Reference: Guideline for Banks/ BHCs/T&Ls/Retail Associations

May 30, 2014

To: Banks
Bank Holding Companies
Federally Regulated Trust and Loan Companies
Cooperative Retail Associations

Subject: Liquidity Adequacy Requirements (LAR) Guideline

OSFI is issuing the final version of the *Liquidity Adequacy Requirements* (LAR) Guideline, which transposes liquidity-related requirements issued by the Basel Committee on Banking Supervision (BCBS) into OSFI guidance. More specifically, in January 2013, the 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 and, 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. Finally, the OSFI LAR Guideline reflects the April 2013 BCBS guidance *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.

The LAR Guideline is structured as a set of six separate chapters. With the exception of the Overview and Net Cumulative Cash Flow (NCCF) chapters (Chapter 1 and Chapter 4, respectively), the majority of the text incorporated in the guideline is sourced directly from the aforementioned Basel publications, supplemented with "OSFI Notes" text boxes where national discretion treatment was required or where additional clarity was warranted. In addition, Chapter 4 formalizes OSFI's use of the NCCF supervisory tool, which confirms the continued application of this Canadian-developed monitoring tool. Consistent with other OSFI Guidelines, the contents of the LAR Guideline will be subject to an annual update, as required, to reflect both international and domestic developments.

Draft versions of these chapters were issued for comment on November 29, 2013. Comments received on the draft guidance have been taken into consideration in the drafting of the final version of the guideline. As a result of comments received, material clarifications or corrections have been made to the following sections:

- Chapter 1 – paragraphs 4, 8, and 27;
- Chapter 2 – paragraphs 19, 43(c), 59, 93, 120, 126 and 136, in addition to a series of paragraphs where OSFI Notes text boxes have been introduced to incorporate the April 2014 BCBS document *Frequently Asked Questions on Basel III's January 2013 Liquidity Coverage Ratio*; and
- Chapter 4 – paragraphs 8, 12, 13, 15, 17, 39, 45, 46, 52, 54 and 55; Table 1.

A summary of comments received and how they have been addressed is provided in the attached table (Annex 1).

The implementation date of the LCR standard is January 1, 2015 and the minimum LCR requirement for Canadian institutions will be set at 100% as of that date – i.e. no phase-in period will be permitted. OSFI believes that Canadian institutions are well positioned to meet the proposed 100% minimum LCR requirement in advance of January 2015. The implementation date for filing of data supporting some of the other liquidity monitoring tools is also set for January 2015. Implementation of the intraday liquidity monitoring tools and NSFR will follow the Basel implementation timelines.

Questions on the LAR Guideline should be sent by email to Brian Rumas, Capital Specialist, Capital Division (brian.rumas@osfi-bsif.gc.ca).

Yours truly,

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Deputy Superintendent

Annex 1: Summary of Comments Received and OSFI Resolution

Resolution of main issues raised during industry consultation period on OSFI's draft LAR Guideline

