Title	Domestic Stability Buffer - Decision Summary Note
Category	Capital Adequacy Requirements
Date	November 8, 2023

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Overview

- Today, OSFI announced that the Domestic Stability Buffer (DSB) will increase by 0.5% to 3.5% of total risk-weighted assets, effective November 1, 2023.
- The DSB is an important policy tool that contributes to the stability of Canada's financial system. It helps ensure that Canada's domestic systemically important banks (D-SIBs) build up a capital buffer as vulnerabilities grow so that it can be used during periods of stress.
- The decision to increase the DSB reflects OSFI's assessment of elevated and rising systemic vulnerabilities, coupled with stable near-term risks.

- The DSB may increase if vulnerabilities persist or grow further. OSFI also stands ready to reduce the DSB swiftly if necessary to support the resilience of the financial system.

Background

DSB decisions are based on OSFI's assessment of a wide range of quantitative and qualitative information related to vulnerabilities and risks, as well as results from recent stress tests and supervisory judgment. OSFI uses several indicators to inform its vulnerability and risk assessments. These are based on a combination of publicly available and supervisory data. This set of indicators is not exhaustive and may evolve as the economic and risk environment changes. There is also no mechanical link between any indicator and the changes to the DSB. See the Appendix for additional background on the DSB design framework and indicators used to inform decisions.

Supporting rationale

On balance, OSFI assesses that vulnerabilities remain elevated and rising. The current high interest rate environment has made highly indebted households and corporates more vulnerable to shocks. This is reflected in a steady increase in Canadian household debt service ratios in recent quarters, driven by higher interest rates, as principal payments have declined. Based on supervisory filing data, approximately 12% of uninsured mortgage borrowers are only covering interest payments or are negatively amortizing given impacts to variable rate fixed payment loans. This is also reflected in sharply rising debt service ratios on new mortgage originations. Vulnerabilities to highly-indebted corporates in higher-risk sectors remain a concern, particularly where liquid asset buffers have not grown as quickly.

Housing and commercial real estate market concerns have persisted as valuations remain high coupled with a pick-up in housing market activity. House prices have begun to rise again in recent months as the supply of new listings and inventory remain near historical lows. External vulnerabilities also continue to pose a threat because of elevated global debt levels and increased uncertainty around fiscal and monetary policy. Global central banks are committed to bringing inflation down; however, considerable uncertainty on the future path remains.

Near-term risks to D-SIB capital levels are currently assessed to be low and stable. D-SIB common equity tier 1 leverage and liquidity ratios are comfortably above minimum requirements based on recent reporting data. Operating performance remains solid despite some uptick in performing provisions. Loan delinquencies remain near historically low levels and net interest margins appear to be stabilizing.

The risk environment is expected to be characterized by heightened uncertainty as the effects of higher interest rates take hold, with risks to growth skewed to the downside. Canadian macroeconomic conditions remain supportive of an increase in the DSB, with the unemployment rate near its record low and GDP growth remaining positive. At the same time, financial market conditions have calmed after recent bouts of volatility associated with banking concerns in the US and Switzerland.

Appendix

The DSB is intended to address vulnerabilities that are cyclical, measurable, and have a system-wide impact. The main indicators used to inform the decision to adjust the DSB level, relate to Canadian household and corporate indebtedness, asset market imbalances, as well as external and related factors such as inflation, debt servicing costs and global debt levels. These systemic vulnerabilities are assessed and weighed against the potential materialization of losses to D-SIBs in the near term. For near-term risks, OSFI monitors recent and leading indicators of D-SIB financial performance, as well as economic and financial market conditions. These include D-SIB capital ratios, expected credit losses, impaired loans, the unemployment rate, and market volatility.

Core vulnerability indicators used to inform the DSB stance

Canadian Housedhold Indebtedness

- Household debt levels and serviceability

Canadian Asset Imbalances

- Housing and CRE price levels and valuations

Canadian Institutional Indebtedness

- Corporate debt levels and serviceability
- Sovereign debt levels

External Systemic Vulnerabilities

- Global debt levels
- Economic policy uncertainty

Near-Term Risk Materialization indicators used to inform the DSB stance

D-SIB financial performance - recent trends

- Capital ratios
- Credit losses and impairments

D-SIB financial performance - leading indicators

- Near-term outlook
- Market-based risk indicators

Labour Market and Economic Indicators

- Unemployment rate
- Consumer / Business Insolvencies

Financial market and liquidity conditions

- Market, funding and counterparty stress

Trends in Selected Vulnerability Indicators

Canadian Household Debt-to-Income Ratio

The referenced media source is missing and needs to be re-embedded.

