Letter

Title	Draft Capital Adequacy Requirements Guideline (2028) – Letter
Category	Capital Adequacy Requirements
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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 that we published on September 10, 2026. The comments we receive will inform final changes to the guideline, which will come into effect on November 1, 2027 or January 1, 2028 for institutions with a fiscal year ending October 31 or December 31, respectively.

We made a number of changes to the CAR Guideline that are specific to small and medium-sized deposit-taking institutions (SMSBs). These revisions better align capital requirements with underlying risks and provide more proportionate capital treatment for SMSBs. Consistent with updates to our mandate, the revisions aim to narrow the gap between the standardized approach (SA) and internal ratings-based (IRB) approach to enhance the competitiveness of SMSBs. Beyond these SMSB-specific revisions, we also propose to lower the internal models approach (IMA) coverage threshold for market risk capital to facilitate IMA adoption while maintaining appropriate safeguards, and to clarify the trading book/banking book boundary to support consistent treatment across institutions.

The main revisions to the CAR Guideline are summarized below.

Capital requirements

We removed the minimum and supervisory target Tier 1 risk-based capital requirement for SMSBs. SMSBs will continue to be subject to Common Equity Tier 1 and Total Capital requirements.

Capital instruments

We removed the non-viability contingent capital (NVCC) requirements for SMSBs. Instruments issued by SMSBs will continue to be subject to other qualifying criteria set in Chapter 2.

Credit risk

Corporate exposures

We introduced lower risk weights available to SMSBs for corporate exposures, including for the flat risk weight institutions may choose to apply to all their corporate exposures, for corporate exposures identified by the institution as investment grade, and for corporate small and medium size enterprises.

Residential real estate secured lending

We introduced a preferential general residential real estate treatment for SMSBs, subject to the borrower having a credit bureau score above 720.

We increased the risk weights for residential mortgage products with loan-to-values (LTVs) above 65%, where the amortization could be extended due to rising interest rates, to roughly a 75% premium over risk weights for general residential real estate, up from the current 50% premium.

Reverse mortgages

We clarified that reverse mortgages should be treated as defaulted exposures if any of the events noted in CAR section 4.1.22 have occurred. We also specified that institutions should apply the defaulted exposure treatment after deducting from CET1 the portion of the reverse mortgage exposure exceeding 80% LTV.

Eligible credit risk mitigants

We expanded collateral eligibility to allow third-party guaranteed investment certificates (GICs) to be treated as collateral under both the simple and comprehensive approaches, subject to certain specifications, and to recognize net cash surrender value (CSV) of life insurance policies as a guarantee from the issuing insurance company.

Venture capital funds

We clarified that government-sponsored venture capital fund investments qualify for the existing preferential treatment available for equity holdings made pursuant to national legislated programmes.

Securitization

We included additional operational requirements for synthetic securitization transactions. These enhanced operational requirements require institutions to demonstrate effective risk transfer, conduct ongoing stress testing, assess changing risk conditions, and maintain governance and monitoring processes to ensure capital relief remains aligned with the level of risk transferred.

Market risk

Internal models approach (IMA) coverage threshold

We reduced the initial and continuing IMA coverage threshold from 50% to 10% and will require each extension application to increase coverage by at least 10 percentage points. This change will improve accessibility of the IMA.

Hedge effectiveness criteria for fair value through PnL instruments hedging banking book positions

We introduced hedge effectiveness criteria for the recognition of presumed trading book instruments in the banking book as hedges of banking book exposures. The proposed range will create a clear threshold, align with an established accounting concept, and promote consistent treatment across institutions.

Clarifying the banking book and trading book boundary

We clarified the priority of mandatory banking book assignments and reorganized section 9.2.2 to improve readability and support more consistent treatment across institutions.

Stakeholder feedback

Stakeholders who wish to submit comments should send them to Consultations@osfi-bsif.gc.ca by February 17, 2027. We will publish a non-attributed summary of comments received along with our responses on our website alongside the final version of the guideline in September 2027.