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

Letter

Title	Capital treatment of BDC Guarantee under the Highly Affected Sectors Credit Availability Program
Date	January 27, 2021
Sector	Banks Trust and Loan Companies

To: Banks, Bank Holding Companies, Federally Regulated Trust and Loan Companies

Under the *Highly Affected Sectors Credit Availability Program (HASCAP)*, the guarantee provided by Business Development Bank of Canada (BDC) to the DTI can be recognized under the Capital Adequacy Requirements (CAR) Guideline as a guarantee as it meets the related operational requirements set out in paragraphs 75 and 76 of Chapter 5 of the CAR Guideline. As such, the BDC HASCAP guarantee can be treated as an exposure to the Government of Canada (reflecting that BDC is an agent of the Crown).

If there are currency mismatches (i.e., between the currency of the BDC guarantee and that of the loan) or maturity mismatches (i.e., between the term of the BDC guarantee and that of the loan), the amount of the guarantee recognized for capital purposes would need to be adjusted according to section 5.1.6 of the CAR Guideline.

Under the Standardized Approach to credit risk, the guaranteed loan would receive the risk weight applicable to the Government of Canada (i.e., 0%), the guarantor (based on section 3.1.3, paragraph 10(i) of the CAR Guideline).

Under the Internal Ratings Based Approach to credit risk, the guaranteed loan would be treated with the Probability of Default substitution approach and/or the Loss Given Default adjustment approach as outlined in section 6.8.7 (ix) of the CAR Guideline.

In calculating the leverage ratio, the entire amount of the loan would need to be included in the exposure measure of the leverage ratio pursuant to the Leverage Requirements Guideline paragraph 12.

Questions concerning this capital treatment should be sent to Mark Joshua in OSFI's Capital Division by email at

Mark.Joshua@osfi-bsif.gc.ca.

Yours truly,

Ben Gully

Assistant Superintendent

Regulation Sector