Source: Statistics Canada

Canadian Household Debt-to-Income Ratio - text description

Canadian Household Debt-to income

Date	Debt-to income %
March 2007	142
June 2007	147
September 2007	151
December 2007	152
March 2008	153
June 2008	154
September 2008	154
December 2008	157
March 2009	160
June 2009	162
September 2009	162
December 2009	164
March 2010	162
June 2010	167
September 2010	166
December 2010	166
March 2011	167
June 2011	169
September 2011	170
December 2011	168
March 2012	169

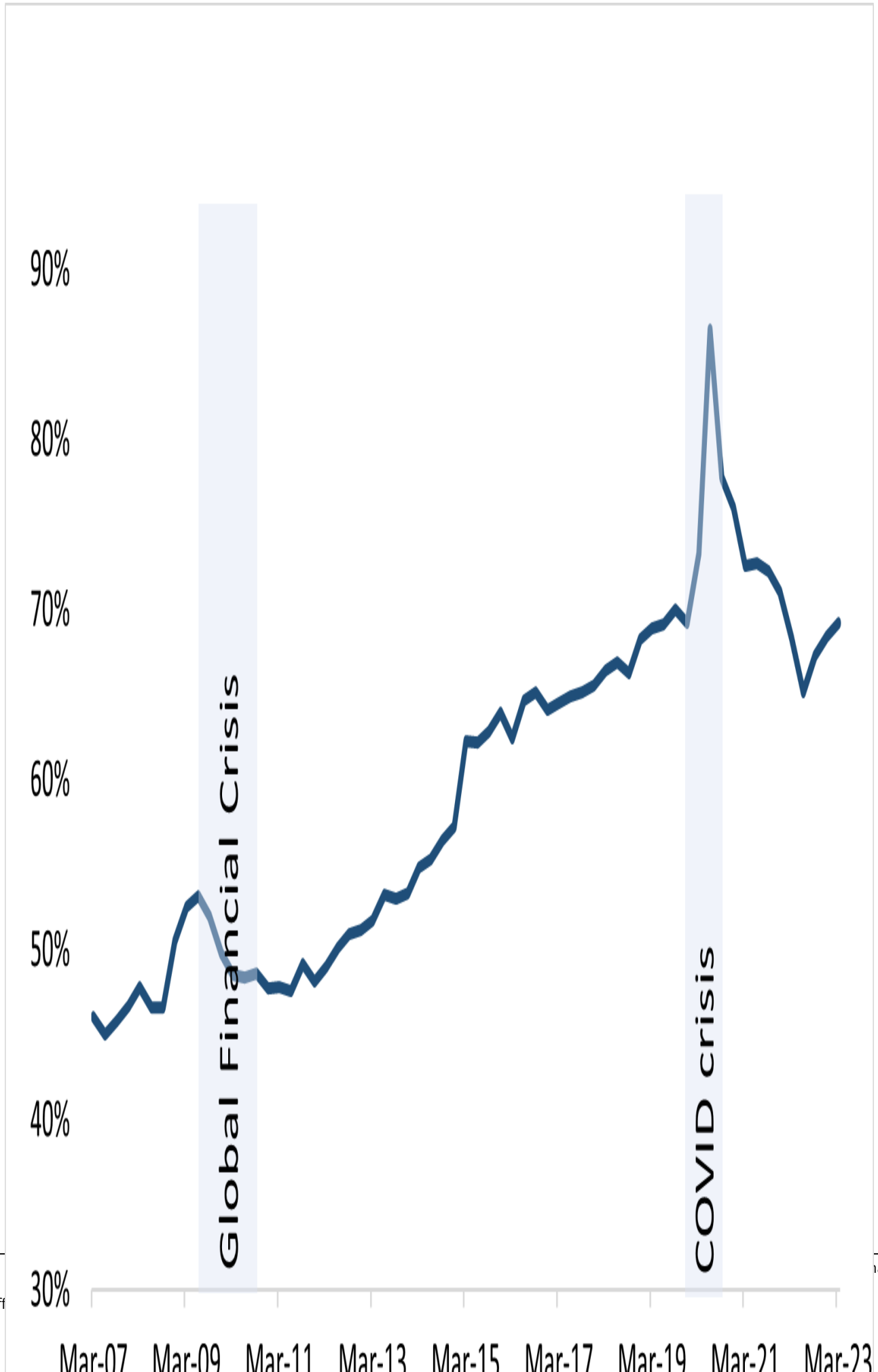
Date	Debt-to income %
June 2012	170
September 2012	170
December 2012	170
March 2013	168
June 2013	169
September 2013	170
December 2013	170
March 2014	170
June 2014	171
September 2014	170
December 2014	172
March 2015	170
June 2015	171
September 2015	172
December 2015	175
March 2016	181
June 2016	181
September 2016	181
December 2016	181
March 2017	183
June 2017	182
September 2017	181
December 2017	181

