January 2027

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 liquid assets sufficient in size and quality 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. If an ADI, or a member of its Level 2 group, is the originating ADI in a **securitisation** and meets the operational requirements for regulatory capital relief under *Prudential Standard APS 120 Securitisation* (APS 120), the ADI may exclude the assets and liabilities of the relevant special purpose vehicles (SPVs) from the calculation of its minimum liquidity holdings (MLH) and net stable funding ratio (NSFR), as applicable. For the purposes of calculating its liquidity coverage ratio (LCR), an ADI must include the cash flows from the assets and liabilities of SPVs related to the ADI's securitisation activities in the ADI's reported amounts.

6. This Prudential Standard commences on 1 January 2027.

Interpretation

7. Terms that are defined in *Prudential Standard CPS 001 Defined terms* appear in bold the first time they are used in this Prudential Standard.

8. Where this Prudential Standard provides for APRA to exercise a power or discretion, this power or discretion is to be exercised in writing.

9. In this Prudential Standard, unless the contrary intention appears, a reference to an Act, Regulations or Prudential Standard is a reference to the instrument as in force from time to time.

Definitions

10. 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** – for the avoidance of doubt, a financial institution includes a money market corporation, finance company, friendly society and the trustee of a superannuation/pension fund, public unit trust/mutual fund or cash management trust.

Key principles

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

12. An ADI must at all times maintain sufficient liquidity to meet its obligations as they fall due and hold a minimum level of liquid assets to survive a severe liquidity stress.

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

14. An ADI must inform APRA as soon as possible of any concerns it has about its current or future liquidity position, and its plans to address those 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

15. 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.**

16. 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.

17. 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.

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

19. 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 liquid assets 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) including the parties responsible for preparing the reports;

(g) establish specific procedures and approvals necessary for exceptions to policies and limits, including 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 may be made as needed; and

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

20. 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

21. 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.

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

23. 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 position in such a way that it is able to withstand a prolonged period of stress.

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

25. 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.

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

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

28. 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.

29. 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.

30. 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.

31. 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.

32. 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.

33. 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 liquid assets or changes in external market conditions that could signal future difficulties.

34. 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.

35. The liquidity risk management framework must be subject to effective review on an ongoing basis, in addition to a comprehensive review as part of the review of the **risk management framework** under *Prudential Standard CPS 220 Risk Management* (CPS 220).

Management of liquidity risk

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

37. 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.

38. 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.

39. 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 and escalation 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.

40. 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.

41. 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.

42. 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.

43. An ADI active in multiple currencies must:

    (a) maintain liquid assets 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.

Funding strategy

44. An ADI must:

    (a) develop and document a three-year 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.

45. The funding strategy must be reviewed and approved by the Board, at least annually, and supported by robust assumptions in line with the ADI's liquidity management strategy and business objectives.

46. The funding strategy must be reviewed and updated, at least annually, to account for, at a minimum, 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

47. An ADI must have a formal contingency funding plan that clearly sets out the strategies for addressing liquidity shortfalls in stressed situations. The plan must outline policies to manage a range of stress environments, establish clear lines of responsibility and include clear invocation and escalation procedures.

48. 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.

49. 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.

50. 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.

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

Classification of ADIs

52. For a locally incorporated ADI, APRA will determine whether an ADI is classified as a Liquidity Coverage Ratio ADI (LCR ADI) or a Minimum Liquidity Holdings ADI (MLH ADI) for the purposes of this Prudential Standard.

53. A foreign ADI is an LCR ADI, unless APRA determines that the foreign ADI is an MLH ADI. In making a determination, APRA will give consideration to the ADI's size and complexity with respect to liquidity risk.

54. An ADI is required to meet the minimum quantitative requirements associated with its classification on a continuous basis, absent a situation of financial stress.

Liquidity coverage ratio ADIs

55. An LCR ADI must maintain an adequate level of unencumbered high-quality liquid assets (HQLA) to meet its liquidity needs for a 30 calendar day period under a severe stress scenario, in accordance with Attachment A. Absent a situation of financial stress (refer to paragraph 5 of Attachment A):

    (a) for a locally incorporated ADI, the value of each of the Australian dollar (AUD) LCR and all currencies LCR must not be less than 100 per cent; and

    (b) for a foreign ADI, the value of the LCR must not be less than 40 per cent on an all currencies basis.

56. APRA may require an LCR ADI to maintain a higher minimum LCR if APRA has concerns about the ADI's liquidity risk profile or the quality of its liquidity risk management.

Minimum liquidity holdings ADIs

57. An MLH ADI must maintain a minimum holding of nine per cent of its liabilities in specified liquid assets, in accordance with Attachment B.

58. APRA may require an MLH ADI to maintain higher minimum liquidity holdings if APRA has concerns about the ADI's liquidity risk profile or the quality of its liquidity risk management.

Net stable funding ratio

59. A locally incorporated ADI classified as an LCR ADI must meet the NSFR requirements in this Prudential Standard.

60. A locally incorporated LCR ADI must maintain an NSFR of at least 100 per cent at all times.

61. APRA may require an LCR ADI to maintain a higher minimum NSFR where APRA considers it appropriate to do so, including if it has concerns about the

ADI's funding or liquidity risk profile or the quality of its liquidity risk management.

Stress testing

62. In addition to the requirements contained in paragraphs 52 to 56 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.

63. 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.