Comment	OSFI Response
CHAPTER 1 - OVERVIEW	
Paragraph 21: Does OSFI intend to set additional LCR requirements, such as by currency and jurisdiction, either at the individual FRFI or industry-level? If so, when will this guidance be provided?	OSFI does not, at this time, intend to set LCR minimums/targets at the currency or jurisdiction level. OSFI will monitor information submitted on LCR by significant currency and the other monitoring tools to determine if such minimums/targets should be imposed at the individual FRFI or industry-wide level. OSFI will communicate its intentions to institutions with sufficient notice prior to required compliance with such minimums/targets.
Will the first required ("as of" day) reporting day be January 31, 2015 (due February 14, 2015)?	Yes, with the exception of institution-specific information related to the market-related monitoring tools where the first required "as of" reporting date will be January 2, 2015 (i.e. the first Friday post-implementation), due within three business days (i.e. January 7, 2015) and with the exception of the concentration of funding and available unencumbered assets monitoring tools where OSFI will utilize information submitted as part of other aspects of regulatory reporting (e.g. NCCF, U3 return, etc.) to assess the information elements requested under these monitoring tools in 2015..
CHAPTER 2 – LIQUIDITY COVERAGE RATIO (LCR)	
Going forward, what should the mechanism be to get an interpretation or ruling on a specific product? Bilateral discussions and approval, or will the methodology be outlined in the formal guidance document or published on a website?	Formal rulings on provisions of the LAR Guideline will follow the normal course procedures for any guideline issued by the OSFI Regulation Sector and will require a formal request from a FRFI to which the guideline applies.
[Para 19]: How should collateral swaps be defined and treated for LCR purposes? We propose that collateral swaps be defined as securities for securities transactions that do not involve offsetting cash legs for the principal amount (unlike repos), and hence do not get captured in balance sheets based on current accounting treatment. They should be recognized in LCR with the corresponding unwind at earliest contractual maturity. For example, for collateral swaps that result in an upgrade of collateral (Level 2B lent, Level 1 received) that matures >30 days, we will include the Level 1 asset in the HQLA pool until its	Paragraph 93 already states that "Collateral swaps should be treated as repurchase or reverse repurchase agreements" so such an approach will be taken for the determination of HQLA or outflow/inflow impacts within the LCR. OSFI has included additional clarifications related to the treatment of collateral swaps as part of the revisions incorporated to Chapter 2. In the particular transaction noted in the example, the Level 1 asset received in the collateral swap can be included in an institution's HQLA pool as long as the asset is held at the institution, has not been rehypothecated, and is legally and contractually available for the institution's use (and meets the other operational requirements outlined in

Comment	OSFI Response
maturity comes under 30 days. Collateral swaps will be treated consistently with repos and reverse repos. In effect, a collateral swap will be decomposed to a repo against cash and a reverse repo against cash and given a treatment based on the underlying asset category.	Chapter 2, section 2.2.A.2), per Chapter 2, paragraph 19. Moreover, if a Level 1 asset received as part of a collateral swap that matures within 30 days also meets these criteria, it can be included in the institution's HQLA pool. The difference between the above collateral swap transactions (i.e. one with a maturity within 30 days and one with a maturity beyond 30 days) though is that cash inflows or outflows may be assigned in the LCR – depending on the underlying asset categories used in the collateral swap – for the transaction maturing within 30 days. Further, for the transaction maturing within 30 days the assets used, where of eligible HQLA variety, would be considered as part of the unwind mechanism used to test compliance with the 15% cap on Level 2B assets and 40% cap on Level 2 assets. Consideration of LCR inflows/outflows would not, however, occur for a collateral swap maturing beyond 30 days, nor would this transaction be part of the aforementioned unwind mechanism.
[Para 24]: This paragraph states that *"qualifying HQLA that are held to meet statutory liquidity requirements at the legal entity or sub-consolidated level (where applicable) may only be included in the stock at the consolidated level to the extent that the related risks (as measured by the legal entity's or sub-consolidated group's net cash outflows in the LCR) are also reflected in the consolidated LCR."* The rule may limit the inclusion of excess HQLA in a sub in the consolidated LCR ratio. For example, if the parent bank's 'stand-alone' LCR is <100% and the sub is >100%, the contribution of the sub LCR into the parent bank's stand-alone LCR and therefore consolidated LCR may be capped at 100%, unless it can be demonstrated that funds could be moved to the parent bank (or another subsidiary of the consolidated entity); as such, the weighted average consolidated LCR could remain below 100%. Our interpretation is that if the stand-alone parent bank LCR (including other subsidiaries) is >100% (say 110%) and the sub LCR is 150%, we can report an LCR for the consolidated entity of at least 110%. Please confirm.	In order for the surplus HQLA at the subsidiary to count in the consolidated entity's LCR, those assets must be freely available to the consolidated entity in times of stress. Institutions thus need to consider in their assessment of whether the surplus assets meet the 'freely available' criterion in paragraph 25 whether there are any regulatory, legal, tax, accounting or other impediments to the repatriation of these assets to the parent entity. If any of these impediments to transferability exist, the assets should not be counted in the consolidated entity's LCR. In the example provided, this means that where the parent bank LCR is 110% and the subsidiary LCR is 150%, the LCR of the consolidated entity could very well be less than 110% if the surplus 50% (above the 100% requirement) held at the subsidiary cannot be repatriated to the parent entity due to any of the aforementioned impediments.

