Office of the Superintendent of Financial Institutions Canada | Bureau du surintendant des institutions financières Canada

Domestic Stability Buffer announcement

Opening notes for technical briefing on the Domestic Stability Buffer

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OSFI BSIF

Canada

Good morning.

The objective of the domestic stability buffer is two-fold:

- to act as an adjustable buffer of CET 1 capital that supports the resilience of D-SIBs and the financial system , and
- to promote transparency and public awareness of changes to the buffer, to facilitate the usability of capital in a downturn.

The domestic stability buffer, also referred to as the DSB, is one of several capital buffers banks hold to guard against risks in the economy, and that contribute to overall financial stability.

As OSFI has communicated previously, a key motivation in designing and setting the DSB is to ensure that OSFI’s capital regime fosters confidence, and provides appropriate incentives for banks to draw down on their capital in times of stress.

The domestic stability buffer is designed to be used by banks should vulnerabilities in the economy materialize, so they can continue to provide loans and services to Canadians.

The decision today sets the DSB at 2.00% of total risk-weighted assets, effective October 31, 2019.

This decision was informed by OSFI’s supervisory judgment, our assessment of a range of vulnerabilities, as well as discussions with our federal regulatory partners.

OSFI applies a variety of qualitative analysis and quantitative tools to the determination of the buffer, including consideration of exposure trends, financial and macro economic indicators, stress testing and other supervisory information.

Persistently high levels of consumer indebtedness, asset imbalances in the Canadian market, in particular in residential housing, and Canadian institutional indebtedness were vulnerabilities considered when setting the level.

These are not new vulnerabilities and they have been elevated or growing for some time.

Household debt-to-income ratio has remained high since the last domestic stability buffer decision, housing market uncertainty remains elevated, and risks related to non-financial corporate debt have continued to grow.

More broadly, stable conditions in credit and financial markets, as well as continued economic growth, provide a good opportunity to build additional resilience against potential shocks to financial system.

The announcement today is part of the domestic stability buffer’s design to increase capital during stable economic times before the risks actually materialize.

This is part of the counter-cyclical design of the buffer: banks will be able to use the capital they have built up in "good times" when it is most needed in "bad times".

Today's announcement is also part of OSFI's role to contribute to public awareness and the discussion of risks.

Specifically, by continuing to make the domestic stability buffer more transparent and more widely understood by markets, we expect that decisions to increase or decrease or draw on buffers when needed will be seen as normal course, stabilizing actions.

These are key steps towards more resilient banks and financial stability.