



Letter

Title OSFI maintains the Domestic Stability Buffer level at 2.50% - Letter (2021)
Date December 10, 2021
Sector Banks

To: Domestic Systemically Important Banks (D-SIBs)

The purpose of this letter is to inform you that, following its semi-annual review, OSFI has decided to maintain the level of the Domestic Stability Buffer (DSB) at 2.50% of total risk-weighted assets, as calculated under the Capital Adequacy Requirements (CAR) Guideline.

On March 13, 2020, OSFI communicated its decision to set the buffer at 1.00% in response to the challenges posed by COVID-19 and prevailing market conditions and committed not to increase the buffer level for at least 18 months. On June 17, 2021, OSFI announced that it would increase the buffer to 2.50% effective October 31, 2021.

The decision to maintain the buffer at 2.50% reflects OSFI's view that the current level continues to be prudent and appropriate. At the same time, this decision reflects our assessment that key vulnerabilities remain elevated while near-term risks are moderate and relatively stable on balance.

The DSB supports an effective capital regime where capital is set aside in response to the vulnerabilities in the financial system, while still providing banks with capacity to lend and support economic recovery. As previously indicated, as part of our ongoing work to ensure the long-term effectiveness of the capital regime, we plan to review the DSB's design and range.

Specific vulnerabilities covered by the buffer continue to include: (i) Canadian household indebtedness; (ii) asset imbalances in the Canadian housing market; and (iii) Canadian institutional indebtedness. In addition, global vulnerabilities continue to contribute to the possibility of a spillover of external risks into the Canadian financial system.

On November 4, 2021, OSFI lifted the temporary expectations on capital distributions that it put in place at the onset of the pandemic. OSFI continues to expect that management and boards of directors will both take into account the DSB's current level and continue to act responsibly when making decisions pertaining to capital distributions.

The DSB contributes to Domestic Systemically Important Banks' resilience to key vulnerabilities and system-wide risks, thereby contributing to financial stability¹.

The Domestic Stability Buffer level will be maintained at 2.50% of risk-weighted assets.

- The following federally regulated financial institutions are designated as Domestic Systemically Important Banks: *Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada, and Toronto-Dominion Bank.*