Comment	**OSFI Response**
Mutual Fund Assets, Section (iv) Level 2B Assets: Is it permissible to look through to the underlying securities (in mutual funds and ETFs for example) and bucket based on the underlying securities?	No, in order to be included in the stock of HQLA (with associated haircuts) an individual security must be able to be monetised separately.
[Para 43]: Will OSFI provide further guidance on the distinction between FI and Non-FI? As an example, how should pension plans that ultimately are central or provincial government exposures (e.g. CPP) be treated for HQLA purposes?	We believe that the definition of 'financial institution' contained in the footnote to paragraph 43 is sufficiently detailed to assist institutions with making the determination of whether an entity is or is not a financial institution. However, where institutions have difficulty making this determination for a particular entity, OSFI should be contacted. Pension plans should not be considered an FI under paragraph 43. Securities issued by pension plans that are unconditionally guaranteed by a central or provincial government should be treated as Level 1 assets. If there are limitations on the guarantee, the securities would not qualify as Level 1 assets but may qualify as Level 2 assets if they meet the criteria for inclusion in that asset category.
[Para 43 (OSFI Notes)]: Under the Bank of Canada's "Assets Eligible as Collateral under the Bank of Canada's Standing Liquidity Facility" guidelines, the minimum CMB and NHA MBS pool size eligible is $25 million. As a smaller institution, we do not issue pools of this size, so the incorporation of this threshold and the concept outlined in paragraph 14 that HQLA (except Level 2B assets as defined below) should ideally be eligible at central banks for intraday liquidity needs and overnight liquidity facilities, penalizes smaller institutions who cannot consistently issue large pools.	OSFI recognizes the unique position of non-DSIBs with respect to minimum pool sizes supporting CMB and NHA MBS issuances. Language has been incorporated language in the OSFI Notes box below paragraph 43(d) to highlight this point.
[Para 47(c)]: We believe that limiting the equities in HQLA to the TSX60 is overly restrictive and recommend expanding this definition to the S&P TSX Composite.	OSFI believes that under stress only the most liquid of stocks should qualify and therefore will continue to look to the S&P/TSX 60 Index for compliance with paragraph 47(c)(c).
The LAR Guideline permits holdings of certain common shares to be included as Level 2B HQLA but it is silent on the inclusion/exclusion of preferred shares. Compared to a company's common shares, preferred shares are of a higher credit worthiness and exhibit significantly lower volatility.	At this time, OSFI is not considering any expansion to the types/categories of assets that can be included under the Basel LCR HQLA definition. OSFI is not prepared to go beyond Basel rules.
[Para 47-OSFI note]: *"In Canada, retention risk regulation does not exist, rather reliance is placed on disclosure, accounting and securitization rules and structures…":* We request clarification to	OSFI has provided additional clarity in the OSFI Notes box below paragraph 47(a) as requested.

