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Managing Liquidity Risk: Opportunities and Challenges for Australian Superannuation Funds

April 2026

SUMMARY[1]

Assets managed by the Australian superannuation sector reached A$4.5 trillion in December 2025[2], equivalent to around 160% of Australia's GDP[3]. Given its size, the sector has rapidly expanded its global footprint, with the share of offshore investments growing as a proportion of overall portfolios. To manage the risks associated with those investments and to enhance returns, Australian superannuation funds have been increasing their use of derivatives.

The greater use of derivatives, along with other factors like growing allocations to unlisted assets, increased offshore investments and volatility in financial markets, means Australian superannuation funds need to closely monitor and manage their liquidity needs and recognize that demands for liquidity can suddenly spike during periods of stress

The greater use of derivatives, along with other factors like growing allocations to unlisted assets, increased offshore investments and volatility in financial markets, means Australian superannuation funds need to closely monitor and manage their liquidity needs and recognize that demands for liquidity can suddenly spike during periods of stress. Recent geopolitical and macroeconomic events, including conflict in the Middle East, pandemic-era disruptions, the Russia-Ukraine war and trade tensions, have shown how quickly market conditions can change, margin requirements can rise and calls for liquidity can materialize at short notice.

Liquidity demands for Australian superannuation funds are driven by a range of factors. These include daily member flows and switching, early-release-type policy changes, capital calls on unlisted assets, foreign exchange (FX) hedge rollovers and settlement, and margin calls on derivatives (exchange-traded, cleared and non-cleared) that require high-quality liquid assets (HQLA) to be posted at speed.

Funds should consider a range of strategies and tools to effectively manage liquidity demands and the associated risks. Strategies and tools may include arranging repo and committed liquidity facilities, building cash buffers, negotiating broader collateral eligibility where possible, deploying triparty infrastructure, optimizing FX hedging profiles and adopting risk-sensitive margin models, such as the ISDA Standard Initial Margin Model (ISDA SIMM) – in each case, in a manner compliant with the legislative and regulatory regime applicable to Australian superannuation funds.

Investing in operational readiness and resilience is critical. This requires superannuation funds to develop, maintain and implement effective frameworks, plans and procedures that reflect risk tolerance, portfolio composition and member needs, and put in place the systems and expertise to measure and manage liquidity needs under normal and stressed conditions. Diversifying trading relationships by spreading counterparty exposures, as well as avoiding single points of failure in banks, clearing members and custodians, should also be considered.

Taken as a whole, careful planning is needed to ensure an entity can access different products and funding structures across the cycle to meet demands for liquidity and achieve long-term

[1] This paper does not constitute legal advice and the information in this paper is for information purposes only. Readers are strongly recommended to obtain advice, in conjunction with such professional advisors as may be appropriate in the circumstances, for a definitive understanding of any topic discussed in this paper

[2] Australian Prudential Regulation Authority (APRA), *APRA releases superannuation statistics for December 2025* (February 26, 2026), www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-december-2025

[3] Reserve Bank of Australia (RBA), *Financial Stability Review – March 2026: 3.2 Non-Bank Financial Institutions (NBFIs)* (March 2026), www.rba.gov.au/publications/fsr/2026/mar/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

investment objectives. Sound liquidity risk management and access to legally robust and compliant strategies and tools can help mitigate the risk of being forced to sell assets in stressed market conditions to meet sudden liquidity needs – a situation that could be detrimental to investors – and instead facilitate the opportunity for countercyclical investments and allow Australian superannuation funds to perform an important stabilizing role in the Australian financial system in times of stress[4]. This will contribute to the resilience of Australian superannuation funds and the financial system more broadly, as the Australian superannuation sector continues to grow and play an increasingly important role on the world stage.

Key Considerations in Addressing Liquidity Risks

- Ensure governance arrangements (including valuation governance, investment governance and liquidity risk management) are robust, with early-warning indicators, stress testing, fire drills and actionable liquidity and default playbooks.
- Adopt a risk-sensitive model like the ISDA SIMM, with authorization from the Australian Prudential Regulation Authority (APRA). The ISDA SIMM is reviewed by global regulators and is widely adopted by global counterparties, ensuring consistency and efficiency in the calculation of initial margin (IM) and reducing the potential for disputes.
- Expand eligible collateral for non-cleared derivatives where possible and use triparty agents.
- Enhance operational resilience with automated margin workflows and round-the-clock coverage for global portfolios, based on industry standards like the Common Domain Model (CDM) to enhance interoperability.
- Arrange various liquidity facilities, including repos and securities lending, and diverse execution venues, in a manner that is compliant with Australian regulatory requirements.
- Diversify trading relationships and avoid single points of failure in banks, clearing members and custodians.
- Design appropriate hedging and trading strategies, taking a holistic approach to liquidity risk management.
- Manage member communications and member education to mitigate behavioral liquidity shocks.

[4] APRA, *System Risk Outlook* (November 20, 2025), www.apra.gov.au/system-risk-outlook-november-2025.

INTRODUCTION: WHY LIQUIDITY MATTERS FOR AUSTRALIAN SUPERANNUATION FUNDS

Increasing Volatility and Liquidity Demands

Macroeconomic and geopolitical events like the conflict in the Middle East, the COVID-19 pandemic and the Russia-Ukraine war have shown how external shocks can lead to significant market volatility, prompting sudden demands for liquidity.

At over A$4.5 trillion in assets as of December 2025, the Australian retirement system is the fourth largest in the world with assets equivalent to around 160% of Australia's GDP

For example, the onset of the COVID-19 pandemic in March 2020 caused a 'dash for cash', in which market participants sought liquidity simultaneously, leading to large-scale asset sales and money market fund redemptions as bank intermediation capacity dried up. In Australia, the early release of superannuation benefits during the pandemic accelerated cash demands for some funds. Meanwhile, a 'mini budget' in the UK in September 2022 caused a spike in gilt yields that triggered large collateral calls on liability-driven investment (LDI) strategies, which prompted further selling, ultimately requiring intervention by the Bank of England.

This paper explores issues that Australian superannuation funds should consider so they are prepared for potential increases in liquidity needs when participating in volatile markets. This has become more important as these entities become more global, diversify their asset holdings and become an increasingly significant part of the global financial system.

The Australian Superannuation Sector in Global Markets

At over A$4.5 trillion in assets as of December 2025[5], the Australian retirement system is the fourth largest in the world[6] with assets equivalent to around 160% of Australia's GDP[7]. Within a decade, it is forecast to become the second largest, with assets rising to approximately 180% of Australia's GDP and an overseas portfolio share approaching 75%[8]. Superannuation funds are "Australia's mega investors"[9], investing approximately A$3.14 billion in contributions each week[10].

The sector has become increasingly concentrated in recent years. Over the decade to September 2024, the number of superannuation funds regulated by APRA fell from 249 to 95, and the number of superannuation trustees dropped from 165 to 64[11]. Meanwhile, the total value of

[5] APRA, *APRA releases superannuation statistics for December 2025* (February 26, 2026), www.apra.gov.au/news-and-publications/apra-releases-superannuation-statistics-for-december-2025

[6] RBA, Andrew Hauser, deputy governor, *A Hedge Between Keeps Friendship Green: Could Global Fragmentation Change the Way Australian Investors Think About Currency Risk?* (September 16, 2025), www.rba.gov.au/speeches/2025/sp-dg-2025-09-16.html

[7] RBA, *Financial Stability Review – March 2026: 3.2 Non-Bank Financial Institutions* (NBFIs) (March 2026), www.rba.gov.au/publications/fsr/2026/mar/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

[8] RBA, Andrew Hauser, deputy governor, *A Hedge Between Keeps Friendship Green: Could Global Fragmentation Change the Way Australian Investors Think About Currency Risk?* (September 16, 2025), www.rba.gov.au/speeches/2025/sp-dg-2025-09-16.html

[9] Australian Securities and Investments Commission (ASIC), *Australia's Evolving Capital Markets: A Discussion Paper on the Dynamics between Public and Private Markets* (February 2025), download.asic.gov.au/media/44hh5ctv/australia-s-evolving-capital-markets-a-discussion-paper-on-the-dynamics-between-public-and-private-markets.pdf

[10] Super Members Council, *Australians' Super Savings on Track to Become Second Largest Globally by the early 2030s* (February 24, 2025), smcaustralia.com/news/australians-super-savings-on-track-to-become-second-largest-globally-by-the-early-2030s/#:~:text=Super%20Members%20Council%20analysis%20projects,a%20more%20financially%20secure%20future

[11] ASIC, *Australia's Evolving Capital Markets: A Discussion Paper on the Dynamics between Public and Private Markets* (February 2025), download.asic.gov.au/media/44hh5ctv/australia-s-evolving-capital-markets-a-discussion-paper-on-the-dynamics-between-public-and-private-markets.pdf

funds under management (FUM) of APRA-regulated funds increased from A$1.14 trillion to A$2.83 trillion[12].

The growth of FUM relative to the stock of domestic financial assets has meant that Australian superannuation funds are increasingly investing offshore.

As of December 2025[13]:

- Foreign equities represented more than half of the value of Australian superannuation funds' total equity holdings and 35.2% of Australian superannuation funds' total investments; and
- Foreign fixed-income assets represented a little under a third of the value of their total fixed-income investments and 5.3% of Australian superannuation funds' total investments.

The size and scale of the Australian superannuation sector bring immense opportunities in domestic and international markets but make the task of efficiently managing investment risks and ensuring access to necessary liquidity at volatile times even more important.

[12] ASIC, *Australia's Evolving Capital Markets: A Discussion Paper on the Dynamics between Public and Private Markets* (February 2025), download.asic.gov.au/media/44hh5ctv/australia-s-evolving-capital-markets-a-discussion-paper-on-the-dynamics-between-public-and-private-markets.pdf

[13] APRA, *Quarterly Superannuation Industry Publication* (December 2025, released March 11, 2026), www.apra.gov.au/quarterly-superannuation-industry-publication and www.apra.gov.au/sites/default/files/2026-03/Quarterly%20Superannuation%20Industry%20Publication%20-%20December%202025.xlsx. Note that this is based on entities with more than 6 members.

