STANDARDS OF SOUND BUSINESS PRACTICE

LIQUIDITY ADEQUACY REQUIREMENTS

CREDIT UNION

DEPOSITS GUARANTEED

SINCE 1953

DEPOSIT GUARANTEE CORPORATION

MANDATE

Credit Union Deposit Guarantee Corporation (the Corporation) is the deposit guarantor for Saskatchewan credit unions and the primary regulator for credit unions and Credit Union Central of Saskatchewan (SaskCentral), together, Provincially Regulated Financial Institutions or "PRFIs", as directed in provincial legislation – *The Credit Union Act, 1998* and *The Credit Union Central of Saskatchewan Act, 2016*. The Corporation instills confidence in the province's credit union system with a mandate of:

- guaranteeing the repayment of deposits in Saskatchewan credit unions
- establishing regulatory standards and ensuring PRFIs are performing to those standards
- promoting responsible governance by PRFIs, and contributing to the strength and stability of the credit union system
- directing PRFIs to take remedial action on material deficiencies and any issue that may put depositors' funds at risk
- maintaining and managing a guarantee fund in a sound and prudent manner

VISION

To instill public confidence in the Saskatchewan credit union system.

VALUES

Values guide individual and organizational behaviour. The Corporation's values are reflected in its Code of Conduct which provides a common frame of reference for staff, management, and the board in fulfilling the Corporation's mandate and strategic focus.

Co-operation:
As part of the co-operative financial services system, we respect co-operative principles and support credit unions and SaskCentral in enhancing their strength and development by working together.

Honesty & Integrity:
We perform our duties conscientiously with the highest level of honesty and professional integrity.

Fairness:
We approach issues and decisions with common sense, sound judgement, fairness, and consistency.

Responsible Regulation:
We act to protect the rights and interests of Saskatchewan depositors. We strike an appropriate regulatory balance that effectively protects depositors without unduly impairing credit unions' ability to compete in the market.

Leadership:
We use our knowledge of the credit union system and the financial services industry to anticipate future trends and proactively respond to our environment. We demonstrate leadership provincially and nationally by advocating positive change that contributes to the strength and stability of PRFIs.

Teamwork & Respect:
We work as a team to achieve goals and progress towards our common vision. We recognize that people are the key to success. We consistently treat people with dignity, respect, fairness, and the highest standards of ethics. We demonstrate co-operation when working with others, encouraging questions that generate innovative ideas and creative solutions.

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This reference guide has been published for use by provincially incorporated Saskatchewan credit unions. It outlines the Standards of Sound Business Practice - Liquidity Adequacy Requirements, set by Credit Union Deposit Guarantee Corporation, in consultation with the Registrar of Credit Unions, under *The Credit Union Act, 1998*.

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Regulatory Guidance Documents, the Supervisory Framework and assessment criteria for reviewing credit unions are available on the Corporation's credit union intranet. Information pertaining to the Corporation's roles and responsibilities, deposit guarantee fund, and the legislative framework for Saskatchewan credit unions is available on both the Corporation's credit union intranet and public website.

Changes to the Standards of Sound Business Practice - Liquidity Adequacy Requirements will be communicated when they take effect.

January 1, 2024

I. GENERAL INFORMATION

1. INTRODUCTION

The Credit Union Act, 1998 (the Act) empowers Credit Union Deposit Guarantee Corporation (the Corporation), in consultation with the Registrar of Credit Unions, to establish Standards of Sound Business Practice (the Standards). The objectives of the Standards are to:

- establish principles and minimum requirements for corporate governance and the control environment that contribute to the sound and prudent operations of credit unions and the protection of deposits
- prescribe limits and restrictions for credit unions in the context of sound business practices to manage and control exposure to risk

The Standards may be supplemented, expanded upon, and brought into effect by the other components that comprise the Corporation's regulatory framework. These components include, but are not limited to, regulatory guidelines, directives, filing instructions, and bulletins (collectively, Regulatory Guidance Documents).[1] The Standards and the Regulatory Guidance Documents must be adhered to by Saskatchewan credit unions. Additionally, the Act and other provincial and federal legislation create legal requirements and obligations that credit unions must comply with. The Corporation's supervisory processes are a component of the regulatory framework. The supervisory processes are used to assess the safety and soundness of credit unions and proactively respond to credit unions demonstrating elevated risk.

While the Corporation establishes prudential requirements for credit unions, boards of directors (boards) of credit unions are ultimately responsible for the sound and prudent operation of their organizations. Boards and senior management are required to establish strong risk management cultures, guided by sound risk management practices that support and provide appropriate standards and incentives for professional, prudent behaviour. As such, the Standards emphasize the careful and practical judgement that would be exercised by a reasonable person in the financial services industry, having regard to:

- the objectives of the credit union
- all the risks to which the credit union is exposed
- the amount and nature of the credit union's liquidity and capital
- the regulatory compliance obligations of the credit union

The effective date of these Standards is January 1, 2024. New or revised principles, requirements, limits, and restrictions contained in these Standards are not retroactive.

