

Updated FAQs: Liquidity Requirement Regulation Amendments and Related Reporting Changes

Issued on December 15, 2020

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Issued on December 15, 2020

1. What is new in the amended Liquidity Requirement Regulation?

The Liquidity Requirement Regulation (“LRR”) under the *Financial Institutions Act* (“FIA”) is amended effective January 1, 2021, to enable the legal segregation of the credit unions’ statutory liquidity into a bare trust structure (also referred to as the Mandatory Liquidity Pool (“MLP”) segregation).

New Trust Structure

Under section 5 of the LRR (Adequate liquid assets), the requirement for credit unions to place its statutory liquidity as a deposit in Central 1 Credit Union (“Central 1”) is replaced with the requirement for credit unions to hold its statutory liquidity as unencumbered assets placed in trust with Central 1. A credit union has adequate liquid assets if it holds unencumbered assets placed in trust with Central 1 that are at least equal to 8% of the credit union’s aggregate deposit and other debt liabilities.

Permitted Liquid Assets

Unencumbered assets placed in trust with Central 1 include the following:

- Assets held in the trust that are High Quality Liquid Assets (“HQLA”) as defined by the Office of the Superintendent of Financial Institutions (Canada) (“OSFI”) or by BCFSAs rules;
- Specified short term bankers’ acceptances held in the trust;
- Cash deposits held in the trust; and
- Cash on hand held by the credit union.

Total cash deposits and bankers’ acceptances held in the trust and cash on hand held by the credit union is limited to 2% of the credit union’s aggregate deposit and other debt liabilities.

Other Amendments

Obsolete sections and subsections under the former deposit structure were removed. Different adequate liquid assets requirements for large credit unions were also removed.

Transitional Period

A 15-day transitional period (from January 1 to January 15, 2021) was added to facilitate the transfer of liquid assets into the trust structure. During this period, a credit union’s cash deposits in Central 1 may be counted as part of the credit union’s unencumbered assets placed in trust.

2. Why is BCFSAs introducing changes to reporting?

Revised credit union reporting templates and instructions, including changes for the LRR amendments, were issued for credit union consultation on October 14, 2020, (refer to [Advisory # CU-20-003](#)). As these revised templates and instructions are still under consultation and will not be finalized by January 1, 2021, BCFSAs is issuing these interim reporting requirements (as outlined in

Appendix 1 of this Advisory) effective for reporting periods ending after January 1, 2021. After implementation (targeted for fall 2021), the final revised templates and instructions will replace the interim reporting requirements.

3. Why is BCFSA requesting submission of a new LA Return?

The new Liquidity Adequacy Return (“LA Return”) is required to monitor compliance with the prescribed liquidity requirements of the LRR, including amendments for MLP segregation. The LA Return template aligns with the amended LRR.

While the LA Return template may change (based on consultative feedback from credit unions), BCFSA requires monthly filing of the LA Return beginning January 2021, using the template and reporting instructions provided with this Advisory.

4. What is the capital impact of the MLP segregation?

For capital reporting purposes, assets held in trust with Central 1 for statutory liquidity will be reported in the appropriate Capital Adequacy Return (“CA Return”) lines. These assets will be risk weighted with the proper risk weighting factors under the FIA Capital Requirements Regulation, like other balance sheet assets for the reporting credit union.

The capital impact of the MLP segregation depends on the credit union’s selection of assets held in trust with Central 1 for statutory liquidity purposes. For example, if the credit union selects to hold government bonds, that have zero risk weight, there is no impact on capital.

New - Updated on April 8, 2021

5. What are the changes to the regulatory reporting requirements starting January 2021?

BCFSA introduced the following regulatory reporting changes, which were outlined in the [Advisory: Liquidity Requirement Regulation Amendments and Related Reporting Changes](#):

- B.C. credit unions are expected to submit the Interim Liquidity Adequacy Return (“Interim LA Return”) on a monthly basis, beginning with submission for the January 2021 reporting period. For reference, here are the links to the [Interim LA Return reporting template](#) and to the [reporting instructions](#).
- B.C. credit unions are also expected to update the existing reporting templates with the revised reporting instructions, as outlined in Appendix 1 of the above Advisory, when they report the credit unions’ liquid assets held in trust with Central 1 for statutory liquidity. The reporting instructions in Appendix 1 of the Advisory supplement the existing instructions.

