

# LIQUIDITY

## Contents

<b>1.</b>	<b>Legislation .....</b>	<b>2</b>
<b>2.</b>	<b>Regulations .....</b>	<b>5</b>
<b>3.</b>	<b>Central Bank Requirements .....</b>	<b>8</b>
<b>4.</b>	<b>Guidance .....</b>	<b>8</b>
4.1	Liquidity management policy .....	8
4.2	Asset and liability management policy .....	9
4.3	Definition of liquid assets .....	10
4.4	Reporting Requirements .....	10

## Version History

Version	Date	Amendments
0.1	July 2013	Initial Version.
1.0	September 2013	Link to Section 35 Regulatory Requirements for credit unions reflects updated requirements effective from 1 October 2013.
1.1	November 2015	<ul style="list-style-type: none"> <li>• Inserted sections 85A and 85B to reflect the commencement of section 30 of the 2012 Act.</li> <li>• Amended section 85(5) to reflect the commencement of item 76 of schedule 1 of the 2012 Act.</li> <li>• Inserted regulations in Section 2.</li> </ul>
1.2	January 2016	<ul style="list-style-type: none"> <li>• Updated regulations in Section 2.</li> </ul>
1.3	March 2018	<ul style="list-style-type: none"> <li>• Updated regulations in Section 2.</li> <li>• Updated guidance on relevant liquid assets.</li> </ul>

## 1. Legislation

### Section 85 – Assets and liabilities

- (1) A credit union shall at all times keep a proportion of its total assets in liquid form (hereinafter referred to as "liquid assets"), being such a proportion and having such a composition as to enable the credit union to meet its liabilities as they arise.
- (2) For the purpose of complying with *subsection (1)*, a credit union shall have regard to the range and scale of its business and the composition of its assets and liabilities; but nothing in this Act shall be taken to prevent a credit union keeping liquid assets in addition to those required for complying with *subsection (1)*.
- (3) The Bank may from time to time by notice in writing require a credit union to maintain, between its assets and its liabilities—
  - (a) a ratio specified in the requirement,
  - (b) a ratio which does not exceed a ratio so specified, or
  - (c) a ratio which is not less than a ratio so specified,and a ratio may be so specified as a percentage of the assets or liabilities concerned.
- (4) A requirement of the Bank under *subsection (3)* may be expressed to apply in one or, more of the following ways—
  - (a) in relation to all credit unions or to credit unions of a category or categories specified in the requirement;
  - (b) in relation to the total assets or total liabilities of the credit unions concerned or in relation to such assets or kinds of assets or such liabilities or kinds of liabilities as may be specified in the requirement;
  - (c) in relation to such time or times or during such period or periods as may be so specified.
- (5) ≠ The Bank may, from time to time, by notice in writing specify, as respects a credit union, requirements as to the composition of its assets or, subject to regulations made under section 27(2), the composition of its liabilities.

(6) In this section—

(a) "liabilities" include such contingent liabilities as the Bank may from time to time specify by notice in writing for the purposes of this section; and

(b) "liquid assets" mean such assets as the Bank may from time to time specify by notice in writing for the purposes of this section;

and, until the Bank specifies assets as mentioned in *paragraph (b)*, "liquid assets" include assets held in a form provided for by *section 43*.

(7) Where, under the preceding provisions of this section, the Bank by notice in writing imposes a requirement or specifies any matter, and the requirement is to apply or the matter is specified otherwise than in relation to a particular credit union, the power to give the notice shall be exercisable by rules.

#### **Section 85A - Liquidity\***

(1) In this section—

'liquid assets' means the assets held by a credit union to enable it to meet its obligations as they arise;

'maturity mismatch' means the ongoing or possible future divergence between a credit union's assets and liabilities because non liquid assets of the credit union have not or, at the appropriate time, will not have matured;

'total assets' means all the assets of a credit union having due regard to the accounting principles in section 110 after deducting provisions for bad and doubtful debts.

(2) A credit union shall at all times keep a proportion of its total assets in liquid form (in this section referred to as 'liquid assets') so as to enable the credit union to meet its obligations as they arise. The proportion of assets kept in liquid form shall take into account the nature, scale and complexity of the credit union, and the composition and maturity of its assets and liabilities.

(3) The Bank may prescribe the liquidity requirements that a credit union is required to maintain at a minimum as well as conditions on the application of the liquidity requirements. Regulations made by the Bank for the purpose of this section may deal with other matters related to minimum liquidity requirements, including—

- (a) the proportion and nature of assets to be held in liquid form,
  - (b) the holding of liquid assets based on the duration of loans,
  - (c) in relation to maturity mismatches, and
  - (d) the liquid assets to be held as a safeguard on the basis of stressed conditions that may arise.
- (4) In prescribing matters for the purposes of this section, the Bank shall have regard to the need to ensure that the requirements imposed by the regulations made by it are effective and proportionate having regard to the nature, scale and complexity of credit unions, or the category or categories of credit unions, to which the regulations will apply.