Comment	**OSFI Response**
help banks assess the eligibility of RMBS in Level 2B.	
[Para 47]: We believe that AAA-rated ABS should be included in HQLA under corporate debt securities. This is a $30 billion market in Canada. ABS issues are generally of material size relative to corporate bonds and are highly rated, usually AAA. In a stressed environment, ABS, backed by quality assets, has a very attractive risk profile, particularly compared to single name risk, including bank debt. In addition, by accepting ABS securities as liquidity, OSFI would make this market more attractive for banks, improving funding diversification (see OSFI's B6 Guideline, Principle 11).	At this time, OSFI is not considering any expansion to the types/categories of assets that can be included under the Basel LCR HQLA definition. OSFI is not prepared to go beyond Basel rules.
[Para 58]: OSFI confirms the recognition of the 3% run-off rate for the deposits portions insured by CDIC. Since broker-dealers depositors are insured through the Canadian Investor Protection Fund (CIPF), can it be treated similarly to the CDIC insurance scheme?	OSFI does not believe that the CIPF meets the letter or intent of the insured deposit criteria.
[Para 59]: High-value deposits are the ones that are not fully covered by an effective deposit insurance scheme or sovereign deposit guarantee. Does it mean the top $25,000 of a $125,000 retail deposit will have to receive a 10% runoff regardless of the relationship between the depositor and the FI?	Yes, the $25,000 above the deposit insurance limit (assuming the deposit insurance limit is $100K in this case) would receive a 10% run-off rate regardless of whether the deposit is in a transactional account or whether there is an established relationship with the institution that makes deposit withdrawal highly unlikely. Please see footnote 32 of Chapter 2 of the LAR Guideline for additional information.
[Para 103]: An internal VAR based model approved by OSFI should be considered as an acceptable alternative for measuring derivative contingency in LCR. The look-back on derivatives maximum pledge over 30 days over last 24 months has been challenged in other jurisdictions because it does not recognize that some large deals (e.g. with SSA's) will roll-off and the position is structurally void of the bias that created large historic flows.	For the calculation of liquidity needs related to market valuation changes on derivative or other transactions, OSFI will maintain consistency with the Basel rules, which does not leave open the possibility for national discretion to be applied.
[Para 111(d)]: Text should be amended (see underlined text) to read "Committed credit and liquidity facilities extended to banks, <u>trusts and credit unions</u> subject to prudential supervision." If such revisions are not incorporated, certain institutions would be disadvantaged relative to banks when arranging liquidity backstops.	OSFI agrees with the respondent and has modified the reference in paragraph 111(d) from "banks subject to prudential supervision" to "*deposit-taking institutions* subject to prudential supervision".
[Para 120, OSFI Note re. unconditionally revocable "uncommitted" credit and liquidity facilities]: We advocate for a reduced outflow rate of 1% on credit card facilities based on the expectation that	OSFI will maintain a 2% outflow rate on unconditionally revocable credit and liquidity facilities provided to retail and small business customers. This rate was determined on the basis of empirical evidence provided by

