

Liquidity Requirement Regulation Amendments and Related Reporting Changes

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DISTRIBUTION: CFOs/Finance Managers, BC Credit Unions

BC Financial Services Authority (“BCFSA”) is providing information about recent amendments to the Liquidity Requirement Regulation (“LRR”) under the *Financial Institutions Act* and associated changes to regulatory reporting for BC credit unions. **The amended LRR will be effective January 1, 2021.** A copy of the amended LRR can be found [here](#).

The amendments to the LRR will require BC credit unions’ statutory liquidity to move from the current deposit structure to a legally segregated bare trust structure (also referred to as the Mandatory Liquidity Pool (“MLP”) segregation). This segregation ensures BC credit unions’ funds in trust with Central 1 Credit Union (“Central 1”) are bankruptcy remote and creditor-proof under the amended LRR.

LRR amendments include:

- 1) Replacing deposits held for statutory liquidity in Central 1 with unencumbered High Quality Liquid Assets (“HQLA”) placed in trust with Central 1 in the adequate liquid assets requirement;
- 2) Permitting cash and specified bankers’ acceptances held in the trust to be included in statutory liquidity up to a prescribed limit;
- 3) Allowing a transitional period to facilitate the transfer of liquid assets into the new trust; and
- 4) Removing different liquidity requirements for large credit unions.

The LRR amendments necessitate changes to regulatory reporting, including the monthly submission of the Liquidity Adequacy Return (“LA Return”) and revisions to reporting instructions. The reporting changes apply to reporting periods ending after January 1, 2021. *Appendix 1 provides details of these reporting changes.*

If you have any questions regarding the LRR amendments and related reporting changes, please refer to the Q&As posted [here](#) or contact BCFSA at filings@bcfsa.ca.

Appendix 1 – Regulatory Reporting Changes for LRR Amendments

Liquidity Adequacy Return (“LA Return”) – New Reporting Template

As the LRR was amended effective January 1, 2021, BCFSA requires monthly filing of the LA Return beginning January 2021. The LA Return template and reporting instructions can be found [here](#) on BCFSA’s website. All credit unions are expected to submit the completed LA Return monthly within 20 days of month end through BCFSA’s Secure File Transfer Protocol (“SFTP”) portal. Refer to Q&As posted [here](#) for further details.

Revisions to Reporting Instructions

Revised instructions are outlined for each regulatory return.

Financial and Statistical Return (“FSR”)

Include all HQLA held in trust as statutory liquidity and related income in the appropriate FSR lines. For example, report government bonds on Line 1040 – Guaranteed Security Instruments; report cash held in trust on Line 1050 – Deposits with Deposit Taking Institutions; and report bankers’ acceptances on Line 1060 – Debt Security Instruments.

Line 6800 – Prescribed Liquid Assets is repurposed beginning January 2021. Line 6800 will be used to report the total of statutory liquid assets the credit union holds in accordance with the amended LRR. Specifically, report the Total Unencumbered Liquidity Available (# 5000-100-10) from the completed LA Return in FSR Line 6800 for the same reporting period.

These changes will be reflected in the Comparative Analysis Report (“CAR”) and the Summary Trend Analysis Report (“STAR”) available to credit unions in the Credit Union Information System. For example, for reporting periods after January 1, 2021, the repurposed FSR Line 6800 will be used as Liquidity Available in the statutory liquidity ratio calculation.

Capital Adequacy Return (“CA Return”)

Include all HQLA held in trust as statutory liquidity in the appropriate CA Return lines in the Balance Sheet Assets section. For example, report government bonds on Line 204 – Guaranteed Security Instruments; report cash held in trust on Line 205 – Other Deposits; and report bankers’ acceptances on Line 206 – Debt Security Instruments. These assets will be risk weighted, and included in Total Risk Weighted Assets, according to the predefined risk factors provided in the CA Return template.

Liquidity Coverage Ratio (“LCR”)

Include all HQLA held in trust as statutory liquidity in the appropriate LCR Level 1, Level 2A and 2B lines in the Unencumbered Quality Liquid Assets (“UQLA”) section, if the assets meet the criteria to be included in UQLA. For example, report government bonds on Line 21 – Qualifying marketable securities from sovereigns.

Include cash inflows in the appropriate LCR lines. For example, report cash held in trust on Line 61 – Financial institution and Central 1 counterparty inflows; and report cash inflows from bankers’ acceptances maturing within 30 days on Line 62 – Cash Inflows – Maturing Securities.

Net Cumulative Cash Flow (“NCCF”)

Include HQLA held in trust as statutory liquidity in Line 30 – Central 1 Liquidity Statutory Deposits, if a shortfall in net cumulative cash flows has been identified. Report only the amount of statutory liquid assets needed to offset any negative net cumulative cash flows in the appropriate time buckets.