FACTORS GIVING RISE TO DEMANDS FOR LIQUIDITY BY AUSTRALIAN SUPERANNUATION FUNDS

The need for liquidity by Australian superannuation funds is shaped by a complex interplay of operational, investment, regulatory and market factors. As the sector has grown in size and sophistication, so too have the sources and magnitude of the demands for liquidity.

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The Reserve Bank of Australia (RBA) has noted that, when considering liquidity risk more generally, a number of factors will change in the superannuation system in the future, including: the rising ownership share of various asset classes in Australia; possible amplification of procyclicality in the superannuation industry through potential combinations of the increasing role of external advisors, methods of benchmark construction and member switching activities; increased margin calls from a growing FX hedge book; the rising share of assets in retirement phase; and wildcards such as early-release schemes[14].

Ordinary Business Demands

In the ordinary course of business, superannuation funds must manage liquidity to meet a variety of ongoing demands. Weekly inflows from contributions coexist with regular retirement payments and lump sum withdrawals, and the net effects of these flows can vary depending on the demographics of each fund. Member switching and choice, particularly procyclical switching to cash during periods of market stress, can also increase the need for liquidity. Additionally, investment operations, such as rebalancing, corporate actions and settlement cycles, require funds to maintain adequate cash buffers.

Increasing Overseas Exposures

Growth in the FUM of Australian superannuation funds and the corresponding increase in overseas investment means many funds are expanding their use of derivatives and other strategies to hedge their exposures and enhance returns.

The total notional value of the Australian superannuation fund derivatives book was estimated at A$900 billion as of October 2023[15], with FX hedges currently estimated at A$500 billion[16]. The RBA has projected that the FX hedge book of Australian superannuation funds could double in size over the next decade based on the anticipated increase in FUM, but it could exceed that if the proportion of overseas investments increases and the rising age of superannuation fund members over time prompts a larger share of portfolios to be invested in foreign currency fixed income assets, which tend to have higher hedge ratios than overseas

[14] RBA, Brad Jones, assistant governor, *Fireside Chat at the Investment Magazine 2026 Chair Forum* (February 4, 2026), www.rba.gov.au/speeches/2026/sp-ag-2026-02-04.html

[15] RBA, Marcus Robinson and Stefano Tornielli di Crestvolant, *Financial Stability Department, Financial Stability Risks from Non-bank Financial Intermediation in Australia* (April 18, 2024), www.rba.gov.au/publications/bulletin/2024/apr/financial-stability-risks-from-non-bank-financial-intermediation-in-australia.html

[16] RBA, Andrew Hauser, deputy governor, *A Hedge Between Keeps Friendship Green: Could Global Fragmentation Change the Way Australian Investors Think About Currency Risk?* (September 16, 2025), www.rba.gov.au/speeches/2025/sp-dg-2025-09-16.html

equity investments[17]. Appreciation of the Australian dollar against the US dollar may also cause funds to reassess and increase their hedge ratios[18].

Even if the proportion of FX hedging of international exposures by Australian superannuation funds remains static, the growth of FUM and the accompanying increase in the volumes invested overseas mean derivatives portfolios will continue to grow as superannuation funds look to hedge FX and other risks associated with their offshore investments.

As a result, the RBA has noted that exposure to rollover risk and margin calls may increase as the sector grows in size and FX hedging expands to mitigate market risk[19].

Funds can use FX forwards and swaps to hedge foreign currency exposures arising from offshore investments, as well as interest rate and equity derivatives to manage market risks. The RBA has noted that outright FX forwards are the main instrument used by superannuation funds to hedge currency risks on their offshore investments[20]. In some cases, options and other structured products can be employed to cap tail risks or implement more complex hedging strategies.

While derivatives can reduce mark-to-market volatility and help funds achieve their investment objectives, they can also introduce new sources of liquidity risk.

For example, short-dated FX instruments – which account for the majority of FX swaps turnover in Australia[21] – require frequent rolling and settlement. This can concentrate liquidity needs at specific points in time, such as the end of the month or the end of the quarter, and can create operational bottlenecks. During periods of market stress, FX basis can widen and roll costs can increase, meaning superannuation funds would need access to sufficient funds to cover the higher replacement costs.

The RBA has noted that the practice of using relatively short-term derivatives to hedge longer-term investments means superannuation funds are reliant on continuous access to FX derivatives markets to roll their hedges. If these markets become impaired and the cost of rolling FX hedges increases significantly during a period of stress, funds may either need to sell assets or leave their exposures unhedged[22].

[17] RBA, Andrew Hauser, deputy governor, *A Hedge Between Keeps Friendship Green: Could Global Fragmentation Change the Way Australian Investors Think About Currency Risk?* (September 16, 2025), www.rba.gov.au/speeches/2025/sp-dg-2025-09-16.html. Andrew Hauser notes that: "As super funds' members age over time, they are likely to demand greater certainty of returns, driving super fund portfolios away from equity and towards fixed income. But FX hedge ratios for foreign currency fixed income assets are typically much higher than those for equities, reflecting the very different shape of asset returns and correlations"

[18] All things being equal, an appreciation in the Australian dollar against the US dollar reduces the value of US-dollar-denominated holdings for Australian investors. According to the RBA, the superannuation fund sector increased its equity hedges in the June 2025 quarter in the face of a depreciation of the US dollar combined with a drop in US equity prices following the US 'Liberation Day' announcement of tariffs in April 2025, although the size of the increase was relatively small. RBA, Andrew Hauser, deputy governor, *A Hedge Between Keeps Friendship Green: Could Global Fragmentation Change the Way Australian Investors Think About Currency Risk?* (September 16, 2025), www.rba.gov.au/speeches/2025/sp-dg-2025-09-16.html

[19] RBA, *Financial Stability Review – October 2025: 3. Resilience of the Australian Financial System* (October 2025), www.rba.gov.au/publications/fsr/2025/oct/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

[20] RBA, Joel Findlay and Ronan McCarthy, Financial Markets Group, *Developments in Foreign Exchange and Over-the-counter Derivatives Markets* (February 26, 2026), www.rba.gov.au/publications/bulletin/2026/feb/developments-in-foreign-exchange-and-over-the-counter-derivatives-markets.html

[21] Foreign exchange swaps account for a majority of FX turnover in Australia, at around 53% of total turnover, with almost 75% of transactions less than seven days in duration - RBA, *2025 BIS Triennial Survey Results – Australia* (2025), www.rba.gov.au/media-releases/2025/mr-25-28-tables.html.

[22] RBA, Andrew Hauser, deputy governor, *A Hedge Between Keeps Friendship Green: Could Global Fragmentation Change the Way Australian Investors Think About Currency Risk?* (September 16, 2025), www.rba.gov.au/speeches/2025/sp-dg-2025-09-16.html

Margin requirements are also likely to increase during periods of higher volatility. While FX swaps and forwards are exempt from regulatory margin requirements, banks may require their superannuation fund counterparties to provide margin on a discretionary basis to reduce credit and capital charges as FX hedge books grow.

Derivatives Margin Requirements

Regulatory reforms implemented after the global financial crisis introduced mandatory clearing for standardized derivatives and margin requirements for non-cleared derivatives, requiring many firms to post IM and variation margin (VM) to mitigate counterparty credit exposures. According to the latest ISDA margin survey[23], the leading market participants held $1.5 trillion in IM and VM for their non-cleared derivatives exposures at the end of 2024, an increase of 6.4% versus the end of 2023. A further $389.8 billion of required IM was posted by all markets participants to central counterparties (CCPs) for their cleared interest rate derivatives and single-name and index credit default swap transactions at the end of 2024[24].

In Australia, margin rules for non-cleared derivatives[25] apply directly to many Australian superannuation funds (as well as other prudentially regulated entities, such as life insurers, general insurers and authorized deposit-taking institutions). The margin rules require daily VM and two-way segregated IM for in-scope portfolios, with strict eligibility criteria and haircuts for collateral. Requirements to provide margin within tight time frames can further limit the types of collateral commonly exchanged in the market.

According to the ISDA margin survey[26], cash is most typically used for regulatory VM for non-cleared derivatives on a global basis, making up 68.3% of all VM received by leading derivatives market participants. That represents a drop from 80% in 2020 as market participants have looked to extend the range of collateral that is used to meet VM requirements for non-cleared derivatives, with the proportion of government securities rising from 12.7% to 17.8% and other securities climbing from 7.4% to 13.8% over the same period[27]. However, some counterparties are reluctant to receive anything other than cash and certain government securities due to economic, capital and operational constraints.

For cleared derivatives, CCPs typically accept limited forms of collateral, particularly for VM, which must be in cash. These cash VM requirements can increase during stress events, while CCP margin add-ons and anti-procyclicality tools, which are designed to stabilize the system, can also result in higher IM needs, especially if wrong-way risk or concentration charges increase.

While these requirements are intended to ensure that posted assets are liquid, stable and readily enforceable if required, they create demands for HQLA that can be exacerbated in times of market turbulence. In particular, market participants may struggle to source cash in stressed market conditions when bank intermediation capacity may be constrained.

As well as having sufficient funds to meet margin calls, superannuation funds would also need to have systems and processes in place for receiving and paying interest on VM for non-cleared derivatives exposures, including facilities to deposit potentially large amounts of cash overnight.

[23] ISDA, *ISDA Margin Survey Year-End 2024* (May 2025), www.isda.org/2025/05/14/isda-margin-survey-year-end-2024/

[24] ISDA, *ISDA Margin Survey Year-End 2024* (May 2025), www.isda.org/2025/05/14/isda-margin-survey-year-end-2024/

[25] APRA Prudential Standard CPS 226 Margining and risk mitigation for non-centrally cleared derivatives

[26] ISDA, *ISDA Margin Survey Year-End 2024* (May 2025), www.isda.org/a/EyfgE/ISDA-Margin-Survey-Year-end-2024.pdf

[27] ISDA, *ISDA Margin Survey Year-End 2024* (May 2025), www.isda.org/2025/05/14/isda-margin-survey-year-end-2024/

Illiquid Asset Allocations and Member Withdrawals

Australian superannuation funds are expected to increase their allocation of capital to unlisted assets like property, infrastructure, private credit and private equity[28]. The International Monetary Fund has reported that illiquid exposures comprise more than 20% of total Australian superannuation fund assets on average[29]. These assets offer diversification benefits and the potential for higher returns, but they may pose challenges if they cannot be easily sold or converted to cash when funds need to meet member withdrawals or other liquidity demands.