Date	Debt-to income %
March 2018	183
June 2018	184
September 2018	185
December 2018	183
March 2019	183
June 2019	181
September 2019	182
December 2019	181
March 2020	181
June 2020	162
September 2020	173
December 2020	177
March 2021	175
June 2021	176
September 2021	179
December 2021	185
March 2022	180
June 2022	182
September 2022	185
December 2022	181
March 2023	185

Global Financial Crisis: September 2008 to May 2009

COVID crisis: March 2020 to May 2020

Canadian Non-Financial Corporate Debt to GDP


90%
80%
70%
60%
50%
40%
30%
Global Financial Crisis
COVID crisis
Mar-07
Mar-09
Mar-11
Mar-13
Mar-15
Mar-17
Mar-19
Mar-21
Mar-23

Source: Statistics Canada

Canadian Non-Financial Corporate Debt to GDP - text description

Canadian Non-Financial Corporate Debt to GDP

Date	Debt to GDP %
March 2007	46.06
June 2007	45.02
September 2007	45.86
December 2007	46.75
March 2008	47.86
June 2008	46.65
September 2008	46.62
December 2008	50.51
March 2009	52.55
June 2009	53.15
September 2009	51.95
December 2009	49.86
March 2010	48.55
June 2010	48.41
September 2010	48.63
December 2010	47.79
March 2011	47.84
June 2011	47.56
September 2011	49.18
December 2011	48.12
March 2012	49.01

