

GUIDELINES ON ADDITIONAL REQUIREMENTS FOR FOREIGN AUTHORISED DEPOSIT TAKING INSTITUTIONS FOR THE PURPOSES OF SCHEDULE 2 – APPLICATION

Schedule 2 – Application requires foreign authorised deposit taking institutions (ADIs) to provide a statement that the guaranteed liabilities will not be used to support directly the foreign ADI outside Australia or the obligations of the parent or any non-Australian related entity of the foreign ADI (the requirement).¹ It also requires the foreign ADI to acknowledge that there may be periodic external verification that the requirement is being met.

This guidance provides clarification in relation to the requirement and associated reporting obligations.

In principle, the requirement is aimed at ensuring that amounts guaranteed under the *Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding* (the scheme) are used by the foreign ADI to support its lending or investment activities in Australia, including where necessary to replace existing nonguaranteed funding provided by third parties. Funding guaranteed under the scheme should not be used in a manner that increases deposits with or funding of the foreign ADI outside Australia or otherwise provides direct financial benefit to the foreign ADI's other operations or related entities, outside of Australia. Funding guaranteed under the scheme may be used to support lending or investment activities within Australia, including providing funding to the foreign ADI's other operations within Australia, or lending or investment activities within Australia by related entities.

Foreign ADIs should develop a policy with appropriate balance sheet measures, limits and triggers to ensure the requirement is met on an ongoing basis. The policy may be calibrated to minimise compliance costs when amounts issued by the ADI that are guaranteed under the scheme are small and require more extensive checking as the amount guaranteed rises beyond specified thresholds. In meeting the requirement, the foreign ADI must consider the variety of means through which it interacts with the other operations of the foreign ADI and its related entities, including but not limited to lending, deposits, liquidity and funding management, as well as investments, derivative transactions and purchases and sales of assets. Foreign ADIs that manage funding and liquidity centrally, for example, need to ensure that when they raise new guaranteed deposits or wholesale funding under the scheme, these are excluded from the amounts routinely placed on deposit with other offices outside Australia or entities of the foreign ADI group outside of Australia. Recognising the practical difficulty in tracking funds, where necessary the foreign ADI's policy may make reasonable simplifying assumptions about the use of its guaranteed funds. The policy should be provided to the Australian Prudential Regulation Authority (APRA). At a minimum, without in anyway limiting the scope of the requirement, the foreign ADI must ensure that:

- the foreign ADI's outstanding liabilities guaranteed under the scheme do not at any time exceed assets held on the domestic books² of its Australian branch excluding claims on related parties outside Australia.

The foreign ADI is required to report its compliance with this limit quarterly to APRA. It must also report any breach of this limit or other limits set out in its policy immediately to APRA.

¹ Foreign ADIs are branches of foreign banking organisations authorised to operate in Australia (see *Banking Act 1959*).

² As defined in APRA reporting form ARF 320.