

Liquidity Management Guideline

BC Credit Unions

DRAFT FOR COMMENT



Financial
Institutions
Commission

INTRODUCTION

The Liquidity Management Guideline (guideline) outlines the Financial Institutions Commission's (FICOM) expectations for sound liquidity risk management practices at BC credit unions.

Liquidity is the ability of a credit union to generate, obtain and maintain sufficient cash or its equivalent in a timely manner at a reasonable cost to meet its commitments as they fall due. Adequate balance sheet liquidity is critical for the overall safety and soundness of credit unions.

BC credit unions are required by legislation to hold a prescribed amount of statutory liquidity in accordance with the *Liquidity Requirement Regulation*. FICOM 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.

A credit union should ensure that the principles and standards outlined in this guideline are applied to its liquidity risk management framework, relative to the credit union's size, scope and complexity.

GOVERNANCE AND RISK TOLERANCE

A credit union's board clearly articulates a liquidity risk tolerance for the credit union and ensures that it is clearly communicated and understood by senior management.

The credit union's board is ultimately responsible for overseeing the prudent management of liquidity risk. The board is responsible for setting the credit union's liquidity risk tolerance and communicating it to senior management. The board's policies regarding liquidity risk management are forward looking and consistent with the credit union's risk appetite, risk governance framework and strategy.¹ The board has a responsibility to disclose liquidity risk management policies to credit union members and to review these policies regularly to ensure that they meet the needs of the credit union's membership.

The credit union's liquidity risk tolerance reflects its financial condition and funding capacity. In setting the credit union's liquidity risk tolerance, the board ensures that management understands the credit union's approach to managing the relationship between liquidity risk and short-term profits. In addition, the board ensures that it:

- understands the credit union's financial position with regard to liquidity and its exposure to liquidity risk and reviews the information necessary to maintain this understanding at least annually;

¹ See FICOM's *Governance Guideline* published September, 2013.

- establishes lines of authority and responsibility for managing the credit union's liquidity risk;
- oversees management's identification, measurement, monitoring and control of liquidity risk;
- understands and periodically reviews the credit union's contingency plans for dealing with adverse liquidity events and stress situations; and
- understands the liquidity risk profiles of key subsidiaries, as appropriate.

LIQUIDITY RISK MANAGEMENT FRAMEWORK

A credit union establishes a robust liquidity risk management framework that enables it to address its daily liquidity obligations and withstand periods of stress.

A credit union is responsible for the sound management of liquidity risk and should establish a robust liquidity risk management framework that ensures it maintains sufficient liquidity. A credit union understands and considers the capacity and limits of the liquidity manager when developing its liquidity risk management framework.

A liquidity risk management framework includes the following:

- a board-approved tolerance for liquidity risk that is reflected in liquidity and funding policies;
- policies and processes for measuring, monitoring and managing liquidity risk in accordance with the board's risk appetite;
- a process for continuous engagement with the liquidity manager to fully understand its liquidity risk exposures and funding capacity;
- regular stress testing to identify and quantify credit union exposure to possible future liquidity stresses;
- a documented cushion of high quality liquid assets (HQLA)² to withstand a range of stress events;
- a formal liquidity contingency plan (LCP) that clearly sets out strategies for addressing liquidity shortfalls in emergency situations; and
- information systems and internal controls to ensure compliance with established liquidity risk management policies and procedures, including disciplinary actions where appropriate.

² See Appendix 2 for more information on HQLA

POLICIES AND PRACTICES

A credit union develops policies and practices to manage liquidity risk in accordance with the board's risk tolerance.

A credit union has documented liquidity policies and practices in place that are communicated and understood at all levels of the organization. The board reviews and approves these policies and practices at least annually, and ensures that senior management is managing liquidity risk in accordance with established policies and practices.

Depending on its size, scope and complexity, a credit union has policies and practices with respect to:

- limits and targets for the sources, types and levels of liquid assets to meet operational and regulatory requirements;
- identification of potential operating liquidity risks and assurance that all cash outflow commitments (on- and off-balance sheet) are honoured;
- maintenance of liquid assets that can be readily converted into cash without incurring undue capital losses or excessive costs;
- identification of diverse and stable funding sources;
- monitoring of concentrations of funding particularly where large portions of funding arise from a single source;
- identification of potential long-term liquidity needs resulting from unusual business conditions;
- identification of structural imbalances between illiquid assets and long-term debt obligations; and
- oversight of risks associated with wholesale funding such as municipal, university, school and hospital (MUSH) deposits, brokered deposits and foreign exchange, as well as with investments, derivatives and securitizations.

