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To: Federally Regulated Financial Institutions (FRFIs)

Subject: OSFI Capital Ruling for Limited Recourse Capital Notes

OSFI routinely assesses the quantity and quality of financial instruments that FRFIs issue as regulatory capital and/or total loss absorbing capacity (TLAC). We do this to ensure that institutions maintain adequate capital and loss absorbing capacity as required by their governing statutes and OSFI's guidance.

A Canadian bank is now marketing a new financial instrument called a Limited Recourse Capital Note (LRCN). The bank has sought a ruling from OSFI regarding the regulatory capital treatment of the LRCNs.

OSFI has reviewed the quality of this structure relative to the eligibility criteria set out in Chapter 2 of OSFI's *Capital Adequacy Requirements Guideline*, with particular emphasis on economic substance over legal form. We also considered the potential behaviour and impacts of the structure on financial stability, particularly in periods of stress.

OSFI has published a capital ruling that explains OSFI's considerations in determining that the LRCNs can qualify as Additional Tier 1 regulatory capital by the bank and other FRFIs, subject to certain limitations and disclosure requirements.

Should you have any questions, please contact CapitalConfirmations@osfi-bsif.gc.ca.

Yours sincerely,

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