



4 November 2010

To all Authorised Deposit-taking Institutions (ADIs)

## SELF-ASSESSMENT AGAINST BCBS REVISED SOUND PRINCIPLES FOR LIQUIDITY RISK MANAGEMENT

In September 2008, the Basel Committee on Banking Supervision (BCBS) issued strengthened sound practice standards for liquidity risk management and supervision — *Principles for Sound Liquidity Risk Management and Supervision*<sup>1</sup> (Sound Principles). At the time of publication, the BCBS advised that it fully expected banks and national supervisors to implement the revised principles promptly and thoroughly and that it would actively review progress in implementation. In its September 2009 discussion paper *APRA's prudential approach to ADI liquidity risk*<sup>2</sup>, APRA stated its intention to adopt the BCBS Sound Principles in full through amendments to *Prudential Standard APS 210 Liquidity* (APS 210).

In December 2009, the BCBS released quantitative liquidity reform proposals<sup>3</sup> to complement its qualitative Sound Principles. It is expected that the BCBS will finalise and issue the details of the liquidity reforms by the end of this year. Accordingly, APRA will revise its September 2009 proposals as appropriate, taking into account industry submissions and the BCBS's new global liquidity standards. APRA intends to conduct further consultation in 2011 before finalising its new liquidity requirements for ADIs. Depending on industry feedback, it is anticipated that a revised APS 210 will be issued in mid-2012.

APRA does not believe, however, that a delay in the implementation of the BCBS Sound Principles is warranted; many of the principles are already explicitly covered by the current APS 210 and those that are not simply represent sound risk management practice. APRA therefore requests all locally incorporated ADIs that are currently subject to scenario analysis requirements under APS 210 to undertake a self-assessment against the BCBS Sound Principles.

Specifically, the self-assessment should cover the ADI at Level 1 and Level 2 (where applicable) in the case of Australian-owned ADIs and should cover the Australian operations only in the case of foreign-owned ADIs. There is no prescribed format for the self-assessment but it needs to include gap identification and closure plans; the process for undertaking the assessment is left to the discretion of the ADI. As the BCBS Sound Principles do not have the force of a prudential standard, APRA will not expect these self-assessments to have independent review and board endorsement.

ADIs are required to submit their self-assessment results, including gap closure plans, to their APRA responsible supervisors by **28 February 2011** for APRA's review. APRA will follow-up on any significant issues with relevant ADIs within the scope of normal on-site liquidity risk visits scheduled after that date.

<sup>1</sup> Available on the BIS website at <http://www.bis.org/publ/bcbs144.htm>.

<sup>2</sup> Available on APRA's website at <http://www.apra.gov.au/Policy/Enhancing-prudential-framework-for-ADI-liquidity-risk-management.cfm>.

<sup>3</sup> Available on the BIS website at <http://www.bis.org/publ/bcbs165.htm>.

This request does not cover locally incorporated ADIs that are subject to minimum liquidity holdings requirements under APS 210. Nonetheless, APRA encourages these ADIs to apply the BCBS Sound Principles to their liquidity risk management as appropriate. As noted in the September 2009 discussion paper, APRA encourages ADIs that have not already done so to review and, where necessary, improve their liquidity risk management practices to achieve the better practice standard reflected in the BCBS Sound Principles.

If you have any questions regarding this letter, please contact your APRA Responsible Supervisor.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Charles Littrell', written in a cursive style.

Charles Littrell  
Executive General Manager  
Policy, Research and Statistics