Superannuation funds allow members to switch between investment options, including those with illiquid assets, and members have the right to switch between superannuation funds. This can create a mismatch between the liquidity of the underlying assets and the redemption terms offered to members. In periods of market stress, the burden of meeting liquidity needs may fall disproportionately on the more liquid parts of the portfolio, such as cash and government bonds. This can lead to forced sales at unfavorable prices or the need to engage in expensive collateral transformation trades.

Market Conditions

The continued safe and efficient functioning of financial markets and the willingness of intermediaries to enter into transactions and provide liquidity are often critical for a fund to be able to meet its obligations. However, liquidity premia and haircuts are not static – they widen in volatile markets as dealers and banks ration balance sheet capacity. Bid-ask spreads can widen, repo and securities lending capacity can contract and indemnity costs (including in relation to agency securities lending programs) can rise. Even funds holding high-quality securities may find it difficult to access same-day cash at scale if market functioning is impaired. The experience of March 2020, when global markets experienced a sudden and severe liquidity crunch, underscores the importance of maintaining access to multiple sources of liquidity and having committed facilities in place before they are needed.

The Dash for Cash

In February 2020, the onset of the COVID-19 pandemic sparked a reassessment of financial asset values, along with a 'flight to safety' or 'flight to quality' by investors. As the shock intensified in the second week of March 2020, this flight-to-quality became a global dash for cash, as investors looked to sell sovereign bonds to meet redemptions and margin calls and to build cash buffers[30].

These actions strained funding markets and increased demand for intermediation. But with dealers unable or unwilling to expand intermediation capacity, bid-ask spreads and premiums on repo borrowing widened significantly[31]. These actions occurred across advanced economy sovereign bond markets, causing bond yields to spike and market functioning to deteriorate broadly and sharply, prompting central banks to intervene via asset purchases to restore order.

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[28] APRA, *Governance of Unlisted Asset Valuation and Liquidity Risk Management in Superannuation* - December 2024, www.apra.gov.au/governance-of-unlisted-asset-valuation-and-liquidity-risk-management-superannuation-december-2024

[29] International Monetary Fund, *Global Financial Stability Report* (October 2024), www.imf.org/en/Publications/GFSR/Issues/2024/10/22/global-financial-stability-report-october-2024

[30] Federal Reserve Bank of New York, *The Global Dash for Cash: Why Sovereign Bond Market Functioning Varied across Jurisdictions in March 2020* (March 2022), www.newyorkfed.org/research/staff_reports/sr1010

[31] Bank of England, *The Role of Non-Bank Financial Intermediaries in the 'Dash for Cash' in Sterling Markets* (June 25, 2021), www.bankofengland.co.uk/financial-stability-paper/2021/the-role-of-non-bank-financial-intermediaries-in-the-dash-for-cash-in-sterling-markets; Federal Reserve Bank of New York, *The Global Dash for Cash: Why Sovereign Bond Market Functioning Varied across Jurisdictions in March 2020* (March 2022), www.newyorkfed.org/research/staff_reports/sr1010

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The Australian dollar depreciated by 14% in the first half of March 2020, causing superannuation funds to post A$18 billion in margin on FX swaps. Funds partly managed this by selling a portion of their foreign assets, which had gained in value due to FX movements[32].

Policy and Regulatory Changes

Policy and regulatory changes can create sudden liquidity needs for superannuation funds. For example, early-release measures introduced in Australia during the pandemic allowed member withdrawals in certain circumstances[33], which required funds to access cash rapidly. Changes in regulation and CCP rule books – such as adjustments to margin regimes, CCP margin add-ons or shifts in collateral policy – could also impact a fund's liquidity requirements, potentially with little notice.

Australia's Early Release Scheme

Eligible individuals financially affected by COVID-19 were able to apply to the Australian Tax Office (ATO) between April 20, 2020 and December 31, 2020 to access:

- Up to A$10,000 of their superannuation balance during the 2019-20 financial year (July 1, 2019 to June 30, 2020); and
- Up to A$10,000 of their superannuation balance between July 1 and December 31, 2020.

The ATO approved 4.55 million applications for 3.05 million people, totaling A$37.8 billion of superannuation for early release[34]. Over A$6 billion was withdrawn in the first two weeks of the scheme[35]. This required funds to hold a significant amount of cash to facilitate this release.

In response to this scheme and other factors due to the pandemic, superannuation funds substantially increased their liquidity. The RBA has noted that aggregate cash balances increased by A$51 billion over the March 2020 quarter and that "this accumulation of cash occurred in an environment of heightened demand for liquidity across the financial system and reduced depth in various markets"[36]. To fund the move into cash, funds sold bonds, foreign equities and equity interests in investment funds[37].

[32] RBA, *The Future Size of the Super Sector: External Estimates* (December 2, 2024), www.rba.gov.au/information/foi/disclosure-log/pdf/242512.pdf

[33] Australian Tax Office (ATO), COVID-19 Early Release of Super (August 2023), www.ato.gov.au/about-ato/research-and-statistics/in-detail/super-statistics/early-release/covid-19-early-release-of-super

[34] The ATO notes that amounts approved for release may differ to amounts released by superannuation funds, because superannuation funds only release amounts available in the relevant superannuation account. ATO, *COVID-19 Early Release of Super* (August 2023), www.ato.gov.au/about-ato/research-and-statistics/in-detail/super-statistics/early-release/covid-19-early-release-of-super

[35] APRA, *The superannuation Early Release Scheme: Insights from APRA's Pandemic Data Collection*, www.apra.gov.au/superannuation-early-release-scheme-insights-from-apra%E2%80%99s-pandemic-data-collection

[36] RBA, *Financial Stability Review – April 2021 Box C: What Did 2020 Reveal About Liquidity Challenges Facing Superannuation Funds?*, www.rba.gov.au/publications/fsr/2021/apr/box-c-what-did-2020-reveal-about-liquidity-challenges-facing-superannuation-funds.html

[37] RBA, *Financial Stability Review – April 2021 Box C: What Did 2020 Reveal About Liquidity Challenges Facing Superannuation Funds?*, www.rba.gov.au/publications/fsr/2021/apr/box-c-what-did-2020-reveal-about-liquidity-challenges-facing-superannuation-funds.html

Time Zones and Cross-border Operations

Increasing offshore investments and arrangements with overseas counterparties leads to the operational challenge of managing liquidity across multiple time zones and jurisdictions. Depending on the arrangements with a counterparty or location of the CCP, margin calls can arise overnight in Australia, requiring collateral to be mobilized across custodians and markets within tight time frames. Settlement holidays and differences in market conventions can further complicate the timely movement of cash and securities.

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This can create challenges for funds that might have sufficient liquid assets but may be practically unable to meet their obligations. Investments in technology, process automation based on common industry standards and the use of service providers, including collateral managers, triparty agents and custodians, will be increasingly important to help manage these cross-border frictions.

KEY CONSIDERATIONS FOR AUSTRALIAN SUPERANNUATION FUNDS IN ACCESSING LIQUIDITY

Australian superannuation funds should take several issues into account when developing liquidity management tools and programs. These can be grouped into four broad categories: legal, regulatory, structural and commercial.

Legal Considerations

The legal landscape in which prudentially regulated Australian superannuation funds operate is complex and there are several issues that can affect the demand for, and ability to access, liquidity.

Restrictions on Borrowing and Granting Security

Regulated superannuation funds in Australia are not permitted to borrow money except in limited circumstances, such as for short-term settlement bridging or limited recourse borrowing arrangements for specific asset acquisitions[38]. Additionally, regulated superannuation funds are not permitted to grant security over the assets of the fund, with limited carve outs. This means they are not able to easily access cash liquidity through traditional borrowing arrangements (such as secured borrowing) and debt instruments available to other financial market participants, unless the borrowing or grant of security complies with the requirements set out in the Superannuation Industry (Supervision) Act 1993 (Cth) (SIS Act) and Superannuation Industry (Supervision) Regulations 1994 (Cth) (SIS Regulations).

While restrictions on the granting of security by superannuation trustees over the assets of their funds were amended in 2016 to facilitate compliance with international margin requirements for non-cleared over-the-counter (OTC) derivatives and to enable Australian superannuation funds to access parts of the US OTC derivatives markets, these carve outs are limited in scope and do not extend to security granted by a superannuation trustee in respect of other financial market arrangements, such as securities lending arrangements or repos. As a result, liquidity tools that rely on secured borrowing or pledges should be carefully considered to ensure compliance with SIS Act requirements.

Generally speaking, repo transactions on customary terms structured as a transfer of absolute title and subsequent repurchase of equivalent securities and used for liquidity purposes should not be characterized as borrowing or as a loan of money, provided all necessary requirements in connection with the transfer of the securities under all applicable laws are met

The repo market, in particular, is widely used globally as a liquidity management tool, enabling firms to quickly transform assets into cash to meet margin calls. For superannuation funds, it is important to ensure that the use of repos in any particular circumstance complies with the borrowing restrictions under the SIS Act. Generally speaking, repo transactions on customary terms structured as a transfer of absolute title and subsequent repurchase of equivalent securities (which is the customary structure for repos in the Australian market) and used for liquidity purposes should not be characterized as borrowing or as a loan of money, provided all necessary requirements in connection with the transfer of the securities under all applicable laws are met.

[38] Section 67 of the *Superannuation Industry (Supervision) Act 1993* (Cth) (SIS Act) and Regulation 13.15 of the *Superannuation Industry (Supervision) Regulations 1994* (Cth) (SIS Regulations)

However, courts will look to the substance and legal nature of the arrangement, not merely its form or economic effect, and could recharacterize a transaction as a secured loan if the documentation or the conduct of the parties indicates that was their true intention. Careful drafting of repo agreements, adherence to the terms of those agreements and consideration of the Australian legislative and regulatory framework are critical to mitigate the risk of recharacterization of repo arrangements.