64. Stress tests must enable the 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.

65. An LCR 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.

66. An LCR 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.

Local operational capacity

67. A foreign ADI must perform an assessment of its local operational capacity (LOC) to liquidate assets and make or receive payments without assistance from staff located outside Australia, at least annually, and provide the results of the assessment to APRA upon request.

68. A foreign ADI, in performing a LOC assessment, must ensure at a minimum, it considers a scenario involving a combination of time zones, different public holidays and an offshore operational risk event under which the foreign ADI would operate, including making and receiving payments, for a minimum of three business days without assistance from staff located outside Australia. For this purpose, the foreign ADI may assume that related-party operations within Australia continue to function normally.

69. APRA may impose additional requirements on a foreign ADI if the LOC assessment highlights issues concerning the ability of the foreign ADI to liquidate

assets and make or receive payments without assistance from staff located outside Australia.

Exceptional Liquidity Assistance

70. An ADI under severe liquidity stress may request Exceptional Liquidity Assistance (ELA) from the Reserve Bank of Australia (**RBA**). Prior to approaching the RBA, the ADI must notify APRA immediately of the ADI's liquidity concerns and its intention to request ELA. An ADI must provide any information requested by APRA or the RBA in relation to the ADI's ELA request. An ADI must have the operational capability to provide information along with its application for ELA or within other timeframes specified by APRA.

Adjustments and exclusions

71. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to an ADI or authorised NOHC.[1]

Previous exercise of discretion

72. An exercise of APRA's discretion (such as an approval, waiver or direction) under a previous version of this Prudential Standard continues to have effect as though exercised pursuant to a corresponding power (if any) exercisable by APRA under this Prudential Standard.

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

Attachment A

Liquidity coverage ratio

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 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 set out in this Attachment.

3. The LCR is calculated as:

$$\frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}}$$

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 RBA, using the cash generated to cover cash outflows; as a consequence, the LCR may fall below the minimum level required under paragraph 55 of this Prudential Standard. 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 (HQLA)

6. There are two categories of assets that may be included in the stock of HQLA. Assets that may 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) may be included without limit, while other high-quality liquid assets (HQLA2) – which includes HQLA2A and HQLA2B – may only comprise up to 40 per cent of the total stock of HQLA. HQLA2B must not exceed 15 per cent of the total stock of HQLA. HQLA2B must be included within the overall 40 per cent cap on HQLA2.

7. The calculation of the 40 per cent cap detailed in paragraph 6 of this Attachment, and the 15 per cent cap detailed in paragraph 6 of this Attachment, 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 maximum amount of adjusted HQLA2 in the stock of HQLA is equal to two-thirds of the adjusted

amount of HQLA1 after haircuts have been applied. The maximum amount of adjusted HQLA2B in the stock of HQLA is equal to either: 15/85 of the sum of the adjusted amounts of HQLA1 and HQLA2A after haircuts have been applied; or, in cases where the 40 per cent cap is binding, up to one quarter of the adjusted amounts of HQLA1 after haircuts are applied.

8. The adjusted amount of HQLA1 is the amount of HQLA1 that would result after unwinding 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 22 to 25 of this Attachment. The adjusted amount of HQLA2A is defined as the amount of HQLA2A that would result after unwinding those short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for any HQLA2A that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in paragraphs 22 to 25 of this Attachment. The adjusted amount of HQLA2B is the amount of HQLA2B that would result after unwinding short-term secured funding, secured lending and collateral swap transactions involving the exchange of any HQLA for HQLA2B that meet, or would meet if held unencumbered, the operational requirements for HQLA set out in paragraphs 22 to 25 of this Attachment. In this context, short-term transactions are transactions with a maturity date up to and including 30 calendar days.

HQLA1

9. HQLA1 may 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 balances, to the extent that these balances may 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 B 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.

HQLA2A

10. An ADI may include the following as HQLA2A where these assets have been recognised by APRA or the relevant prudential regulator in the jurisdiction where the liquidity risk is taken. A 15 per cent haircut is applied to the current market value of each HQLA2A held in the stock of eligible HQLA. HQLA2A 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 B 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-[2] or, in the case of an ADI that has approval to use the **internal ratings-based (IRB) approach to credit risk** under *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* (APS 113), 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 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 HQLA2A held by the ADI must be well diversified in terms of type of assets, type of issuer and specific counterparty or issuer.

HQLA2B

12. An ADI may include the following as HQLA2B where these assets have been recognised by APRA or the relevant prudential regulator in the jurisdiction where the liquidity risk is taken:

(a) subject to a 25 per cent haircut, residential mortgage backed securities that satisfy the following criteria:

(i) are not issued by, nor are the underlying exposures originated by, the ADI itself or an associated entity of the ADI;

(ii) have a long-term credit rating from a recognised ECAI of AA or higher[3] or, in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating;

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

(iv) proven record as a reliable source of liquidity in markets (repo or sale) even during stressed market conditions (i.e. a maximum decline in price not exceeding 20 per cent or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant

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

[3] Refer to footnote 2.

period of significant liquidity stress);

(v) the underlying asset pool is restricted to residential mortgages and cannot contain structured products;

(vi) the underlying mortgages are full recourse loans and, at issuance, have a maximum average loan-to-valuation ratio (LVR) of 80 per cent; and

(vii) the securitisation is subject to risk retention regulations which requires an issuer to retain an interest in the assets they securitise;