Comment	OSFI Response
retails consumers would be less inclined to draw-down during a material stress event.	Canadian deposit-taking institutions.
[Para 136]: A direct clearer who holds cash at the Bank of Canada has their cash qualify as a HQLA. An indirect clearer is not allowed to hold cash at the Bank of Canada. There should be no reason why "cash" held by an indirect clearer is less liquid than cash held by a direct clearer. We recommend that cash held by an indirect clearer should qualify as a HQLA with no haircut.	In the LCR, deposits placed at other financial institutions are not eligible HQLA and rather are treated as inflows. "Cash" held in deposit form by an indirect clearer with its direct clearer that relates to any excess balances that could be withdrawn and still leave enough funds to fulfill the required clearing activities is treated as "non-operational", meaning it is accorded full (100%) inflow credit in the LCR, up to the 75% cap on cash inflows. In this vein, this portion of the deposit placed with the direct clearer can offset cash outflows to the same degree as Level 1 assets (no haircut) can. Where, however, the portion of the "cash" held in deposit form by an indirect clearer with its direct clearer is proven to serve the indirect clearer's operational needs (i.e. is required to be placed for operational reasons), the above inflow treatment does not apply. Instead, the general rule that such operational deposits receive a 0% inflow rate should apply; the exception being that a 25% inflow rate may be applied where a non-foreign indirect clearer holds operational deposits at their direct clearer in respect of clearing-related activities.
CHAPTER 4 – NET CUMULATIVE CASH FLOW (NCCF)	
Severe outflow assumptions for client deposits will reduce their value as the key funding source for illiquid assets and force unwanted changes in their pricing	OSFI has reassessed the deposit run-off assumptions and have made adjustments to certain run-offs within categories deemed to be core deposits – particular see paragraphs 45 to 55 and Table 1.
We request that Chapter 4 of the guideline be explicit that the NCCF threshold for small businesses is $5 million, not $1.5 million as defined under LCR	OSFI agrees and has included the revision in section 4.2, paragraph 4.
[Para 4]: This paragraph states that roll over is limited to liabilities relating to retail and SME, while other paragraphs (e.g., 41, 52, 53 and 54) states that 25% of Banker Acceptances (BAs) and a portion of some operational and non-operational deposits from non-retail and non-SME clients are considered to be rolled over. We believe that paragraph 4 should be amended.	OSFI agrees and has amended paragraph 4 to accommodate rollover of other instruments.
[Para 12]: Need a clarification whether dirty price (i.e. clean price plus accrued interest) should be used for reporting these securities	Language has been added to paragraph 12 to clarify that clean price should be used in the calculation of the NCCF.
[Para 12]: The proposed treatment of reverse repos of eligible	Language in paragraph 12 and paragraph 17 has been amended to clarify

Comment	OSFI Response
HQLAs appears to be inconsistent with the one in paragraph 17 (value at maturity of repo vs. in Week 1). We had clarified with OSFI recently that it would be Week 1. Should paragraph 12 refer to ineligible not eligible assets?	treatment of reverse repos of eligible HQLA.
[Para 13]: Need clarification on what constitutes "implicit pledging". We do not think that economic hedges or TRS should result in the underlying liquid assets being classified as "encumbered" for liquidity purposes.	OSFI agrees. TRS will receive the same treatment as in LCR regarding termination clauses and amended language in paragraph 13 has been provided.
[Para 15]: Can OSFI clarify how CAD and USD assets should be considered fungible for NCCF. For example, does this mean that US Treasuries that are eligible under the Bank of Canada's Standing Liquidity Facility can be included in the CAD currency NCCF provided they can be freely transferred? What is the definition of "qualified subsidiary"?	The LAR Guideline states that eligibility at the Bank of Canada is a criterion that is used to determine eligibility, and thus US assets that are accepted at the BoC are fungible. Additional clarity has been provided in paragraph 15. Further, paragraph 16 has been amended to remove the reference to a "qualified" subsidiary given no such definition exists.
[Para 16]: Liquid assets 'held by qualifying subsidiaries' or 'domiciled outside Canada' should not be excluded from HQLA unless related outflows in the same unit are also excluded. We believe that OSFI means to state that surplus (excess) liquid assets over and above outflows in these entities should not be included in the consolidated metric unless there are no material impediments to move the surplus liquidity from this entity to the Parent (or another subsidiary) under the circumstances envisioned by the stress test. As for Para 15, this paragraph requires further clarification, especially in the context of paragraphs 8 and 10	Amended language has been provided in both paragraph 10 and paragraph 16 to clarify the treatment of assets in subsidiaries.
[Para 25 and 26]: o These paragraphs state that inflows from FI and Non-FI equities are subject to the operational requirements of Chapter 2, section 2.2.A.2. Are they also subject to the definition of a Level 2B asset under section 2.2.A.4, (iv) which restrict eligibility to those belonging to a major stock index, whether for FI or non FI equities? o Can OSFI clarify how TRS is considered in these treatments – TRS is explicitly addressed in the LCR section but not NCCF; therefore, by inference, should TRS with an exit clause be considered as unencumbered and be included in FI and non-FI equity inflows? And should TRS without an exit clause be	Language in Chapter 4 has been added to reflect equivalent treatment of TRS in the LCR and the NCCF.

