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TECHNICAL NOTE ON SYSTEMIC RISK OVERSIGHT AND MACROPRUDENTIAL POLICY

This Technical Note on Systemic Risk Oversight and Macroprudential Policy was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on March 19, 2026.

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TECHNICAL NOTE

SYSTEMIC RISK OVERSIGHT AND MACROPRUDENTIAL POLICY

Prepared By
Monetary and Capital Markets Department

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in Canada. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at http://www.imf.org/external/np/fsap/fssa.aspx

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Glossary

AMF	Autorité des marchés financiers (Québec)
BOC	Bank of Canada
BCFSA	British Columbia Financial Services Authority
CAD	Canadian dollar
CCIR	Canadian Council of Insurance Regulators
CCyB	Counter-cyclical Capital Buffer
CDIC	Canada Deposit Insurance Corporation
CMHC	Canada Mortgage and Housing Corporation
CIRO	Canadian Investment Regulatory Organization
CSA	Canadian Securities Administrators
CRE	Commercial Real Estate
CUPSA	Credit Union Prudential Supervisors Association
DCM	Data Collection Modernization
DOF	Department of Finance
DSB	Domestic Stability Buffer
D-SIB	Domestic Systemically Important Bank
D-SIFI	Domestically Systemically Important Financial Institutions
DSR	Debt Service Ratio
DTI	Deposit-taking institutions
FCAC	Financial Consumer Agency of Canada
FISC	Financial Institutions Supervisory Committee
FSAP	Financial Sector Assessment Program
FRFI	Federally Regulated Financial Institutions
FSR	Financial Stability Report
FSRA	Financial Services Regulatory Authority of Ontario
FSRC	Financial Stability Review Committee
GDP	Gross Domestic Product
GDSR	Gross Debt Service Ratio
HOA	Heads of Regulatory Agencies
LTI	Loan-To-Income
LTV	Loan-To-Value
MOF	Minister of Finance (federal)
MOU	Memorandum of Understanding
MQR	Minimum Qualifying Rate
NBFI	Nonbank Financial Institution—insurance, pensions, and investment fund sectors
NBSA	National balance sheet accounts
NFC	Non-Financial Corporate
OSC	Ontario Securities Commission
OSFI	Office of the Superintendent of Financial Institutions
OTC	Over the Counter
RESL	Real Estate Secured Lending
SAC	Senior Advisory Committee

SRSC	Systemic Risk Surveillance Committee
StatCan	Statistics Canada
TDSR	Total Debt Service Ratio
QFS	Quarterly Financial Statistics for Enterprises
QSFS	Quarterly survey of financial statements for enterprises

EXECUTIVE SUMMARY

Institutional Setup

The Canadian financial system has been robust to several systemic challenges in recent years as the authorities coordinated efforts on an informal basis. There is no single body with a mandate for systemic risk oversight of the Canadian Financial System. The authorities largely coordinate and work via a combination of formal and informal arrangements and the various committees ensure that the relevant agencies are invited into discussions.

Since the last Financial Sector Assessment Program (FSAP), there has been considerable progress on the authorities' coordination on monitoring systemic risk. The establishment of the Systemic Risk Surveillance Committee (SRSC) has allowed the provincial authorities to join the discussion on monitoring potential systemic threats. This is particularly important as the provincial authorities play a critical role in the oversight of segments of the nonbank financial sector and monitor one of the Domestically Systemically Important Financial Institutions (D-SIFI).

The SRSC has led to several positive spinoffs on data sharing and coordination on specific topics. Data sharing agreements have been signed between the provincial regulators and the Bank of Canada (BOC). There have also been successful working groups on asset management, pension funds, and close collaborations on the Over the Counter (OTC) derivatives market. Specific gaps remain, however, and we recommend that the Office of the Superintendent of Financial Institutions (OSFI) and the provincial authorities sign a Memorandum of Understanding (MOU) on data sharing for specific systemic risk purposes.

Despite the progress on risk monitoring, there has been less progress on coordinating policy actions to address risks or build resilience. The system is highly interconnected and there could be significant gains from considering spillovers of policy action as well as efficiency gains on policy design. As already noted in the previous FSAP, a unified approach across agencies would help prevent leakages and help some authorities push back against lobbying, particularly for the credit unions.