(b) subject to a 50 per cent haircut, corporate debt securities (including commercial paper) that satisfy the following criteria:

(i) are not issued by a financial institution or an associated entity;

(ii) either:

(1) have a long-term credit rating from a recognised ECAI between A+ and BBB-[4] or, in the absence of a long-term rating, a short-term rating equivalent in quality to the long-term rating; or

(2) in the case of an ADI that has approval to use the IRB approach to credit risk under APS 113, do not have a credit assessment by a recognised ECAI and are internally rated as having a PD estimate corresponding to a credit rating of between A+ and BBB-;

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

(iv) proven record as a reliable source of liquidity in markets (repo or sale) even during stressed market conditions (i.e. a maximum decline in price not exceeding 20 per cent or increase in haircut over a 30-day period not exceeding 20 percentage points during a relevant period of significant liquidity stress).

(c) subject to a 50 per cent haircut, common equity shares that satisfy the following criteria:

(i) are not issued by a financial institution or an associated entity;

(ii) are exchange traded and centrally cleared;

(iii) are a constituent of the major stock index where the liquidity risk is

[4] Refer to footnote 2.

taken;

(iv) are denominated in the currency of the jurisdiction where a bank's liquidity risk is taken;

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

(vi) proven record as a reliable source of liquidity in markets (repo or sale) even during stressed market conditions, i.e. a maximum decline in share price not exceeding 40 per cent or increase in haircut not exceeding 40 percentage points over a 30-day period during a relevant period of significant liquidity stress.

Use of alternative liquid asset treatment for LCR

13. A locally incorporated LCR ADI may 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 of HQLA that may 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 paragraphs 10 and 12 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 17 to 20 of this Attachment); or

(b) the contractual amount of the CLF as defined in paragraph 15(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 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 22 to 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 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 may be recognised for LCR purposes.

20. In the case of unforeseen changes in circumstances, an ADI may apply to APRA, at any time, for a change in the amount of its CLF to be recognised for LCR purposes by submitting an updated Board-approved funding and liquidity plan.

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:

    (a) the assets must be available for the ADI to convert into cash at any time;

    (b) 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. This would typically be the treasurer who must have the continuous authority, and legal and operational capability, to monetise any asset in the stock; and

    (c) control must be evidenced either by maintaining assets in a separate pool managed by the function with the sole intent to use as a source of contingent funds, or by demonstrating that the function can monetise the asset at any

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

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 may be considered as part of the stock of HQLA.

24. At Level 2, an ADI may also include in the stock of HQLA, liquid assets that qualify for inclusion in the numerator of the LCR as set out in paragraphs 9 to 17, 22 to 23 and 28 of this Attachment, where they are held to meet legal entity requirements, where applicable, and 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 may only be included in the Level 2 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 liquid asset becomes ineligible (e.g. due to rating downgrade), an ADI may 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 branch or subsidiary in an offshore jurisdiction, in calculating a subsidiary's LCR the ADI 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 supervisor's 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, may be included.

27. Where an ADI has a branch or subsidiary in an offshore jurisdiction that does not apply the Basel Committee's global framework for liquidity risk, the cash flow assumptions outlined in this Prudential Standard must be applied in calculating the ADI's Level 2 LCR.

28. An ADI with a material banking subsidiary in another offshore jurisdiction must ensure that the subsidiary maintains an LCR of at least 100 per cent. APRA may allow an ADI to include assets that are formally recognised as eligible liquid assets by the relevant offshore prudential regulator.

29. For the calculation of the Level 2 LCR, an ADI must take into account restrictions on the transferability of liquid assets across borders. Excess liquidity is not to be recognised in the Level 2 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. 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 as set out in Table 3 of paragraph 53 of this Attachment. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates (refer to paragraphs 54 to 66 of this Attachment) 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. That is:

> Total net cash outflows over the next 30 calendar days = 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 the suitability of an ADI's assumptions made for those cash flow 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 cash flow 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 41 and 42 of this Attachment.

35. Where a 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, during the next 30 days:

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

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

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

(d) the intermediary or an associated entity can neither make investment decisions on behalf of the person regarding the deposit, nor withdraw funds from the ADI in the absence of specific directions to do so from the person (other than miscellaneous items such as fees, expense reimbursements, taxes).

If all of these conditions are satisfied, an ADI may treat the funds as if they are from the person. An ADI 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 would 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 AUD 250,000	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

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 will be excluded from LCR calculations if the depositor has no legal right to withdraw deposits within the 30-day horizon of the LCR, or if early withdrawal results in a significant penalty that is materially greater than the loss of interest.

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. An ADI may allow depositors experiencing hardship to withdraw their term deposits without changing the treatment of the entire pool of deposits. The ADI must have a policy defining hardship.

Unsecured wholesale funding outflows

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. Wholesale funding included in the LCR is defined as all funding that is callable within the LCR's horizon of 30 days or that has its earliest possible contractual

maturity date within this horizon (such as maturing term deposits and unsecured debt securities), as well as funding with an undetermined maturity. This must include all funding with options that are exercisable at the investor's discretion within the 30-day horizon. Wholesale funding that is callable by the provider of the funds, subject to a contractually defined and binding notice period surpassing the 30-day horizon, may be excluded.