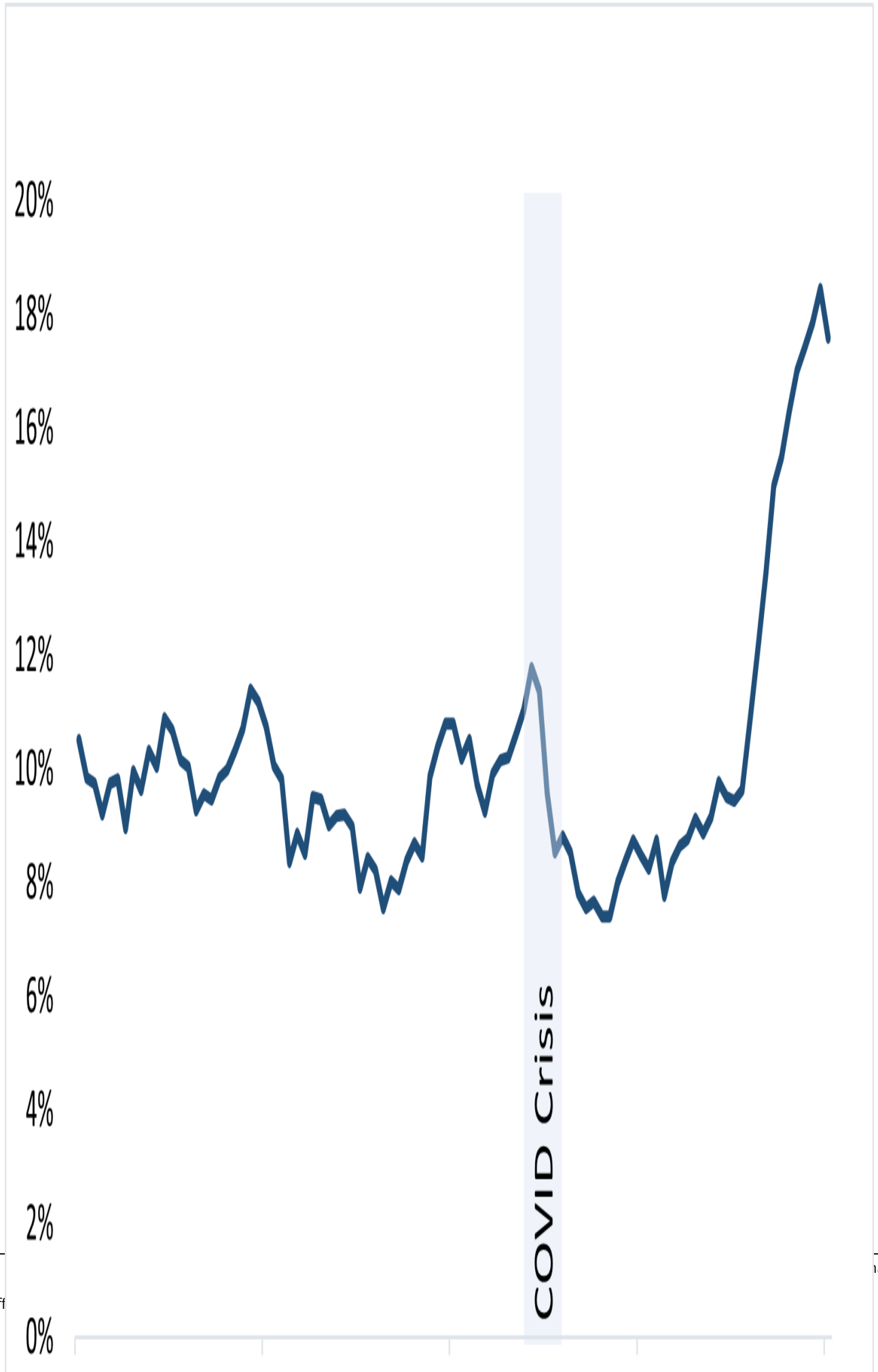
Date	Debt to GDP %
June 2012	50.16
September 2012	50.95
December 2012	51.22
March 2013	51.78
June 2013	53.26
September 2013	52.99
December 2013	53.34
March 2014	54.83
June 2014	55.30
September 2014	56.45
December 2014	57.27
March 2015	62.26
June 2015	62.18
September 2015	62.86
December 2015	63.99
March 2016	62.43
June 2016	64.68
September 2016	65.14
December 2016	64.15
March 2017	64.49
June 2017	64.89
September 2017	65.17
December 2017	65.59

Date	Debt to GDP %
March 2018	66.41
June 2018	66.94
September 2018	66.31
December 2018	68.28
March 2019	68.88
June 2019	69.18
September 2019	69.99
December 2019	69.27
March 2020	73.33
June 2020	86.50
September 2020	77.78
December 2020	76.02
March 2021	72.59
June 2021	72.73
September 2021	72.28
December 2021	71.10
March 2022	68.39
June 2022	65.19
September 2022	67.30
December 2022	68.40
March 2023	69.24

Global Financial Crisis: September 2008 to May 2009

COVID crisis: March 2020 to May 2020

Contract Total Debt Service > 44% (% of Uninsured Originations Outstanding)


20%
18%
16%
14%
12%
10%
8%
6%
4%
2%
0%
COVID Crisis

Source: FRFI regulatory filings, OSFI calculations

Contract Total Debt Service > 44% (% of Uninsured Originations Outstanding) - text description

Contract Total Debt Service > 44% (% of Uninsured Originations Outstanding)

Date	Contract Total Debt Service > 44% (% of Uninsured Originations Outstanding)
March 2015	11
April 2015	10
May 2015	10
June 2015	9
July 2015	10
August 2015	10
September 2015	9
October 2015	10
November 2015	10
December 2015	10
January 2016	10
February 2016	11
March 2016	11
April 2016	10
May 2016	10
June 2016	9
July 2016	10
August 2016	9
September 2016	10
October 2016	10
November 2016	10

Date	Contract Total Debt Service > 44% (% of Uninsured Originations Outstanding)
December 2016	11
January 2017	11
February 2017	11
March 2017	11
April 2017	10
May 2017	10
June 2017	8
July 2017	9
August 2017	9
September 2017	10
October 2017	9
November 2017	9
December 2017	9
January 2018	9
February 2018	9
March 2018	8
April 2018	8
May 2018	8
June 2018	8
July 2018	8
August 2018	8
September 2018	8
October 2018	9