[1]Regulatory Guidance Documents can be found on the Corporation's credit union intranet at https://cudgcsk.sharepoint.com/sites/CUIntranet.

2. NON-COMPLIANCE

Where the Corporation determines a credit union is not in compliance with the Standards or Regulatory Guidance Documents, the Corporation may take any necessary action. Necessary action may include, but is not limited to:

- reducing or restricting the credit union’s authorities and limits
- subjecting the credit union to preventive intervention
- issuing a compliance order
- placing the credit union under supervision or administration
- issuing an amalgamation order

3. EXCEPTION APPROVALS

Requests by a credit union for exceptions to, or a waiver of, the requirements under the Standards and/or Regulatory Guidance Documents must be accompanied by a detailed business case analysis including:

- policy recommendations
- financial projections
- any additional information that may be required by the Corporation

Exception approvals will be granted in exceptional circumstances only.

II. LIQUIDITY STANDARDS

The Standards of Sound Business Practice - Liquidity Adequacy Requirements (Liquidity Standards) set out the principles and minimum requirements for the quantity and quality of liquid assets that credit unions are required to hold. The Liquidity Standards are to be applied in conjunction with other elements of the regulatory framework, including:

- The Act and *The Credit Union Regulations, 1999* (the Regulations), which specify requirements respecting liquid assets and investments.
- The Standards of Sound Business Practice, which set out the principles and minimum requirements related to credit union operations and business practices.
- The Standards of Sound Business Practice – Capital Adequacy Requirements (Capital Standards), which set out the principles and minimum requirements for the quantity and quality of capital that credit unions are required to hold and how it is calculated.
- Regulatory Guidance Documents.

1. STATUTORY LIQUIDITY

Credit unions must maintain 8.65% of their prior quarter's deposits, deposit interest payable, loans payable (excluding Canada Mortgage Bond and National Housing Act Mortgage-Backed Security securitization liabilities), loans interest payable, and member shares required for membership as statutory liquidity.

Statutory liquidity must be held on deposit with SaskCentral, as the provincial liquidity program manager. Subject to prior approval by the Corporation, a credit union may manage a portion of the statutory liquidity requirement outside of SaskCentral. The Corporation's approval will set out the minimum amount of statutory liquidity that must be held on deposit with SaskCentral, and any other requirements that need to be met.

2. LIQUIDITY COVERAGE RATIO (LCR)

The objective of the LCR is to ensure that a credit union has an adequate stock[2] of unencumbered[3] high quality liquid assets (HQLA) that:

- consists of cash or assets that can be converted into cash at little or no loss of value; and
- meets its liquidity needs for a 30 calendar day stress scenario, by which time it is assumed corrective actions have been taken by the credit union and/or the Corporation

The stress scenario for the LCR standard entails a combined credit union-specific and market-wide shock that would result in:

- the run-off of a proportion of retail deposits
- a partial loss of unsecured wholesale funding capacity
- additional contractual outflows including collateral posting requirements

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[2]A credit union's stock of HQLA includes securities held directly as well as those held directly or indirectly in the form of statutory liquidity deposits with SaskCentral, manager of the provincial liquidity program, as prescribed by the Regulations. A credit union shall assume 0% cash inflow from its statutory liquidity deposits but may allocate the amount of its statutory liquidity deposits to each category of HQLA and other liquid assets on a "look-through" basis in accordance with the investment allocation of the liquidity pool. Credit unions will report to the Corporation the distribution of the pool of statutory liquidity deposits among each category of HQLA and other liquid assets on a quarterly basis, or more frequently on request, based on the information provided by SaskCentral.

[3]All assets in the stock held by SaskCentral should be unencumbered, and those held directly by the credit union should be unencumbered with the exception that a security interest may be provided to SaskCentral. See Appendix A for a further description of characteristics and operational requirements for HQLA.

- unscheduled draws on committed but unused credit facilities that the credit union has provided to its clients
- the potential need for the credit union to buy back debt or honour non-contractual obligations in the interest of mitigating reputational risk

This stress scenario for the LCR is to be viewed as a minimum requirement. Credit unions are expected to conduct additional stress tests to assess the level of liquidity they should hold beyond the regulatory minimum and construct their own scenarios that could cause difficulties for their specific business activities. Internal stress tests are to have longer time horizons and results are to be shared with the Corporation on request.

The minimum regulatory requirement for the LCR during periods of normal operations is 100%.

The LCR standard is defined as follows:

$$\text{LCR} = \frac{\text{Stock of HQLA}}{\text{Total net cash outflows over the next 30 calendar days}} \geq \text{Minimum LCR requirement}$$

The numerator is based on the value of the stock of HQLA in stressed conditions. Under the standard, credit unions must hold a stock of unencumbered HQLA to cover the total net cash outflows over a 30-day period under the prescribed stress scenario. In order to qualify, HQLA must meet the attributes prescribed in Appendix A. The denominator is based on total net cash outflows, calculated according to the scenario parameters prescribed in Sections 5.3 and 5.4 which deal with cash outflows and inflows.