46. Unsecured wholesale funding provided by SME customers may 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

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

48. For the purpose of determining operational deposits, qualifying activities in this context refer to clearing, custody or cash management activities where the customer is reliant on the ADI to perform these services as an independent third-party intermediary in order to fulfil its normal banking activities over the next 30 days. These services must be provided to institutional customers under a legally binding agreement and the termination of such agreements must be subject either to a notice period of at least 30 days or to significant switching costs to be borne by the customer if the operational deposits are moved before 30 days.

49. Qualifying operational deposits generated by such an activity are those 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 for the sole purpose 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 in these accounts.

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

Liquidity facilities

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

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

53. The following table sets out the run-off rates that must be applied to each liability and off-balance sheet cash outflow category.

Table 3 – Cash outflow categories

Run-off rate (%)	Cash outflow category
	Retail and qualifying SME deposits (refer to paragraphs 34 to 40 and 46)
5	• Stable deposits
10	• Less stable retail deposits
25	• Higher run-off less stable retail deposits
	Unsecured wholesale funding (refer to paragraphs 44 to 46)
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

Run-off rate (%)	Cash outflow category
15	**Secured funding (continued)** • Secured funding transactions backed by HQLA2A, 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 under APS 112 • Secured funding transactions backed by RMBS eligible for inclusion as HQLA2B
50	• Secured funding transactions backed by other HQLA2B with any counterparty
100	• All other secured funding transactions
100	**Asset-backed commercial paper (ABCP), asset backed securities, covered bonds and other structured financing instruments/facilities** • Maturing transactions issued by the ADI itself
100	• Loss of funding on SPVs, conduits and structured investment vehicles due to inability to refinance maturing debt, embedded options and other potential loss of funding
100	**Increased liquidity needs related to derivatives and other transactions** • Derivatives cash outflows[5]
100	• Collateral that would need to be posted as a result of a downgrade of 3-notches of the ADI

[5] Expected derivative amounts payable and receivable are taken into account on a net basis by counterparty, only where a valid master netting agreement exists. Amounts must also be net of HQLA1 and HQLA2 collateral, to the extent that this collateral is not already counted in the stock of HQLA, in line with the principle in paragraph 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. Cash flows 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.

Run-off rate (%)	Cash outflow category
	Increased liquidity needs related to derivatives and other transactions (continued)
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 may be substituted without the ADI's consent
100 per cent of the largest absolute net 30-day collateral flow realised in the past 24 months[6]	• Collateral outflows due to market valuation changes on derivative transactions and other transactions
20	• Valuation changes on posted non-HQLA1 collateral securing derivatives and other transactions
	Committed facilities
5	• For the undrawn portion of committed credit and liquidity facilities: o to retail and SME customers
10	o to non-financial corporate, sovereigns and central banks, PSEs: ▪ credit facilities
30	▪ liquidity facilities
40	o to banks and other ADIs subject to prudential supervision

[6] 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
40	**Committed facilities (continued)** • For the undrawn portion of committed credit and liquidity facilities: o to other financial institutions: ▪ credit facilities
100	▪ liquidity facilities
100	• Other legal entity customers
5	**Other contingent funding obligations** • 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	• Buybacks of domestic Australian debt securities
5	• Non-contractual obligations related to structured products and managed funds
To be set by the ADI unless APRA determines the rate for the ADI	• Issuers with an affiliated dealer or market maker
To be set by the ADI unless APRA determines the rate for the ADI	• Other non-contractual contingent funding obligations
100	**Other contractual cash outflows**

Cash inflows

54. When considering its available cash inflows, an ADI must only include contractual inflows from outstanding exposures that are fully performing and for which it has no reason to expect a default within the 30-day time horizon. Where APRA is of the view that an ADI is overly reliant on cash inflows from one or a limited number of wholesale counterparties, APRA may set an alternative limit on the level of cash inflows that may be included in the LCR in consultation with the ADI.

Secured lending, including reverse repos and securities borrowing

55. An ADI must assume that maturing reverse repurchase or securities borrowing agreements secured by HQLA1 will be rolled over and will not give rise to any cash inflows (zero per cent). Maturing reverse repurchase or securities borrowing agreements secured by other HQLA are to be modelled as cash inflows, as outlined in Table 4 below, due to the reduction of funds extended against the collateral. Collateralised loans extended to customers for the purpose of taking leveraged trading positions are to be modelled with a 50 per cent cash inflow from contractual inflows made against non-HQLA1 or non-HQLA2.

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

Table 4 – Maturing secured lending inflow rates

Maturing secured lending backed by the following asset category	Inflow rate (%) (if collateral is not used to cover short positions)	Inflow rate (%) (if collateral is used to cover short positions)
HQLA1	0	0
CLF-eligible debt securities, where the ADI receiving assets has a CLF with the RBA subject to the ADI's CLF limit	0	0
HQLA2A	15	0
HQLA2B (eligible residential mortgage-backed securities)	25	0
Other HQLA2B	50	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

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

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

59. A foreign ADI may meet up to 50 per cent of its LCR requirement with a head office committed funding facility. The remaining liquidity requirement must be met with eligible liquid assets as detailed in this Attachment.

Inflows by counterparty

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

Retail and SME inflows

61. An ADI is assumed to receive all fully performing contractual inflows from retail and SME[7] 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.

Other wholesale inflows

62. 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.