Date	Contract Total Debt Service > 44% (% of Uninsured Originations Outstanding)
November 2018	8
December 2018	10
January 2019	10
February 2019	11
March 2019	11
April 2019	10
May 2019	11
June 2019	10
July 2019	9
August 2019	10
September 2019	10
October 2019	10
November 2019	11
December 2019	11
January 2020	12
February 2020	11
March 2020	10
April 2020	9
May 2020	9
June 2020	9
July 2020	8
August 2020	8
September 2020	8

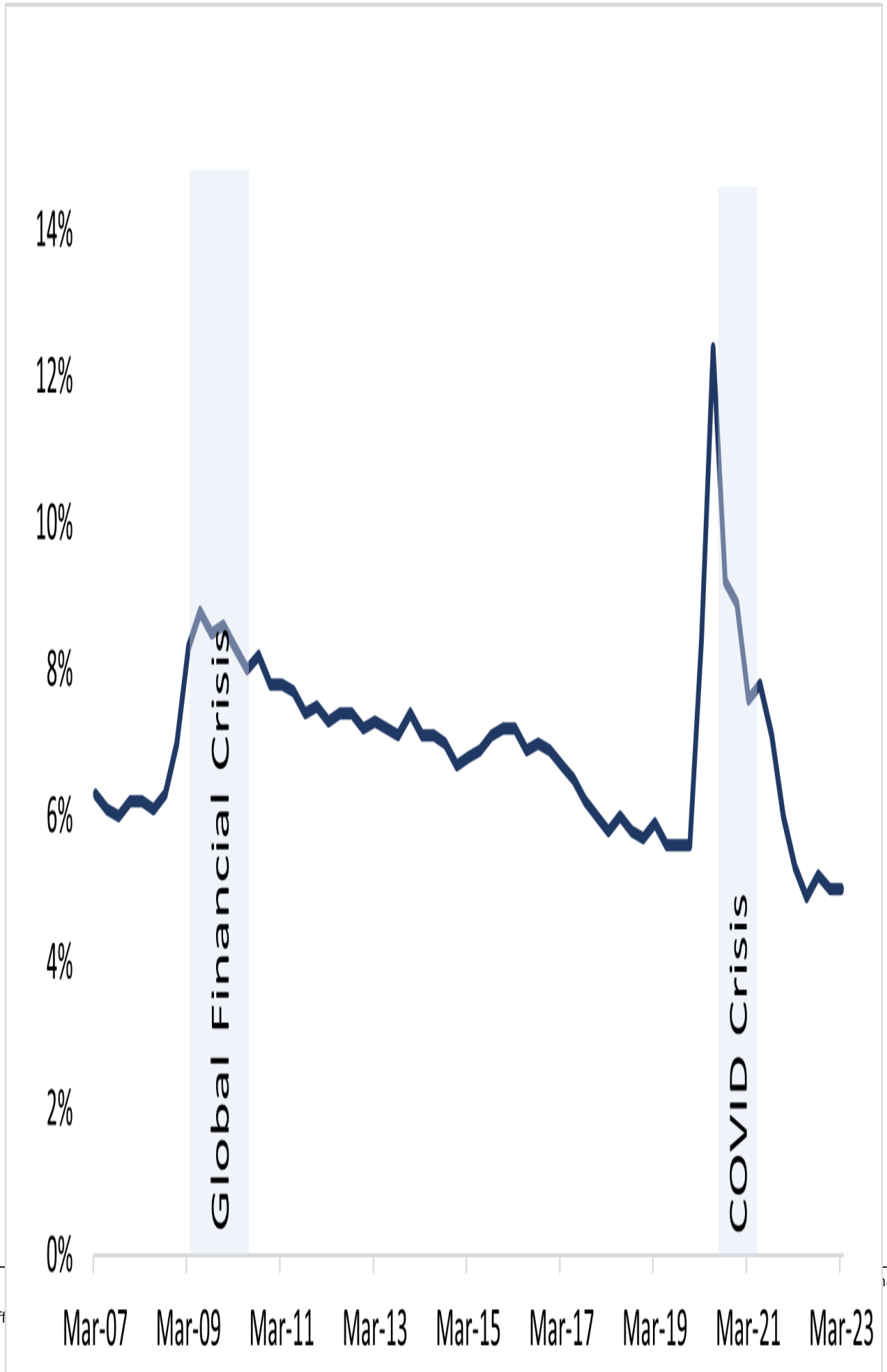
Date	Contract Total Debt Service > 44% (% of Uninsured Originations Outstanding)
October 2020	7
November 2020	7
December 2020	8
January 2021	8
February 2021	9
March 2021	8
April 2021	8
May 2021	9
June 2021	8
July 2021	8
August 2021	9
September 2021	9
October 2021	9
November 2021	9
December 2021	9
January 2022	10
February 2022	10
March 2022	9
April 2022	10
May 2022	11
June 2022	12
July 2022	13
August 2022	15