Please note that while there are new supplemental instructions, there are no changes to the existing reporting templates (the Financial and Statistical Return (“FSR”), the Capital Adequacy

Return (“CA Return”), the Liquidity Coverage Ratio (“LCR”), and the Net Cumulative Cash Flow (“NCCF”) templates).

For further details about these regulatory reporting changes, please refer to Appendix 1 in the above Advisory.

6. What liquid assets can credit unions hold for statutory liquidity?

Under the LRR, credit unions are required to hold unencumbered assets placed in trust with Central 1 that are at least equal to 8% of the credit union’s aggregate deposit and other debt liabilities in order to comply with the adequate liquid assets requirement in FIA Section 67.

Unencumbered assets placed in trust with Central 1 include the following:

- Assets held in the trust that are HQLA as defined by OSFI or by BCFSAs rules;
- Specified short-term bankers’ acceptances (“BAs”) held in the trust;
- Cash deposits held in the trust; and
- Cash on hand held by the credit union.

Note: The total of cash deposits and BAs held in trust and cash on hand held by the credit union is limited to 2% of the credit union’s aggregate deposit and other debt liabilities.

7. Are Central 1 deposits included in the Section 5010 - Liquidity Available of the Interim LA Return?

The LRR was amended effective January 1, 2021, to enable the legal segregation of the credit unions’ statutory liquidity into a bare trust structure (also referred to as the MLP segregation). In the amended LRR, the requirement for credit unions to place their statutory liquidity as a deposit in Central 1 is replaced with the requirement for credit unions to hold their statutory liquidity as unencumbered assets placed in trust with Central 1.

The Interim LA Return aligns with the amended LRR and monitors compliance with the statutory liquidity requirements. As Central 1 deposits are not included in unencumbered assets placed in trust with Central 1, such deposits are not reported in the Interim LA Return and are not counted towards the 8% minimum requirement.

8. Why is there a limit for including cash held in trust with Central 1 when calculating liquidity available for statutory liquidity in the Interim LA Return?

The amended LRR establishes a 2% limit (of the credit union’s aggregate deposit and other debt liabilities) on the total cash deposits and BAs held in trust with Central 1 and cash on hand held by the credit union. Cash deposits and BAs held in trust with Central 1 do not qualify as HQLA. This ensures credit unions hold 6% HQLA for statutory liquidity (not including cash on hand held by the credit union).

9. In which line should provincial government securities be reported in the Interim LA Return?

All qualifying securities issued or guaranteed by the Government of Canada (or its central bank) or by provincial and territorial governments held in trust with Central 1 for statutory liquidity should be reported in Line 5010-220: Securities from Sovereigns [Rated AAA to AA-].

10. Can BCFSa provide additional guidance on HQLA for reporting in the Interim LA Return?

For statutory liquidity, credit unions must hold HQLA in trust with Central 1 of at least 6% of their aggregate deposit and other debt liabilities. Liquid assets that qualify as HQLA in Level 1, Level 2A, or Level 2B categories are defined by the Liquidity Adequacy Requirements Guideline issued by OSFI or by BCFSa rules.

For ease of reference, credit unions submitting the Interim LA Return should report HQLA placed in trust with Central 1 on the following lines:

Level 1 HQLA Assets:

5010-200: National Housing Act Mortgage Backed Securities (NHA MBS)

Include qualifying securities issued under the National Housing Act Mortgage Backed Securities (“NHA MBS”) program.

5010-210: Canada Mortgage Bonds (CMB)

Include qualifying securities issued under the Canada Mortgage Bonds (“CMB”) program.

5010-220: Securities from Sovereigns [Rated AAA to AA-]

Include qualifying marketable securities representing claims on or guaranteed by sovereigns, or central banks rated¹ AAA to AA-.

Note: This line includes all qualifying securities issued or guaranteed by the Government of Canada (or its central bank) or by provincial and territorial governments.

Level 2A HQLA Assets:

5010-300: Securities from Sovereigns [Rated A+ to A-], PSE and MDBs [Rated AAA to AA-]

Include qualifying marketable securities representing claims on or guaranteed by sovereigns (and central banks) rated A+ to A-, municipalities and other public sector enterprises (“PSEs”) (e.g., universities, school boards, and hospitals), and multilateral development banks (“MDBs”) rated AAA to AA-.

¹ The ratings follow the methodology used by one institution, Standard & Poor’s. The use of Standard and Poor’s credit ratings is an example only. Ratings of other external credit assessment institutions such as DBRS and Fitch Ratings can be used, as well. The lower rating is used in the event of discrepancies between ratings of different credit assessment institutions.

