deposits

48. 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 on the ADI and the deposit is required for such activities.

49. 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~~during the ~~next 30 days~~time horizon. 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~~the time horizon or to significant switching costs to be borne by the customer if the operational deposits are moved before ~~30 daysthe~~ the end of time horizon.

50. Qualifying operational deposits generated by such an activity are ones where the deposits are:

    (a) by-products of the underlying services provided by the ADI;

    (b) not offered by the ADI in the wholesale market in the sole interest of offering interest income; and

    (c) held in specifically designated accounts and priced without giving an economic incentive to the customer to leave excess funds on these accounts.

51. Any excess balances that could be withdrawn without jeopardising these clearing, custody or cash management activities do not qualify as operational deposits.

Liquidity facilities

52. 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 outstanding debt issued by the customer (or proportionate share of a syndicated facility) maturing within the ~~a 30-day period~~time horizon 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) must not be classified as liquidity facilities, but as credit facilities.

53. Notwithstanding paragraph 5252~~51~~ of this Attachment, any facilities provided to hedge funds, money market funds and special purpose funding vehicles, or other vehicles used to finance an ADI's own assets, must be captured in their entirety as a liquidity facility to a financial institution.

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

Table 3 – Cash outflow categories

Run-off rate (%)	Cash outflow category
	Retail cash outflows and qualifying SME deposits Retail deposits, and SME deposits that meet the requirements outlined in paragraph ~~46~~47 of this Attachment for treatment as retail deposits:
5	• Stable deposits

Run-off rate (%)	Cash outflow category
10	• Less stable retail deposits
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-operational deposits from non-financial corporations, sovereigns, central banks, PSEs, MDBs and SMEs of greater than AUD 2m:
20	○ where the entire amount is fully covered by deposit insurance
40	○ where the entire amount is not fully covered by deposit insurance
100	• All other non-operational deposits
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 backed by HQLA2, with any counterparty
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, PSEs (but not the RBA) or MDBs with a risk weight of 20 per cent or lower
100	• All other secured funding transactions

Run-off rate (%)	**Cash outflow category**
	Asset-backed commercial paper (ABCP), asset backed securities, covered bonds and other structured financing instruments/facilities
100	• Maturing transactions issued by the ADI itself
100	• Loss of funding on special purpose vehicles, conduits and structured investment vehicles due to inability to refinance maturing debt, embedded options and other potential loss of funding
	Increased liquidity needs related to derivatives and other transactions
100	• Derivatives cash outflows[4]
100	• Collateral that would need to be posted as a result of a downgrade of 3-notches of the ADI
100	• Excess non-segregated collateral held by the ADI 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– the amount of HQLA that can be substituted without the ADI's consent
100 per cent of the largest absolute net ~~30-day~~time horizon collateral flow realised in the past 24 months[5]	• Collateral outflows due to market valuation changes on derivative transactions and other transactions

[4] Expected derivative amounts payable and receivable are taken into account on a net basis by counterparty, only where a valid master netting agreement exists ~~that allows for settlement netting as per section 2(C) of the ISDA master agreement~~. 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~~31 of this Attachment that items cannot be double counted in the LCR. An ADI may net payments that are subject to industry wide netting agreements subject to approval from APRA. Cashflows arising from FX derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) may be reflected as a net payable or receivable figure, even where those transactions are not covered by a master netting agreement.

[5] An ADI may, in certain circumstances, apply to APRA for approval to use an alternative method to calculate collateral outflows due to market valuation changes on derivative transactions.

Run-off rate (%)	Cash outflow category
20	• Valuation changes on posted non-HQLA1 collateral securing derivatives and other transactions
	Committed facilities • For the undrawn portion of committed credit and liquidity facilities:
5	○ to retail and SME
	○ to non-financial corporate, sovereigns and central banks, PSEs:
10	▪ credit facilities
30	▪ liquidity facilities
40	○ to banks and other ADIs subject to prudential supervision
	○ 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
Average of actual monthly net outflows in a recent 12-month period	• Trade finance related obligations
50 per cent of the average of actual monthly net outflows in a recent 12-month period	• Guarantees and letters of credit other than trade finance related obligations
10 per cent for short-term securities and 5 per cent 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

Run-off rate (%)	Cash outflow category
To be set by APRA for each ADI after consultation with the ADI	• Issuers with an affiliated dealer or market maker
To be set by APRA for each ADI after consultation with the ADI	• Other non-contractual contingent funding obligations
100	**Other contractual cash outflows**

Cash inflows

55. 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. Where an ADI is overly reliant on cash inflows from one or a limited number of wholesale counterparties, an alternative limit on the level of cash inflows that can be included in the LCR will be set by APRA in consultation with the ADI.

