



Domestic Stability Buffer announcement

Opening notes for technical briefing on the Domestic Stability Buffer

Toronto, Ontario
December 10, 2019

questions@osfi-bsif.gc.ca
www.osfi-bsif.gc.ca

Good morning and thank you for joining us today.

Earlier today, OSFI announced that it has set the Domestic Stability Buffer at 2.25% of total risk-weighted assets, effective April 30, 2020.

The Domestic Stability Buffer, or DSB, is one of several capital buffers that domestic systemically important banks (D-SIBs) hold to guard against risks in the economy and financial system.

The objective of the DSB is two-fold:

- to act as an adjustable buffer of CET1 capital that supports the resilience of D-SIBs and financial system stability, and
- to promote transparency and public awareness of the usability of capital in a downturn.

The DSB is an important part of OSFI's capital regime. It fosters confidence and supports resilience as it promotes the build-up of capital as vulnerabilities grow and provides a tool to use if risks were to materialize.

This contributes to financial stability and provides appropriate incentives for banks to use capital to continue to provide loans and services to Canadians during an economic downturn or period of stress.

Our decision is based on supervisory judgment, assessment of vulnerabilities and discussions with federal regulatory partners.

Specific vulnerabilities considered when setting the DSB level today include:

- Canadian consumer indebtedness
- asset imbalances in the Canadian market—in particular in residential housing
- Canadian institutional indebtedness

These are not new vulnerabilities, the household debt-to-income ratio remains elevated, imbalances persist in housing markets, and risks from non-financial corporate debt have continued to rise.

Recently, OSFI has observed a renewed pick-up in mortgage credit growth and housing prices in some regions. Meanwhile, the share of new mortgages to highly-indebted borrowers has again begun to increase after declining since 2017. Growth in combined mortgage-HELOC products with re-advanceable features may also be contributing to more persistent household debt levels. Additionally, the non-financial corporate debt to GDP ratio is near its historical high.

It is important to note that the DSB acts as a buffer against a range of risks to domestic stability — risks that can originate either at home or abroad. In that regard, the current global backdrop is also one of lower growth and increasing vulnerability, including ongoing trade tensions and rising global leverage.

At the same time, low interest rates globally and domestically could lead to a further build-up of vulnerabilities. These conditions raise the possibility of a spillover of external risks into the Canadian financial system.

Given current conditions in credit and financial markets, as well as continued economic growth, it is prudent to build additional resilience against potential shocks to the financial system.

Looking ahead, OSFI will continue to monitor growth in segments contributing to overall vulnerabilities, including new loans to highly-indebted borrowers, combined mortgage-HELOC products, trends in non-financial corporate lending, and global vulnerabilities.

The decision today is part of the DSB's design to increase capital during stable economic times before 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.

OSFI will continue to set the DSB in a transparent manner to ensure it is widely understood by markets. In doing so, we expect that decisions to 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.