



## Domestic Stability Buffer – Information Sheet

### Purpose & Design

An effective capital regime ensures that banks are holding adequate capital to protect against risks, and encourages them to use their buffers during times of stress to avoid unnecessary sales of assets or drastic reductions in lending.

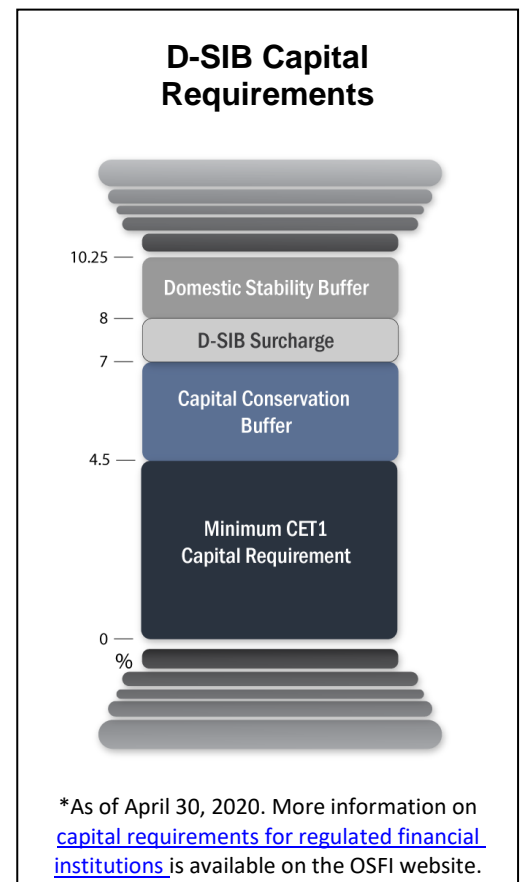
The Domestic Stability Buffer contributes to Domestic Systemically Important Banks' (D-SIBs) resilience to key vulnerabilities and system-wide risks, thereby contributing to financial stability.

OSFI reviews and sets the level of the Domestic Stability Buffer on a semi-annual basis (June and December), based on its ongoing monitoring of federally regulated financial institutions as well as system-wide and sectoral developments. Adjustments to the buffer in between scheduled review dates are possible, should circumstances require.

Decisions on the calibration of the buffer are based on OSFI supervisory judgement, informed by its analytical work on a range of vulnerabilities, and are made in consultation with the Financial Institutions Supervisory Committee<sup>1</sup>.

Increases to the buffer will occur when it would be prudent for D-SIBs to hold additional capital to protect against vulnerabilities. Decreases of the buffer will occur when OSFI identifies that vulnerabilities have either diminished or risks have materialized. In the latter case, a decrease would be intended to allow D-SIBs to continue to provide loans and services to Canadians.

Increases will be subject to a phase-in period; decreases will be effective immediately.



<sup>1</sup> Established under section 18 of the *OSFI Act*, the Financial Institutions Supervisory Committee consists of the Superintendent of Financial Institutions, the Commissioner of the Financial Consumer Agency of Canada, the Governor of the Bank of Canada, the Chief Executive Officer of the Canada Deposit Insurance Corporation, and the Deputy Minister of Finance Canada.



## **Buffer Usability**

The global financial crisis saw confidence in some banks fall even though they were reporting strong capital levels. This made clear the importance of banks not only holding adequate capital against their risks, but also providing information on what risks capital buffers are protecting against.

Increased transparency in setting the Domestic Stability Buffer will support banks' ability to use this capital buffer in times of stress by improving the understanding of the purpose of the buffer and how it should be used.

## **Capital Planning & Supervisory Intervention**

The Domestic Stability Buffer applies only to those federally regulated financial institutions designated as D-SIBs.

The Domestic Stability Buffer is not a Pillar 1 buffer and breaches will not result in banks being subject to automatic constraints on capital distributions. If a D-SIB breaches the buffer (i.e. dips into the buffer when it has not been released), OSFI will require a remediation plan.

Supervisory interventions pursuant to OSFI's *Guide to Intervention for Federally Regulated Deposit-Taking Institutions* would occur in cases where a remediation plan is not produced or executed in a timely manner satisfactory to OSFI.

Banks should continue to take into account the Domestic Stability Buffer in their internal capital planning. The Domestic Stability Buffer supplements the Pillar 1 buffers (Capital Conservation Buffer, D-SIB surcharge and the Countercyclical Buffer) outlined in Chapter 1 of the *Capital Adequacy Requirements* guideline.

Banks may also be required to hold additional Pillar 2 capital, as warranted, to address idiosyncratic risks.

## **Disclosure**

D-SIBs must publicly disclose the level of the Domestic Stability Buffer and include a brief narrative on the buffer. Disclosures are expected quarterly and when OSFI publicly announces decisions to change the buffer level.

Breaches of the buffer by an individual bank will require public disclosure pursuant to *International Financial Reporting Standards* (IFRS).

## **Associated Links**

- [Domestic Stability Buffer announcements](#)
- [The OSFI Pillar Newsletter – June 2018](#)