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SECTOR RELEASE

No. 83

TO: *All Boards of Directors, Managers, and CEOs*

DATE: May 2, 2017

SUBJECT: **Liquidity and Stress Testing Guidance Notes and Tools**

DICO is releasing updated Liquidity and Stress testing Guidance Notes ("Guidance Notes") for implementation by credit unions. The Guidance Notes and tools were developed with the assistance of the Liquidity Guidance Working Group comprised of sector representatives with expertise in liquidity management. The new guidance reflects the introduction of new metrics and best practices that are consistent with the guidance issued by Basel and OSFI as well as other credit union provincial regulators.

These documents incorporate the comments and suggestions received from stakeholders during the consultation period. An abbreviated list of suggestions and DICO's response is attached. We thank all respondents for providing comments and suggestions as they have helped to create a more comprehensive set of guidance documents and tools.

Liquidity Guidance:

[The Liquidity Guidance Note](#) has been revised to introduce three new "metrics": the Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Net Cumulative Cash Flow (NCCF). This guidance is applicable to all credit unions as follows:

- **Credit unions with assets exceeding \$500 million are required to implement these metrics and submit their results to DICO within 21 days following each quarter end beginning December 2017.**
- Credit unions with less than \$500 million in assets may optionally adopt the metrics as part of their liquidity risk management programs, but are not required to submit the templates to DICO at this time.

Liquidity Stress Testing:

[The Stress Testing Guidance Note](#) has also been revised to include the requirement to stress test liquidity. This liquidity stress testing guidance is applicable as follows:

- **Credit unions with assets exceeding \$500 million must submit the results of their quarterly liquidity stress testing to DICO within 21 days following each quarter end beginning December 2017.**
- Credit unions with less than \$500 million in assets may optionally adopt the stress testing guidance to enhance their current liquidity risk management programs but, are not required to submit the results to DICO at this time.

[Templates and completion guides](#) for the LCR, NSFR and NCCF metrics have also been developed to assist credit unions in implementing the requirements in these Guidance Notes.

Capital Stress Testing:

As was noted in [Sector Release 76](#) issued July 29, 2016, the requirements for capital stress testing have been extended to those credit unions with assets between \$500 million and \$1 billion. Credit unions with fiscal year ends falling on or after December 31, 2016, are required to make their first ICAAP submission in 2017 according to the following schedule:

- For 2017, credit unions must submit the Summary Key Metrics Report, as presented in Appendix 1 of the ICAAP Guidance Note, 270 days after their fiscal year end and include the mandatory stress tests as outlined in Section 4 iv Stress Testing.
- For 2018 and thereafter, credit unions must submit the full ICAAP Submission Report 270 days after their fiscal year end.

To assist in fulfilling their duties, directors may find the following list of questions and considerations helpful in discussions with management when comparing the credit union's liquidity risk management practices with the revised Guidance Notes, templates and completion guides:

1. How do our liquidity management and stress testing practices compare to the minimum requirements and expectations outlined in the guidance?
2. What changes do we need to make to ensure our liquidity and stress testing practices are appropriate for the size and complexity of our credit union?
3. Does this guidance necessitate change to our liquidity and stress testing policies and practices?
4. If extensive changes are required, do we have an implementation plan?
5. If yes, do we have the capability to implement these measures (e.g., data, technology, expertise, etc.)?