



Guideline Impact Analysis Statement

Liquidity Adequacy Requirements (LAR) Guideline

Date: May 2014

I. Background

In January 2013, the Basel Committee on Banking Supervision (BCBS) released *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, which outlined the LCR minimum standard and a series of liquidity monitoring tools for supervisors. In January 2014, the BCBS issued *Basel III: the Net Stable Funding Ratio – consultative document*, which proposed revisions to the original (December 2010) version of the NSFR. Further, in April 2013, the BCBS issued *Monitoring tools for intraday liquidity management*, which enable supervisors and payment and settlement systems overseers to monitor institutions' intraday liquidity risk and their ability to meet payment and settlement obligations on a timely basis.

II. Problem Identification

OSFI does not have a guideline that reflects the aforementioned BCBS liquidity standards and monitoring tools. Further, OSFI has not yet incorporated formal monitoring tools, including the Net Cumulative Cash Flow (NCCF) tool, into formal domestic guidance.

III. Objectives

OSFI's objective is to issue a guideline that details the methodologies underpinning a series of liquidity metrics that will be used to assess the liquidity adequacy of an institution. OSFI will evaluate the performance of an institution's liquidity metrics both as a package and individually when determining its overall assessment of an institution's liquidity adequacy. In addition, the liquidity metrics presented in this guideline will be supplemented by detailed supervisory assessments of other aspects of an institution's liquidity risk management framework in line with the BCBS *Sound Principles*¹ and OSFI's *Guideline B-6: Liquidity Principles*².

¹ <http://www.bis.org/publ/bcbs144.htm>.

² <http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/b6.aspx>



IV. Identification and Assessment of Options

Option 1 – Reflect the BCBS publications in formal OSFI guidance

This option entails the creation of a guideline that would contain the liquidity metrics that OSFI will use to assess the liquidity adequacy of an institution. Each chapter would have a detailed table of contents making it easier to locate material. In order to reference material contained in the aforementioned BCBS publications, the BCBS paragraph numbers and document that are associated with text drawn from these sources would be indicated in square brackets at the end of each paragraph. In addition, the guideline will allow OSFI the opportunity to detail its expectations related to, and the methodology underpinning, the NCCF supervisory tool.

While this option entails significant up-front costs to OSFI to produce the guideline, it will provide long term benefits to users of the guideline as it comprehensively outlines OSFI's expectations and areas of interpretation related to the suite of metrics OSFI will utilise to assess the liquidity adequacy of an institution.

Option 2 – Make no changes – rely only on BCBS publications to communicate requirements

The advantage of this option is that OSFI would not have to devote resources to producing its own guidance.

However, institutions would be left without comprehensive liquidity guidance – on both international and domestic liquidity metrics – and would need to consult several sources when assessing liquidity positions. This is inefficient for institutions and raises the potential for guidance to be missed.

V. Recommendation

OSFI is of the view that a comprehensive domestic liquidity adequacy guideline is the most appropriate option for ensuring that institutions apply the guidance correctly. It is recommended that the LAR Guideline be created to incorporate the aforementioned Basel liquidity guidance and to formalize OSFI's use of the NCCF supervisory tool.

VI. Consultations

In November 2013, the LAR Guideline was published in draft form on the OSFI web site. A number of comments were received and were taken into consideration in the drafting of the final version of the guideline. A summary of the comments received and how they have been addressed by OSFI can be found in the cover letter to the guideline.

VII. Implementation

The LCR (Chapter 2), NCCF (Chapter 4), and liquidity monitoring tools (Chapter 5) will be in force as of January 1, 2015. OSFI will review the guideline on a regular basis after this date and provide updates as required, including to outline the date of implementation and other areas of clarity related to the intraday liquidity monitoring tools (Chapter 6) and the NSFR (Chapter 3)