3. LIMITS AND RESTRICTIONS

The following limits and restrictions are regulatory minimums. The Corporation expects credit unions to establish liquidity limits that:

- support prudent operations
- are appropriate for the credit union’s risk profile, risk appetite and risk tolerance
- are aligned with the credit union’s stress testing program
- are stricter than regulatory minimum.

3.1 LIMITS

- Subject to subsection 40(1) of the Act, credit unions are authorized to borrow up to 200% of Eligible Capital for purposes of operating liquidity and other borrowings.
- For investments in loan pools, the limit to a single borrower is 25% of Eligible Capital.
- Investment in real property and equipment for a credit union’s own use is limited to a maximum of 50% of Eligible Capital.
- Net aggregate foreign currency risk exposure is limited to a maximum of 5% of Eligible Capital.
- Investments in, and deposits with SaskCentral are permitted with no prescribed regulatory limit.

3.2 RESTRICTIONS

- For the purpose of managing operating liquidity, a credit union must maintain a line of credit with SaskCentral.
- For derivative transactions, a credit union is required to seek the Corporation's approval of the broker.
- The yield on all investments must be in Canadian currency and interest-rate based at current market rates, unless otherwise prescribed by the Corporation.
- Investments in U.S. securities are only permitted for offsetting U.S. liabilities.
- The following activities are prohibited:
  - investing in investment property for solely speculative purposes
  - investing in derivatives except for hedging purposes
  - inter-credit union investing, depositing and lending within as well as outside of Saskatchewan[4]

4. USE OF HQLA AND ROLE OF SUPERVISOR

The standard requires that, absent a period of financial stress, the value of the LCR be no lower than the minimum LCR requirement. The stock of HQLA should at least equal total net cash outflows because the stock of unencumbered HQLA is intended to serve as a defense against the potential onset of liquidity stress.

During a period of financial stress, however, credit unions may, with the consent of the Corporation, use their stock of HQLA, thereby allowing the LCR to fall below the minimum LCR requirement. This may include, with the approval of the Corporation, withdrawal of some or all of their statutory liquidity deposits with SaskCentral, or borrowings against their statutory liquidity deposits. Otherwise maintaining the LCR and liquidity deposits under periods of financial stress could produce undue negative effects on credit unions and other market participants. Upon notification by a credit union or SaskCentral, as manager of the provincial liquidity program, that a credit union faces liquidity stress, the Corporation will assess the situation and respond flexibly according to the circumstances.

At a minimum, a credit union must provide the Corporation with an assessment of its liquidity position, including the factors that contributed to the LCR falling below the minimum LCR requirement, the measures that have been and will be taken, and the expectations on the potential length of the situation.

5. CALCULATION OF LCR

5.1 DEFINITION OF HQLA

HQLA are comprised of Level 1 and Level 2 assets. To reflect their value in stressed conditions, certain types of assets within HQLA are subject to haircuts (i.e., the percentage by which an asset's market value is reduced based on risk).

[4]This prohibition does not apply to federally regulated credit unions.

Level 1 assets are typically of the highest quality and the most liquid and can represent an unlimited share of HQLA. They generally include cash and certain marketable securities backed by federal and provincial governments and are not subject to haircuts under the LCR.

Level 2 assets are considered to be less liquid, and in total, may represent no more than 40% of HQLA after haircuts have been applied. They may be classified as Level 2A assets or Level 2B 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 include lower rated corporate bonds, residential mortgage-backed securities and equities, and may be included at the discretion of supervisors. Assets must fully comply with certain qualifying criteria and may not account for more than 15% of the total stock of HQLA after haircuts have been applied. They must also be included within the overall 40% cap on Level 2 assets. Haircuts on Level 2B assets range from 25% to 50%.

Stock of HQLA[2]	**Haircut**
• Measured at an amount no greater than current market value • Excludes securities issued by financial institutions unless otherwise noted • Includes a credit union's statutory liquidity deposits with SaskCentral, allocated to each category of HQLA on a "look-through" basis in accordance with the investment allocation of the liquidity pool	
A. Level 1 assets:	
• Cash on hand[5] • SaskCentral current account[6] • Federal and provincial government guaranteed marketable securities • National Housing Act Mortgage-Backed Securities and Canada Mortgage Bonds	0%
B. Level 2 assets (maximum of 40% of HQLA):	
Level 2A assets:	
• Local government and other public sector entities • Qualifying corporate debt securities[7] and covered bonds[7,8] rated AA- or higher	15%
Level 2B assets (maximum of 15% of HQLA):	
• Qualifying residential mortgage-backed securities (RMBS)[7,9] rated AA or higher • Qualifying corporate debt securities[7] rated between A+ and BBB-	25% 50%
Total value of stock of HQLA	

[5] Held by the credit union and immediately available to meet obligations. Excludes deposits placed at, or receivables from, other institutions. These are treated as cash inflows.

[6] Current accounts with SaskCentral that can be drawn down in times of stress.

