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Liquidity Risk Management Guideline

For

Co-operative Financial Institutions

Background

Liquidity risk arises from the CFI's inability to pay depositors and other liabilities when they fall due without incurring unacceptable cost or losses. CFI balance sheets are such that long-term assets (loans and advances) are funded by short-term liabilities such as regular and fixed savings.

Inadequate liquidity risk management can have a negative impact on earnings and capital and, in a worst case scenario, cause the collapse of an otherwise solvent co-operative bank.

CFIs should develop and implement a written liquidity policy (or plan for managing liquidity) tailored to the size and complexity of the balance sheet, and their susceptibility to cash flow volatility.

This Guideline establishes the minimum standards of the CBDA Supervisors with respect to management by CFIs of liquidity risks. Reference should be made to the CFI Rules and Regulations, as available on the CBDA website and as amended from time to time.

Each CFI is required to establish and implement a policy that addresses the following items:

1. Appropriate board and management oversight over liquidity risk and reporting of the same, including.
    - 1.1 Purpose and objectives of the liquidity management policy;
    - 1.2 Scope and coverage/Policy guidelines;
    - 1.3 The person responsible for liquidity management;
    - 1.4 The person to access a line of credit for liquidity purpose;
    - 1.5 Monitoring of liquidity;
    - 1.6 Implementation of the policy;
    - 1.7 Frequency of policy review by management and the board;
    - 1.8 Establish reporting requirements and frequency thereof;

1.9 Exceptions to the policy; and

1.10 Liquidity Contingency plan.

2. Limits on the sources, quality and amount of liquid assets to meet normal operational needs, contingency funding for significant deposit withdrawals and regulatory requirements, including the establishment of:
   2.1 The sources and acceptable range of operational liquidity[1] and the quality of assets that may be purchased for operational liquidity purposes in accordance with the rules and regulations prescribed by the Supervisor from time to time.
   2.2 Conditions for borrowing for the purposes of liquidity and lines of credit, and the aggregate maximum amount of any such lines of credit.
   2.3 The process for monitoring large deposits the withdrawal of which could impact the level of operational liquidity.
   2.4 The process for measuring and monitoring operational liquidity levels.

3. Limits on the asset and liability mix i.e. maturities of deposits, loans and investments
4. Criteria for pricing of deposits and loans in stressed situations.

[1] "Operational liquidity" means the liquidity required to meet anticipated day to day cash commitments, including withdrawals by members.