The Australian government and APRA could consider publicly confirming this position to ensure the market can confidently use available tools to manage liquidity needs to effectively respond to a stress scenario and not amplify stress.

Statutory Protections

Statutory protections under Australia's Payment Systems and Netting Act 1998 (Cth)[39] (Netting Act), including in relation to the protection of enforcement of security granted in connection with obligations owed under close-out netting contracts, do not apply uniformly across all product types. For example, protection provided to the enforcement of security[40] does not apply (among other things) to obligations under:

- A margin lending facility or other credit facilities;
- Repos, sell buybacks or securities loans; or
- Managed investment schemes, leases, licenses, guarantees or contracts of insurance.

Access to and reliance on legal opinions on the effectiveness of close-out netting and the validity of collateral arrangements can enhance certainty for superannuation funds regarding the effectiveness of the relevant close-out netting and collateral provisions on a counterparty's insolvency or other default, and support margining processes

This can affect the arrangements that are entered into and introduce additional legal complexity in the event of a counterparty default, depending on the circumstances.

Cross-border Considerations

The global nature of derivatives and financial market transactions can give rise to complex conflicts-of-laws and cross-border custody and characterization considerations. Collateral arrangements, repos and securities lending transactions have different legal terms and can have varying legal and regulatory characteristics across jurisdictions, leading to conflicts of law, local insolvency risks and even potential breaks in the custody chain.

For example, IM arrangements for non-cleared derivatives lead to complex arrangements involving custodians, assets held in various ways and in different locations, and security interests granted under a range of laws. These arrangements can make timely enforcement on a counterparty default more complicated and require legal, operational and commercial expertise across multiple legal systems and jurisdictions.

[39] Payments Systems and Netting Act 1998 (Cth), www.legislation.gov.au/C2004A00338/latest/text

[40] Where applicable, the Netting Act applies despite any other law, albeit subject to "specified stay provisions". The enforcement of security, which is protected under the Netting Act (assuming the requirements for the protection are met), is not to be void or voidable in the "external administration" of a party to the contract. Relevantly, the protection of the enforcement of security (including the protection against the enforcement being void or voidable) applies despite:

(i) The creation of any encumbrance, or any other interest, in relation to the financial property secured; or

(ii) The operation of any encumbrance, or any other interest, in relation to that financial property, in contravention of a prohibition in the contract or in the protected security

Access to and reliance on legal opinions on the effectiveness of close-out netting and the validity of collateral arrangements can enhance certainty for superannuation funds regarding the effectiveness of the relevant close-out netting and collateral provisions on a counterparty's insolvency or other default, and support margining processes.

Regulatory Considerations

Cross-product Netting

In addition to the limitations of statutory protections available in respect of the enforcement of security across different arrangements, the limited availability of cross-product netting between derivatives and securities financing transactions, such as repos and securities lending, may also be relevant to liquidity risk management[41]. These structural limitations are reinforced by prudential capital frameworks applied to bank counterparties, including the standardized approach for counterparty credit risk (SA-CCR). While SA-CCR does not apply directly to Australian superannuation funds, it materially influences the capacity and pricing of banks providing derivatives and securities financing services. In particular, SA-CCR generally does not permit cross-product netting between derivatives and securities financing transactions, resulting in higher capital requirements for banks when exposures cannot be offset across product classes. This highlights that liquidity risk cannot be assessed on a product-by-product basis in isolation. Instead, a holistic trading book approach that integrates legal netting, prudential capital treatment and operational liquidity is critical to accurately assessing and managing liquidity risk.

Public and Private Markets

The Australian Securities and Investments Commission (ASIC) focuses closely on private markets in Australia. As part of that focus, it is considering the role of superannuation in the growth of private investment activity, along with the implications of this growth for the superannuation industry[42]. For example, ASIC has stated:

"The size of Australian superannuation funds influence our capital markets and will likely drive the further growth of private markets, embedding them into the structure of our economy. With superannuation now one of the most important assets in a working Australian's life, it underpins Australians' wealth." [43]

While the number of APRA-regulated superannuation funds dropped from 249 to 95 between 2014 and 2024, the market share of the 10 largest superannuation funds rose from 52% to 65%[44]. For the five largest superannuation funds, market share increased from 32% to 44%[45]. These large superannuation funds often need bigger investments to make meaningful portfolio allocations. Given the size of the Australian public equity market and drive for diversity, ASIC has noted that Australian superannuation funds make significant use of private assets. The ASIC paper observed that, according to reports submitted to APRA, superannuation funds allocate between 0% and 38% of their total assets – comprising a mix of cash, public assets and private assets – to private assets[46].

[41] ISDA, *Safe, Efficient Markets for SFTs* (March 2026), www.isda.org/2026/03/12/safe-efficient-markets-for-sfts/

[42] Association of Superannuation Funds of Australia, *ASIC Corporate Plan 2024-25: Superannuation Focus Areas* (September 13, 2024), www.superannuation.asn.au/asic-corporate-plan-2024-25-superannuation-focus-areas/

[43] ASIC, *Australia's Evolving Capital Markets: A Discussion Paper on the Dynamics between Public and Private Markets* (February 2025), download.asic.gov.au/media/44hh5ctv/australia-s-evolving-capital-markets-a-discussion-paper-on-the-dynamics-between-public-and-private-markets.pdf

[44] ASIC, *Australia's Evolving Capital Markets: A Discussion Paper on the Dynamics between Public and Private Markets* (February 2025), download.asic.gov.au/media/44hh5ctv/australia-s-evolving-capital-markets-a-discussion-paper-on-the-dynamics-between-public-and-private-markets.pdf

[45] ASIC, *Australia's Evolving Capital Markets: A Discussion Paper on the Dynamics between Public and Private Markets* (February 2025), download.asic.gov.au/media/44hh5ctv/australia-s-evolving-capital-markets-a-discussion-paper-on-the-dynamics-between-public-and-private-markets.pdf

[46] ASIC, *Australia's Evolving Capital Markets: A Discussion Paper on the Dynamics between Public and Private Markets* (February 2025), download.asic.gov.au/media/44hh5ctv/australia-s-evolving-capital-markets-a-discussion-paper-on-the-dynamics-between-public-and-private-markets.pdf

ASIC is continuing to monitor and consider whether there is a need for strategic interventions to address risk or adjust how regulation operates in the interests of Australian capital markets. A September 2025 paper commissioned by ASIC considered the most sophisticated superannuation funds in the context of private credit investments, but went on to note:

"It is important to consider the governance of all superannuation funds in relation to private credit, regardless of size and sophistication. Regardless of third-party advice and recommendations, fund trustees need to ensure that they are sufficiently aware and educated about the nature and risks of their private credit investing…"[47]

Recognizing this significant use of private assets, APRA has reinforced its expectations on valuation governance, investment governance and liquidity risk management for superannuation funds investing in unlisted assets[48].

APRA has recognized that holdings of unlisted assets by superannuation funds are expected to increase and has noted that addressing risks related to valuation governance and liquidity management is critical for the industry and a priority area for APRA

Liquidity Management

APRA has recognized that holdings of unlisted assets by superannuation funds are expected to increase and has noted that addressing risks related to valuation governance and liquidity management is critical for the industry and a priority area for APRA[49].

In January 2023, APRA updated Prudential Standard SPS 530 Investment Governance (SPS 530), which enhances requirements for valuations and liquidity management. It subsequently conducted a thematic review that was published in December 2024. APRA noted that it found the findings of the review concerning and indicative of the need for a continued drive to lift practices across the industry, identifying 12 of the 23 in-scope registrable superannuation entity (RSE) licensees reviewed as requiring material improvement in their valuation governance and/or liquidity risk frameworks[50].

In relation to liquidity risk management, the thematic review highlighted weaknesses in the areas of:

- Trigger frameworks for potential liquidity stress;
- Management of potential liquidity risks relating to unlisted assets; and
- Liquidity action plans.

The RBA has noted that liquidity shocks could emerge in a variety of ways, including in connection with FX hedging, investments in unlisted assets that are difficult to liquidate quickly, exposure to abrupt and unexpected system-wide early member withdrawals and additional withdrawals from members in retirement.

If several risks materialize simultaneously, the RBA has noted that funds might need to secure liquidity in ways that could amplify financial market stress[51], including by engaging in fire sales of assets at the same time as many others in the market if they misjudge their liquidity needs

[47] ASIC, *Private Credit in Australia* (September 9, 2025), download.asic.gov.au/media/z2tnnasb/rep814-published-22-september-2025.pdf

[48] APRA, *System Risk Outlook* (November 20, 2025), www.apra.gov.au/system-risk-outlook-november-2025

[49] APRA, *Corporate Plan 2024-25*, www.apra.gov.au/apra-corporate-plan-2024-25

[50] APRA, *Governance of Unlisted Asset Valuation and Liquidity Risk Management in Superannuation* - December 2024, www.apra.gov.au/governance-of-unlisted-asset-valuation-and-liquidity-risk-management-superannuation-december-2024#footnote-1

[51] RBA, *Financial Stability Review – October 2025: 3. Resilience of the Australian Financial System* (October 2025), www.rba.gov.au/publications/fsr/2025/oct/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

during extreme but plausible shocks[52]. APRA commenced its first exploratory system risk stress test in 2025 (in which four large banks and six large superannuation funds are participating), with a view to gaining a better understanding of potential stress transmission channels between the superannuation sector and banks during a significant and sustained financial market disruption and a major operational risk event.

