**Proposal: THE EFFECT OF LIQUIDITY RISK ON THE PERFORMANCE**

**OF CANADIAN FINANCIAL INSTITUTION**

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# 1. Introduction

## Aim

The aim of the study is to assess the impact of “liquidity risk” on the performance of financial institutions in Canada.

## Objective

* To evaluate the impact of “liquidity” on the financial performance
* To assess principles of liquidity risk management of financial institutions
* To identify challenges from liquidity risk in “financial transactions” and highlight solutions

## Research question

1) What is the influence of “liquidity” on the financial performance of financial institutions?

2) Why is the principle of liquidity risk management important for improving the performance of financial institutions?

3) How does liquidity risk in financial transactions pose challenges and what are possible solutions?

## Scope

“Liquidity” is an important principle that helps different financial institutions of Canada such as “Banks” to effectively increase assets. One of the important aspects in this regard is to evaluate different activities such as the role of banks or the performance of credit unions in different processes which include “maturity transformation”. The study is aiming to analyse different types of financial transactions and also liquidity shortfall (Bis, 2020). The scope of the research is that it can help to assess different ranges of “liquidity risks” and also evaluate operation contingency to improve the funding plan. The scope of the study is quite significant as it will emphasise the effectiveness of cooperation between different stakeholders and supervisors associated with the Bank of Canada.

# 2. Literature Review

## Impact of liquidity across a financial performance of banks

One of the important impacts of liquidity is that it accounts for a discounts approach in terms of assessment of overall bank performance. In accordance with the opinion of Adusei (2022), in order to obtain liquidity, one necessary condition is the high cost of “funding”. One of the important activities in this regard is an assessment of risk factors such as “credit risk” which directly influence “financial performance”. One of the important indicators of measuring banking performance is assessing different variables such as “Profitability” or “return on asset”. Thus, it is convenient to regard the relationship between “liquidity management” and “banking performance” as very crucial.

## Principle of liquidity risk management

Banks in Canada are focusing more on reducing incidents of short-term borrowing. According to the opinion of Allen *et al*. (2021), during periods of any form of “financial distress”, the role of supervisors as well as “central banks” come in the front line. One of the important uncertainties in this management process is whether to incorporate cheap liquidity or not. Unsecured “interest rates” which operate in banks of Canada play an important part in improving “maturity loans”. It also includes the addition of divergence in the market. Analysis of transaction-level data helps in improving “bidding” functions in different auctions across the Bank of Canada.

## Challenges from liquidity risk and solutions

One of the important challenges of “liquidity risk” is the occurrence of a “financial crisis” when the management of banks fails to provide financial support to any of the current liabilities using the available cash. According to the opinion of Loutzenhiser and Mann (2021), one of the possible solutions to “liquidity risk” is to maintain an updated “balance sheet” and to keep control over ***“the inflation rate***”. It also helps in assessing the current assets of banks ranging from cash, stock, or investment.

# 3. Methodology

## a. Approaches, method, data collection, and data analysis

The study will use a ***Deductive research Approach*** in order to develop an effective research plan on the given topic. The inclusion of this research approach will help in the effective evaluation of different existing theories. The study will use ***the Secondary method*** to conduct the overall study process. The inclusion of this research method is an effective idea as it will help in saving time as well as money in the research process (Weston *et al*., 2019). The study will use different ***secondary data collection tools*** such as “scholarly journals”, “company websites” and “newspaper articles” to collect the right and appropriate set of information to conduct the study process.

## b. Ethical Issues

One of the important aspects regarding ethical issues is maintaining the quality of the data. According to the opinion of Shen *et al*. (2020), it is important for the researcher to ensure that no manipulation of data is made while using. Observation of ***the Data Privacy Act, of 2018*** ensures the safeguarding of different sensitive data and information. It includes principles of “transparency” as well as ***“proportionality”*** while using data for research purposes. Proper recognition of the owner must be made while using any data or inflation within the research process.

# 4. Potential Outcome

## a. Expectations

It is expected that this study will help to understand different internal as well as external factors which can affect different “liquidity risks” across “commercial banks”. According to the opinion of Mohammad *et al*. (2020), the examination of “liquidity risk factors” helps in devising a new maturity strategy. It is also expected that this study will help in developing an understanding of different “financial” obligations.

## b. Key points

This study has shed light on the impact of “liquidity” in the process of assessing different financial performances. The potential outcome is expected to reflect the concept of “liquidity” and thus assess the occurrence of different types of interruption in the economy of the country due to it. According to the opinion of Saleh and Abu Afifa (2020), the capital of a bank directly affects its profitability rate. Different types of financial institutions in Canada such as the “Bank of Montreal” “credit unions” or “financial markets” paly a major part in managing any type of “financial crisis” in the country.

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