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Delivered Electronically

RE: Libro Credit Union Responds to Public Consultation on Liquidity Adequacy Requirements for Credit Unions (ID: 2021-006).

To the Reader,

Libro Credit Union (Libro) is pleased to provide our response to the public consultation on Liquidity Adequacy Requirements for Credit Unions. We are generally supportive of the proposed rule and appreciate FSRA's approach to date through lead up conversations and ongoing dialogue with the sector.

We wish to address two topics that we believe require further consideration.

Loan Inflows in the LCR Calculation

The guidance for the treatment of loan maturities omits key information around what is included as a cash inflow. Section 5(13)(g)(h) Table 4 references "payments" from various entities. Section 5(15) then lists the various expectations for what can, and cannot, be included as an inflow. We believe that section 5(15) is missing important guidance regarding the treatment for payments and contractual maturities.

For example, the previous guidance provided by FSRA defined "payments" as interest payments and installments with reference to continuing to extend loans to retail and small business customers at 50%. This infers that a 50% inflow factor is applied to the principal portion at maturity (would not apply to loans with no specified maturity date such as lines of credit). We request this guidance be included.

In addition, OSFI guidance assumes 100% of loans to financial institutions will be extended which provides 0% cash inflows. Under current FSRA guidance, 0% of loans to financial institutions are extended and the cash inflows are included at 100%. We request that FSRA aligns this rule with OSFI to allow no inflow on loans to financial institutions. Libro does not current hold any loans to financial institutions but request the update for consistency.

Please Note: Reference material is posted in "Appendix A"

Internal Liquidity Adequacy Assessment Process (ILAAP)

Libro agrees with FSRA's intent to create a refined process for liquidity monitoring through the recommended ILAAP. Libro also agrees with the rules as defined in Section 10, however this process will require significant time, effort, and resources to implement. Like implementation of the ICAAP process, credit unions will need guidance material and expectations provided by FSRA for implementation. In addition, we noted overlap with the Liquidity Guidance (i.e. governance, policy, stress testing, annual and contingency funding plans, etc.). We request confirmation that the intention is for ILAAP to replace the Liquidity Guidance to avoid redundant regulatory requirements and efforts.

We kindly request that FSRA provide guidance or an application guide for ILAAP and share a transition timeline for the documentation and process to mature in stages over a period of at least three years. The ILAAP is appealing as a more holistic approach to liquidity management, but it will take time to transition and implement effectively. We look forward to working closely with FSRA on this transition and believe it will be a positive for our Owners and sector.

Conclusion

We believe the two items above can enhance the proposed rule by clarifying loan payment and maturity inflows in the LCR calculation, as well as transition period for ILAAP. We are open to feedback or questions from FSRA in relation to the proposed changes and comments, as well as our review of the items in Appendix A. We look forward to a fair period of transition and continued collaboration on liquidity adequacy moving forward.

Sincerely,

Stephen Bolton
Head Coach, CEO and President
Libro Credit Union

CC: Nick Best – Canadian Credit Union Association

APPENDIX A

The following is material that supports our comments regarding loan inflows in the LCR calculation:

As described in the 2016 FSRA Liquidity Coverage Completion Guide

45. Credit unions are assumed to receive all payments (including interest payments and instalments) from retail, small business and non-financial corporate members that are fully performing and contractually due within a 30-day horizon. Only contractual payments due should be reported (e.g. required minimum payments of principal, fee or interest) and not total loan balances of undefined or open maturity. At the same time, however, credit unions are assumed to continue to extend loans at a rate of 50% of contractual inflows. This results in a net inflow rate of 50% of the contractual amount.

Current LCR Completion Guide, Paragraphs 45-48

https://www.fsrao.ca/industry/credit-unions-and-caisse-populaires-sector/standards-and-guidelines/liquidity-coverage-ratio-completion-guide

Loans

45. Credit unions should only include inflows from fully performing loans. Non-performing loans are those that are greater than 90 days delinquent. Further, inflows should only be taken at the latest possible date, based on the contractual rights available to counterparties.
46. Inflows from loans that have no specific maturity should not be included; therefore, no assumptions should be applied as to when maturity of such loans would occur. An exception to this would be minimum payments of principal, fee or interest associated with an open maturity loan, provided that such payments are contractually due within 30 days.
47. Credit unions are assumed to receive all payments (including interest payments and instalments) from retail, small business and non-financial corporate members that are fully performing and contractually due within a 30-day horizon.
Only contractual payments due should be reported (e.g. required minimum payments of principal, fee or interest) and not total loan balances of undefined or open maturity. At the same time, however, credit unions are assumed to continue to extend loans at a rate of 50% of contractual inflows. This results in a net inflow rate of 50% of the contractual amount.
Financial Institutions
48. Credit unions are assumed to receive all payments (including interest payments and installments) from financial institutions that are fully performing and contractually due within the 30-day horizon and are assumed to discontinue to extend loans. This results in an inflow rate of 100% of the contractual amount.

OFSI: paragraphs 133 and 134
https://www.osfi-bsif.gc.ca/Eng/Docs/LAR19_chpt2.pdf

Retail and small business customer inflows (OSFI Language)

This scenario assumes that institutions will receive all payments (including interest payments and installments) from retail and small business customers that are fully performing and contractually due within a 30-day horizon. At the same time, however, institutions are assumed to continue to extend loans to retail and small business customers, at a rate of 50% of contractual inflows. This results in a net inflow number of 50% of the contractual amount. [BCBS January 2013, para 153]

Other wholesale inflows (OSFI Language)

This scenario assumes that institutions will receive all payments (including interest payments and installments) from wholesale customers that are fully performing and contractually due within the 30-day horizon. In addition, institutions are assumed to continue to extend loans to wholesale clients, at a rate of 0% of inflows for financial institutions and central banks, and 50% for all others, including non-financial corporates, sovereigns, multilateral development banks, and PSEs. This will result in an inflow percentage of:

- 100% for financial institution and central bank counterparties; and
- 50% for non-financial wholesale counterparties. [BCBS January 2013, para 154]