Securitization

Securitization is the process through which financial assets are packaged into securities that are then sold to investors. Some BC credit unions use securitization to access funding and to diversify their funding sources.

A credit union's policies and practices regarding securitizations should appropriately address the short- and long-term liquidity risks associated with its securitization transactions. The risks inherent in securitizations are understood by the credit union and prudently mitigated.

ENGAGEMENT WITH LIQUIDITY MANAGER

A credit union understands the liquidity risk exposures and funding capacity of the liquidity manager, taking into account legal, regulatory and operational limitations to the transferability of liquidity.

A credit union understands how the liquidity manager undertakes any functions that could affect its liquidity. This includes management of statutory and any excess liquidity, the funding capacity of the liquidity manager and any collateral positions managed on a credit union's behalf.

A credit union engages with the liquidity manager to fully understand any constraints or barriers associated with obtaining liquidity. The liquidity risk management framework clearly articulates assumptions regarding transferability of funds and collateral, and fully considers regulatory, legal, accounting, credit, tax and internal constraints on the movement of liquidity and collateral between parties. A credit union adheres to regulatory expectations regarding access to deposits held by the liquidity manager pursuant to FICOM bulletin CU-17-002 Access to Statutory Adequate Liquid Assets.

Co-ordinated communication and management plans and procedures are in place between a credit union and the liquidity manager in advance of a liquidity event; this includes planning for notification to FICOM. Timely and appropriate communication with members and other stakeholders is also of vital importance when liquidity problems arise.

MEASURING, MANAGING AND MONITORING LIQUIDITY

A credit union has sound processes in place for identifying, measuring, monitoring and managing liquidity risk.

Sole reliance on statutory liquidity is insufficient for liquidity risk management purposes. A credit union employs a range of liquidity measurement tools and metrics, appropriate for its size, scope and complexity, to assess its exposures and pro-actively mitigate risks. A credit union has appropriate and sufficient systems, processes and practices in place to identify, measure, manage and monitor sources and uses of liquidity and the commensurate risk.

A comprehensive liquidity measurement process is in place that is integrated within the liquidity management framework and liquidity contingency plan of the credit union. Subject to its size, scope and complexity, this process includes tracking and understanding a credit union's:

- **Liquidity Coverage Ratio (LCR)**

The LCR is a risk-sensitive liquidity metric that aims to ensure that a credit union has an adequate stock of HQLA to survive a 30-day stress scenario.

For further details, see FICOM's [Liquidity Coverage Ratio Reporting Guide](#).

- **Net Cumulative Cash Flow (NCCF)**

The NCCF identifies a credit union's potential future funding mismatches between contractual inflows and outflows for various time bands over and up to a 12-month time horizon.

For further details, see FICOM's [Net Cumulative Cash Flow Reporting Guide](#).

In addition, a credit union has processes for monitoring the following:

- early warning indicators of emerging liquidity concerns (see Appendix 1);
- access to a diversified set of funding sources and maturities;
- management of intra-day liquidity and any collateral positions;
- use of securitizations;
- use of borrowing lines;
- tracking of deposit composition, including high-value, wholesale and brokered deposits; and
- concentration of funding (in particular where a single entity or group makes up a significant portion of deposits).

Further, a credit union monitors other material risks and the ability of these risks to impact its liquidity position.

A credit union ensures it has the necessary information systems requirements and personnel to ensure timely measuring, monitoring and reporting of liquidity positions against limits to senior management and, as required, the board to support appropriate action. A credit union is also able to produce liquidity data on a spot basis to FICOM, as requested. The ability to produce spot reports aids credit unions' own liquidity risk management.

STRESS TESTING

A credit union undertakes liquidity stress tests on a regular basis to identify and quantify its exposures to possible future liquidity stresses.

Depending on its size, scope and complexity, a credit union conducts stress tests for a variety of short-term and protracted credit union-specific and market-wide stress scenarios (individually and in combination). These tests identify sources of potential liquidity strain and ensure that current exposures remain consistent with the credit union's established liquidity risk tolerance.

The extent and frequency of testing are commensurate with the size, scope and complexity of the credit union and its liquidity risk exposures. Stress tests can range from formal modelling to

simple assumptions³ being applied to the credit union's balance sheet.

