

Q&As Liquidity Requirement Regulation Amendments and Related Reporting Changes

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) 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 BCFSa 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, BCFSa 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.