5010-310: Corporate Debt Securities [Rated AA- or higher]

Include qualifying corporate debt securities and commercial papers rated AA- or higher that are not issued by a financial institution or its affiliated entities. Include only plain-vanilla assets with readily available valuations that are based on standard methods and do not depend on private knowledge (i.e., these do not include complex structured products or subordinated debt).

5010-320: Covered Bonds [Rated AA- or higher]

Include qualifying covered bonds rated AA- or higher. Covered bonds are bonds issued and owned by a bank or mortgage institution and are subject by law to special public supervision designed to protect bondholders. Proceeds deriving from the issue of these bonds must be invested in conformity with the law in assets which, during the whole period of the validity of the bonds, can cover claims attached to the bonds and which, in the event of the failure of the issuer, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

Level 2B HQLA Assets:

5010-400: Residential Mortgage Backed Securities (RMBS) [Rated AA or higher]

Include qualifying residential mortgage backed securities (“RMBS”) rated AA or higher that are not issued by (and the underlying assets have not been originated by) the credit union itself or any of its affiliated entities. Also, the underlying asset pool is restricted to full recourse residential mortgages with the maximum loan to value ratio (“LTV”) of 80% on average at issuance of the RMBS.

5010-410: Corporate Debt Securities [Rated between A+ and BBB-]

Include qualifying corporate debt securities and commercial papers rated between A+ and BBB- that are not issued by a financial institution or its affiliated entities. Include only plain-vanilla assets with readily available valuations that are based on standard methods and do not depend on private knowledge (i.e., these do not include complex structured products or subordinated debt).

5010-420: Corporate (Non-Financial) Common Equity Shares

Include qualifying common equity shares that are not issued by a financial institution or its affiliated entities, are exchange traded, and a constituent of the major stock index in Canada (such as the S&P/TSX 60 Index).

For further details about HQLA categories, please refer to OSFI’s Liquidity Adequacy Requirements Guideline.

11. Should HQLA be reported based on IFRS or at market value in the Interim LA Return?

Credit unions should report HQLA held in trust with Central 1 in accordance with the International Financial Reporting Standards (“IFRS”) but at an amount no greater than their current market value. For example, if the HQLA is measured at amortized cost, credit unions should report at lower of book value or market value.

12. Can BCFSa clarify the purpose of the Notes column in the Interim LA Return template?

The Notes column was added in the Interim LA Return template to reference the FSR line numbers. In some cases, the notes advise the amount reported in the Interim LA Return equals the amount reported in the FSR line. In other cases, the notes only refer to the FSR line and do not necessarily mean the LA Return line and the FSR line are equal.

For example, a note on LA Return line 5010-110: Cash Deposits Held in Trust states, “cash held in trust and reported in FSR Line 1050 - Deposits with Deposit Taking Institutions”, but this does **not** mean the LA Return line and the FSR line are equal. LA Return line 5010-110 only includes cash deposits held in trust with Central 1 for statutory liquidity, and it does not include any other deposits with financial institutions.

Please note correction to the Notes column:

FSR references in the Notes column for Line 5010-310: Corporate Debt Securities [Rated AA- or higher] and for Line 5010-410: Corporate Debt Securities [Rated between A+ and BBB-] should read as follows: “Qualifying securities held in trust and reported in FSR Lines [1080 + 1070 to 1073] - **Other Investments** and Commercial Paper.”

13. How is the Liquidity Ratio calculated in the Statutory Liquidity Requirement section of the Comparative Analysis Report?

The Comparative Analysis Report (“CAR”) and the Summary Trend Analysis Report (“STAR”) (including the Liquidity Ratio calculation) are available for credit unions on BCFSa’s secure Credit Union Industry website. Both CAR and the STAR reports are based on data from the credit unions’ monthly FSR filings. For more information, the CAR and STAR Calculation Reference Guides are also available on the Credit Union Industry website under the Forms & Guides tab.

Beginning January 2021, the Liquidity Ratio is calculated using the repurposed FSR Line 6800: Prescribed Liquid Assets. The formula for the Liquidity Ratio is: Liquidity Available divided by Deposits & Debt Liabilities, or FSR 6800 / FSR (2180+2050+2255+2295).