Senior management reviews stress testing scenarios, assumptions and results and reports on them to the credit union's board of directors. Stress testing results play a key role in shaping the credit union's contingency planning and in determining the strategy and tactics to deal with events of liquidity stress.

The results of the stress testing process are integrated into the credit union's planning process (e.g., adjusting the credit union's balance sheet composition) and its day-to-day risk management practices (e.g., through monitoring sensitive cash flows or reducing concentration limits). The results of the stress tests are key considerations when establishing internal limits, liquidity cushions, funding sources and liquidity contingency plans.

In addition to its own stress testing, a credit union participates in, and/or understands the results of, co-ordinated stress testing with the liquidity manager. This activity should consider both credit union-specific and system-wide stress events and should provide a credit union with a more fulsome understanding of the liquidity manager's funding capacity.

LIQUIDITY CUSHION

A credit union maintains a cushion of high-quality liquid assets that can be used in the event of a range of liquidity stress scenarios.

In addition to statutory liquidity, a credit union maintains a cushion of HQLA (e.g. cash or high-quality government bonds or similar instruments) that is available to support a range of stress scenarios, including those that involve the loss or impairment of unsecured and typically available secured funding sources.

Key considerations when establishing a liquidity cushion include assumptions about the size of cash flow mismatches, the duration and severity of stresses and the liquidation or borrowing value of assets (i.e., the estimated cash available to the credit union if assets are liquidated or used as collateral for secured funding). Assets normally pledged to secure specific obligations are not considered part of the liquidity cushion. Demonstration of counterbalancing capacity (e.g., the ability to raise unsecured funds, draw on commitments, call loans or access new secured funding sources in the short-term) are not considered an appropriate substitute to maintaining an adequate liquidity cushion.

The size of the liquidity cushion is determined by the credit union, and is aligned with its risk tolerance and business operations. A credit union ensures that its liquidity cushion is sized to maintain sufficient resilience to unexpected stress while it continues to meet daily payment and settlement obligations on a timely basis during the period of stress. The size of the liquidity cushion is appropriate for the credit union's specific deposit composition (short-term/long-term,

³ For example, the five largest depositors leave the credit union.

wholesale/retail, unsecured/secured, etc.) and is informed by the results of stress testing and reviewed regularly to meet the evolving financial position of the credit union.

A credit union is prepared to use its cushion of liquid assets in the event of severe stress, and ensures that there are no legal, regulatory or operational impediments to the use of these assets.

LIMITS AND INTERNAL CONTROLS

A credit union has information systems and controls in place that enable senior management and the board to review compliance with established liquidity risk management policies, practices and limits.

A credit union has documented limits and internal controls that are communicated and understood at all levels of the organization. Limits are operationally effective and established in accordance with the credit union's stated liquidity risk tolerance and stress testing results. They are not set so high that they are never triggered. A credit union has clearly articulated and documented policies for dealing with limit exceptions, including authorization procedures.

Senior management ensures that there are adequate internal controls over the credit union's liquidity management. Depending on its size, scope and complexity, a credit union's liquidity risk oversight responsibilities are assigned to a function that is independent of business operations.

Monitoring of performance against limits is conducted by parties that are operationally independent of funding areas and other business units. Such personnel are trained and have the information systems capabilities to monitor whether liquidity risk remains within the bounds set by senior management and the board. This process is reviewed regularly as part of the general internal audit process or a compliance review process.

CONTINGENCY PLANNING

A credit union has a formal liquidity contingency plan (LCP) that clearly sets out credit union strategies for addressing liquidity shortfalls in emergency situations.

A credit union's ability to withstand liquidity disruptions can depend on the quality of its LCP. An LCP is the compilation of policies, procedures and action plans for responding to severe disruptions to a credit union's ability to fund some or all of its activities in a timely manner and at a reasonable cost.

An effective LCP is a separate document⁴ that consists of several components, including:

- a clearly defined process to identify a potential liquidity event before it becomes a crisis, including early warning indicators, triggers and metrics;

⁴ An LCP can be contained within the credit union's larger liquidity management framework, but it must be a separate plan for dealing with stress scenarios.

- identification of stress events that could threaten a credit union's ability to fund both short-term (including intra-day) and long-term operational and strategic requirements;
- procedures and requirements for increased reporting to senior management and the board to ensure timely and uninterrupted information flow during emergency situations;
- clear division of roles and responsibilities within management for stressed or crisis events;
- management actions for making up cash flow shortfalls in emergency situations;
- a defined process to timely notify FICOM of the initialization or de-escalation of an LCP; and
- a recovery plan to bring liquidity ratios back to required levels after depletion.