**Section 85B - Supplemental provisions to Sections 85 and 85A\***

(1) In this section—

'liquid assets' has the meaning given by section 85 or 85A, as appropriate in the circumstances;

'maturity mismatch' has the meaning given by section 85A(1);

'stress test', in relation to a credit union, means the analysis of its cash flows under various headings and the placing of such cash flows in pre-determined time periods subject to specified conditions, including monetary limits where appropriate, to estimate the extent to which a credit union may have a maturity mismatch in respect of its assets and liabilities.

(2) (a) Pending the prescribing by the Bank of minimum liquidity requirements for the purposes of section 85A in respect of a category of credit unions, the liquidity requirements applicable to credit unions under section 85 shall continue to apply to such category of credit unions in respect of matters so prescribed.

(b) Where minimum liquidity requirements have been prescribed by the Bank for the purposes of section 85A in respect of a category of credit unions, then section 85 shall cease to apply to that category of credit unions in respect of the matters so prescribed.

(3) The Bank may, from time to time, require any credit union or credit unions (either generally or a particular category of credit union) to undertake stress tests into what would be the consequences for its liquidity if one or more scenarios were to arise.

The terms of the stress test shall be laid down by the Bank including without limitation requirements on the frequency of stress tests, reporting arrangements for stress test results and requirements to develop contingency plans.

- (4) In requiring a credit union to undertake any matter for the purposes of this section, the Bank shall have regard to the need to ensure that the requirements are effective and proportionate having regard to the nature, scale and complexity of the credit union.

### **Section 55 – Functions of board of directors\***

*(This Chapter has not reproduced the entirety of section 55 – please consult the Credit Union Act, 1997 for the full provision.)*

- (1) Without prejudice to the generality of section 53(1), the functions of the board of directors of a credit union shall include the following:

...

- (o) approving, reviewing, and updating, where necessary, but at least annually, all plans, policies and procedures of the credit union, including the following:

...

- (iii) liquidity management policies;

...

- (xiii) asset and liability management policies;

...

## **2. Regulations**

### **CREDIT UNION ACT 1997 (REGULATORY REQUIREMENTS) (AMENDMENT) REGULATIONS 2018 (S.I. No. 32 of 2018)**

*(This Chapter has not reproduced the entirety of Part 1 – please consult the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 and the Credit Union Act 1997 (Regulatory Requirements) Regulations 2018 for full provisions.)*

#### **PART 1 PRELIMINARY AND GENERAL**

#### **Interpretation**

In these Regulations, unless the context otherwise required:-

“deposit protection account” means the amount a credit union must maintain under the Deposit Guarantee Scheme;

“minimum reserve deposit account” means the account that the credit union must hold with the Bank in accordance with Regulation (EC) No. 1745/2003 of the European Central Bank of 12 September 2003 on the application of minimum reserves, as that framework may be applied and amended from time to time;

“the Bank” means the Central Bank of Ireland;

“the Act” means the Credit Union Act, 1997;

“unattached savings” means those total savings which are not attached to loans or otherwise pledged as security and are withdrawable by members;

### **PART 3**

### **LIQUIDITY**

#### **Interpretation – Part 3**

7. (1) In this Part “relevant liquid assets” means the following unencumbered assets only:

(a) cash;

(b) investments with a maturity of less than 3 months, excluding the minimum reserve deposit account and the deposit protection account;

(c) Irish and EEA State Securities, bank bonds and supranational bonds with a maturity of greater than 3 months, held either directly or through a UCITS, provided that all such Irish and EEA State Securities and supranational bonds comply with the minimum rating requirements specified in Regulation 29(1) or 29(3).

(2) For the purposes of calculating the minimum liquidity ratio specified in Regulation 8(1), the following discounts shall be applied in valuing the relevant liquid assets specified in paragraph (1)(c):

(a) where such investments have a maturity of greater than three months and less than one year, a 10 per cent discount shall be applied to the market value of such investments;

- (b) where such investments have a maturity of at least one year but less than 5 years, a 30 per cent discount shall be applied to the market value of such investments;
- (c) where such investments have a maturity of at least 5 years and up to 10 years, a 50 per cent discount shall be applied to the market value of such investments.

**Liquidity Requirements**

8. (1) A credit union shall establish and maintain a minimum liquidity ratio of relevant liquid assets of at least 20 per cent of its unattached savings, subject to the following:
- (a) at least 2.5 per cent of unattached savings shall be comprised of cash and investments with a maturity of less than 8 days;
  - (b) no more than 10 per cent of unattached savings shall be comprised of the relevant liquid assets specified in Regulation 7(1)(c), after application of the applicable discounts specified in Regulation 7(2).

**Reporting Requirements**

9. (1) A credit union shall monitor its liquidity ratio on a continuous basis to ensure compliance with the liquidity requirements in this Part and in the Act.
- (2) Where a credit union is failing, or likely to fail to comply, with the liquidity requirements in this Part or in the Act, it shall notify the Bank in writing no later than close of business on the next business day.