[7] Traded in large, deep and active markets; have a proven record as a reliable source of liquidity in the markets during stressed conditions; not an obligation of or issued by a financial institution (except in the case of RMBS and covered bonds: these may not be issued by the credit union itself or any of its affiliated entities). Qualifying corporate debt securities (including commercial paper) include only plain-vanilla assets (i.e., not complex structured products or subordinated debt). Corporate debt securities with a rating of AAA- whose maximum decline of price or increase in haircut over a 30-day period of significant liquidity stress is between 10% and 20% may count towards Level 2B assets. Securities representing claims on public sector entities (PSEs) with a rating of at least BBB- whose maximum decline of price or increase in haircut over a 30-day period of significant liquidity stress does not exceed 20% may count towards Level 2B assets.

[8] Registered covered bonds issued under a covered bond program registered pursuant to the National Housing Act (NHA) and listed on the Canadian Covered Bonds Registry.

[9] Not issued by, and the underlying assets have not been originated by the credit union itself or any of its affiliated entities; underlying asset pool is restricted to residential mortgages and cannot contain structured products; underlying mortgages are full-recourse loans and have a maximum loan-to-value ratio of 80% for the portfolio on average at the time the RMBS is issued.

5.2 TOTAL NET CASH OUTFLOWS

The term total net cash outflows[10] is defined as the total expected cash outflows minus total expected cash inflows in the prescribed stress test scenario for the subsequent 30 calendar days.

Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by rates at which they are expected to run-off or be drawn down.

Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by rates at which they are expected to flow in under the scenario, up to an aggregate cap of 75% of total expected cash outflows.

Total net cash outflows[10] over the next 30 calendar days = Total expected cash outflows – Total expected cash inflows (up to maximum of 75% of total expected cash outflows)

5.3 CASH OUTFLOWS

Cash outflows are intended to reflect customers' behaviour in a "run" on the credit union. The liabilities of a credit union are diverse in terms of customer groups, structures and maturities. Customers include, but are not limited to, the following:

- **Retail customers:** natural persons – usually small and medium-sized depositors.
- **Wholesale customers:** legal entities, sole proprietorships or partnerships. Small business customers whose loans are managed as retail exposures for the purposes of the Capital Standards, and whose total aggregate funding per customer is less than $1.5 million, are included in this category.
- **Non-financial corporations:** include small and mid-size enterprises (i.e., that do not meet the criteria described above for wholesale customers) and large corporations.
- **Municipalities and other public sector entities:** municipalities and entities directly and wholly-owned by a government such as universities, school boards, and hospitals.

[10] Where applicable, cash inflows and outflows should include interest that is expected to be received and paid during the 30-day time horizon. Credit unions will not be permitted to double count items (e.g., if an asset is included as part of the stock of HQLA, the associated cash inflows cannot also be counted as cash inflows).

Retail Deposit Run-Off

Cash Outflows	Run-off Factor
A. Retail deposits:	
Demand deposits and term deposits (less than 30 days maturity):	
• stable deposits[11]	5%
• less stable deposits[12]	10%
Rate sensitive deposits[13] (interest rate paid exceeds the average rate):	
• stable deposits	10%
• less stable deposits	20%
Demand deposits and term deposits (unaffiliated third party):	
• demand deposits[14]	40%
• term deposits[15]	30%
Term deposits with residual maturity greater than 30 days[16]	0%

Where a deposit can be categorized in more than one category, the highest run-off rate should be assigned.

Unsecured Wholesale Funding Run-Off

Unsecured wholesale funding is those liabilities that are raised from non-natural persons (i.e., legal entities, including sole proprietorships and partnerships) and are not collateralized by legal rights to specifically designated assets owned by the borrowing credit union in the case of bankruptcy, insolvency, liquidation or resolution. Obligations related to derivative contracts are explicitly excluded from this definition.

[11] Stable Deposits include those depositors that have other established relationships with the credit union that make deposit withdrawal highly unlikely (e.g., other term investments maturing outside the LCR window, or a revolving or installment loan), or have deposits in transactional accounts (e.g., where salaries are automatically deposited, bill payments are automatically withdrawn from the account, cheques can be written against the account's balance, or the account is used for day-to-day transactions).

[12] Less stable deposits include those deposits not in a transactional account; includes deposits at risk of flight, foreign currency deposits, high-value deposits, and deposits from high net worth individuals (e.g., deposits from one individual exceeding $500 thousand). This also includes deposits received from intermediaries (such as funds or trusts) where the underlying customers are retail or small business customers, and the balance is controlled solely by the customer (i.e., the intermediary does not influence the balance placed or the institution where such balances are placed at after initial placement).

[13] Rate Sensitive Deposits are demand deposits where the interest rate paid significantly exceeds the average rate for similar retail products, or where the interest rate paid is a temporary promotional rate, and where the funds deposited are free from material constraints on withdrawals.

[14] Demand deposits directly managed by an unaffiliated third-party (e.g., an entity not branded as a subsidiary of the institution and that is acting on behalf of the retail client in an advisory role). This includes entities that have the ability to direct or influence the institution where the funds are placed.