APRA's key findings from its analysis of responses from the first phase of this stress test include:

- *"The superannuation industry was able to maintain enough cash and liquid assets to meet requests from members and other obligations during the stress. However, in doing so super funds needed to make significant changes to their asset portfolios, and this rebalancing had a disproportionate impact on some members.*

- *Banks experienced significant liquidity stress because of a large and sudden withdrawal of deposits and other forms of funding. This included withdrawals by super funds. However, each bank was able to demonstrate actions that ensured they could restore liquidity levels and continue to meet their financial obligations when due.*

- *Participants' responses to restore liquidity levels had some impact on markets. For super funds this included large transactions in international and domestic listed assets, with limited transactions in unlisted assets. There was also a relatively modest impact on foreign exchange margins and settlement in the scenario.*

- *Despite experiencing their own financial pressures, super funds were able to continue to provide capital needed to support the solvency of banks in the scenario. The methods and approaches of responding differed across super funds depending on their business models and internal structures.*

- *The operational shock exacerbated the impact of the stress. The shock meant that banks and super funds were unable to trade securities for a period of time. The impact was greater on banks as it coincided with their liquidity stress in the scenario. Super funds were relatively less impacted, but the exercise highlighted areas of development in their operational responses."*[53]

The RBA has stated that while this test found that large banks and superannuation funds were able to raise and maintain liquidity under a specific severe but plausible shock to financial markets and the domestic economy, it also showed that liquidity stress at individual banks could arise from superannuation funds (and other entities) rapidly withdrawing funds[54].
In addition, APRA and the RBA noted that participants in the test applied a wide range of assumptions that varied both within and between industries, including expectations about how other counterparties would respond in stress. This reflects the need for superannuation funds to closely consider the assumptions underpinning liquidity action playbooks and decision-making in stressed scenarios.

[52] RBA, *Financial Stability Review – March 2026: 3.2 Non-bank financial institutions (NBFIs)* (March 2026), www.rba.gov.au/publications/fsr/2026/mar/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

[53] APRA, *System Risk Outlook* (November 20, 2025), www.apra.gov.au/system-risk-outlook-november-2025. APRA stated: "In Phase 1, participants in the stress test were asked to consider the impact of a 'severe but plausible' shock in financial markets and the domestic economy, as well as an operational disruption. The scenario also included some idiosyncratic factors that affected banks and super funds differently. The stress scenario itself was 12 months in duration and was designed in consultation with industry. It assumed no change in government policy or exceptional support."

[54] RBA, *Financial Stability Review – March 2026: 3.2 Non-bank financial institutions (NBFIs)* (March 2026), www.rba.gov.au/publications/fsr/2026/mar/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

Considering the Impact of Liquidity on Recovery and Exit and Resolution Planning

Prudential Standard CPS 190 Recovery and Exit Planning (CPS 190) commenced on January 1, 2025 for RSE licensees. This standard requires RSE licensees to contemplate events that may threaten their financial viability, develop plans to ensure they can successfully navigate these events and maintain any capabilities needed to deploy these plans.

The relevant plans comprise two separate and distinct aspects – recovery planning and exit planning – and are required to be integrated into a RSE licensee's risk management framework.

There is also a connection between recovery and exit planning and Prudential Standard CPS 900 Resolution Planning (CPS 900). Under CPS 900, APRA may require certain large and complex entities to support the regulator in the development of a bespoke resolution plan. The resolution plan would set out steps that APRA may take to resolve an entity in the event of its non-viability[55].

Superannuation funds should carefully consider the impact of liquidity requirements and potential barriers to accessing liquidity on these recovery and exit plans and in any resolution planning conducted with APRA. APRA has noted that a prudent trigger framework would include a variety of indicators of stress, based on both actual and forecast outcomes. Such indicators could include measures of economic stress, balance sheet or cashflow vulnerabilities, operational risk events or sustainability concerns, as relevant to the risk profile of the entity[56].

Superannuation funds should also consider their obligations under APRA's prudential framework more broadly, ensuring their internal processes and procedures are robust and can adequately react to periods of market stress and liquidity strains. This includes risk management frameworks, including under Prudential Standard SPS 220 Risk Management, and the liquidity management plans and comprehensive liquidity stress testing under SPS 530.

Structural Considerations

There are several structural issues that should be considered when accessing liquidity, including market infrastructure, operational processes and the composition of fund portfolios.

Limited Access to Liquidity Facilities

Superannuation funds may not be able to easily access cash liquidity through traditional borrowing arrangements (such as secured borrowing) and debt instruments available to other financial market participants, unless the borrowing or grant of security complies with the requirements set out in the SIS Act and SIS Regulations. Unlike banks, Australian superannuation funds also generally cannot access the RBA for emergency liquidity, including intraday, overnight and open repos[57]. In times of market stress, they may be forced to rely on bank-intermediated access, which is subject to the balance sheet constraints and risk appetites of dealers and may be adversely affected in times of volatility and stress – the very time that funds most need this access.

Based on analysis of previous stresses, including the March 2020 dash for cash, the Bank of England has noted that dynamics in government bond repo markets can generate risks to market functioning

[55] Prudential Practice Guide CPG 190 Recovery and Exit Planning May 2023 (CPG 190) paragraph 4

[56] CPG 190 paragraph 20

[57] Authorized superannuation funds are not eligible, unless they were counterparties prior to September 23, 2019. See RBA, *Domestic Market Operations and Liquidity Facilities: Technical Notes* (June 5, 2020), www.rba.gov.au/mkt-operations/resources/tech-notes/eligible-counterparties.html

and financial stability[58]. Evidence shows that market volatility is often associated with increased demand for liquidity from market participants to meet margin calls or redemptions or to absorb de-risking and deleveraging flows, according to the Bank of England. At the same time, evidence from past stresses suggests that, during periods of high volatility, traditional liquidity providers like banks may be limited in their ability or willingness to intermediate in cash government bond and repo markets, including providing liquidity via gilt repo. The Bank of England has stated that "[t]hese demand-supply imbalances could trigger behaviors that amplify market stress"[59].

Australian superannuation funds will need to ensure they have sufficient resources to meet their liquidity needs. As the RBA has noted, these appear manageable today but will grow over time as the hedge book increases in size[60]. A common practice is to use relatively short-term derivatives to hedge longer-term investments, meaning superannuation funds are reliant on continuous access to functioning FX derivatives markets, the RBA has observed[61]. If these markets become dislocated or prohibitively expensive, funds may need to sell foreign assets or leave foreign currency exposures unhedged, which may be undesirable. Liquidity pressures could also be created if system-wide early withdrawals and additional withdrawals from members in retirement occur abruptly and unexpectedly[62].

Credit, Concentration and Other Limits

The growth of Australian superannuation funds and the sector as a whole increases the likelihood that funds may hit credit, concentration and other limits with their existing counterparties, which may hinder their ability to transact new hedges critical to risk management. An overreliance on a small number of counterparties can impact the ability of funds to respond to liquidity demands during periods of stress, particularly if those counterparties face their own capacity constraints. Dealer balance sheet constraints at times of stress can also reduce the availability of repo transactions and widen haircuts, limiting the ability of funds to raise cash even if they hold high-quality assets. Funds should distinguish between theoretical liquidity and operationally available liquidity across time zones and infrastructures.

Collateral Infrastructure

Fragmented collateral infrastructure can introduce further challenges. If treasury, collateral management and custody functions operate in silos, the visibility and mobilization of collateral could be slowed. Without appropriate systems or provisions that enhance automation using harmonized data structures and interoperable workflows – leveraging third-party providers where appropriate – funds could find it more difficult to meet time-critical margin calls, particularly when these arise across different time zones.

Manual processes, inconsistent data and mismatches in cut-off times can all contribute to operational bottlenecks. The RBA has noted that ensuring operational resilience in APRA-regulated funds, including

[58] Bank of England, *Enhancing the Resilience of the Gilt Repo Market* (September 4, 2025), www.bankofengland.co.uk/paper/2025/discussion-paper/enhancing-the-resilience-of-the-gilt-repo-market

[59] Bank of England, *Enhancing the Resilience of the Gilt Repo Market* (September 4, 2025), www.bankofengland.co.uk/paper/2025/discussion-paper/enhancing-the-resilience-of-the-gilt-repo-market

[60] RBA, Andrew Hauser, deputy governor, *A Hedge Between Keeps Friendship Green: Could Global Fragmentation Change the Way Australian Investors Think About Currency Risk?* (September 16, 2025), www.rba.gov.au/speeches/2025/sp-dg-2025-09-16.html

[61] RBA, Andrew Hauser, deputy governor, *A Hedge Between Keeps Friendship Green: Could Global Fragmentation Change the Way Australian Investors Think About Currency Risk?* (September 16, 2025), www.rba.gov.au/speeches/2025/sp-dg-2025-09-16.html

[62] RBA, *Financial Stability Review – April 2025: 3. Resilience of the Australian Financial System* (April 2025), www.rba.gov.au/publications/fsr/2025/apr/resilience-of-the-australian-financial-system.html

their outsourced operations, is critical and that "[d]isruptions at key third-party service providers can affect many funds and have a systemic impact"[63]. It remains vital that funds can get the right amount of the right type of collateral in the right place at the right time. Various events in recent years, such as the UK gilt crisis, have demonstrated that this does not always happen in stressed market conditions.

Portfolio Composition

The composition of fund portfolios can also be a key factor in determining the ease with which a fund can readily access required liquidity, as high allocations to unlisted and alternative assets reduce the pool of assets that can be readily monetized in times of need. Offshore holdings further complicate matters by introducing settlement frictions and currency conversion requirements, which can delay or hinder the ability to access liquidity quickly.

Interconnectedness

Interconnectedness with banks and financial market infrastructures can create potential feedback loops that could amplify liquidity risk. Superannuation funds hold significant volumes of bank paper and rely on banks as dealers and liquidity providers. In times of stress, funds may sell bank debt back to issuers to raise cash, adding to bank funding pressures and potentially triggering broader market disruptions. The RBA has noted that superannuation funds play a significant role in financial markets – the sector accounts for approximately 28% of all financial system assets in Australia[64] – and financial system stress could be magnified if superannuation funds face severe liquidity stress[65]. "Unexpected liquidity calls – including capital calls on private asset exposures, abrupt policy shifts (like the introduction of the early release scheme) or margin calls on foreign exchange hedges – could lead to synchronized asset sales in some domestic markets as funds attempt to raise cash quickly," the RBA has observed[66].

As of April 2025, approximately 48% of assets held by APRA-regulated funds were invested in foreign assets, mostly protected against losses related to currency movements with FX hedges[67]. As a result, the RBA has noted that "[a] large, sustained decline in the Australian dollar could drain liquidity through margin calls and renewal of foreign exchange hedges. Similarly, increased member transfers between funds could cause the sector to sell assets to increase cash holdings as a buffer against future transfers"[68].