Operational deposits

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

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

[7] Where the definition for an SME customer in paragraph 46 of this Attachment cannot be applied due to the absence of liability products, the definition in paragraph 40 of *Prudential Standard APS 113 Capital Adequacy: Internal Ratings-based Approach to Credit Risk* can be used instead.

Other cash inflows

Derivatives cash inflows[8]

65. These derivative items receive an inflow rate of 100 per cent.

Other contractual cash inflows

66. Other contractual cash inflows receive an inflow rate of 100 per cent. 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.

[8] The treatment in footnote 5 also applies here.

Attachment B

Minimum liquidity holdings approach

1. For the purpose of this Attachment, liabilities are defined as total on-balance sheet liabilities and irrevocable commitments, except where approved for a prudential purpose by APRA.

2. For the purpose of the MLH requirement, liquid assets are included at market value. These 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.

3. All debt securities must be eligible for repurchase agreement with the RBA[9] and must not be subordinated.

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

5. 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.

6. 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.

[9] Where the RBA deems a debt security ineligible for repurchase agreement because it has entered its books-closed period to maturity, ADIs may continue to treat that security as repo-eligible for the purpose of meeting the MLH requirement.

Attachment C

Net stable funding ratio

1. The objective of the NSFR is to reduce the funding risk of an ADI over a one-year time horizon by requiring an ADI to fund its activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress.

2. The NSFR has two components:

   (a) available stable funding (ASF); and

   (b) required stable funding (RSF).

3. The NSFR is calculated as:

$$\frac{\text{Available stable funding}}{\text{Required stable funding}}$$

4. An ADI must maintain an appropriate buffer above its required NSFR under this Prudential Standard, in line with its liquidity risk tolerance, at all times.

5. For the purposes of this Attachment, the meanings and definitions in Attachment A apply unless otherwise indicated.

Available stable funding (ASF)

6. ASF is the portion of capital and liabilities expected to be reliably provided over a one-year time horizon, and is measured based on the broad characteristics of the relative stability of an ADI's funding sources, including the contractual maturity of its liabilities and the differences in propensity of different types of funding providers to withdraw their funds.

7. An ADI must calculate its ASF as follows:

   (a) assign the carrying value[10] of the ADI's capital and liabilities to the relevant ASF category (refer to paragraphs 11 to 15 of this Attachment);

   (b) multiply the amount assigned to each liability category by the corresponding ASF factor to obtain a weighted amount; and

   (c) sum the weighted amounts.

Maturity of funding

8. In order to determine the maturity of a funding instrument with an option or a deposit with a withdrawal notice period, an ADI must, for the purposes of the

[10] The carrying value represents the amount of a liability or equity instrument before application of any regulatory deductions, filters or other adjustments.

NSFR, assume the maturity date as being the earliest date at which the funds may be redeemed. For long-dated liabilities, only that portion of cash flows falling on or after the six-month and one-year time horizons may be treated as having an effective residual maturity of six months or more and one year or more, respectively.

Calculation of derivative liability amounts

9. An ADI must calculate its derivative liabilities based on the replacement cost for derivative contracts (obtained by marking-to-market) where the contract has a negative value. When an eligible bilateral netting contract is in place that meets the conditions specified in paragraphs 9 to 11 of Attachment H of APS 112 and paragraphs 8 and 9 of the annex of the Basel III leverage ratio framework and disclosure requirements,[11] the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost.

10. In calculating NSFR derivative liabilities, an ADI must deduct any collateral posted in the form of variation margin in connection with derivative contracts, regardless of the asset type, from the negative replacement cost amount.[12,13]

Liabilities and capital receiving a 100 per cent ASF factor

11. The following liabilities and capital instruments must be assigned a 100 per cent ASF factor:

    (a) the total amount of regulatory capital, before the application of regulatory adjustments, as defined in *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* (APS 111), excluding the proportion of Tier 2 instruments with a residual maturity of less than one year;

    (b) the total amount of any capital instrument not included in paragraph 11(a) that has an effective residual maturity of one year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one year; and

    (c) the total amount of secured and unsecured borrowings and liabilities, including term deposits with an effective residual maturity of one year or more. Cash flows due in less than one year that arise from liabilities with a final maturity greater than one year are not eligible for the 100 per cent ASF factor.

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11 Refer to *Basel III leverage ratio framework and disclosure requirements*, January 2014, Basel Committee on Banking Supervision as it exists at 12 January 2014.

12 NSFR derivative liabilities = (derivative liabilities) – (total collateral posted as variation margin on derivative liabilities).

13 When determining its RSF, an ADI must not include an asset on its balance sheet associated with collateral posted as variation margin where the asset is deducted from the replacement cost amount of a derivative contract for the purposes of the NSFR.

Liabilities receiving a 95 per cent ASF factor

12. The following liabilities must be assigned a 95 per cent ASF factor:

    (a) liabilities classified as stable[14] demand deposits and term deposits with a residual maturity of less than one year provided by retail and SME customers;[15] and

    (b) intermediated deposits that meet the requirements of paragraph 35 of Attachment A for treatment as stable retail deposits and where the intermediary cannot replace the ADI unless it provides at least 12-months' notice.

Liabilities receiving a 90 per cent ASF factor

13. The following liabilities must be assigned a 90 per cent ASF factor:

    (a) liabilities classified as less stable[16] demand deposits and term deposits with a residual maturity of less than one year provided by retail and SME customers; and

    (b) intermediated deposits, including member-directed superannuation deposits, that meet the requirements of paragraph 35 of Attachment A for treatment as less stable retail deposits and where the intermediary cannot replace the ADI unless it provides at least 12-months' notice.

