

Supervisory Letter

NCUA | Office of Examination & Insurance
1775 Duke Street, Alexandria, VA 22314
www.ncua.gov

SL No. 14-03
March 2014

TO: All Field Staff

SUBJECT: Liquidity and Contingency Funding Plans

ENCLOSURE: [Liquidity Review Questionnaire](#)

This Supervisory Letter provides information about the recently revised *Liquidity Review Questionnaire* (LRQ) that reflects the requirements of the new NCUA rule Part 741.12, *Liquidity and Contingency Funding Plans*. The revised questionnaire was developed to establish a consistent framework for the exam and supervision process NCUA uses to review liquidity risk management at credit unions. **The implementation date of the new LRQ is March 31, 2014.**

The questionnaire enclosed with this document applies to the supervision of all federally insured credit unions (FICUs). If you have any questions on the following material, please direct them to your immediate supervisor or regional management.

I. Background

The NCUA Board adopted Part 741.12, [Liquidity and Contingency Funding Plans](#), on October 24, 2013.¹ This rule ensures all credit unions conduct sound liquidity planning, and that large credit unions establish access to at least one federal source of contingent liquidity – the Federal Reserve Discount Window (Discount Window) or the Central Liquidity Facility (CLF). NCUA also issued a Letter to Credit Unions, [Guidance on How to Comply with NCUA Regulation §741.12 Liquidity and Contingency Funding Plans](#) (13-CU-10), in October 2013.²

A. Credit Unions with Less Than \$50 Million in Assets

A FICU with less than \$50 million in assets must maintain a basic written liquidity policy. The policy must provide 1) a credit union board-approved framework for managing liquidity, and 2) a list of contingent liquidity sources the credit union can employ under adverse circumstances.

¹ See <http://www.ncua.gov/Legal/Documents/Regulations/FIR20131024LiquidityContingencyFunding.pdf>

² See <http://www.ncua.gov/Resources/Documents/LCU2013-10.pdf>

This policy does not need to be elaborate, but it must cover certain basic elements that are fundamental to all depository institutions, including all of the following elements:

- Purpose and goals of liquidity management
- Thresholds or limits for liquidity measures and reporting requirements
- Primary and secondary sources of liquidity
- Tools for liquidity risk management
- Periodic review and revisions, as needed

B. Credit Unions with \$50 Million or More in Assets

In addition to a written liquidity policy, a FICU with assets of \$50 million or more must have a contingency funding plan (CFP) that clearly sets out strategies for addressing liquidity shortfalls in emergencies. A CFP must include policies, procedures, projection reports, and action plans designed to ensure a credit union's sources of liquidity are sufficient to fund operating requirements under contingent liquidity events.

C. Credit Unions with \$250 Million or More in Assets

In addition to a written liquidity policy and contingency funding plan, a FICU with assets of \$250 million or more must establish access to at least one contingent federal liquidity source. FISCUs may establish access to either the Discount Window or the CLF, or to both liquidity sources.

II. Exam Procedures

Enhanced exam procedures have been finalized and will be incorporated into NCUA's automated examination system shortly. Credit unions may find the enclosed LRQ helpful when evaluating their liquidity management processes. The LRQ has been coupled with commentary for each question for your information. The questionnaire is also available publicly through the [NCUA website](#).

III. Guidance for Field Staff

NCUA provided FICUs with guidance on how to comply with NCUA Regulation §741.12 Liquidity and Contingency Funding Plans in a Letter to Credit Unions, [Guidance on How to Comply with NCUA Regulation §741.12 Liquidity and Contingency Funding Plans](#) (13-CU-10), dated October 2013.

The Letter to Credit Unions explains why NCUA issued the liquidity rule, and also identified which credit unions are subject to the rule. In addition, it identifies three key categories of liquidity for credit unions and indicates what a written liquidity policy and contingency funding plan should address. Finally, the letter discusses which credit unions are required to establish access to a contingent federal liquidity source and explains how they can do so. Field staff should refer to this letter for specific guidance on NCUA expectations regarding credit union adherence to the Part 741.12, [Liquidity and Contingency Funding Plans](#).

IV. Additional Guidance Relevant to Liquidity and Contingency Funding Plans

This document introduces the new LRQ and builds on previously-issued NCUA regulation and guidance, including:

- Letter to Credit Unions, [Guidance on How to Comply with NCUA Regulation §741.12 Liquidity and Contingency Funding Plans](#) (13-CU-10)
- Letter to Credit Unions, [Interagency Policy Statement on Funding and Liquidity Risk Management](#) (10-CU-14)
- 12 CFR, Part 741.12, [Liquidity and Contingency Funding Plans](#)

If you have any questions on the material in this letter, please direct them to your immediate supervisor or regional management.

Sincerely,

/s/

Larry Fazio
Director
Office of Examination & Insurance