Australian regulators have commented that the superannuation sector's significant growth, rising interconnectedness with banks and increasing footprint in financial markets creates new risks, including the ability to amplify shocks[69]. Australian domestic banks' funding exposure to superannuation funds, and the sector's asset exposure to banks, is much higher than overseas.

[63] RBA, *Financial Stability Review – April 2025: 3. Resilience of the Australian Financial System* (April 2025), www.rba.gov.au/publications/fsr/2025/apr/resilience-of-the-australian-financial-system.html

[64] RBA, Financial Stability Review – October 2025: 3.2 Non-bank Financial Institutions (October 2025), www.rba.gov.au/publications/fsr/2025/oct/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

[65] RBA, *Financial Stability Review – October 2025: 3.2 Non-bank Financial Institutions* (October 2025), www.rba.gov.au/publications/fsr/2025/oct/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

[66] RBA, *Financial Stability Review – September 2024: 3.2 Non-bank Financial Institutions* (September 2024), www.rba.gov.au/publications/fsr/2024/sep/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-and-financial-market-infrastructures-fmis

[67] RBA, *Financial Stability Review – April 2025: 3. Resilience of the Australian Financial System* (April 2025), www.rba.gov.au/publications/fsr/2025/apr/resilience-of-the-australian-financial-system.html

[68] RBA, *Financial Stability Review – April 2025: 3. Resilience of the Australian Financial System* (April 2025), www.rba.gov.au/publications/fsr/2025/apr/resilience-of-the-australian-financial-system.html

[69] RBA, *Financial Stability Review – September 2024: 3.2 Non-bank Financial Institutions* (September 2024), www.rba.gov.au/publications/fsr/2024/sep/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-and-financial-market-infrastructures-fmis

As of January 2025, the Australian superannuation industry held 35%-45% of short-term bank debt in Australia (an increase from approximately 5% during the 2008-2009 financial crisis)[70]. APRA and the RBA have identified the holding of bank bills by superannuation funds as a key potential source of transmission of liquidity risk from the superannuation sector to banks. A recent illustration occurred during the onset of the pandemic when superannuation funds increased their sale of bank debt securities back to issuing banks, adding to bank funding pressures – in turn, increasing funding costs across the financial system.

The superannuation sector's significant growth, rising interconnectedness with banks and increasing footprint in financial markets creates new risks, including the ability to amplify shocks

Importantly, the RBA has also observed that, conceptually, the superannuation industry in Australia is well placed to act as a countercyclical stabilizing force in Australia's financial system[71], including when volatility spikes and asset prices fall, pointing to steady inflows from compulsory member contributions, the fact that member returns are not guaranteed, their long investment horizons, the lack of leverage and the absence of run risk. This is in contrast with some other countries, such as the UK, where leverage in defined benefit pension funds was a key driver of stress in the government bond market in September 2022. These themes were also highlighted in APRA's first exploratory system risk stress test in 2025 and key findings from its analysis of responses from the first phase of that stress test.

The 2022 Gilt Crisis

The UK gilt crisis – while caused by specific circumstances in the UK – illustrates the importance of operational resilience and liquidity planning for superannuation funds. Fiscal measures announced by the UK prime minister in September 2022 caused UK sovereign debt (gilt) prices to fall sharply. This drop in prices affected the mark-to-market of derivatives positions and reduced the value of gilts that had been used as collateral for repo and derivatives positions. Highly leveraged LDI[72] strategies of certain UK pension funds and asset managers meant those funds and managers were forced to quickly sell gilts in exchange for cash to provide as margin[73], leading to further deterioration in gilt prices, additional margin calls and more gilt sales. Gilt market liquidity evaporated, yields spiked further and market order flows became so extreme that the Bank of England was required to intervene, buying over £100 billion in long-term gilts over a two-week period. Pension fund losses resulting from the crisis are not clear but are estimated to be at least £500 billion[74].

[70] RBA, Brad Jones, assistant governor, *Fireside chat at Conexus 2025 Superannuation Chair Forum* (January 30, 2025), http://www.rba.gov.au/speeches/2025/sp-ag-2025-01-30.html

[71] RBA, *Financial Stability Review – April 2025: 3. Resilience of the Australian Financial System* (April 2025), www.rba.gov.au/publications/fsr/2025/apr/resilience-of-the-australian-financial-system.html; APRA, System Risk Outlook (November 20, 2025), www.apra.gov.au/system-risk-outlook-november-2025

[72] As described by the Bank of England, *"LDI is an investment approach used by defined benefit (DB) pension funds to help ensure that the value of their assets (ie, their investments) moves more in line with the value of their liabilities... LDI strategies enable DB pension funds to use leverage (ie, to borrow) to increase their exposure to long-term gilts, while also holding riskier and higher-yielding assets such as equities in order to boost their returns. The LDI funds maintain a cushion between the value of their assets and liabilities, intended to absorb any losses on the gilts. If losses exceed this cushion, the DB pension fund investor is asked to provide additional funds to increase it, a process known as rebalancing. This can be a more difficult process for pooled LDI funds, in part because they manage investment from a large number of small and medium sized DB pension funds."* Bank of England, *Letter to Rt Hon Mel Stride MP from Sir Jon Cunliffe, deputy governor, Financial Stability, Bank of England* (October 5, 2022), www.bankofengland.co.uk/-/media/boe/files/letter/2022/october/letter-from-jon-cunliffe-ldi-5-october-2022.pdf

[73] Bank of England, *An anatomy of the 2022 gilt market crisis, Staff Working Paper No. 1,019* (March 2023), www.bankofengland.co.uk/-/media/boe/files/working-paper/2023/an-anatomy-of-the-2022-gilt-market-crisis.pdf

[74] Clacher and Keating (2022), committees.parliament.uk/oralevidence/12470/pdf/

Commercial Considerations

Commercial factors can limit the ability of superannuation funds to access liquidity. As hedge books grow, existing dealers may approach credit and concentration limits, hampering their ability to conduct new business. In periods of market stress, dealers may ration capacity, widen spreads or decline to engage in trades. Over-reliance on a small group of counterparties reduces flexibility and increases vulnerability to market disruptions.

Funding markets can reprice during times of stress. Repo haircuts may rise, term liquidity may evaporate and securities lending demand may fall. Even funds holding high-quality assets may find that these assets cannot be readily financed on acceptable terms within the required time frames

The range of collateral accepted by counterparties and CCPs can also be limited. CCPs require VM for cleared derivatives to be posted in cash, while banks may be reluctant to accept anything other than cash or certain government securities as VM for non-cleared derivatives due to economic, operational and capital issues. In times of stress, haircuts can widen and eligibility criteria can tighten further, making liquidity more expensive or unavailable. Transformation trades, which allow funds to convert less-liquid assets into high-quality collateral, may be repriced or capped, further limiting options.

Funding markets can also reprice during times of stress. Repo haircuts may rise, term liquidity may evaporate and securities lending demand may fall. Even funds holding high-quality assets may find that these assets cannot be readily financed on acceptable terms within the required time frames, forcing them to sell assets or leave positions unhedged.

HOW AUSTRALIAN SUPERANNUATION FUNDS CAN MANAGE LIQUIDITY DEMANDS

Australian superannuation funds can consider a range of steps to improve their liquidity management frameworks and resilience to market shocks. These measures – which span governance, risk management, operational processes and portfolio construction – should be tailored to the specific needs and risk profiles of each fund and should be implemented with careful consideration of the legal and regulatory regime to which superannuation funds are subject.

Effective Governance, Risk Management and Planning

Ensuring counterparty and exposure monitoring processes and procedures are adequately calibrated to respond to periods of market stress can help superannuation funds better manage and respond to liquidity demands.

Early warning indicators, such as spikes in volatility indices, FX basis movements, margin increases, repo haircuts and member switching rates, could be embedded in internal risk management and liquidity planning processes and monitored closely, if they are not already. Integrated stress testing that considers concurrent shocks, such as simultaneous VM/IM surges, FX roll dislocations[75], private capital calls and reduced dealer intermediation, could also help funds prepare for a range of scenarios.

Default playbooks and pre-default monitoring are also important to help navigate potential and actual counterparty defaults by setting out pre-agreed internal processes to follow when responding to counterparty default scenarios

Regulated funds are required by APRA to have a comprehensive stress-testing program and must consider how the liquidity of investment options can be managed in a range of stress scenarios[76]. Action plans and playbooks, including pre-authorized rebalancing steps, standing repo and triparty instructions and clear communication protocols with counterparties, custodians and members, could help a fund prepare for increased margin calls, liquidity demands and periods of market stress.

Default playbooks and pre-default monitoring are also important to help navigate potential and actual counterparty defaults by setting out pre-agreed internal processes to follow when responding to counterparty default scenarios. Managing the default or potential default of a counterparty is usually a resource-intensive process and often coincides with periods of market stress when internal resources are already stretched dealing with existing market pressures.

[75] As described by the RBA, *"During the financial crisis, non-US banks increasingly relied on foreign exchange markets to fund their US dollar asset holdings. This caused the cost of borrowing US dollars via the swap market to rise above the measured cost of borrowing US dollars directly in money markets ... Pricing in the Australian dollar foreign exchange swap market and, to a lesser degree, the cross-currency swap market, also reflected the global scarcity of US dollar funding at the height of the crisis."* One effect of the dislocation in the swap market was to limit the ability of Australian non-bank financial institutions, such as fund managers, to roll FX hedges. The RBA notes this was in part due to local banks selling hedging products using the foreign exchange swap market to offset the risks involved in trading with their domestic customers. Uncertain about their own access to US dollars through the swap market, local banks became less willing to provide quotes to their clients. RBA, *Bulletin – June 2010: The Financial Crisis through the Lens of Foreign Exchange Swap Markets* (June 2010), www.rba.gov.au/publications/bulletin/2010/jun/7.html

[76] Prudential Standard SPS 530 Investment Governance and Prudential Practice Guide SPG 530 Investment Governance

Engaging in adequate pre-planning for the decision-making processes on a counterparty default – including the personnel that should be involved in the decisions and what information they need to bring to the process – can be invaluable when dealing with fast-moving situations when decisions are time-critical. Conducting fire drills to test a fund's readiness for a counterparty default could also be important. The preparation and maintenance of default playbooks and template notices, together with the capability to implement the processes in these playbooks, can assist firms in helping to understand the contractual terms in place between the parties, the rights and remedies available to the non-defaulting party and the steps that must be followed to exercise those rights. Regulators are increasingly focused on internal processes for managing the default of a counterparty.