Liabilities receiving a 50 per cent ASF factor

14. The following liabilities must be assigned a 50 per cent ASF factor:

    (a) secured and unsecured funding with a residual maturity of less than one year provided by non-financial corporate customers;

    (b) operational deposits;[17]

    (c) superannuation fund deposits that meet the definition of operational deposits;[18]

    (d) intermediated deposits, including member-directed superannuation deposits, that meet the requirements of paragraph 35 of Attachment A and where the intermediary cannot replace the ADI unless it provides at least six months' notice;

    (e) funding with a residual maturity of less than one year from sovereigns, PSEs and MDBs and national development banks; and

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14 Refer to paragraph 37 of Attachment A.
15 Refer to paragraph 34 of Attachment A. Also refer to paragraph 46 and footnote 9 of Attachment A for the definition of SME.
16 Refer to paragraph 38 of Attachment A.
17 Refer to paragraphs 47 to 50 of Attachment A.
18 Refer to footnote 17.

(f) other funding, secured and unsecured, not included in the categories above with a residual maturity of between six months to less than one year, including funding from central banks and financial institutions.

Liabilities receiving a zero per cent ASF factor

15. The following liabilities must be assigned a zero per cent ASF factor:

(a) all other liabilities and equity categories not included in paragraphs 11 to 14 of this Attachment, including other funding with a residual maturity of less than six months from central banks and financial institutions;[19]

(b) other liabilities without a stated maturity including short positions and open maturity positions, except for:

(i) deferred tax liabilities, which must be treated according to the nearest possible date on which such liabilities could be realised; and

(ii) minority interests, which must be treated according to the term of the instrument, usually in perpetuity.

These liabilities are assigned a 100 per cent ASF factor if the effective maturity is one year or greater, or 50 per cent, if the effective maturity is between six months and less than one year;

(c) if NSFR derivative liabilities are greater than NSFR derivative assets, then NSFR derivative liabilities calculated in accordance with paragraphs 9 and 10 of this Attachment net of NSFR derivative assets as calculated in accordance with paragraphs 27 and 28 of this Attachment;[20] and

(d) trade date payables arising from the purchase of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction or (ii) have failed to, but are still expected to, settle.

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19 Subject to APRA's approval, deposits between ADIs within the same cooperative network may be excluded from liabilities receiving a zero per cent ASF provided they are either (a) required by law to be placed at the central organisation and are legally constrained within the cooperative network as minimum deposit requirements; or (b) in the context of common task sharing and legal, statutory or contractual arrangements, so long as the ADI that has received the monies and the ADI that has deposited participate in the same institutional network's mutual protection scheme against illiquidity and insolvency of its members. Such deposits may be assigned an ASF up to the RSF factor assigned by regulation for the same deposits to the depositing bank, not to exceed 85 per cent.

20 ASF = 0 per cent x MAX ((NSFR derivative liabilities – NSFR derivative assets), 0).

Required stable funding (RSF)

16. RSF is the minimum amount of stable funding an ADI is required to hold and is a function of the liquidity characteristics and residual maturities of the various assets held by an ADI including off-balance sheet (OBS) exposures.

17. An ADI must calculate its RSF as follows:

    (a) assign the ADI's assets, at carrying value, and OBS exposures to the relevant RSF category (refer to paragraphs 29 to 37 of this Attachment);

    (b) multiply the amount assigned to each asset category and OBS exposure (or potential liquidity exposure) by the corresponding RSF factor; and

    (c) sum the weighted amounts.[21]

18. An ADI must allocate assets to the appropriate RSF factor based on the asset's residual maturity or liquidity value as detailed in this attachment.

19. For the purposes of determining its RSF, an ADI must include financial instruments, foreign currencies and commodities for which a purchase order has been executed. An ADI may exclude financial instruments, foreign currencies and commodities for which a sales order has been executed, even if such transactions are not reflected in the ADI's balance sheet under a settlement-date accounting model provided that (i) such transactions are not reflected as derivatives or secured financing transactions on the ADI's balance sheet and (ii) the effects of such transactions will be reflected in the ADI's balance sheet when settled.

Maturity of assets

20. To determine the maturity of an asset, an ADI must, for the purposes of the NSFR, assume the maturity date as being the latest possible date at which the asset may mature. An ADI must assume that for an asset with an option to extend maturity, the option will be exercised.

21. Where an asset does not have a defined maturity or the maturity is subject to periodic review, an ADI must, for NSFR purposes, classify the asset as having a residual maturity of greater than or equal to one year and assign the relevant RSF factor on this basis.

22. For an amortising loan, or a loan with minimum contractual payments, that portion that falls due within the one-year time horizon may be included in the less than one year residual maturity category.

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[21] For the purposes of calculating the NSFR, HQLA is defined as all HQLA without regard to LCR operational requirements and LCR caps on HQLA2 and HQLA2B that may otherwise limit the ability of some HQLA to be included as eligible HQLA in calculation of the LCR. HQLA is defined in paragraphs 6 to 29 of Attachment A and operational requirements is defined in paragraphs 22 to 29 of Attachment A. For the purposes of calculating the NSFR, assets include 20 per cent of derivative liabilities calculated in accordance with paragraph 9 of this Attachment.

