Letter

Title	OSFI finalizes its Solo Capital guideline and Solo Total Loss Absorbing Capacity (TLAC) guideline
Category	Capital Adequacy Requirements
Date	September 12, 2023
Sector	Banks Life Insurance and Fraternal Companies

- **To:**
  - Domestic Systemically Important Banks (D-SIBs)
  - Life Insurers that are designated by OSFI as Internationally-Active Insurance Groups (Life IAIGs)

Today, OSFI is publishing the final Parental Stand-Alone (Solo) TLAC Framework for D-SIBs, and Parental Solo Capital Framework for Life IAIGs, including the related reporting templates. The final guidelines and reporting templates incorporate, where appropriate, feedback received from the public consultation.

The main revision relates to the treatment of foreign branches under the Solo TLAC Framework. We have clarified that certain foreign branches may take credit for amounts remitted to the Canadian branch, where those amounts remain fully available to the Canadian branch and have not been transferred or committed to a foreign regulated subsidiary or foreign branch. As set out in the Appendix, we have also made clarifications throughout the Guidelines and reporting templates in response to feedback and questions received from stakeholders.

The Appendix summarizes comments received public consultations along with OSFI's responses. We thank those who participated in the consultation process.

Questions regarding the final Guidelines can be sent to Muhammad Abid, Senior Capital Specialist, Capital Definition and Assessment by email at muhammad.abid@osif-bsif.gc.ca.

Next steps

The Guidelines will come into effect in fiscal Q1-2024[1]. D-SIBs and Life IAIGs are expected to commence regulatory reporting under these Guidelines within 45 days of fiscal quarter-end.

OSFI plans to consult on data assurance and public disclosure expectations on the final Frameworks in due course.

Regards,

Ben Gully

Deputy Superintendent

Supervision Sector

Appendix 1: Summary of comments and OSFI response

Comment	OSFI response
The final guidelines should communicate consequences of breaching the minimum Solo TLAC or Solo capital expectation.	OSFI will be undertaking a review of the Guide to Intervention in due course, which will communicate the consequences of any breaches of Solo expectations.
The second sentence in Footnote 4 of the Draft Solo TLAC Guideline defines "provincially regulated subsidiaries or domestic non-OSFI regulated subsidiaries"; however, the treatment is not discussed in the guideline. Would OSFI please clarify the treatment of Domestic Non-OSFI Regulated Subsidiaries in the guideline?	The intent of the footnote is to clarify that domestic non-OSFI regulated subsidiaries are not subject to a Solo TLAC or capital charge and that they continue to be subject to the capital treatments set out under the CAR and LICAT Guidelines. We have revised this wording to clarify this intent.
The foreign branch approach set out in the Draft Solo TLAC Guideline has unintended consequences for foreign branches that provide the home office with net funding that remains in Canada and is accessible by OSFI (i.e., it cannot be ring-fenced).	The Solo TLAC Guideline has been amended to recognize amounts remitted to and remaining available at the home office.
Please clarify the treatment of guarantees provided to foreign branches, as well as OSFI-regulated, provincially regulated, and foreign regulated subsidiaries.	Guarantees provided to OSFI-regulated subsidiaries and provincially regulated subsidiaries do not attract a Solo TLAC capital charge in the case of D-SIBs or a Solo capital charge in the case of Life IAIGs. Guarantees provided to foreign-regulated subsidiaries or branches are subject to the treatments described under paragraphs 16 to 22 of the Solo TLAC Guideline and paragraphs 14 to 20 of the Solo Capital Guideline.

Comment	OSFI response
Exposures to foreign regulated subsidiary include Contractual Service Margins (CSM). The CSM included in the exposure should be consistent with the calculation of CSM included in Available Capital under LICAT. We ask that OSFI include a footnote in the draft Solo Capital Guideline specifying that this should be calculated as all CSM reported as liabilities less all CSM reported as assets. Similar to LICAT, the Solo Capital Guideline should clarify that the CSM excludes amounts in respect of segregated fund contracts with guarantee risks.	The Solo Capital Guideline has been amended to add these clarifications.
We understand that, in calculating the exposure for foreign branches, the CSM to be deducted from the third-party liabilities is the total CSM arising in the branch rather than just the CSM associated with third party liabilities. We suggest that OSFI clarify the existing wording to read "Total Third-party liabilities across all foreign branches, excluding the total CSM arising in the branches".	The Solo Capital Guideline has been updated to add a new footnote that clarifies that CSM included in the exposure should be equal to the CSM added to the solo numerator in respect of the IAIG's foreign branches.

1 November 1, 2023 for D-SIBs and January 1, 2024 for life IAIGs.