One option is for the Heads of Regulatory Agencies (HOA) to be designated as an "action" committee for macroprudential policy coordination, as suggested in the previous FSAP. Absent this, a second-best alternative is for HOA to set up a policy working group with a mandate to make recommendations on desirable actions to be taken on specific systemic risks. Similar working groups have already existed informally with considerable success, but a more structured approach to using such groups for policy formulation and coordination is recommended. Reports of the working group and actions taken should be published, when appropriate, to promote transparency and accountability.

Monitoring Systemic Risks

Considerable progress has been made since the last FSAP on data collection and analytics. Both the federal Department of Finance (DOF) and OSFI have increased their analytical staff. The Ontario Securities Commission (OSC) also continues to expand its specialist staff—which has greatly improved the quality of its data—and some of the provincial regulators have put in place macro teams. The BOC has put considerable investment into developing models for nonbanks and understanding interlinkages within the financial sector. The Data Collection Modernization project—which is led by OSFI in collaboration with BOC and Canada Deposit Insurance Corporation (CDIC) and aims to improve the quality, granularity and frequency of data from federally regulated financial institutions (FRFIs)—will start to be implemented in 2025–26, and is also a welcome development.

The BOC has revamped its financial stability monitoring. The Financial Stability Review Committee (FSRC) now meets every month, and notes are written on the major vulnerabilities every quarter. Twice a year there is a full financial stability assessment for the governing council, which is communicated once a year in BOC's Financial Stability Report (FSR). Staff have commented that the more frequent format has harmonized financial stability monitoring and galvanized more teams within BOC to contribute to assessing financial stability.

The authorities are building capacity for monitoring all sectors, especially nonbanks. The BOC has been systematically analyzing key sectors of Nonbank Financial Institutions (NBFIs), working with provincial and federal agencies. OSFI is also working closely with the BOC and other domestic regulators to further enhance the assessment of the impact of the growth in NBFIs on its supervised entities. Some of this work is still at an early stage and significant data gaps remain. The BOC should continue deepening its understanding of different sectors and their interlinkages. Building a system-wide model could be considered in the longer term but is not an immediate priority.

Toolkit and Ability to Address Systemic Risks

The releasable nature of the Domestic Stability Buffer (DSB) is a welcome feature as is increasing the upper limit to 4 percent. The DSB has aspects that are very similar to a Counter-Cyclical Capital Buffer (CCyB) as it is fully releasable. Moreover, the DSB covers all exposures, not just domestic credit exposures. However, the tool is applied only to the six Domestic Systemically Important Banks (D-SIBs) in Canada and it excludes a major—and systemic—credit union. To remedy this, we recommend that the DSB is transparently applied to all systemic deposit-taking institutions (DTIs) and that their supervisor(s) are included in the DSB-setting process. For all other (non-systemic) DTIs, the authorities should explore applying a positive neutral CCyB in parallel.

OSFI's recent introduction of a loan-to-income (LTI) limit on uninsured mortgages is also useful. While applied to banks' portfolios at bank-specific levels, the measure should help build further resilience in the system by containing household indebtedness. For now, OSFI's uninsured Minimum Qualifying Rate (MQR)—an existing interest rate stress test that applies at the individual borrower basis—has been retained. As the MQR is applied at the borrower level and has clear benefits in making interest rate risk salient to mortgage holders, the authorities should keep the measure, while periodically assessing its continued benefits in relation to the newly introduced LTI limit. Insured mortgages continue with a MQR, prescribed debt service ratio (DSR) limits, and amortization limits.

Provincial authorities should have a more flexible toolkit to allow them to take preventative action and build resilience. The process for changing policy through regulation by provincial agencies can be lengthy (sometimes over two years), even as in emergency situations changes can be made rapidly. Providing more tools for preventive action, outside of emergency situations, is recommended.

At the federal level, OSFI has more flexibility, and it has made good use of guidelines that allow it to act rapidly and flexibly in response to emerging systemic risks. While some provincial authorities have the ability to issue guidelines, it is not uniform across authorities, financial institutions, or preventative actions.[1]