[15] Term deposits directly managed by an unaffiliated third party (e.g., an entity that is not branded with the institution or that is not branded as a subsidiary of the institution, and that is acting on behalf of the retail client in an advisory role) that are maturing or are cashable in the next 30 days.

[16] Only if the depositor has no legal right to withdraw deposits within the 30-day time horizon or if early withdrawal results in a penalty that is materially greater than the loss of interest. If a credit union allows a depositor to withdraw without applying the corresponding penalty, or despite a clause that says the depositor has no legal right to withdraw, the entire category of these funds must be treated as demand deposits. Credit unions may choose to outline exceptional circumstances that would qualify as hardship, under which the exceptional term deposit could be withdrawn by the depositor without changing the treatment of the entire pool of deposits. The Corporation defines 'hardship' to include pre-defined and documented situations such as death, catastrophic illness, loss of employment or bankruptcy of the depositor.

The wholesale funding included in the LCR is all funding that is callable within 30 days or that has its earliest possible contractual maturity date within this horizon (such as maturing term deposits and unsecured debt) as well as funding with an undetermined maturity. This should include all funding with options that are exercisable at the investor's discretion within the 30 calendar day horizon.

Cash Outflows	Run-off Factor
B. Unsecured wholesale funding:	
Demand deposits and term deposits (less than 30 days maturity) provided by qualifying small business customers[17]: • stable deposits[11] • less stable deposits[12]	 5% 10%
Non-financial corporate[18] and public sector entities	20%
Other legal entity customers[19]	100%
Term deposits with residual maturity greater than 30 days[16]	0%

[17]Small business customers whose loans are managed as retail exposures for the purposes of the Capital Standards, and whose total aggregate funding per customer is less than $1.5 million. Where a credit union does not have any retail loan exposure to a small business customer in line with the Capital Standards criteria, it may include the deposit in this category provided that the aggregate funding from the customer is less than $1.5 million and the deposit is managed as a retail deposit. This means that the credit union treats such deposits in its internal risk management system consistently over time and in the same manner as other retail deposits, and that the deposits are not individually managed in a way comparable to larger corporate deposits. Aggregate funding is based on the gross amount (i.e., not netting any form of credit) of all forms of funding (e.g., deposits or debt securities). Where one or more small business customers are affiliated with each other, they may be considered as a single creditor such that the limit is applied to the total funding received from this group of customers.

[18]Those that are not categorized as small business customers.

[19]Deposits and other funding from other institutions (including banks, insurance companies, etc.), fiduciaries, beneficiaries, conduits and special purpose vehicles and other entities not included in the prior categories. Fiduciary is defined in this context as a legal entity that is authorized to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles. Beneficiary is defined in this context as a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract.

Additional Requirements

Cash Outflows	Run-off Factor
C. Additional requirements:	
Secured funding transactions with SaskCentral[20] or backed by Level 1 assets with any counterparty	0%
Net derivative cash outflows[21]	100%
Contractual and potential calls for collateral for derivatives and other contracts[22]	100%
Liabilities from maturing amounts on securitizations and other structured financing instruments[23]	100%
Drawdowns on committed credit facilities[24]:	
• retail and small business customers	5%
• non-financial corporates and public sector entities	10%
• other legal entities	100%
Other contractual obligations to extend funds within a 30-day period[25]	100%
Other contingent funding obligations:	
• potential liquidity draws from joint ventures or minority investments in entities	100%
• unconditionally cancellable credit facilities:	
- retail and small business customers	2%
- all other customers	5%
• guarantees and letters of credit	5%
Other contractual cash outflows[26]	100%

[20] Secured funding is those liabilities that are collateralized by legal rights to specifically designated assets owned by the credit union in the case of bankruptcy, insolvency, or liquidation. During a liquidity stress event, the ability to raise secured funding during such an event may be limited to transactions backed by the most liquid assets. This includes secured funding transactions with SaskCentral or backed by Level 1 assets with any counterparty. As such, no loss of funding is expected to occur with these transactions.

[21] Cash outflows may be calculated net of cash inflows (including receipts of collateral inflows) where a valid master netting agreement exists. Options are assumed to be exercised when they are "in the money" to the option buyer.

[22] 100% of the amount of collateral that would be posted related to any credit rating downgrade or valuation change, excess collateral that could be contractually called, collateral due but not yet called, or collateral substitutions.

[23] Secured debt maturing within the next 30 days from securitizations and other structured financing arrangements, excluding those funded by NHA MBS and CMB programs. Maturing amounts do not include principal and interest payments due. Instead, these payments should be accounted for in other contractual outflows.

[24] Includes only contractually irrevocable ("committed") or conditionally revocable agreements to extend funds into the future (e.g., approved loans not yet disbursed, and conditionally revocable revolving credit facilities).

[25] Any contractual lending obligations not captured elsewhere. If the total of all contractual obligations to extend funds to retail and non-financial corporate clients within the next 30 days (not captured in the prior categories) exceeds 50% of the total contractual inflows in the next 30 days from these clients, the difference should be reported as a 100% outflow.

