



OSFI rule changes reflect observations made during ABCP disruption

OTTAWA – June 19, 2008 – The Office of the Superintendent of Financial Institutions (OSFI) is seeking comments on a draft advisory on the capital treatment of securitization exposures for Canadian Federally Regulated Entities (FREs).

“This draft advisory takes into account some observations made during the recent turmoil in Canadian and international securitization markets,” said Superintendent Julie Dickson.

The advisory includes an increase in the capital charges for general market disruption (GMD) liquidity facilities. Ms. Dickson noted that during the disruption, Canadian banks backed their own Asset-Backed Commercial Paper (ABCP) conduits even when not legally required to do so. “This action demonstrated that, despite legal and expert opinions to the contrary, the risk was not in-fact fully transferred, and established the need for a capital charge which more appropriately reflects the risk taken on by the institutions.”

The increase in capital charges also reflects pending changes to international capital rules. “Globally, there is agreement among international banking regulators towards strengthening the capital treatment of liquidity facilities extended to support off balance sheet vehicles such as ABCP conduits”, said Ms. Dickson.

Ms. Dickson pointed to Canada’s strong capital requirements as having provided “a cushion for unexpected losses, and it helps to explain the resilience of the Canadian banking system during the global financial market turmoil.”

Among the key areas where existing guidance is being reinforced or changed:

- The zero percent credit conversion factor for GMD liquidity facilities is eliminated, and will be subject to the same capital treatment as global style liquidity facilities. This better reflects the actual risk assumed by FREs, and is in line with pending changes to international capital rules.
- Clarification of the sponsorship roles that FREs play with respect to a securitization vehicle. This includes ongoing disclosure regarding vehicle sponsorship, and an assessment of the impact of those sponsorship roles on potential reputational risk.
- Effective September 15, 2008, two external credit ratings will be required to apply ratings-related risk weights to most securitization exposures. The advisory reminds FREs that external credit ratings are only one indication of the quality of the exposures, and should not be the sole factor in investment decisions.

“While OSFI’s advisory applies to federally regulated Canadian institutions and their role in securitization vehicles, our guidance does not apply to other market participants,” added Ms. Dickson. “We believe it is still important to study other aspects of the ABCP marketplace, and OSFI fully supports those efforts and will continue to provide input into the process.”

The cover letter and draft advisory can be accessed here: http://www.osfi-bsif.gc.ca/osfi/index_e.aspx?ArticleID=2420

Additional information on OSFI’s role in the ABCP market can be accessed here: http://www.osfi-bsif.gc.ca/app/DocRepository/1/eng/media/ABCP_Backgrounder_e.pdf

Created in 1987 by an Act of Parliament, the Office of the Superintendent of Financial Institutions (OSFI) is the primary regulator and supervisor of federally registered deposit-taking institutions, insurance companies, and federally registered private pension plans. OSFI's mandate is to advance and administer a regulatory framework that contributes to public confidence in a strong, stable and competitive financial system.

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