Understanding the entirety of the relationship with the counterparty can be important for liquidity management, as well as counterparty risk and exposure management. This means appreciating the different arrangements that may be in place with the counterparty and any of its affiliates, whether entered into directly by the superannuation fund or through any investment manager or agent, and the interrelationship of these arrangements. There may also be knock-on effects under arrangements with other counterparties, particularly if these are related to, or hedge, any of the arrangements with the defaulting counterparty.

There has been a significant increase in the complexity of arrangements with counterparties since the 2008 financial crisis. This includes the implementation of margining rules for non-cleared derivatives, which introduce a requirement for third-party custodians for IM, as well as bringing security interests under a range of different governing laws and jurisdictions into the relationship. The implementation of bank resolution regimes and the potential for temporary stays on termination have created additional challenges[77].

It is also important to understand the validity of netting, collateral arrangements and set-off against the counterparty on its external administration. For example, the exercise of a set-off (rather than netting) on the insolvency of a counterparty under Australian law may be complicated if there is any lack of mutuality, which is particularly relevant to a party acting as trustee.

Opinions, like those commissioned by ISDA in more than 90 jurisdictions for close-out netting and over 70 jurisdictions for collateral, can assist Australian superannuation funds to understand these issues and properly structure their arrangements to facilitate effective enforcement even in distressed conditions.

ISDA has developed several initiatives to help firms prepare for counterparty defaults and ensure a key part of the termination process is more efficient. These include:

The ISDA Close-out Framework: This step-by-step map is designed to illustrate the various actions and decisions an entity needs to take to terminate OTC derivatives contracts governed by the ISDA Master Agreement framework and is intended to be a preparatory tool for future stress events[78].

The ISDA Notices Hub: The ISDA Notices Hub is an online platform designed to provide market participants with a faster, safer and more efficient method for delivering and receiving critical termination notices under the ISDA Master Agreement. It enables the near-instantaneous delivery and receipt of termination notices on a highly secure, confidential and robust online platform, resolving challenges with traditional methods of delivery, such as stale notice addresses, geographical difficulties, pandemic lockdowns or hostile activities. The notices are time and date

[77] ISDA, Scott O'Malia, Chief Executive, derivatiViews, *Managing Terminations* (July 15, 2024), www.isda.org/2024/07/15/managing-terminations/

[78] ISDA, ISDA *Close-out Framework* (June 2024), www.isda.org/isda-close-out-framework/

stamped for use in any legal proceedings and provide auditable evidence that notices have not changed since they were issued. The platform also requires users to maintain current physical address details across all their agreements, which can be done via a single entry, creating an up-to-date golden source[79].

ISDA does not charge an adherence fee to use the Notices Hub Protocol that enables the use of the ISDA Notices Hub in respect of existing ISDA Master Agreements, and the ISDA Notices Hub is free for buy-side firms, including superannuation funds[80].

Decisions on the exercise or non-exercise of rights following the default of a counterparty require a deep understanding of the totality of the arrangements and touch points with the counterparty, and the implications of each of these from a legal, commercial, credit, operational and relationship perspective. Ensuring there are adequate internal processes in place for managing a default process, including playbooks, defined roles and responsibilities and escalation lines, together with engagement with industry initiatives and tools, will be important to quickly and effectively manage any actual or potential counterparty default.

Optimizing Collateral and Margin Management

Optimizing collateral and margin management processes could help mitigate liquidity demands. In particular, greater standardization and automation could bring increased efficiency and cost savings to the superannuation sector and ultimately improve risk management. There are several areas where superannuation funds could take steps that together would bolster margin processes for non-cleared derivative exposures.

The ISDA SIMM has been rigorously tested, regularly reviewed by global regulators and adopted by buy- and sell-side firms around the globe. Critically, use of a single, transparent model across the industry ensures consistency with standard market practices and lowers the risk of disputes, ensuring margin amounts can be agreed and posted quickly, reducing delays and mitigating counterparty credit risk

Adopt a risk-sensitive model like the ISDA SIMM: For non-cleared derivatives subject to CPS 226, the ISDA SIMM provides a common methodology for calculating IM that is more risk-sensitive than the standard schedule set by regulators. In other words, use of the ISDA SIMM by Australian superannuation funds helps ensure that IM calculations are more closely aligned with the risk of their positions, potentially leading to lower but risk-appropriate margin amounts than the static, conservative and less risk-sensitive regulatory schedule.

Since its launch in 2016, the ISDA SIMM has been rigorously tested, regularly reviewed by global regulators and adopted by buy- and sell-side firms around the globe. Critically, use of a single, transparent model across the industry ensures consistency with standard market practices and lowers the risk of disputes, ensuring margin amounts can be agreed and posted quickly, reducing delays and mitigating counterparty credit risk[81]. The ISDA SIMM is now calibrated twice a year to ensure it remains responsive to market moves and is subject to an industry-wide governance process for the development, testing and ongoing maintenance of the model.

Use of the ISDA SIMM by superannuation funds in Australia requires authorization by APRA.

[79] For further information on the ISDA Notices Hub, please see www.isda.org/isda-solutions-infohub/isda-notices-hub/

[80] For further information on the ISDA Notices Hub, please see www.isda.org/isda-solutions-infohub/isda-notices-hub/

[81] ISDA, *ISDA SIMM: The Trusted Standard for Initial Margin Calculations* (November 2025), www.isda.org/2025/11/11/isda-simm-the-trusted-standard-for-initial-margin-calculations/

Negotiate broader collateral eligibility where possible and use triparty agents: In many cases, the eligible collateral agreed between a counterparty pair tends to be narrow in scope, often comprising only a small subset of what is permitted by regulators. Cash is often the only type of collateral that parties agree to post for VM for non-cleared derivatives (and is the only type of collateral accepted for VM by CCPs).

Collateral eligibility expansion can be lengthy and require significant resources, including managing potentially protracted counterparty negotiations, ensuring regulatory and risk management compliance and implementing any required changes to operational processes and systems. As a result, it may not be possible to make changes quickly during a period of market stress

Careful consideration and periodic review of the types of collateral an entity can post and collect, particularly in light of the availability of those asset types on its balance sheet, may be useful for meeting non-cleared derivatives margin requirements.

Expanding the types of eligible collateral that can be posted and collected could ease the strain on locating cash or other HQLA like government securities quickly in periods of market stress when such collateral types may be difficult to obtain. However, any expansion must be considered holistically, considering any legal and contractual constraints, technological, operational and capital limitations, and potential impacts on investment performance.

Collateral eligibility expansion can be lengthy and require significant resources, including managing potentially protracted counterparty negotiations, ensuring regulatory and risk management compliance and implementing any required changes to operational processes and systems. As a result, it may not be possible to make changes quickly during a period of market stress. Prior implementation during normal market conditions can help a fund be better prepared to respond to increased margin calls and collateral demands in the future.

Triparty collateral management arrangements could also potentially help streamline operational processes. For example, a triparty agent could perform collateral eligibility checks, effect substitutions and facilitate settlement across time zones, which a superannuation fund may otherwise have limited internal capacity to manage. By pre-positioning collateral at triparty agents, funds could enable same-day collateral mobilization and reduce the risk of settlement delays. These arrangements could also facilitate optimization across counterparties, allowing funds to allocate collateral more efficiently and respond quickly to margin calls.

On top of expanding eligible collateral, collateral transformation trades, which involve exchanging less-liquid assets for HQLA, could be valuable during periods of stress. These transactions often need to be pre-negotiated and legal structuring may be complex. The pricing and availability of transformation trades could also deteriorate rapidly in stressed markets.

Automate margin processes using industry standards like the CDM and invest in operational readiness and resilience: Ensuring a superannuation fund's systems are robust and appropriate to its activities can assist in managing liquidity demands. As the RBA and APRA have highlighted, operational resilience, particularly in the context of cyberattacks, is important to manage. The interaction of market volatility and more severe cyber incidents at superannuation funds could undermine confidence in the sector, prompting members to switch investment options or (for those in the decumulation phase) withdraw funds from the system. It could also disrupt members' ability to access income[82]. The RBA has commented that "[s]trengthening operational resilience

[82] RBA, *Financial Stability Review – October 2025: 3.2 Non-bank Financial Institutions* (October 2025), www.rba.gov.au/publications/fsr/2025/oct/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

Integrating systems and automating margin workflows, eligibility checks and collateral substitutions could reduce operational risk and improve the speed and accuracy of responses to liquidity events. Maintaining accurate and harmonized data across entities and accounts could be key to help effective decision-making and risk management

and governance practices across the superannuation sector is a regulatory priority to preserve the best interests of members, reduce the risk of disruptions and maintain trust in the system"[83].

In addition to improving robustness, integrating systems and automating margin workflows, eligibility checks and collateral substitutions could reduce operational risk and improve the speed and accuracy of responses to liquidity events. Maintaining accurate and harmonized data across entities and accounts could be key to help effective decision-making and risk management.

Given the global nature of many superannuation fund portfolios, round-the-clock operational coverage may become increasingly important. Funds will need to ensure they have the capability to respond to margin calls and other liquidity events in key time zones applicable to their portfolio and trading activities. This may involve pre-positioning collateral in those jurisdictions with triparty agents to meet settlement cut-offs, as well as establishing contingency plans for settlement failures or other operational disruptions.

ISDA has worked to improve automation and interoperability in collateral processes, leveraging the CDM[84] – a data standard for financial products, trades in those products and the lifecycle events of those trades – to digitize key documents, represent eligible collateral terms and automate cash collateral calculations and payment processes, with other use cases in development. Improved standardization and automation will reduce the operational, liquidity and counterparty risks associated with collateral exchange[85].