[26] Any other contractual cash outflows within the next 30 calendar days should be captured in this category, including those related to secured and unsecured lines of credit, cash flow obligations for securitizations, dividends or contractual interest payments. Outflows related to operating costs are not included in this category.

5.4 CASH INFLOWS

A credit union should only include contractual inflows (including interest payments) from outstanding exposures that are fully performing and for which it has no reason to expect a default within the 30-day time horizon. Contingent inflows are not included in total net cash inflows. Cash inflows related to non-financial revenues are not taken into account for the purposes of this standard.

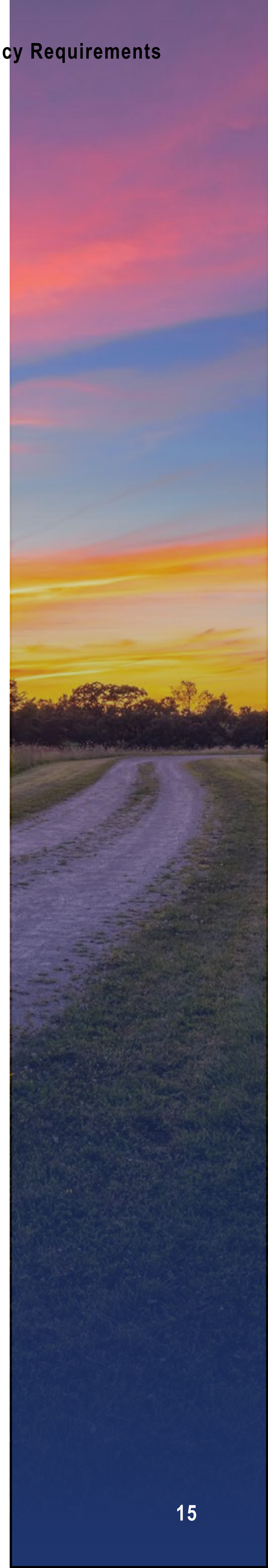
Cap on total inflows: to prevent reliance solely on anticipated inflows to meet the liquidity requirement, and also to ensure a minimum level of HQLA holdings, the amount of inflows that can offset outflows is capped at 75% of total expected cash outflows as calculated in the standard. This requires that a credit union must maintain a minimum amount of stock of HQLA equal to 25% of the total net cash outflows.

Cash Inflows	Inflow Factor
Committed credit facilities, liquidity facilities or other contingent funding facilities held at other institutions	0%
Other inflows by counterparty[27]:	
• retail and small business customers	50%
• other wholesale inflows	50%
• amounts received from financial institutions and other counterparties to non-HQLA securities[28]	100%
Net derivative cash inflows	100%
Other contractual inflows[29]	100%

[27]When considering loan payments, the credit union should only include inflows from fully performing loans. Further, inflows should only be taken at the latest possible date, based on the contractual rights available to counterparties. For revolving credit facilities, this assumes that the existing loan is rolled over and that any remaining balances are treated in the same way as a committed facility. Inflows from loans that have no specific maturity (i.e., have non-defined or open 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, fees or interest associated with an open maturity loan, provided that such payments are contractually due within 30 days. These minimum payment amounts should be captured as inflows at the rates prescribed for retail, small business and other wholesale inflows.

[28]Inflows from securities maturing within 30 days not included in the stock of HQLA should be treated in the same category as inflows from financial institutions (i.e., 100% inflow). Level 1 and Level 2 securities maturing within 30 days should be included in the stock of liquid assets.

[29]Other contractual cash inflows should be captured here, and credit unions should be prepared to provide, on request, an explanation of what comprises this bucket. Cash inflows related to non-financial revenues are not taken into account in the calculation of the net cash outflows for the purposes of this category. Cash flows arising from sales of non-HQLA that are executed but not yet settled at the reporting date should be treated as “other cash inflows”. Note that any outflows or inflows of HQLA in the next 30 days in the context of forward and unsettled transactions are only considered if the assets do or will count toward the credit union’s stock of HQLA. Outflows and inflows of HQLA-type assets that are or will be excluded from the credit union’s stock of HQLA due to operational requirements are treated like outflows or inflows of non-HQLA.



APPENDIX A

ATTRIBUTES OF HQLA

In order to qualify as HQLA, assets should be liquid in times of stress and, ideally, be central bank eligible. It should be noted however, that central bank eligibility does not by itself constitute the basis for the categorization of an asset as HQLA. The following sets out the characteristics that assets should generally possess and the operational requirements that they should satisfy. These characteristics and requirements apply to the assets held directly by the credit union as well as those assets held by SaskCentral, as manager of the provincial liquidity program, representing the credit union’s proportion of statutory liquidity deposits invested in the liquidity pool.

1. Characteristics of HQLA

Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. 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 in determining which assets are not sufficiently liquid and eligible to be included in the stock of HQLA.