Encumbered assets

23. Assets on an ADI's balance sheet that are encumbered[22] for one year or more must be assigned a 100 per cent RSF factor. Assets encumbered for a period of between six months and less than one year that would, if unencumbered, receive an RSF factor lower than or equal to 50 per cent must be assigned a 50 per cent RSF factor. Assets encumbered for between six months and less than one year that would, if unencumbered, receive an RSF factor higher than 50 per cent must be assigned the higher RSF factor. Where assets have less than six months remaining in the encumbrance period, the same RSF factor is applied as that for an equivalent asset that is unencumbered.

24. Where an asset is encumbered for exceptional[23] central bank liquidity operations, the asset may be given a lower RSF factor if approval is sought from APRA and APRA agrees to the lower RSF factor.

Secured financing transactions

25. For the purposes of determining its NSFR, an ADI must exclude from its assets amount, securities borrowed in securities financing transactions (for example, reverse repos and collateral swaps) where the ADI does not retain beneficial ownership of the securities. Conversely, an ADI must include securities lent in securities financing transactions where the ADI retains beneficial ownership. An ADI must not include securities received through collateral swaps if those securities do not appear on the ADI's balance sheet. If an ADI has encumbered securities in repos or other securities financing transactions, but retains beneficial ownership and the assets remain on the ADI's balance sheet, the ADI must allocate the security to the appropriate RSF category.

26. An ADI may net securities financing transactions with a single counterparty when calculating its NSFR, provided that the netting conditions set out in paragraph 38 of Attachment D of *Prudential Standard APS 110 Capital Adequacy* (APS 110) are met.

Calculation of derivative asset amounts

27. An ADI must calculate the value of derivative assets based on the replacement cost for derivative contracts (obtained by marking-to-market) where the contract has a positive value. When an eligible bilateral netting agreement is in place that meets the conditions in paragraphs 9 to 11 of Attachment H of APS 112 and paragraphs 8 and 9 of the annex of the Basel III leverage ratio framework and disclosure requirements,[24] the replacement cost for the set of derivative exposures covered by the contract must be calculated as the net replacement cost.

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22 Encumbered assets include but are not limited to assets backing securities or covered bonds and assets pledged in securities financing transactions or collateral swaps.

23 In general, exceptional central bank liquidity operations are considered to be non-standard, temporary operations conducted by a central bank in order to achieve its mandate in a period of market-wide financial stress and/or exceptional macroeconomic circumstances.

24 *Basel III leverage ratio framework and disclosure requirements*, January 2014, Basel Committee on Banking Supervision as it exists at 12 January 2014.

28. When calculating NSFR derivative assets, collateral received in connection with derivative contracts must not offset the positive replacement cost amount, regardless of whether or not netting is permitted under an ADI's operational accounting or risk-based framework, unless it is received in the form of a cash variation margin and meets the conditions specified in paragraph 23 of Attachment D to APS 110 and is in the same currency as the currency of settlement[25] of the derivative contract. Any remaining balance sheet liability associated with variation margin received that does not meet the criteria above or initial margin received must not offset derivative assets and must be assigned a zero per cent ASF factor.

Assets assigned a zero per cent RSF factor

29. An ADI must assign a zero per cent RSF factor to the following assets:

    (a) notes and coins immediately available to meet obligations;

    (b) central bank reserves and balances;[26]

    (c) all claims on central banks with a residual maturity of less than six months; and

    (d) trade date receivables arising from the sale of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period for the relevant exchange or type of transaction or (ii) have failed to, but are still expected to, settle.

Assets assigned a five per cent RSF factor

30. An ADI must assign a five per cent RSF factor to the following assets. They include unencumbered HQLA1 assets, but exclude assets receiving a zero per cent RSF factor as specified in paragraph 29 of this Attachment:

    (a) marketable securities representing claims on or claims guaranteed by sovereigns, central banks, PSEs, the BIS, the IMF, the ECB and EU or MDBs and that are assigned a zero per cent risk weight under Attachment B of APS 112; and

    (b) certain non-zero per cent risk-weighted sovereign or central bank debt securities as specified in paragraphs 9(d) and (e) of Attachment A.

Assets assigned a 10 per cent RSF factor

31. An ADI must assign a 10 per cent RSF factor to unencumbered loans to financial institutions with a residual maturity of less than six months, where the loan is

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25 Refer to question 2.1 of *Basel III leverage ratio framework and disclosure requirements*, January 2014, Basel Committee on Banking Supervision as it exists at 12 January 2014.

26 APRA may impose a higher RSF factor after discussing and agreeing with the relevant central bank and taking into consideration whether the reserve requirement must be satisfied at all times and the extent to which the reserve requirement in a particular jurisdiction exists over a longer-term horizon and therefore requires associated stable funding.

secured against HQLA1 assets as defined in paragraph 9 of Attachment A, provided the ADI has the ability to freely rehypothecate the received collateral for the life of the loan.

32. An ADI may assign an RSF factor of 10 per cent to:

    (a) CLF-eligible third-party debt securities, other jurisdictions' ALA and assets recognised as eligible liquid assets by a host supervisor that APRA allows to be included in the numerator of the LCR. The 10 per cent RSF factor may only be applied to the lower of the carrying value of the assets and the amount of the CLF that may be included in the numerator of the ADI's LCR as allowed for under this Prudential Standard; and

    (b) self-securitised assets, eligible as CLF collateral. The maximum amount eligible for the 10 per cent RSF factor is the ADI's CLF less eligible third-party debt securities held as collateral for the CLF.