Optimization of the settlement of a transaction is also important to manage. For example, the use of CLS could help reduce settlement risk and liquidity timing gaps for funds with significant offshore exposures.

Workflow integration with technology service suppliers, third-party vendors, infrastructure providers and custodians within the collateral and liquidity management ecosystem may prove helpful. Funds could also periodically test their ability to execute large-scale collateral substitutions and settlements with their custodians and triparty agents. Service-level agreements could be reviewed and updated periodically to ensure they provide adequate support during periods of market stress, including clear escalation paths and performance metrics.

Access to Liquidity Facilities

Superannuation funds should consider what liquidity mechanisms may be available to them, including repos and securities lending.

Repo markets can be a valuable liquidity management tool by helping market participants transform assets into cash to meet margin requirements and other liquidity needs[86]. The RBA also

[83] RBA, *Financial Stability Review – March 2026: 3.2 Non-bank Financial Institutions* (March 2026), www.rba.gov.au/publications/fsr/2026/mar/resilience-of-the-australian-financial-system.html#3-2-non-bank-financial-institutions-nbfis

[84] More information on the Common Domain Model is available here: www.isda.org/isda-solutions-infohub/cdm/

[85] More information on how the CDM is being used to improve collateral processes is here: www.isda.org/2023/02/16/isda-collateral-initiatives/

[86] ISDA, *Collaboration and Standardisation Opportunities in Derivatives and SFT Markets* (October 2020), www.isda.org/a/wVrTE/Collaboration-and-Standardization-in-Derivatives-and-SFT-Markets.pdf

uses the repo market to implement monetary policy through its open market operations[87].

Analysis by the Bank of England has shown repo markets play an important role in supporting financial stability and the real economy in the UK. By facilitating secured short-term liquidity using gilts as collateral, the gilt repo market supports the flow of cash and gilts across the financial system and allows market participants to effectively perform liquidity and collateral management. A well-functioning gilt repo market enhances the liquidity and resilience of the cash gilt market, thereby supporting government financing, the transmission of monetary policy and sustainable economic growth. For example, the Bank of England has stated that "[d]uring periods of market stress, a resilient gilt repo market helps mitigate the risk and impact of disorderly deleveraging and fire sales by providing stable funding to market participants, supporting broader financial stability and maintaining investor confidence"[88]. Similar considerations are expected to apply in other markets, including in Australia.

Pre-arranging these types of facilities in advance of any market stress event is important, as banks may be subject to capacity constraints that curtail their ability to participate in the market as intermediaries. Balance sheet pressures will likely be most acute precisely when participants have the most need for collateral transformation – during a stress event.

Securities lending arrangements are another useful tool, but funds must balance the need for cash generation and collateral availability against the risks of recall and indemnity costs. In both cases, ensuring robust collateral eligibility and appropriate haircuts can help avoid pressures during market stress.

In the context of the use of repo by Australian superannuation funds, the Australian government and APRA could consider publicly confirming that repos and securities lending arrangements do not constitute a borrowing of money for the purposes of the SIS Act

Crucially, funds must ensure any facility complies with SIS Act requirements. As noted earlier, regulated superannuation funds are not permitted to borrow money except in limited circumstances, such as for short-term settlement bridging or limited recourse borrowing arrangements for specific asset acquisitions. Absent any exception, the relevant facility must not involve a borrowing of money or the giving of a charge over or in relation to an asset of the superannuation fund. SIS Act requirements need to be carefully considered for any liquidity facility, as should other regulatory, licensing, tax, accounting, prudential, regulatory and credit issues. In the context of the use of repo by Australian superannuation funds, the Australian government and APRA could consider publicly confirming that repos and securities lending arrangements do not constitute a borrowing of money for the purposes of the SIS Act.

Expanding the Netting Act's protections of the enforcement of security to cover a broader range of securities financing transactions and modern collateral arrangements, with clear recognition of pledge and triparty structures, supported by appropriate legal opinions, could also improve access to liquidity through the ability to include both derivatives and securities financing transactions within a single close-out netting contract.

[87] RBA, *The Australian Repo Market: A Short History and Recent Evolution* (July 18, 2024), www.rba.gov.au/publications/bulletin/2024/jul/the-australian-repo-market-a-short-history-and-recent-evolution.html

[88] Bank of England, *Enhancing the Resilience of the Gilt Repo Market* (September 4, 2025), www.bankofengland.co.uk/paper/2025/discussion-paper/enhancing-the-resilience-of-the-gilt-repo-market

The RBA offers intraday, overnight and open repos to certain market participants, but these are generally not available to superannuation funds[89]. As a comparison, the Bank of England recently established a lending facility for certain non-bank financial institutions that would operate during periods of stress. The facility initially targets specific participants – insurance companies, pension funds and LDI funds – and allows those entities to access central bank lending backed by gilts.

The UK Contingent Repo Facility

In September 2023, the Bank of England revealed that work had begun to develop a new lending facility to address potential market disruption that could occur due to a liquidity squeeze affecting the non-bank financial intermediation sector.

The first step was to establish a contingent non-bank-financial-institution repo facility (CNRF). The stated purpose of the CNRF is to address future episodes of severe gilt market dysfunction that threaten UK financial stability arising from shocks that temporarily increase non-banks' market-wide demand for liquidity[90]. As a contingent facility, the CNRF will be activated at the Bank of England's discretion during episodes of severe gilt market dysfunction that threaten UK financial stability. The facility will allow participating insurance companies, pension funds and LDI funds to borrow cash against UK gilts for a short lending term[91].

As well as organizing access to liquidity facilities, maintaining access to a broad range of execution venues can be important. Being able to transact across both exchange-traded and OTC markets, and having the necessary arrangements in place to transact cleared and non-cleared derivatives, can help provide funds with flexibility to access markets when needed. Clearing broker arrangements should be reviewed regularly to ensure they provide sufficient capacity during periods of market stress, and that any margin add-ons or other requirements are well understood and planned for. Setting up these arrangements can take time and resourcing. As a result, ensuring a sufficient number of arrangements are established and maintained in advance of needing them could be important.

Diversify Trading Relationships

As superannuation funds increase the size of their hedge books, their counterparties may start to hit capital and concentration limits, a situation that may become more likely in stressed markets. Funds may be asked to post additional collateral (even on transactions like FX swaps that are exempt from regulatory margin requirements for non-cleared derivatives) or face restricted access to hedging and funding markets. Maintaining diversity across counterparties will avoid over-reliance on any single provider. Diversifying trading relationships will also avoid single points of failure in banks, clearing members and custodians.

[89] Authorized superannuation funds are not eligible, unless they were counterparties prior to September 23, 2019. See RBA, *Domestic Market Operations and Liquidity Facilities: Technical Notes* (June 5, 2020), www.rba.gov.au/mkt-operations/resources/tech-notes/eligible-counterparties.html

[90] Bank of England, *Contingent NBFI Repo Facility (CNRF) – Explanatory Note* (July 24, 2024), www.bankofengland.co.uk/markets/market-notices/2024/july/contingent-nbfi-repo-facility-explanatory-note

[91] Bank of England, *Contingent Non-Bank Financial Institution Repo Facility (CNRF)*, www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/cnrf

Designing Appropriate Hedging and Trading Strategies

A regulated Australian superannuation trustee is required to perform its duties and exercise its powers in the best financial interests of the beneficiaries of the fund[92], among other duties. A superannuation fund should therefore carefully balance trading, hedging and liquidity management strategies in accordance with statutory duties, legal obligations, prudential requirements and internal frameworks to achieve the correct balance for the fund, which may vary over time.

Managing Member Communications

Effective communication and member education and management could help mitigate behavioral liquidity shocks. Monitoring member switching patterns and scenario-planning communication strategies can discourage procyclical actions. Disclosure of liquidity risk frameworks in product governance documents could build trust and help manage expectations, although it may be difficult to predict member behavior with certainty during extreme events. Educating members about the implications of investing in illiquid assets and the potential for volatility can help manage member expectations and reduce the likelihood of panic-driven investment switch requests.

[92] Section 52(2)(c) of the SIS Act

CONCLUSION

Liquidity management is an increasingly important capability for Australian superannuation funds as they continue to grow in size and scale. The sector's mounting exposure to global portfolios, derivatives and unlisted assets means that establishing effective liquidity management frameworks now and looking towards the future is important to ensure funds best position themselves to respond to market stresses, manage their risks and enhance their returns.

Recent events, from geopolitical conflicts and trade and commodity shocks to the pandemic and periods of market volatility, have shown how quickly liquidity can evaporate as demands for cash and other HQLA surge. The RBA has stated that while potential liquidity needs of superannuation funds appear manageable today under most scenarios, they will grow over time as hedge books increase in size.

Liquidity management is an increasingly important capability for Australian superannuation funds as they continue to grow in size and scale. The sector's mounting exposure to global portfolios, derivatives and unlisted assets means that establishing effective liquidity management frameworks now and looking towards the future is important to ensure funds best position themselves to respond to market stresses, manage their risks and enhance their returns

Australian superannuation funds can consider a range of strategies and tools to prepare for future growth and effectively manage demands for liquidity and the associated risks. This may include:

- Developing, maintaining and implementing effective frameworks, plans and procedures that reflect each fund's risk tolerances, portfolio composition and member needs and measuring and managing liquidity on an ongoing basis;
- Adopting risk-sensitive margin models like the ISDA SIMM;
- Negotiating broader collateral eligibility where possible and deploying triparty agents;
- Automating margin processes using industry standards like the CDM and investing in operational readiness and resilience;
- Arranging repo and committed liquidity facilities in advance;
- Diversifying trading relationships by spreading counterparty exposures and avoiding single points of failure in banks, clearing members and custodians;
- Optimizing FX hedging profiles, taking a holistic approach to liquidity risk management; and
- Managing member communications and education.

By building robust liquidity frameworks on these foundations that effectively respond to volatility, Australian superannuation funds can help ensure they are able to meet demands for liquidity without sacrificing long-term investment objectives. This can support Australian superannuation funds being a powerful stabilizing force, facilitate countercyclical investments when opportunities arise, and contribute to the overall resilience of the financial system as the Australian superannuation sector continues to grow on the world stage.

ABOUT ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.

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