Fundamental Characteristics

- **Low risk:** high credit standing, low degree of subordination, low duration[30], and low legal, inflation and foreign exchange risks.
- **Ease and certainty of valuation:** standardized, simple structures; and a pricing formula that is easy to calculate, does not depend on strong assumptions and has inputs that are publicly available. This should rule out the inclusion of most structured or exotic products.
- **Low correlation with risky assets:** assets 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.
- **Transparent:** listed on a developed and recognized exchange.

Market-related Characteristics

- **Active and sizable market:** historical evidence of market breadth and market depth, demonstrated by high trading volumes, and a large and diverse number of market participants
- **Low volatility:** historical evidence of relative stability of asset prices, haircuts and volumes during stressed periods
- **Flight to quality:** historical evidence of market tendencies to move into these types of assets in a systemic crisis

As outlined by these characteristics, the test of whether liquid assets are of “high quality” is that, by way of sale or repo, their liquidity-generating capacity is assumed to remain intact even in periods of severe idiosyncratic and market stress.

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[30]Duration measures the price sensitivity of a fixed income security to changes in interest rates.

2. Operational Requirements

All assets in the stock of HQLA are subject to the following operational requirements. The purpose of the operational requirements is to recognize that not all assets should be eligible for the stock since certain operational restrictions may prevent timely monetization during a stress period.

These operational requirements are designed to ensure that the credit union can, and is able to demonstrate that it can, immediately use the stock of assets as a source of contingent funds to convert into cash to fill funding gaps between cash inflows and outflows at any time during the 30-day stress period, with no restrictions on the use of the liquidity generated.

1. A credit union should ensure a representative proportion of the assets in the stock is periodically monetized (through repo or outright sale), in order to test its access to the market, the effectiveness of its processes for monetization, the availability of the assets, and to minimize the risk of negative signaling during a period of actual stress. The extent, subject and frequency of monetization necessary to comply should be assessed on a case-by-case basis.

2. All assets in the stock held by SaskCentral should be unencumbered, and those held directly by the credit union should be unencumbered with the exception that a security interest may be provided to SaskCentral.[31] "Unencumbered" means free of legal, regulatory, contractual, or other restrictions on the ability 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). Assets received in reverse repo and securities financing transactions that are held at SaskCentral or the credit union, have not been rehypothecated, and are legally and contractually available for the institution's use can be considered as part of the stock of HQLA. In addition, assets which qualify for the stock of HQLA that have been pre-positioned or deposited with, or pledged to, the central bank but have not been used to generate liquidity may be included in the stock.[32]

3. A credit union should exclude from the stock those assets that it would not have the operational capability to monetize to meet outflows during the stress period (e.g., not having procedures and appropriate systems in place, with access to all necessary information to execute monetization of any asset at any time).

4. The stock should be under the control of SaskCentral, or the function charged with managing the liquidity of the credit union (e.g., CFO), meaning either have the continuous authority, and legal and operational capability to monetize any asset in the stock.

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[31]The Credit Union Regulations (18) provide that SaskCentral may have access to the deposits and securities of a credit union to meet the credit union's clearing, settlement and payment obligations, to manage the liquidity sources of credit unions, and for liquidity arrangements with other Centrals.

[32]If a credit union or SaskCentral has deposited, pre-positioned or pledged Level 1, Level 2 and other assets in a collateral pool and no specific securities are assigned as collateral for any transactions, it may assume that assets are encumbered in order of increasing liquidity value in the LCR (i.e., assets ineligible for the stock of HQLA are assigned first, followed by Level 2B assets, then Level 2A and finally Level 1). This determination must be made in compliance with any requirements, such as concentration or diversification, of the central bank.

5. A credit union or SaskCentral is permitted to hedge the market risk associated with ownership of the stock of HQLA and still include the assets in the stock. If the institution chooses to hedge the market risk, it should take into account (in the market value applied to each asset) the cash outflow that would arise if the hedge were to be closed out early (in the event of the asset being sold).

6. A credit union should ensure the legal entity and physical location where collateral is held and how it may be mobilized in a timely manner is monitored. In addition, the credit union or SaskCentral should determine whether any such assets should be excluded for operational reasons and therefore, have the ability to determine the composition of its stock on a daily basis.

7. Qualifying HQLA that are held to meet liquidity requirements at the subsidiary level can only be included in the consolidated stock if those assets would also be freely available to the consolidated (parent) entity in times of stress.

8. In assessing whether assets are freely transferable for regulatory purposes, credit unions should be aware that assets may not be freely available to the consolidated entity due to regulatory, legal, tax, accounting or other impediments. Assets held in legal entities without market access should only be included to the extent that they can be freely transferred to other entities that could monetize the assets.