### 3. Central Bank Requirements

Section 1 of the following Regulatory Requirements issued by the Central Bank contain requirements in relation to liquidity under section 35 of the 1997 Act:

- [Section 35 Regulatory Requirements for Credit Unions \(October 2013\)](#)

## 4. Guidance

### 4.1 Liquidity management policy

The liquidity management policy should cover the following at a minimum:

- objectives of the credit union's liquidity management policy;
- organisational arrangements setting out the roles and responsibilities of officers involved in liquidity management;
- strategy setting out the quantity and quality of liquid assets to be maintained by the credit union over time, including the setting of liquidity targets, to enable the credit union to meet its obligations as they arise and to meet stress conditions taking account of:
  - the minimum liquidity to be maintained by the credit union in compliance with the legal and regulatory requirements and guidance;
  - the strategic plan of the credit union;
  - the current economic climate and business operating environment;
  - the nature, scale and complexity of the credit union;
  - the risk profile of the credit union including the level of credit and market risk in the credit union;
  - the risk tolerance of the credit union; and
  - any liquidity buffers to be maintained as a safeguard on the basis of stressed conditions that may arise;
- plans for the generation of any additional liquidity required to support the above;
- procedures for:
  - complying with minimum legal and regulatory requirements and guidance in relation to liquidity;
  - monitoring, reviewing and reporting on the credit union's liquidity position against liquidity targets; and
  - regular stress testing of liquidity and scenario analysis taking account of potential risks;
- contingency plans to be put in place if the liquidity targets are not met, including:
  - actions to be taken to protect the credit union's liquidity position;
  - raising of additional liquidity, if necessary; and
  - notifying the Central Bank where liquidity falls below the regulatory minimum;



- reporting arrangements, including the frequency, form and content of reporting on the adequacy of liquidity to the board of directors; and
- the process and timelines for the approval, review and update of the liquidity management policy by the board of directors.

Credit unions should ensure that any significant deviations from the liquidity management policy, the reasons for these deviations and proposed action to address the deviations are communicated to the board of directors in accordance with the reporting arrangements set out in the liquidity management policy.

## **4.2 Asset and liability management policy**

The asset and liability management policy should cover the following at a minimum:

- objectives of the credit union's asset and liability management policy;
- organisational arrangements setting out the roles and responsibilities of officers involved in managing and monitoring the asset liability position of the credit union;
- strategy for the management of assets and liabilities taking account of:
  - legal and regulatory requirements and guidance including those relating to liquidity, lending, savings, borrowings and investments;
  - the strategic plan of the credit union taking account of the funding strategy proposed to support the projected balance sheet structure;
  - the current economic climate and business operating environment;
  - the nature, scale and complexity of the credit union;
  - the risk profile of the credit union including the level of credit and market risk in the credit union;
  - the risk tolerance of the credit union; and
  - the credit union's policy in relation to the type, maturity and limits for lending, borrowings, savings and investments and pricing strategies for lending and savings;
- the process for measuring and monitoring risks arising from asset and liability mismatches;
- procedures on how the credit union responds to changes in the economic climate and business operating environment including stress testing;
- the credit union's policy in relation to members' savings (shares and deposits) including the setting of a maximum number of shares a member can hold and a maximum amount that a member may deposit;<sup>1</sup>
- the credit union's policy in relation to borrowings;<sup>1</sup>

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<sup>1</sup> These policies may be included within the asset and liability management policy or may be maintained as separate policies.

- reporting arrangements, including the frequency, form and content of reporting on asset and liability management to the board of directors; and
- the process for the approval, review and update of the asset and liability management policy by the board of directors.

Credit unions should ensure that any significant deviations from the asset and liability management policy, the reasons for these deviations and proposed action to address the deviations are communicated to the board of directors in accordance with the reporting arrangements set out in the asset and liability management policy.

### **4.3 Definition of liquid assets**

The Regulations provide a definition of relevant liquid assets for the purposes of calculating the minimum liquidity ratio.

The definition provides that cash and investments with a maturity of less than 3 months qualify as liquid assets. It also provides that certain bonds namely government bonds, supranational bonds and bank bonds which meet the minimum credit rating requirements required under the investments regulations, may qualify for liquidity (subject to a maximum of 10% of unattached savings) where they have a remaining maturity of greater than 3 months. In determining the amount of bonds which may qualify as liquid assets, a discount must be applied to the market value of the bonds. The discounts which are required to be applied are outlined in the liquidity regulations and are dependent on the remaining time to maturity of the bonds.

Where a credit union holds an investment which has a maturity of greater than 8 days or 3 months but such investments have an explicit written guarantee to say that the investments can be accessed within 8 days or 3 months, the credit union may count such investments as liquid assets for the purposes of meeting the applicable requirements of the minimum liquidity ratio.

### **4.4 Reporting Requirements**

Where a credit union is notifying the Central Bank that it is failing, or likely to fail to comply, with the liquidity requirements imposed by the Regulations, the credit union should set out the steps it proposes to take to restore the liquidity ratio(s) and indicate the timeframe in which the ratio(s) will return to compliance.