As outlined in Appendix 1 of the [Advisory: Liquidity Requirement Regulation Amendments and Related Reporting Changes](#), credit unions should report in FSR Line 6800 the same amount as the amount reported in Line 5000-100-10: Total Unencumbered Liquidity Available in the Interim LA Return for the same reporting period. This makes the calculated Liquidity Ratio in the CAR report the same as the calculated Liquidity Adequacy Ratio in the Interim LA Return.

14. What risk weights should be assigned to assets reported in the Interim LA Return Section 5010 - Liquidity Available for capital reporting purposes in the CA Return?

For capital reporting purposes, credit unions should refer to Section 14 of the FIA Capital Requirements Regulation to determine the appropriate risk-weighting factors (“RWs”) for balance sheet assets (including assets held in trust with Central 1 for statutory liquidity).

The following table references the RWs (for liquid assets in the Interim LA Return Section 5010) and reporting lines in the CA Return:

Lines in Section 5010 - Liquidity Available in the Interim LA Return	RWs	Line # in the CA Return
Cash and Bankers' Acceptances:		
<i>5010-100: Cash on Hand</i>	0.0	201
<i>5010-110: Cash Deposits Held in Trust</i>	0.2	205
<i>5010-120: Bankers' Acceptances Held in Trust</i>	0.2	206
Level 1 HQLA Assets:		
<i>5010-200: National Housing Act Mortgage Backed Securities (NHA MBS)</i>	0.0	247
<i>5010-210: Canada Mortgage Bonds (CMB)</i>	0.0	247
<i>5010-220: Securities from Sovereigns [Rated AAA to AA-]</i>	0.0* / 1.0	204 / 214
Level 2A HQLA Assets:		
<i>5010-300: Securities from Sovereigns [Rated A+ to A-], PSE and MDBs [Rated AAA to AA-]</i>	0.0* / 1.0	204 / 214
<i>5010-310: Corporate Debt Securities [Rated AA- or higher]</i>	0.2** / 1.0	207-210 / 214
<i>5010-320: Covered Bonds [Rated AA- or higher]</i>	0.2	206
Level 2B HQLA Assets:		
<i>5010-400: Residential Mortgage Backed Securities (RMBS) [Rated AA or higher]</i>	1.0	248
<i>5010-410: Corporate Debt Securities [Rated between A+ and BBB-]</i>	0.5** / 1.0	207-210 / 214
<i>5010-420: Corporate (Non-Financial) Common Equity Shares</i>	1.0	214

* RWs for security instruments issued or guaranteed by the Government of Canada, by a province, by a municipality, or by a central government of an Organisation for Economic Co-operation and Development ("OECD") country are zero.

** RWs for commercial paper are based on the Dominion Bond Rating Service ratings or equivalent

as follows:	AAA to AA (low) or R1 (high)	0.2
	A (high) to A (low) or R1 (middle)	0.5
	BBB (high) to BB (low) or R1 (low) to R2 (low) and unrated	1.0
	below BB (low) or below R2 (low)	1.5

15. For LCR reporting purposes (effective January 2021), should credit unions continue to report Central 1 non-mandatory deposits and issued but unsold NHA MBS as UQLA?

There are no changes to the LCR template. Credit unions can continue to report Central 1 non-mandatory deposits as Level 2A Unencumbered Quality Liquid Assets ("UQLA").

NHA MBS that have been issued by the credit union but not yet sold to third parties and meet the UQLA requirements may be included as Level 1 UQLA. Any unsold NHA MBS should be reported at the current market value of the security and not at the value of the underlying securitized

mortgages. Cash inflows from the underlying mortgages should not be included in the LCR inflows to avoid double counting.

16. For NCCF reporting purposes (effective January 2021), should all assets held in trust with Central 1 be reported on Line 30 - Central 1 Liquidity Statutory Deposits?

There are no changes to the NCCF template. All assets held in trust with Central 1 for statutory liquidity (including eligible cash and BAs as well as HQLA held in the trust) should be reported on Line 30 if a shortfall in net cumulative cash flows has been identified.

17. When are credit unions expected to start using the revised reporting templates (issued for consultation in October 2020)?

With the [Advisory CU-20-003: Consultation on Revised Credit Union Reporting Templates and Instructions](#), BCFSa issued proposed revisions to the regulatory reporting templates. The consultation period with the industry runs between October 2020 and April 2021.

After incorporating feedback received from credit unions, as appropriate, BCFSa will issue the final revised reporting templates and instructions and outline an appropriate implementation timeline, including when credit unions will be expected to start using the revised reporting templates. When implemented, these final revised templates will replace the Interim LA Return template and the other existing reporting templates.