30 September 2022

Ms Erica Santosaputri
Head of Liquidity Risk
Australian Prudential Regulation Authority

Via email: liquidity@apra.gov.au

Dear Ms Santosaputri

Guidance on contingent liquidity for locally-incorporated ADIs subject to MLH requirements

COBA welcomes the opportunity to respond to APRA's consultation on additions to APG 210 Liquidity on guidance for Minimum Liquidity Holding ADIs' (MLH ADIs) self-securitisation levels and uplift capability & capacity.

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has over $150 billion in assets and 5 million customers. All COBA members are currently MLH ADIs so we represent the majority of APRA's domestic MLH ADIs.

Welcoming returning to normal self-securitisation levels

COBA welcomes APRA's updated guidance to return to normal self-securitisation levels.

High levels of self-securitisation can be costly in terms of ongoing expenses and operational requirements. It can also limit flexibility regarding term & warehouse securitisation funding, lending strategies and broader balance sheet management.

In terms of the transition to normalised levels, we seek clarification:

- regarding the encumbrance status of collateral used for the RBA Term Funding Facility. While this may be less relevant for ongoing APG 210 Liquidity guidance, it is necessary for the transition to normalised self-securitisation levels over the next two years.
- that the return to the 10 per cent level is effective immediately and not upon the finalisation of APG 210.

Providing a reasonable timely period for self-securitisation uplift

APRA needs to extend the period outlined in the guidance to eight weeks to account for factors that are not within the control of individual ADIs such as third-party reliance and distribution cycle timing. This would avoid baking in unrealistic timelines into guidance.

Alternatively, APRA could consider outlining what is considered 'timely' in any future self-securitisation communications with the time outlined in the guidance as a baseline of six to eight weeks. This would allow APRA to tailor any expectations to the current stress event in its request (i.e. whether it is systemic or idiosyncratic) while having clear expectations on ADIs on timeframes.

COBA acknowledges APRA's expectation that MLH ADIs can increase self-securitisation levels on a "timely basis if needed in stress". This guidance, alongside the experience over the last few years will assist ADIs to prepare for timely self-securitisation upsizes more consistently with APRA's expectations. We note APRA's observation from the recent COVID-19 period that "most MLH ADIs took longer than expected to increase the size of their self-securitisations when asked to do so promptly". Following the COVID-19 stress period, many MLH ADIs have improved internal processes and capabilities regarding the speed of self-securitisation upsizing.

However, a standard one month timeframe in the APG 210 guidance is too short for smaller ADIs in a collective stress scenario where they are reliant upon many of the same third parties. Such a timeframe also does account for an individual ADI's distribution cycle.

Third party timeframes

Upsizing timeliness can be heavily dependent upon external third parties such as legal firms, ratings agencies, trustees, lenders' mortgage insurance providers, auditors, Austraclear and the RBA. These services cannot be insourced whether for due diligence or resourcing reasons. These third-party bottlenecks can compound when multiple ADIs are looking to do the same thing at the same time within a short timeframe. There will be at least 30 mutual ADIs looking to uplift in a systemic stress event. This number does not include any non-mutual MLH ADIs or LCR ADIs also looking to do the same. Many ADIs seeking the same providers will lead to longer response timed from these providers. This is beyond the control of individual ADIs.

Smaller ADI resourcing

A COBA member has outlined the following tasks required below that may not be able to be done concurrently to meet the proposed timeframe with smaller Treasury teams (or in smaller mutual ADIs even just Finance teams) and reliance on third parties. Staff may also be working on other liquidity and balance sheet priorities during a stress event. This supports the need for an extended implementation period.

- Assignment of LMI Policies to Trustee (2-4 weeks)
- Data cleansing for RBA reporting (1-2 weeks)
- Ratings process (2-4 weeks)
- Amending Trust Transaction Documents (including execution) (2-4 weeks)
- Engaging the Fixed Rate Swap provider and executing a swap (4-6 weeks)

Timing of APRA's request or trigger date

A trigger event's timing is an important factor to consider with timelines. Where a trigger date sits relative to an ADI's distribution date can make a significant difference in the ADI's ability to meet a one month timeframe given processes are built around the distribution date.

Given ADIs may have different distribution dates, this means the same request on the same date (i.e. an APRA request to industry) can lead to different implementation timeframes solely due to where the request sits in the ADI's distribution cycle. A COBA member notes it may be more practical to outline a timeframe aligned to the second distribution date after the trigger event (i.e. an APRA request).

In summary, COBA supports APRA's guidance to outline more consistent self-securitisation uplift expectations. However, MLH ADIs will require a longer uplift period given the factors outlined above.

If you wish to discuss any aspect of this submission, please contact Mark Nguyen (mnguyen@coba.asn.au).

Yours sincerely

MICHAEL LAWRENCE
Chief Executive Officer