Date	Contract Total Debt Service > 44% (% of Uninsured Originations Outstanding)
September 2022	15
October 2022	16
November 2022	17
December 2022	17
January 2023	18
February 2023	18
March 2023	18

COVID crisis: March 2020 to May 2020

Trends in Selected Near-Term Risk Materialization Indicators

Canadian Unemployment Rate


14%
12%
10%
8%
6%
4%
2%
0%
Global Financial Crisis
COVID Crisis
Mar-07
Mar-09
Mar-11
Mar-13
Mar-15
Mar-17
Mar-19
Mar-21
Mar-23

Source: Statistics Canada

Canadian Unemployment Rate - text description

Canadian Unemployment Rate

Date	Unemployment rate %
March 2007	6
June 2007	6
September 2007	6
December 2007	6
March 2008	6
June 2008	6
September 2008	6
December 2008	7
March 2009	8
June 2009	9
September 2009	9
December 2009	9
March 2010	8
June 2010	8
September 2010	8
December 2010	8
March 2011	8
June 2011	8
September 2011	7
December 2011	8
March 2012	7

Date	Unemployment rate %
June 2012	7
September 2012	7
December 2012	7
March 2013	7
June 2013	7
September 2013	7
December 2013	7
March 2014	7
June 2014	7
September 2014	7
December 2014	7
March 2015	7
June 2015	7
September 2015	7
December 2015	7
March 2016	7
June 2016	7
September 2016	7
December 2016	7
March 2017	7
June 2017	7
September 2017	6
December 2017	6

Date	Unemployment rate %
March 2018	6
June 2018	6
September 2018	6
December 2018	6
March 2019	6
June 2019	6
September 2019	6
December 2019	6
March 2020	8
June 2020	12
September 2020	9
December 2020	9
March 2021	8
June 2021	8
September 2021	7
December 2021	6
March 2022	5
June 2022	5
September 2022	5
December 2022	5
March 2023	5

Global Financial Crisis: September 2008 to May 2009

COVID crisis: March 2020 to May 2020

DSIB Average Common Equity Tier 1 (% of Risk Weighted Assets)

The referenced media source is missing and needs to be re-embedded.

