Reference: Guideline for Banks/
BHC/T&L/CRA

November 29, 2017

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

Subject: Changes to Guideline A – Capital Adequacy Requirements (CAR)

OSFI is releasing the final version of the CAR Guideline for implementation in Q1 2018[1]. The revisions relate primarily to the capital treatment of allowances as a result of the adoption of IFRS 9 by deposit-taking institutions in 2018. The final changes to CAR to implement the regulatory capital adjustments for holdings of instruments (other than regulatory capital instruments) issued by G-SIBs and Canadian D-SIBs, to meet their Total Loss Absorbing Capacity (TLAC) requirements, will be issued at a later date.

In order to inform OSFI's decision on the need for a transition (or phase-in) of the impact of IFRS 9 we asked any institutions that project IFRS 9 to have a material impact on their capital position to provide estimated impacts to OSFI. Based on the estimates provided by institutions, we did not see projections of widespread material impact on capital from the implementation of IFRS 9. Therefore OSFI has determined that transitioning (or phase-in) of the impact of IFRS 9 is not warranted.

In addition to the above changes related to IFRS 9 implementation, we have also provided clarifications throughout the CAR Guideline in response to questions received from the industry during the public consultation process. The attached table in Annex 1 summarizes comments received and provides an explanation of how the comments have been addressed in the Guideline. We thank those who participated in the consultation process.

As announced in August 2017, with respect to the domestic implementation of the Standardized Approach to Counterparty Credit Risk (SA-CCR) and the revisions to the capital requirements for bank exposures to central counterparties (CCPs), we have chosen to extend the implementation timeline of these requirements given that the timing for implementation of these rules by the majority of key competitors in foreign markets is likely to occur after January 2018.

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[1] November 1, 2017 for institutions with an October 31st year end and January 1, 2018 for institutions with a December 31st year end.

Our intention is to implement these rules in Q1 of 2019, while taking into consideration the implementation readiness of key foreign market counterparties during 2018. However, although we are not implementing the SA-CCR as a minimum standard, we require institutions to start reporting amounts under SA-CCR beginning in Q1 2018. This information will be collected as part of the BCAR regulatory return through the introduction of an additional schedule.

We would also like to confirm our current expectations surrounding the domestic implementation of the revised securitization framework that was released by the BCBS in July 2016[2]. OSFI expects to implement this framework in Q1 2019. This extended timeline will allow us to reflect the treatment related to simple, transparent, and comparable (STC) criteria for short term securitization exposures, which has yet to be finalized by the BCBS[3]. As a result, the existing securitization treatment specified in the CAR Guideline will remain in place through the end of the 2018 fiscal year.

Questions and comments concerning these changes should be sent to Catherine Girouard, Acting Managing Director, Capital Division, by e-mail at catherine.girouard@osfi-bsif.gc.ca.

Yours truly,

Carolyn Rogers
Assistant Superintendent
Regulation Sector

[2] Revisions to the securitisation framework, BCBS, July 2016 (http://www.bis.org/bcbs/publ/d374.htm)

[3] On July 6, 2017, the BCBS released a consultative document on the *Capital treatment for simple, transparent, and comparable short-term securitisations* (http://www.bis.org/bcbs/publ/d413.htm).

Annex 1: Summary of Comments Received and OSFI Resolution

Comment	OSFI Response
Threshold for maximum aggregated retail exposures to one counterpart (Chapter 3, paragraph 25 and Chapter 6, paragraph 29)	
The banks' estimation processes do not currently reflect moving different retail products in and out of the retail classification. There could be significant operational challenges, particularly for IRB institutions, related to the implementation of these revisions in the short timeframe available.	OSFI will revisit these changes in future revisions to the CAR Guideline, with a timeline that provides sufficient lead time for institutions to implement these changes.
Transitional arrangement for IFRS 9 implementation	
The BCBS standard Regulatory treatment of accounting provisions – interim approach and transitional arrangements allows for transitional approaches for the adoption of IFRS 9. We recommend that the Canadian banks be eligible to elect for a transitional arrangement for IFRS 9 implementation, and are in favour of Approach A under the BCBS interim standard with amortization of the opening adjustment over a period of up to 5 years.	Based on estimates, OSFI did not see projections of widespread material impact on capital from the implementation of IFRS 9. Therefore OSFI has determined that transitioning (or phase-in) of the impact of IFRS 9 is not warranted.