Comment	OSFI Response
considered as encumbered until the earliest maturity date, and thus as not meeting operational requirement until then?	
[Para 29]: "...Cash inflows from swapped intra-bank loans …". The current NCCF template does not allow input of positive liabilities or negative assets. Would OSFI please confirm if this will be corrected in the revised template? [Para 29]: Re. Swapped Intra-bank loans/deposits: Major currency pairs are believed to be fungible given the depth of the FX markets and given that cross currency swaps (which are typically collateralized) can be easily rolled and/or offset as necessary to manage individual major currency balance sheets. Should codifying the treatment of swapped intra-bank loans/deposits prove to be problematic, then we believe that requirements to meet the NCCF test on an individual currency basis should be revisited to ensure that this FX fungibility is recognized and reflected. Furthermore, we believe that there should be a distinction between FX MTM cash flows and the underlying FX notional cash flows.	OSFI requires institutions to record cash inflows as positive amounts and cash outflows as negative amounts, for the purposes of the NCCF. Outflows should only be recorded as liabilities, and inflows as assets, unless OSFI has provided approval for exceptions. OSFI may, as necessary, require individual institutions to meet a supervisory-communicated, institution-specific NCCF level. Internal comment: re 2nd comment on paragraph 29, the FI that has raised this issue has regularly done so with CMRAS. We believe they are overcomplicating the matter, and should simply use the intrabank loan/deposit categories to reflect transfer of funds between currency balance sheets on a cashflow notional basis.
Para 34: We need examples on how the outflow factors in Table 1 will be methodologically applied across various types of deposits (e.g., demand vs. term) and term deposits of different original and remaining maturities for terms below and above 1 month and 1 year to confirm our understanding of the methodology and be better positioned to confirm that OSFI has met its stated objective in Para 35 of having the same run off rates for demand and term deposits for the same types of clients. We are concerned that this may not be the case for demand vs. fixed term deposits because aggregate outflow factors applied to demand deposits could, as laid out, be higher because they would need to be applied to each time horizon under 1 year not once. These examples will also allow us to advocate more effectively for changes to the methodology if needed	OSFI will provide examples in the NCCF reporting instructions to further illustrate the application of appropriate rates and rollover for a variety of deposit products.
[Para 35]: "For liabilities, rollover of existing liabilities is limited to retail and small business customer term deposits". This statement appears to conflict with run-off assumptions included in Table 1 which includes run-off rates both term and demand deposits and other types of clients. There is a measurement complexity around the ability to apply run-	OSFI agrees that the proposed language was unclear and has incorporated amended language to clarify paragraph 35. Regarding the treatment of rollover, examples will be provided in the NCCF reporting instructions to further illustrate the application of appropriate rates.