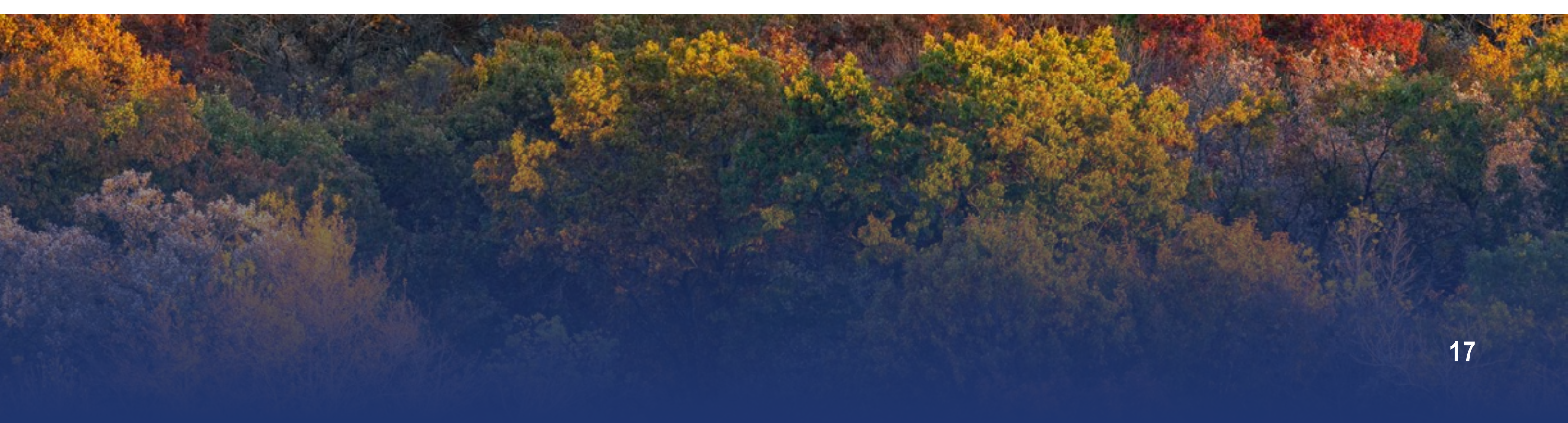
9. A credit union and SaskCentral should exclude from the stock of HQLA those assets where there are impediments to sale, such as large fire-sale discounts which would cause it to breach minimum solvency requirements.

10. Credit unions and SaskCentral should not include in the stock of HQLA any assets, or liquidity generated from assets, they have received under right of rehypothecation, if the beneficial owner has the contractual right to withdraw those assets during the 30-day stress period.

11. If an eligible liquid asset became ineligible (e.g., due to rating downgrade), a credit union or SaskCentral is permitted to keep such assets in its stock of liquid assets for an additional 30 calendar days. This would allow the institution additional time to adjust its stock as needed or replace the asset.

3. Diversification of the Stock of HQLA

The stock of HQLA should be well diversified. Credit unions should therefore ensure policies and limits are in place in order to avoid concentration with respect to asset types, issue, and issuer types.



OPERATING PRINCIPLES

Our principles provide direction on how to carry out the Corporation's roles and responsibilities. They are what make us unique. These philosophical insights have contributed to the Corporation's notable success throughout its history and provide guidance in shaping the Corporation's future.

Effective Regulation

As the primary prudential and solvency regulator, we support and encourage a successful credit union system by working with stakeholders to balance prudential regulation with market forces.

We recognize the need for PRFIs to evolve in the marketplace and we support a strong and prosperous credit union system by:

- focusing on the future of the financial services industry
- striving to implement industry best practices where it is reasonable to do so
- developing flexible and enabling approaches to effective and efficient regulation

Our role is to regulate, not to manage. Our actions demonstrate our preference to prescribe rather than restrict and demonstrate our respect for a credit union's right to determine its own destiny.

We believe that effective deposit protection is accomplished through investments in prevention including:

- analyzing PRFIs' performance on an ongoing basis to ensure early identification of potential risks
- communicating our expectations
- sponsoring and promoting programs that strengthen the knowledge and skills of credit union decision makers

Authority, Responsibility, Accountability

Authority

We clearly communicate to all stakeholders our authority to take action to protect deposits. The Corporation has the authority to act to fulfill its deposit protection responsibilities in the best interests of PRFIs.

Responsibility

We exercise great care and judgement in carrying out the authority that has been granted to us.

We are responsible to act when others are either unwilling or unable to take action on matters concerning credit union and system solvency and the safety of deposits.

Accountability

We demonstrate accountability through fiscal responsibility.

We pursue economical business solutions to protect deposits and minimize costs to PRFIs.

Our operating methods demonstrate effective and efficient use of system resources.

Objectivity and Independence

Our actions are free of influence, interest, or relationship that would impair professional judgement or objectivity.

We act independently and in the best interests of the Corporation to protect depositors' funds.

We carry out our responsibilities fairly and consistently, basing decisions on careful analysis of facts.

Openness

We communicate openly with all stakeholders.

We respect our stakeholders' rights to privacy and confidentiality of information.

We value the opinions and ideas of our stakeholders and take care to ensure that we consult with them on matters that affect them.

Collaborative Relationships

Through constructive relationships with our stakeholders, we create opportunities to enhance the overall quality and effectiveness of our results.

We believe that the best solutions are arrived at by working with others to build common understanding and to identify and achieve common goals.