Letter

Title	Draft Capital Adequacy Requirements Guideline (2027) - letter
Category	Capital Adequacy Requirements
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Table of Contents

Credit risk requirements

- Land Acquisition, Development, and Construction exposures
- Corporate exposures
- Exposures to Canadian Systemically Important Banks (SIBs)
- Downturn Loss Given Default (LGD) floor
- Exposures risk-weighted at 1250%
- Synthetic securitization
- Use of ratings
- Commitments

Market risk requirements

- Credit spreads in market risk capital
- Maturity assignments for cash equity positions in market risk capital
- Updates to ongoing monitoring and approval requirements

Stakeholder feedback

Today, we are launching a 90-day public consultation on draft revisions to the Capital Adequacy Requirements (CAR) Guideline.

The proposed revisions to the CAR Guideline build on the latest version of the guideline which was published in September 2025. Comments received will inform final changes to the guideline, which is expected to come into effect on November 1, 2026 or January 1, 2027 for institutions with a fiscal year ending October 31 or December 31, respectively.

The 2027 CAR Guideline revisions are aimed at enhancing the clarity of our capital rules, improving the consistency of their application, and ensuring that capital requirements continue to be aligned with the underlying risk faced by institutions. We have also made targeted updates to monitoring and approval requirements in the market risk framework, thereby reducing regulatory burden.

The main revisions are summarized below.

Credit risk requirements

Land Acquisition, Development, and Construction exposures

We have made several changes to the capital treatment of Land Acquisition, Development, and Construction (ADC) exposures under the credit risk Standardized Approach (SA) to increase the granularity and risk sensitivity of the capital treatment. These include:

- Allowing institutions to consider ADC projects with (loan-to-values) LTVs lower than 80% as substantially complete and apply the income producing commercial real estate (IPCRE) treatment, provided a certificate of occupancy has been issued.
- Introducing a preferential risk weight of 110% for commercial ADC loans with 50% pre-sales or pre-leases, up to an LTV of 70%.
- Lowering the base risk weight for low-rise residential real estate from 150% to 130% to better reflect the lower risk nature of low-rise residential builds.

- Introducing a 90% risk weight for residential ADC (both high and low-rise) where the level of pre-sales is equal to or greater than 75%.
- Clarifying the definitions for equity at risk and high-rise buildings.

Corporate exposures

We have lowered the risk weight applied to Corporate Small and Medium Size Enterprise (SME) exposures under the credit risk SA to 75% from 85%, regardless of whether they meet the criteria for regulatory retail.

We have also lowered the risk weight under the credit risk SA for unrated exposures to Corporates that qualify as "investment grade" from 150% to 135%.

Exposures to Canadian Systemically Important Banks (SIBs)

We have reduced the risk weight for exposures to Canadian Systemically Important Banks (SIBs) under the credit risk SA from 20% to 15%. These lower risk weights also apply to covered bonds issued by Canadian SIBs.

Downturn Loss Given Default (LGD) floor

We have revised the formula under the Internal Ratings-based (IRB) approach for the Downturn Loss Given Default (LGD) floor add-on to the institution's long-run LGD estimate for exposures secured by residential real estate by:

- Removing the Supplementary Capital Requirement Indicators calculation for the 11 metropolitan areas mentioned in Appendix 5-3 of chapter 5 of the CAR Guideline, and
- Modifying the add-on formula such that it no longer peaks at an 80% current LTV but continues to increase above an 80% current LTV.

Exposures risk-weighted at 1250%

For certain exposures that receive a 1250% risk weight (specifically certain securitization exposures, equity investment in funds, and first-to-default credit derivatives) we have modified the guideline to allow institutions the option to deduct the exposure from Common Equity Tier 1 (CET1) instead of applying a 1250% risk weight.

Synthetic securitization

We have modified the guideline to require originating institutions to notify OSFI of all synthetic securitization transactions within 30 days of the transaction being executed. Originating institutions will also be required to submit certain specified information along with their notification. Finally, we have specified that an institution will have to revert any capital benefits accrued by treating a transaction as a securitization exposure, should OSFI determine at any point that the securitization exposure does not qualify for treatment under the securitization framework.

Use of ratings

We have clarified that the applicable long-term ratings may be used for unrated short-term exposures to investment grade entities, subject to the conditions in the CAR guideline for the use of ratings.

Commitments

Finally, we have clarified that commitments include arrangements that can be cancelled by the institution if a third party fails to meet conditions set out in the facility documentation prior to any initial or subsequent drawdown under the arrangement (such as a regulator failing to approve a merger and acquisition transaction). As a result, institutions should hold capital for these types of commitments as soon as the commitment is made and accepted, irrespective of pending regulatory approvals.

Market risk requirements

Credit spreads in market risk capital

We have capped risk weights applied on short credit positions, such that the risk weight will be the lower of the prescribed risk weight and the marked bond spread.

Maturity assignments for cash equity positions in market risk capital

We will allow institutions the option of assigning the same maturity to the cash equity position as the maturity of the derivative contract it hedges, and any unmatched cash equity positions must be assigned a maturity of 12

months. Alternatively, institutions will have the option of continuing to apply the current method.

Updates to ongoing monitoring and approval requirements

We have updated various monitoring and approval requirements throughout the market risk capital framework. Updates are intended to reduce regulatory burden by removing formal approval requirements, while ensuring that institutions provide relevant material to OSFI.

Stakeholder feedback

Stakeholders who wish to submit comments should send them to Consultations@osfi-bsif.gc.ca by February 18, 2026. A non-attributed summary of comments received along with our responses will be posted on our website alongside the final version of the guideline in September 2026.