Please see Appendix 1: Liquidity Contingency Plan Criteria for further details on recommended LCP criteria.

The development and ongoing maintenance of LCPs should be closely linked to a credit union's liquidity stress testing results. Depending on its size, scope and complexity, a credit union regularly reviews and tests its LCP and undertakes an independent third-party review of LCP assumptions.

COMMUNICATION WITH THE REGULATOR

A credit union is in continuous communication with FICOM during times of stress.

In the lead up to and during times of liquidity stress, a credit union is in regular contact with the regulator. A credit union is able to report on its liquidity positions on a daily basis, and does not rely on any other parties to relay information. Credit unions retain full ownership and accountability over any increased liquidity reporting or communication requirements imposed during times of increased stress or crisis.

A credit union does not need to seek regulatory approval before accessing its statutory liquidity held by the liquidity manager if a liquidity stress event develops; however, it must immediately notify FICOM as soon as it determines it may require access to these deposits. Please see bulletin [CU-17-002 "Access to Statutory Adequate Liquid Assets"](#) for further details.

APPENDIX 1: LIQUIDITY CONTINGENCY PLAN CRITERIA

Depending on its size, scope and complexity, a credit union's Liquidity Contingency Plan (LCP) contains the following:

1. **Early Warning Indicators/Triggers/Metrics** – A credit union develops a process for identifying a potential liquidity event before it becomes a crisis. This may include those events where key liquidity ratios still remain stable but early warning signs are emerging such as:
 - significant changes in the Liquidity Coverage Ratio (LCR), Net Cumulative Cash Flow (NCCF) profile and/or other key measures of liquidity;
 - higher loans to deposit ratio or consistently high utilization of borrowing lines;
 - negative publicity on the credit union's reputation;
 - difficulty securing borrowing lines or shortening/elimination of borrowing lines by the lender;
 - rising funding costs above projections/expectations warranted by the current environment;
 - increasing run-offs of core deposits; and
 - issues with securitization (e.g., inability to securitize due to tightening rules, quality of assets, etc.).

Recognition of these early warning signs enhances the credit union's readiness as the event actually evolves. Early warning trigger points are reviewed at least annually and informed by the credit union's stress testing

2. **Liquidity Stress Events** – Credit union management identifies stress events that could threaten the credit union's ability to fund both short-term (including intra-day) and long-term operational and strategic requirements. Stress events may be market-wide or credit union specific and may include but are not limited to:
 - deterioration in credit rating;
 - deterioration in Supervisory Composite Risk Rating (CRR);
 - negative publicity/elevated reputational risk (to be considered before management actions or as soon as becoming aware of external events with potential impact on the institution);
 - rapid asset growth (high loans to deposit ratio) where funding comes from less stable sources such as agent and MUSH (municipalities, universities, schools and

hospitals) deposits, asset-backed commercial paper (ABCP) securitization, etc. (reflected in NCCF);

- material changes in member relations/perceptions;
- unexpected run-off from a large depositor or category of depositors (e.g. retail depositors);
- loss of access to securitization markets;
- large, unanticipated drawdown in loan obligations;
- significant deterioration in a credit union's financial condition including asset quality; and
- external events (e.g. force majeure, cash/credit crunch in the system, etc.).

Various levels of severity should be identified in each of the above scenarios. The above events, stages and levels of severity should be tailored to the credit union's specific funding structure. The LCP should include the expected cash shortfall by maturity and the ability of the credit union to meet these shortfalls during stress events of various durations (ranging from days to years).

3. **Reporting** – A credit union has a plan for more frequent and thorough reporting to senior management and the board during emergency situations. It should consider including additional reports that are not normally prepared or are prepared only for regulatory reasons (such as NCCF). The board should review the plan at least annually.
4. **Accountability/Responsibility** – A credit union has a clear division of roles and responsibilities within management for stressed or crisis events along with escalation procedures for times of increasing severity. A credit union has a designated point of contact that will communicate with the regulator during times of crisis.
5. **Management Actions and Timeliness** – A credit union anticipates potential management actions for making up cash flow shortfalls in emergency situations along with timelines for their implementation. These may include:
 - liquidation of high-quality liquid assets;
 - securitization (Mortgage-Backed Securities (MBS)/Canada Mortgage Bond (CMB) allotment for one quarter);
 - access to third party credit facilities (prepare transaction documentation ahead of time since certain transactions may take weeks to close/sound collateral management);
 - loan sales (taking into account the potential for haircuts);