Assets assigned a 15 per cent RSF factor

33. An ADI must assign a 15 per cent RSF factor to the following assets:

    (a) unencumbered HQLA2A assets as defined in paragraph 10 of Attachment A; and

    (b) all other unencumbered loans to financial institutions with a residual maturity of less than six months not included in paragraph 31 of this Attachment.

Assets assigned a 50 per cent RSF factor

34. An ADI must assign a 50 per cent RSF factor to the following assets:

    (a) unencumbered HQLA2B assets as defined in paragraph 12 of Attachment A;

    (b) any HQLA as defined in Attachment A that are encumbered for a period of between six months and less than one year;

    (c) all loans to financial institutions and central banks with a residual maturity of between six months and less than one year;

    (d) operational deposits held at other ADIs that are subject to a 50 per cent ASF factor in paragraph 14(b) of this Attachment;

    (e) Australian equities, other than financial institutions or associated entities (as defined in section 50AAA of the *Corporations Act 2001*), that trade on the Australian Securities Exchange (ASX) and form part of the S&P/ASX200 stock index; and

    (f) all other non-HQLA not included in the above categories that have a residual maturity of less than one year, including loans to non-financial

corporate clients, loans to retail customers (i.e. natural persons) and SME customers and loans to sovereigns and PSEs.

Assets assigned a 65 per cent RSF factor

35. An ADI must assign a 65 per cent RSF factor to the following assets:

(a) unencumbered standard residential property loans to an individual (that is, a natural person) or individuals with a residual maturity of one year or more and a loan-to-valuation ratio of 80 per cent or below, as defined under APS 112; and

(b) other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that are subject to or would qualify for a 35 per cent or lower risk weight under APS 112.

Assets assigned an 85 per cent RSF factor

36. An ADI must assign an 85 per cent RSF factor to the following assets:

(a) cash, securities or other assets, whether on- or off-balance sheet, posted as an initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a central counterparty (CCP).[27] Where securities or other assets posted as an initial margin for derivative contracts would otherwise receive a higher RSF factor, they must be assigned the higher factor;

(b) other unencumbered performing loans that do not qualify under paragraph 35 of this Attachment that have residual maturities of one year or more, excluding loans to financial institutions; [28]

(c) unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, that are not in default and do not qualify as HQLA; and

(d) physical traded commodities, including gold.

Assets assigned a 100 per cent RSF factor

37. An ADI must assign a 100 per cent RSF factor to the following assets:

(a) all assets that are encumbered for a period of one year or more;[29]

(b) NSFR derivative assets calculated in accordance with paragraphs 27 and 28 of this Attachment net of NSFR derivative liabilities calculated in

[27] An initial margin posted on behalf of a customer, where an ADI does not guarantee performance of the third party, is exempt from this requirement.

[28] Whether a loan is performing or non-performing is determined by reference to *Prudential Standard APS 220 Credit Risk Management*.

[29] For a non-maturity reverse repo, an RSF of 100 per cent applies, unless an ADI is able to demonstrate to APRA's satisfaction that it would effectively have a different maturity period.

accordance with paragraphs 9 and 10 of this Attachment, if NSFR derivative assets are greater than NSFR derivative liabilities;[30]

(c) all other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital (as defined in APS 111), retained interest, insurance assets, subsidiary interests and defaulted securities; and

(d) 20 per cent of derivative liabilities (i.e. negative replacement cost amounts) as calculated according to paragraph 9 of this Attachment (before deducting any variation margin posted).

Interdependent assets and liabilities

38. APRA may determine that certain asset and liability items, on the basis of contractual arrangements, are interdependent such that the liability cannot fall due while the asset remains on the balance sheet, the principal payment flows from the asset cannot be used other than for repaying the liability, and the liability cannot be used to fund other assets.

39. For the purposes of paragraph 38, APRA will only make a determination, on a case-by-case basis, in exceptional circumstances. As part of any determination, an ADI must, at a minimum, be able to demonstrate that the criteria in paragraph 40 are met in full.

40. If APRA determines asset and liability items to be interdependent in accordance with paragraph 38 of this Attachment then APRA may, at its discretion, adjust the RSF and ASF factors relating to those asset and liability items to zero per cent, subject to the following criteria:

(a) the individual interdependent asset and liability items are clearly identifiable;

(b) the maturity and principal amount of both the liability and its interdependent asset are the same;

(c) the ADI is acting solely as a pass-through unit to channel the funding received (the interdependent liability) into the corresponding interdependent asset; and

(d) the counterparties for each pair of interdependent liabilities and assets are not the same.

[30] RSF = 100 per cent x MAX ((NSFR derivative assets – NSFR derivative liabilities), 0).

Off-balance sheet exposures

41. An ADI must apply the RSF factor to the RSF category in Table 1 for the OBS exposure categories in the Table.

Table 1 – OBS exposure categories

RSF factor (%)	RSF category
5	Irrevocable and conditionally revocable credit and liquidity facilities to any client
1	Unconditionally revocable credit and liquidity facilities

42. An ADI must apply an RSF factor of 100 per cent to trade finance-related obligations and guarantees and letters of credit unrelated to trade finance obligations using the actual net outflows for these obligations in the most recent 12-month period.