Secured lending, including reverse repos and securities borrowing

56. 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 from contractual inflows made against non-HQLA1 or non-HQLA2.

57. As an exception to paragraph 56~~56~~~~55~~ of this Attachment, if the collateral obtained through reverse repo, securities borrowing or collateral swaps, which matures within the ~~30-day~~time horizon, is re-used (i.e. rehypothecated) and is tied up for ~~30 days~~the time horizon 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
CLF eligible debt securities, where the ADI receiving assets has a CLF with the RBA subject to the ADI's CLF limit	0	0
HQLA2	15	0
Margin lending backed by securities that are not HQLA1, HQLA2 or CLF eligible securities	50	0
All other collateral	100	0

Lines of credit

58. 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.

~~59. APRA may allow recognition of access to head office funds via a committed funding facility if the ADI is a foreign ADI. 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; and~~

~~(b) the committed funding facility is quantified.~~

~~This paragraph does not apply to a foreign ADI that is part of a group that also has a locally incorporated banking subsidiary in Australia~~.

~~The availability of any head office committed funding facility for foreign ADIs will only be recognised as a cash inflow from Day 16 of the LCR scenario. The cash inflow from head office can be sufficient in size to cover only net cash outflows against items with a maturity or next call date between days 16 and 30 of the LCR.~~

Inflows by counterparty

~~60.~~59. 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.~~60. *Retail and SME inflows*. An ADI is assumed to receive all fully performing contractual inflows from retail and SME[6] 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.~~61. *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, PSEs and MDBs. This will result in an inflow rate of:

(a) 100 per cent from financial institution and central bank counterparties; and

(b) 50 per cent for other entities.

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

~~63.~~62. *Operational deposits*. A zero per cent inflow rate applies to deposits held at other financial institutions for operational purposes.

~~64.~~63. 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.

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

Other cash inflows

~~65.~~64. *Derivatives cash inflow*[7]. These items receive an inflow rate of 100 per cent.

~~66.~~65. *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.

[7] The treatment in footnote 4 also applies here.

Attachment B

'Name crisis' and 'going concern' scenarios

1. An LCR ADI 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 'name crisis' scenario, which refers to the behaviour of cashflows in adverse operating circumstances specific to the ADI, where it has significant difficulty in rolling over or replacing its liabilities.

2. An LCR ADI's name crisis reporting must demonstrate that there is sufficient liquidity available to the ADI to meet obligations for at least five business days.

3. To prove that an LCR 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.

4. An LCR 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'.

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

6. APRA will pay particular attention to an LCR ADI's policies to address a name crisis. Assumptions under this scenario would represent a severe liquidity stress for an LCR 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 cashflows from off-balance sheet activities, an LCR 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 LCR ADI must 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. All ADIs must address a 'going-concern' scenario, which refers to the normal behaviour of cashflows in the ordinary course of business. An ADI's going concern reporting must show how obligations and commitments are met on a day-to-day basis.

8. 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.

9. Scenario analysis reports provided to APRA under both the ‘going concern’ and ‘name crisis’ scenarios must take the form of maturity profiles of cashflows (in domestic and foreign currencies separately) based on assumptions agreed with APRA. Scenario analysis depends heavily on the assumptions of future cashflows 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 cashflows. APRA will assess 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. APRA may require, where it is not satisfied with the suitability of an ADI’s assumptions, that the ADI revise those assumptions as directed by APRA.

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

Attachment C

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, absent a situation of financial stress.

2. For the purpose of this Prudential Standard, liabilities are defined as total on-balance sheet liabilities and irrevocable commitments (except where approved for a prudential purpose by APRA).

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

   (a) notes and coin and settlement funds;

   (b) Commonwealth Government and semi-government securities;

   (c) debt securities guaranteed by the Australian Government, or foreign sovereign governments;

   (d) debt securities issued by supranationals and foreign governments;

   (e) bank bills, certificates of deposits (CDs) and debt securities issued by ADIs;

   (f) deposits (at call and any other deposits readily convertible into cash within two business days) held with other ADIs net of placements by 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 that the MLH requirement is not breached, absent a situation of financial stress, an ADI must set a trigger ratio above its MLH 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 requirement and advise APRA of the remedial action taken or planned to restore its liquidity position above its MLH requirement.