- accessing excess liquidity;
 - cutting off sources that drain liquidity (e.g. cutting back on lending, tightening lines of credit, etc.);
 - other actions; and
 - accessing statutory liquidity after all other options have been exhausted.
6. **Recovery plan** – A credit union has a detailed action plan to bring liquidity ratios (liquid assets, borrowing utilization, deposit concentration, etc.) back to the required levels (legislated and regulatory) after depletion of statutory liquidity.
 7. **Communication Plan** – A credit union has procedures in place to communicate pertinent information to FICOM, credit union members, and other stakeholders during a liquidity event.
 8. **LCP Testing** – A credit union tests its LCP at least annually in order to assess its reliability under stress. This may include testing the functions of identified actions, simulations to test communications, coordination and decision-making processes.
 9. **Independent Review** – An independent review of various assumptions in the LCP is conducted on a regular basis.

APPENDIX 2: HIGH QUALITY LIQUID ASSETS

Assets included in the stock of HQLA must be unencumbered. “Unencumbered” means free of legal, regulatory, contractual or other restrictions on the ability of the credit union to liquidate, sell, transfer, or assign the asset. An asset in the stock should not be pledged (either explicitly or implicitly) to secure, collateralize or credit-enhance any transaction, nor be designated to cover operational costs (such as rents and salaries). The following sets out the characteristics that such assets should generally possess.

Characteristics of HQLA

Assets are considered as HQLA if they can be easily and immediately converted into cash at little or no loss of value. The liquidity of an asset depends on the underlying stress scenario, the volume to be monetized and the timeframe considered. Nevertheless, there are certain assets that are more likely to generate funds without incurring large discounts in sale or repurchase agreement (repo) markets due to fire-sale, even in times of stress. This section outlines the factors that influence whether or not the market for an asset can be relied upon to raise liquidity when considered in the context of possible stresses. These factors should assist FICOM in determining which assets meet the criteria outlined under the definition of HQLA.

(i) Fundamental characteristics

- **Low risk:** assets that are less risky tend to have higher liquidity. High credit standing of the issuer and a low degree of subordination increase an asset’s liquidity. Low duration⁵, low legal risk, low inflation risk and denomination in a convertible currency with low foreign exchange risk all enhance an asset’s liquidity.
- **Ease and certainty of valuation:** an asset’s liquidity increases if market participants are more likely to agree on its valuation. Assets with more standardized, homogenous and simple structures tend to be more fungible, promoting liquidity. The pricing formula of a high-quality liquid asset must be easy to calculate and not depend on strong assumptions. The inputs into the pricing formula must also be publicly available. In practice, this should rule out the inclusion of most structured or exotic products.
- **Low correlation with risky assets:** the stock of HQLA should not be subject to wrong-way (highly correlated) risk. For example, assets issued by financial institutions are more likely to be illiquid in times of liquidity stress in the banking sector.
- **Listed on a developed and recognized exchange:** being listed increases an asset’s transparency.

(ii) Market-related characteristics

- **Active and sizable market:** the asset should have active outright sale or repo markets at all times. This means that:
 - There should be historical evidence of market breadth and market depth. This could be demonstrated by low bid-ask spreads, high trading volumes and a large and diverse

⁵ Duration measures the price sensitivity of a fixed income security to changes in interest rate.

- number of market participants. Diversity of market participants reduces market concentration and increases the reliability of the liquidity in the market.
- There should be robust market infrastructure in place. The presence of multiple committed market makers increases liquidity as quotes will most likely be available for buying or selling HQLA.
 - **Low volatility:** assets whose prices remain relatively stable and are less prone to sharp price declines over time will have a lower probability of triggering forced sales to meet liquidity requirements. Volatility of traded prices and spreads are simple proxy measures of market volatility. There should be historical evidence of relative stability of market terms (e.g. prices and haircut) and volumes during stressed periods.
 - **Flight to quality:** historically, the market has shown tendencies to move into these types of assets in a systemic crisis. The correlation between proxies of market liquidity and banking system stress is one simple measure that could be used.

Definition of HQLA

The stock of HQLA should comprise assets with the characteristics outlined above. This section describes the type of assets that meet these characteristics and can therefore be included in the stock of HQLA.

There are two categories of assets that can be included in the stock of HQLA. Assets to be included in each category are those that the credit union holds on the first day of the stress period, irrespective of their residual maturity. “Level 1” assets can be included without limit, while “Level 2” assets can only comprise up to 40% of the stock.