Comment	OSFI Response
off rates against specific contractual maturity dates rather than a percent of what is due in a given bucket.	
[Para 36]: o Treating all cashable term deposit balances as demand deposits at the first cashable date would be punitive for term deposits with early redemption penalties. OSFI has recognised this point by adding a clause that states that exceptions will be considered bilaterally for deposits with penalties that “sufficient discourage early redemption”. More details are required to explain how banks will be expected to define and demonstrate “sufficient” penalties. o Where “sufficient penalties are not charged, we would like to confirm that cashable GICs will receive the same treatment as demand deposits after the earliest contractual termination date (i.e. subject to continued monthly runoff on a declining balance basis). Please clarify if 100% of the outflow should be reported at the first option date, or it should follow a run-off schedule commencing with the first option date (we think it should be the latter).	OSFI will consider analysis provided by institutions (e.g. empirical studies, historical data) on redemption of particular products offered by that institution. After the earliest contractual termination date, cashable term products should be subject to the appropriate run-off (as with demand deposits), on a declining balance basis commencing on the earliest contractual termination date.
[Para 37 and 59]: Paragraph 58 notes that outflows associated with credit or liquidity facilities will be reported but are not included in the NCCF calculation. Under IFRS, some third-party ABCP conduit business may be reported on-balance sheet (both the underlying assets and ABCP owed and therefore potentially subject to paragraph 37) while other ABCP conduit business may be reported off-balance sheet depending on the specific structuring approach (and therefore subject to paragraph 59). We would like to confirm with OSFI that ABCP conduits reported on-balance sheet should be treated in the same manner as those reported under paragraph 59.	OSFI requires that FI-sponsored ABCP be reported as on balance sheet (see footnote 2, paragraph 37) as institutions should consider the inability to refinance maturing debt during liquidity crises. This is distinct from the treatment of credit or liquidity facilities referred to in paragraph 59. Language has been changed in paragraph 37 to clarify FIs own ABCP as opposed to third party ABCP.
[Para 40]: Can OSFI clarify what outflows related to “guarantees provided to subsidiaries and branches” are meant to cover? More clarity is needed on the treatment of short sales. Short sales should default to a contractual week 1 obligation not the maturity date of the security, otherwise a short equity position would be a permanent source of funding. A default week 1 assumption assures	Paragraph 40 ‘funding guarantees to subsidiaries and branches’ refers to any commitment that is drawn (or expected to be drawn) that an institution has made which reduces its available liquidity by the respective amount. OSFI agrees that the language needs to be clarified. The former paragraph 39 has now been split to differentiate between securities lent and securities sold short.

Comment	OSFI Response
the firm has the appropriate cash or collateral on hand to cover the short or buy it back to neutralize the related liquidity risk. However, OSFI has also allowed banks to treat short securities in NCCF as a longer term outflow (than overnight) provided it is covered by a term reverse repo (securities borrow) of the same maturity, which is consistent with Basel Committee LCR. Is this still applicable? Further clarification is required re netting/bucketing of long and short positions for example if a firm is long and short the same security should they be netted?	
[Para 41]: 75% of the outstanding amount of Acceptances (bankers' acceptances) reported as a liability on the balance sheet should be recorded as an outflow occurring on the earliest maturity date of each acceptance (i.e. the remaining 25% is considered to be rolled over). We would like to confirm the same rule would include Bearer Deposit Note (BDN) liabilities that are used for the same funding purposes as BAs by some banks.	Bearer Deposit Notes are specifically excluded in paragraph 37 and receive no roll over treatment.
[Para 43-52]: The relative run-off between non-relationship retail and operational commercial deposits is not representative of experience and does not reflect the stability of retail deposits which occurs due to diversification and lower sophistication.	OSFI has reassessed the deposit run-off assumptions and have made adjustments to certain run-offs within categories deemed to be core deposits – particular see paragraphs 45 to 55 and Table 1.
[Para 46]: In determining the treatment for third-party deposits sold by financial advisors, consideration should be given to the fact that financial advisors have the same fiduciary responsibilities to their clients regardless of where they work. Insurance leads to a higher retention regardless of the source of the funds and or the product. Financial advisors and Canadians are very familiar with the Canadian Deposit Insurance regime. This was demonstrated in the financial crisis as insured deposits increased from all funding sources. To reflect the value of insurance, a compromise might be a run-off rate for insured deposits, which are not considered to be "relationship" or "transactional", higher than 3% but significantly less than 10% (e.g. 5%)	OSFI has reassessed the deposit run-off assumptions and run-off rates have been adjusted to reflect lower deposit run-offs for categories deemed to be core deposits, including paragraph 46.
CHAPTER 5 – LIQUIDITY MONITORING TOOLS	
[Para 3]: This paragraph states that *"the suite of liquidity monitoring tools described in this chapter is not standards and thus do not have defined minimum required thresholds."* How and when	OSFI will monitor institutions' data submitted for the metrics outlined in Chapter 5 and discuss areas of concern with the institution. Should it be determined that a minimum requirement should be instituted – either for an

