

EFFECTIVE OCTOBER 2021

Reporting Instructions: Liquidity Adequacy Return

B.C. Credit Unions

BCFSA 

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1 Introduction

These reporting instructions provide guidance to B.C. credit unions (not including central credit unions) for reporting the Liquidity Adequacy Return (“LAR”) to the Superintendent of Financial Institutions at BC Financial Services Authority (“BCFSA”), as required by the *Financial Institutions Act* (“FIA”) and its Liquidity Requirement Regulation (“LRR”).

2 Liquidity Adequacy Return (“LAR”)

2.1 SECTION 5000 – LIQUIDITY ADEQUACY RATIO

[Line 5000-100: Total Unencumbered Liquidity Available](#)

Include eligible cash on hand, eligible cash deposits and bankers’ acceptances, and unencumbered liquid assets held in trust with Central 1 Credit Union (“Central 1”), as specified by the LRR and reported in Section 5010.

[Line 5000-110: Total Deposit and Other Debt Liabilities](#)

Include the credit union’s deposits and borrowings, as specified by the LRR and reported in Section 5020.

[Line 5000-150: Liquidity Adequacy Ratio](#)

The formula for calculating the Liquidity Adequacy Ratio is as follows:

$$\text{Liquidity Adequacy Ratio} = \frac{\text{Total Unencumbered Liquidity Available}}{\text{Total Deposit and Other Debt Liabilities}}$$

2.2 SECTION 5010 – LIQUIDITY AVAILABLE

[Cash and Bankers’ Acceptances](#)

[Line 5010-100 Cash on Hand](#)

Include cash on hand (cash that is physically on the premises of the credit union), cash in transit, cash in ATMs, and any foreign currency held (valued at the current exchange rate).

[Line 5010-110: Cash Deposits Held in Trust](#)

Include cash deposits held in trust with Central 1.

[Line 5010-120: Bankers’ Acceptances Held in Trust](#)

Include bankers’ acceptances (reported at book value) that meet all of the following criteria:

- are held in trust with Central 1;
- have a remaining term to maturity of 30 days or less; and

- are issued by one of the Domestic Systemically Important Banks designated by the Office of the Superintendent of Financial Institutions ("OSFI").

Line 5010-160: Eligible Cash and Bankers' Acceptances

The amount reported (and included in the Liquidity Adequacy Ratio calculation) is the lesser of

- the Total Cash and Bankers' Acceptances; or
- 2% of the credit union's Total Deposit and Other Debt Liabilities from Section 5020.

High Quality Liquid Assets (HQLA) Held in Trust

Report liquid assets held in trust with Central 1, in separate unencumbered¹ and encumbered columns. Assets should be reported in accordance with International Financial Reporting Standards ("IFRS") but at an amount no greater than their current market value, including accrued interest, if applicable. Assets included must qualify as High Quality Liquid Assets ("HQLA") in Level 1, Level 2A, and Level 2B categories, as determined by reference to the Liquidity Adequacy Requirements Guideline established by OSFI or prescribed by BCFSA's rules.

Note: For LAR reporting purposes, HQLA haircuts, and Level 2 and Level 2B asset caps used in the Liquidity Coverage Ratio ("LCR") calculation do not apply. Minimum statutory requirement for these assets does not constitute an encumbrance in the context of HQLA.

Report unencumbered and encumbered HQLA details on the following lines:

Level 1 HQLA Assets:

Line 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.

Note: For LAR reporting purposes, NHA MBS that have been issued by the credit union but not yet sold to third parties are not part of statutory liquidity and should not be included in this line.

Line 5010-210: Canada Mortgage Bonds (CMB)

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

Line 5010-220: Securities from Sovereigns [Rated² AAA to AA-], Government of Canada and Provincial/Territorial Governments

Include qualifying marketable securities representing claims on or guaranteed by sovereigns, or central banks rated 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.

¹ "Unencumbered" means free of legal, regulatory, contractual or other restrictions on the credit union's ability to liquidate, sell, transfer, or assign the asset. The asset 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.

² The ratings follow the methodology used by one institution, Standard & Poor's. The use of Standard & 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.

Level 2A HQLA Assets:*Line 5010-300: Securities from Sovereigns [Rated A+ to A-], Municipalities and Other PSEs/ 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-.

Line 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).

Line 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:*Line 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.

Line 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).

Line 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).

2.3 SECTION 5020 – DEPOSIT AND OTHER DEBT LIABILITIESDeposit and Other Debt Liabilities

Include the credit union's deposits and borrowings, but do not include subordinated debt that is part of the credit union's capital base under section 3 of the FIA's Capital Requirements Regulation ("CRR").

Line 5020-100: Deposits

Total deposits of the credit union, as reported on the balance sheet in the FSR.

Line 5020-110: Borrowings

Total borrowings of the credit union, as reported on the balance sheet in the FSR.

Line 5020-120: Discount on Subordinated Debt

Discounted proportion of Credit Union Deposit Insurance Corporation of BC ("CUDIC"), Stabilization Central Credit Union ("SCCU"), and other subordinated debt not included in the capital base. For further details refer to the Capital Items Subject to Discounting section in the Capital Adequacy Return ("CAR") Reporting Instructions.



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