The 40% cap on Level 2 assets and the 15% cap on Level 2B assets should be determined after the application of required haircuts, and after taking into account the unwinding of short-term securities financing transactions and collateral swap transactions maturing within 30 calendar days that involve the exchange of HQLA. In this context, short term transactions are transactions with a maturity date up to and including 30 calendar days.

Level 1 Assets

Level 1 assets are typically of the highest quality and the most liquid. There is no limit on the extent to which a credit union can hold these assets to meet the LCR requirement and they are not subject to a haircut. Consistent with HQLA requirements, encumbered statutory liquidity deposits must be excluded from the HQLA. Specifically, any drawdown on a line of credit or term loan from the liquidity manager that is secured by the statutory liquidity deposits, would amount to creating an encumbrance hence that portion of the statutory liquidity deposits (up to the amount drawn down) should be excluded from the stock of HQLA.

Level 2 Assets

Level 2 assets are considered to be less liquid assets and can be included in the stock of HQLA subject to the requirement that they do not in aggregate comprise more than 40% of stock of HQLA after applicable haircuts. Level 2 assets are comprised of three sub-types of assets: Level 2A, Level 2B and Level 2C assets.

Level 2A Assets

Level 2A assets include certain government and corporate debt securities. A 15% haircut is applied to the current market value of each level 2A asset held in the stock of HQLA.

Level 2B Assets

Level 2B assets include lower-rated corporate bonds, residential mortgage-backed securities and equities, and can be included at the discretion of supervisors. Assets must fully comply with certain qualifying criteria and cannot account for more than 15% of the total stock of HQLA after haircuts have been applied. Haircuts on level 2B assets range from 25% to 50%.

Level 2C Assets

Level 2C assets include non-statutory deposits held with the liquidity manager that meet the characteristics of HQLA. Credit unions are required to apply a haircut, calculated and provided on a monthly basis by the liquidity manager. This haircut⁶ is specific to the non-statutory liquidity pool.

⁶ The methodology used to determine the appropriate haircut is subject to FICOM's approval.

Stock of HQLA ⁷	Haircut
- Measured at an amount no greater than current market value - Excludes securities issued by financial institutions unless otherwise noted	
A. Level 1 Assets:	
- Cash on hand currently held by the credit union - Statutory liquidity deposits held with the liquidity manager - Securities issued under the <i>National Housing Act</i> Mortgage Backed Securities (NHA MBS) program - Securities issued under the Canada Mortgage Bonds (CMB) program - Federal and provincial government guaranteed securities with credit assessment rating of AAA to AA-⁸	0%
B. Level 2 Assets (maximum of 40% of HQLA):	
Level 2A Assets:	
- Local government and other public sector entity securities with credit assessment rating of A+ to A- - Corporate debt securities (including commercial paper⁹) and covered bonds¹⁰ that satisfy all of the following conditions: - In the case of corporate debt securities: not issued by a financial institution or any of its affiliated entities; - In the case of covered bonds: not issued by the credit union itself or any of its affiliated entities	15%
Level 2B Assets (maximum of 15% of HQLA):	
- Qualifying residential mortgage backed securities (RMBS) rated AA or higher: - Not issued by, and the underlying assets have not been originated by the credit union itself or any of its affiliated entities	25%
- Qualifying corporate debt securities (including commercial paper) rated between A+ and BBB-: - Not issued by a financial institution or any of its affiliated entities	50%
- Qualifying corporate (non-financial) common equity shares meeting the requirements for primary capital: - Not issued by a financial institution or any of its affiliated entities	50%
Level 2C Assets:	
Non-statutory deposits held with the liquidity manager	To be provided by the liquidity manager on a monthly basis

⁷ The stock of HQLA is based on Basel requirements in principle and customized for BC credit union system.

⁸ The ratings for both Level 1 and Level 2 assets follow the methodology used by one institution, Standard & Poor's. The use of Standard and Poor's credit ratings is an example only; those of some other external credit assessment institutions such as DBRS and Fitch Ratings could be used as well. The lower rating is used in the event of discrepancies between rating of different credit assessment institutions.

⁹ *Corporate debt securities (including commercial paper)* in this respect include only plain-vanilla assets whose valuation is readily available based on standard methods and does not depend on private knowledge, i.e. these do not include complex structured products or subordinated debt.

¹⁰ 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 bond holders. 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, are capable of covering 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.

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