Appendix 2 - Summary of BCFSA's Responses to the Comments Received during the Liquidity Management Guideline Consultation

THEME	SUMMARY OF ISSUE/COMMENT	BCFSA RESPONSE
Timing of changes to liquidity requirements	Feedback from the 2018 public consultation indicated support to defer the guideline until after the *Financial Institutions Act* was amended. A phase-in period was requested to develop and implement liquidity management frameworks.	The Guideline was finalized in February 2020. BCFSA recognizes that credit unions will require time to implement the changes recommended in the Guideline. BCFSA expects credit unions to implement their Liquidity Management Frameworks by the end of 2020. Credit unions will be expected to communicate timelines for implementation to their relationship manager and to identify expected difficulties in adopting the standards outlined in the guideline. Following publication of the guideline, BCFSA expects each credit union to undertake the following steps: 1. Review the guideline with board and key personnel; 2. Conduct a gap analysis of existing practices to those described in the guideline; 3. Develop a plan to close the identified gaps; and 4. Execute the plan.
Proportionality	Some credit unions sought additional clarity on the level of detail that was expected of them in their liquidity management frameworks.	In considering adoption of any of the Basel Core Principles for Effective Banking Supervision, BCFSA considers the size, scope and complexity of credit union activities. The cooperative nature of credit unions in contrast to the banking sector is also taken into consideration. The level of detail of a credit union's liquidity risk management framework should reflect the credit union's risk appetite and the size, scope and complexity of its business activities. For example, monitoring and measuring liquidity levels and conducting stress tests will be more complex for larger credit unions.
Use of the term "liquidity manager"	Several submissions sought clarity why BCFSA used the term "liquidity manager" in the Guideline rather than the central or Central 1.	Whereas all credit unions can be viewed as liquidity managers, the intent to use the term liquidity manager was to reflect the fact that in the future, Central 1 may not be the manager of statutory liquidity for all credit unions. The March 2018 *Financial Institutions Act* consultation paper released by the Ministry of Finance proposed that credit unions could apply to BCFSA to hold their statutory liquidity outside of Central 1. Amendments to the *Financial Institutions Act* provide BCFSA with the power to make rules concerning "optionality". In the final version of the Guideline, the term "statutory liquidity manager" refers to the organization that manages the credit union's liquidity in accordance with section 5 of the *Liquidity Requirements Regulations* and/or rules set by the BCFSA. In the Guideline, the

		term “statutory liquidity manager” refers to Central 1 Credit Union unless otherwise specified (i.e. a credit union authorized by the Authority to manage their own statutory liquidity).
Transition to a risk-based regulatory framework for liquidity	Credit unions requested clarity how to develop a liquidity management framework that includes risk-based metrics such as the LCR and NCCF and a liquidity cushion when prescriptive liquidity requirements remain in place.	BC credit unions are required by legislation to hold a prescribed amount of statutory liquidity in accordance with the *Liquidity Requirement Regulation*. BCFSA does not view sole reliance on statutory liquidity as adequate liquidity risk management. Credit unions are expected to employ a range of metrics and liquidity risk management practices, tailored to their unique circumstances, to ensure that they have adequate and appropriate forms of liquidity for current and future needs. The Guideline encourages credit unions to use risk-based liquidity metrics such as LCR and NCCF to better understand their liquidity needs.
”UQLA” and ”HQLA”	Credit unions requested clarification on the use of the term “HQLA” in the document	BCFSA previously defined “unencumbered quality liquid assets” (UQLA) in the Liquidity Coverage Ratio Reporting Guide. UQLA was based on the term “high quality liquid assets” (HQLA) defined by the Basel Committee on Banking Supervision (BCBS). HQLA as defined by the BCBS excludes deposits at a financial institution. To allow for inclusion of deposits at Central 1, BCFSA developed the term UQLA. Previous consultations with the credit union industry revealed some confusion surrounding our use of the term UQLA. To address this confusion, the draft Liquidity Management Guideline signalled an intention to harmonize the terminology towards using HQLA. Following publication of the guideline, existing the LCR guide will be updated to replace the term “UQLA” with “HQLA”. During consultation, it was decided to remove the detailed description of HQLA from the final Guideline which is intended to be a principles-based document. The detailed definitions of HQLA will be incorporated into a revision of the LCR (Liquidity Coverage Ratio) instructions which is expected to be released for consultation in 2020.
Treatment of non-statutory deposits held	Several submissions requested clarity behind the rationale for the creation of a separate class of assets for non-statutory	In Appendix 2 of the 2018 draft Guideline, BCFSA included a detailed description of HQLA with corresponding haircuts applied to assets in each category. Non-statutory deposits held by an external financial institution do not qualify as HQLA according to BCBS standards, which is also the approach taken by credit union regulators in Ontario and Saskatchewan. BCFSA’s creation of category

by the liquidity manager	assets held by the statutory liquidity manager with the calculation of a haircut on a periodic basis.	Level 2C consisting of non-statutory deposits was intended to provide favourable treatment to deposits held with the statutory liquidity manager, considering an appropriate haircut can be assigned to these deposits. During consultation, it was decided to remove the detailed description of HQLA from the final Guideline. The detailed definitions of HQLA will be incorporated into a revision of the LCR (Liquidity Coverage Ratio) instructions which is expected to be released for consultation in 2020. The treatment of non-statutory deposits will be part of the consultations for the revised LCR Guide.
Liquidity contingency plan	Some credit unions questioned the utility of a liquidity contingency plan.	The liquidity contingency plan is a proactive document that outlines procedures to be followed during a period of liquidity stress. The act of preparing such a document can itself be a risk mitigant as it can help to identify areas of weakness in the credit union's risk management policies.