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**TO: Chief Financial Officers of Banks and Federally Regulated Trust and  
Loan Companies and Principal Officers of Foreign Bank Branches**

**FROM: Debbie Smith  
Manager, Regulatory Information Division**

**SUBJECT: BCAR Return and Instructions – Q1 2011 Update**

The following documents pertaining to the Q1 2011 BCAR are now available on OSFI's website under the Manual of Reporting Forms and Instructions for Deposit-taking Institutions.

- 1) Summary of Changes document
- 2) Final Draft BCAR Return (with highlighted changes and numeric references to the Summary of Changes document). Illustrative Data Point Addresses (DPAs) from the draft have been replaced by actual DPAs.
- 3) Final "clean" Sample BCAR Return Template
- 4) Final BCAR Instructions

Please note that these documents reflect two new line item adjustments in the calculation of the assets to capital multiple. These adjustments are made to reverse the 50/50 capital deductions made in the risk-based framework in respect of securitization exposures where the underlying assets, as a result of accounting rules, are included in balance sheets assets used as the numerator in the asset to capital multiple.

Additional structural rules that were omitted from the earlier draft have also been included, in the "Validation Changes" sheet in the BCAR workbook attached.

To work within the annual housekeeping process for 2011 and to allow sufficient lead time for system modifications, the three documents reflect changes to incorporate Basel II enhancements, IFRS, and other miscellaneous housekeeping matters. However, please note that the Basel II enhancements with respect to securitization exposures and calculation of the market risk charge will not take effect for Q1 2011.




With respect to reporting securitization exposures:

- (i) Until OSFI adopts the revised securitization rules for Q1 2012, no values should be reported for any of the datapoints in new section B(ii) *Resecuritization* exposures on schedules 14 and 37, and the calculation of capital requirements should remain unchanged from the methodology that was in effect during 2010. Until Q1 2012 both securitization *and* *resecuritization* exposures should be reported in the new section B(i) *Securitization* exposures on these schedules, with the *resecuritization* risk weights being those outlined in the October 2008 Advisory – *Securitization – Expected Practices*. For Q1 2011 the BCAR instructions reflect largely unchanged sections for schedules 14 and 37, as well as a number of shaded replacement paragraphs to take effect Q1 2012.
- (ii) Schedule 41 *Securitization Exposures* reflects the securitization enhancement that eliminates the 20% credit conversion factor under the standardized approach for eligible liquidity facilities less than one year. It is not expected that elimination of this line will have an impact, notwithstanding that the enhancements will not be adopted until Q1 2012. If an institution requires use of this line during 2011, it should contact OSFI to arrange an acceptable reporting alternative.

With respect to reporting market risk requirements:

- (i) Until OSFI approves use of the revised market risk rules for Q1 2012, no values should be reported for any of the new datapoints on Schedule 42 and the calculation of the market risk charge should remain unchanged from the methodology that was in effect during 2010. The “Validation Changes” sheet in the BCAR workbook reflects the changes to validation rules that will be required to accommodate this. For Q1 2011 the BCAR instructions include an unchanged section for Schedule 42 *Market Risk* as well as a shaded replacement section for Schedule 42 to take effect Q1 2012.
- (ii) It should be noted that within schedules 42’s new market risk section B(ii) for interest rate position specific risk on tranching products and associated hedging instruments, modifications will have to be made in order to reflect recent changes promulgated by the BCBS (18 June 2010). OSFI recommends that institutions not develop reporting systems that are tied to the datapoints and structure of this part of the schedule as currently presented.

If you need additional information, please contact the Regulatory Information Division at 613-990-1889.



cc: Canadian Bankers Association