Source: FRFI regulatory filings, staff calculations

DSIB Average Common Equity Tier 1 (% of Risk Weighted Assets) - text description

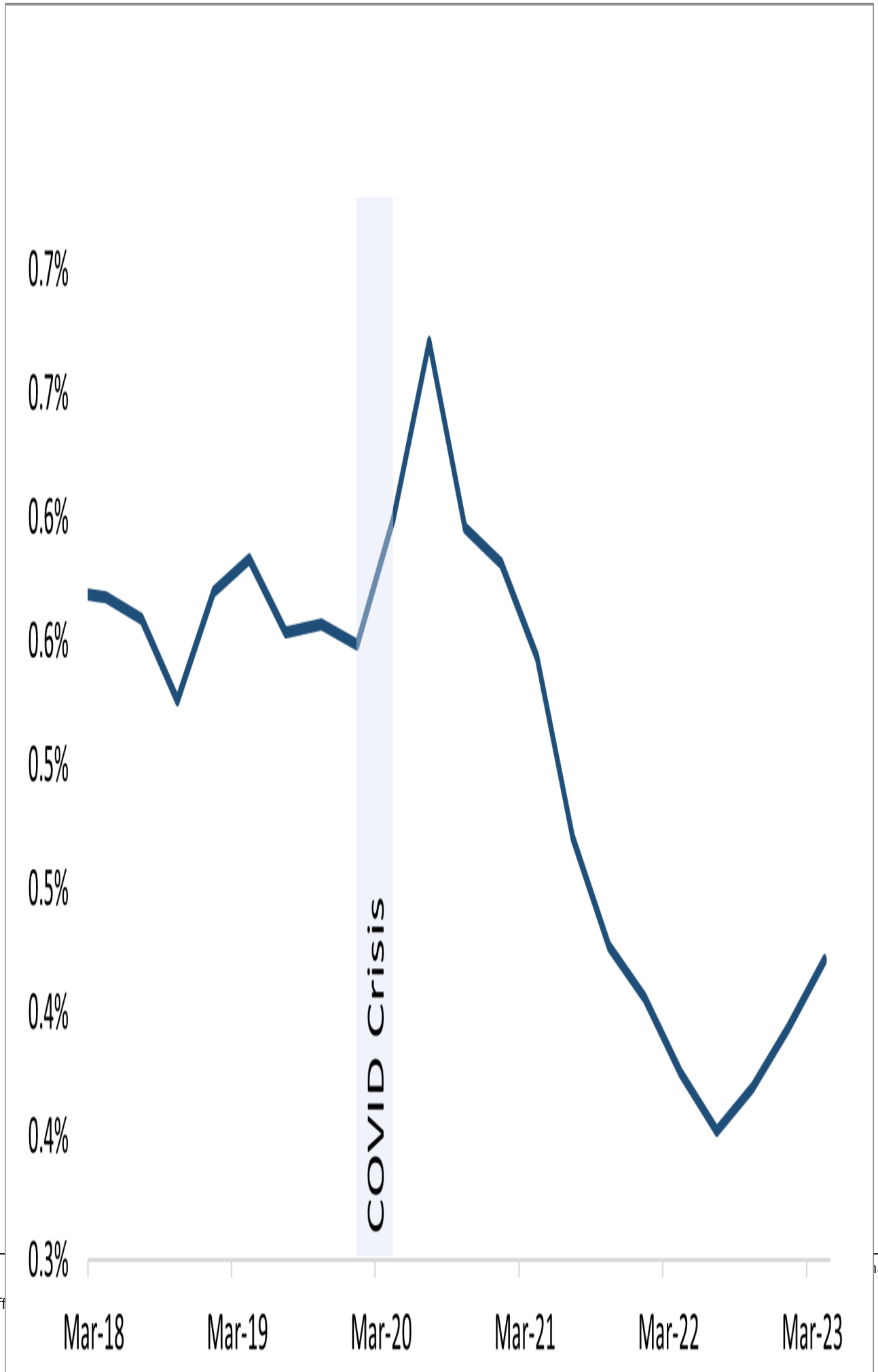
DSIB Average Common Equity Tier 1 (% of Risk Weighted Assets)

Date	DSIB Average CET1 Ratio %
January 2018	11
April 2018	11
July 2018	11
October 2018	12
January 2019	11
April 2019	11
July 2019	12
October 2019	12
January 2020	12
April 2020	11
July 2020	12
October 2020	12
January 2021	12
April 2021	13
July 2021	13
October 2021	13
January 2022	13
April 2022	13
July 2022	13
October 2022	14
January 2023	14

Date	DSIB Average CET1 Ratio %
April 2023	13

COVID crisis: March 2020 to May 2020

DSIB Average Gross Impaired Loans (% of Total Loans Outstanding)


0.7%
0.7%
0.6%
0.6%
0.5%
0.5%
0.4%
0.4%
0.3%
COVID Crisis
Mar-18
Mar-19
Mar-20
Mar-21
Mar-22
Mar-23

Source: FRFI regulatory filings, staff calculations

DSIB Average Gross Impaired Loans (% of Total Loans Outstanding) - text description

DSIB Average Gross Impaired Loans (% of Total Outstanding)

Date	DSIB Average Gross Impaired Loans (% of Total Outstanding)
January 2018	0.6
April 2018	0.6
July 2018	0.6
October 2018	0.5
January 2019	0.6
April 2019	0.6
July 2019	0.6
October 2019	0.6
January 2020	0.5
April 2020	0.6
July 2020	0.7
October 2020	0.6
January 2021	0.6
April 2021	0.5
July 2021	0.5
October 2021	0.4
January 2022	0.4
April 2022	0.4
July 2022	0.4
October 2022	0.4
January 2023	0.4
April 2023	0.4

COVID crisis: March 2020 to May 2020