Comment	OSFI Response
will OSFI communicate its expectations?	individual FI or more broadly – OSFI will communicate its expectations with appropriate advance notice.
We recommend to phase in the implementation of these metrics and to leverage the existing reporting given the time required to develop ongoing time-sensitive reporting capabilities.	The design of the data collection for LAR Guideline metrics outlined in Chapter 2, Chapter 4 and some elements of Chapter 5 will be implemented for reporting dates after January 1, 2015 and will focus primarily on the automated collection of the LCR (Chapter 2) and LCR by significant currency monitoring tool (Section 5.4) and the non-automated data collection of the NCCF (which is being used to satisfy the requirement for a maturity mismatch metric in Section 5.1) as a first step. Once data collection on the aforementioned metrics is incorporated in 2015, OSFI will turn its attention to capturing the NCCF and the other Chapter 5 metrics in an automated manner. In the interim, however, OSFI will utilize information submitted as part of other aspects of regulatory reporting (e.g. NCCF, U3 return, etc.) to assess the information elements requested under the concentration of funding and available unencumbered assets monitoring tools In addition, for the market-related monitoring tools, institutions do not need to provide information to OSFI for the Market-wide Information and Information on the Financial Sector monitoring tools, rather OSFI will obtain such information from its regular monitoring of major markets and the economy more broadly. For the monitoring tool related to Institution-specific Information, OSFI currently collects a variety of information verbally via calls with certain institutions. An Excel-based template will be distributed by mid-2014 to all institutions to collect the required information (i.e. this will not be collected by OSFI in an automated manner).
Can we assume that maturing cross-currency funding inflows/outflows over the next 30 days can be included in the LCR in each currency (i.e. include a cash outflow in CAD for CAD LCR and a cash inflow in USD for USD LCR from a maturing derivative if that exchange is contractually due in the next 30 days)? We would not assume those transactions can be rolled within 30 days.	Per the OSFI Notes box below paragraph 96 in Chapter 2 (which incorporates the BCBS's LCR FAQ 8(e)), for the consolidated LCR, cash flows arising from foreign exchange derivative transactions that involve a full exchange of principal amounts on a simultaneous basis (or within the same day) may be reflected as a net cash flow figure, even where those deals are not covered by a master netting agreement. However, for the LCR by significant currency monitoring tool, the netting

Comment	OSFI Response
	of inflows and outflows in *different* currencies does not appear adequate. Instead, institutions should include a cash outflow in the currency to which they are receiving in the transaction, and a cash inflow in the currency to which they are paying, under the assumption that these will not be rolled within 30 days.
[Section 5.5 – Market-related monitoring tools] What is the scope of the reporting (e.g., consolidated, legal entity, etc.)?	Per the OSFI Notes box below paragraph 37, reporting is to be conducted on a consolidated basis.
[Para 37]: In what format will OSFI be requiring the institution specific metrics? Will OSFI provide a template?	Institutions do not need to provide information to OSFI for the Market-wide Information and Information on the Financial Sector monitoring tools, rather OSFI will obtain such information from its regular monitoring of major markets and the economy more broadly. For the monitoring tool related to Institution-specific Information, OSFI currently collects a variety of information verbally via calls with certain institutions. An Excel-based template will be distributed by mid-2014 to all institutions to collect the required information (i.e. this will not be collected by OSFI in an automated manner).
CHAPTER 6 – INTRADAY LIQUIDITY MONITORING TOOLS	
Several comments were received that requested clarity on scope of application of the intraday tools and clarity around specific elements of the individual metrics.	As stated in Chapter 6, OSFI will not require institutions provide such information via regulatory reporting beginning in January 2015. OSFI will continue to review the applicable implementation date for these metrics – which will be, at latest, January 1, 2017 – and will discuss the proposed timing of rollout with institutions, as well as address the comments received through this public consultation, in advance of taking a final decision.