Guideline Impact Analysis Statement

Capital Adequacy Requirements (CAR) Guideline

Date: October 2018

I.   Background

OSFI's CAR guideline provides a framework for assessing the capital adequacy of banks, bank holding companies, federally regulated trust and loan companies and cooperative retail associations.

II.   Problem Identification

The CAR guideline is updated periodically to ensure that capital requirements continue to reflect underlying risks and developments in the financial industry.

III.   Objectives

OSFI's objective is to ensure that the guideline remains comprehensive and that the requirements reflect the underlying risk. Specifically, the proposed revisions will:

- Reflect the implementation of Standardized Approach for measuring Counterparty Credit Risk (SA-CCR) methodology, including new rules for capitalizing exposures to central counterparties. The SA-CCR is replacing the Current Exposure Method (CEM);

- Incorporate the changes to the capital floor as outlined in OSFI's letter dated January 12, 2018;

- Reflect revisions to the securitization framework;

- Confirm Kroll Bond Rating Agency (KBRA) as a recognized rating agency for capital adequacy purposes;

- Clarify the capital treatment of right-of-use assets upon the implementation of IFRS 16; and

- Provide other clarifications throughout the guideline to improve readability and consistency in application.

IV.   Consultations

OSFI issued the revised CAR guideline for public consultation in July 2018. A summary of material comments received from industry stakeholders and an explanation of how they have been addressed has been provided along with the final Guideline.

255 Albert Street
Ottawa, Canada
K1A 0H2

www.osfi-bsif.gc.ca

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V.   Recommendations

It is recommended that the CAR guideline be updated to ensure capital requirements continue to reflect underlying risk and to provide clarification on OSFI's expectations around the aforementioned requirements.

VI.   Implementation

The final version of the Guideline will be effective November 1, 2018/January 1, 2019[1].

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[1] For institutions with a fiscal year ending October 31 or December 31, respectively