Table 1. Canada: Recommendations on Macroprudential Policy

	Recommendations	Agency	Timing[1]
	Institutional Setup		
1	Strengthen OSFI's mandate to explicitly include financial stability and clarify that it can take action over and above what is needed to ensure the soundness of individual institutions.	OSFI/DOF	MT
2	Establish a mechanism for taking action on systemic risks.	Federal, provincial authorities	ST
3	The provincial authorities should have mandates that allow them to take actions for financial stability purposes.	Provincial authorities	MT
4	The Canadian Council of Insurance Regulators (CCIR) should increase their discussion of financial stability matters, including to allow members to benefit from each other's experience.	CCIR	MT
5	OSFI should strengthen communications on its activities for macroprudential and systemic risk purposes.	OSFI	ST
6	MOUs should be concluded between OSFI and provincial authorities for information sharing for specific systemic risk purposes.	OSFI, provincial authorities	ST
	Monitoring		
7	BOC should have backstop powers to collect data for systemic risk monitoring purposes when it is not possible to collect the data via other means.	BOC	MT
8	BOC should continue its efforts to better understand the different sectors and their interlinkages.	BOC	LT
9	Publish details of the methodology behind the OSFI stress tests. BOC to regularly publish top-down results on an aggregate basis.	OSFI, BOC	MT
	Toolkit		
10	Provincial authorities should have a more flexible toolkit to allow them to act faster, including in alignment with federal agencies.	Provincial authorities	MT
11	Harmonize the DSB to include all domestic systemically important deposit taking institutions and include relevant provincial regulators in the DSB-setting process.	AMF, BOC, OSFI	ST
13	Explore applying a positive neutral CCyB in parallel to the DSB for non-D-SIBs and other non-systemic deposit-taking institutions.	OSFI, provincial regulators	MT
14	The MQR for uninsured mortgages should be maintained, while periodically assessing its benefits.	OSFI	ST/MT

[1]I —Immediate (within 1 year), ST—Short term (within 1–2 years), MT—Medium term (within 3–5 years)

[1] Powers to take action in a crisis or emergency are substantially different and the authorities have considerable flexibility in these circumstances.

INTRODUCTION

A. Scope of the Note

1. This technical note[2] reviews the macroprudential framework in Canada. It follows up on recommendations highlighted in the 2019 FSAP, and reports on enhancements to the framework since that time. It then assesses the effectiveness of the framework in supporting the preservation of financial stability in Canada and offers recommendations for consideration by the authorities on potential further reinforcements.

2. Three broad areas are covered, drawing on international experience and IMF guidance on good practices. The first main section of the note focuses on the institutional framework for systemic risk oversight and the development and application of macroprudential policies. Specifically: it focuses on whether the institutional framework supports strong and effective coordination among authorities charged with responsibilities for identifying and addressing systemic risks, and enables and encourages timely policy actions to mitigate them. The second section concentrates on systemic risk monitoring in Canada, and reviews the approaches and techniques used by the authorities to detect emerging threats. It also assesses whether they have access to the needed data and analytical tools. The final section examines the available policy toolkit and whether it is being actively used to reduce emerging risks in a timely manner. It also reviews potential leakages and unintended consequences, and how effectively these are being managed.

3. The FSAP team thanks the authorities and private sector interlocutors for their excellent help and cooperation in preparing this review. The review benefitted greatly from the insightful views shared by Federal and Provincial authorities in Canada and for all the information provided.

INSTITUTIONAL FRAMEWORK

4. Strong institutional arrangements are vital for effective macroprudential policy. The institutional framework should promote the *willingness* to act and thereby overcome policy inaction bias that may result from the cost of policy actions arising earlier, and being more easily observable, than their benefits. The arrangements should also foster the *ability* to act to increase the resilience of the financial system and mitigate systemic risk. Finally, the framework needs to promote effective cooperation and coordination between institutions with a financial stability mandate. This section evaluates the current institutional arrangement against these three key principles, which are set out in the 2014 IMF Staff Guidance Note on Macroprudential Policy.

[2] This technical note has been prepared by Rhiannon Sowerbutts (IMF External Expert) and Yuanchen Yang (Economist at the IMF's Western Hemisphere Department).

A. Willingness to Act

Mandates

5. The responsibility for macroprudential oversight in Canada is shared among agencies. Multiple federal and provincial authorities play a role in systemic risk oversight and macroprudential policy making. (There are also several different coordination committees, which are discussed in the section on "Coordination, cooperation and communication.")

6. The Minister of Finance (MOF) has overall responsibility for financial stability policy. The Minister has responsibility for the supervision, control and direction relating to the financial affairs of Canada not assigned to any other Minister; responsibility for all federal macroprudential policy matters not assigned to the financial sector agencies; and explicit authority over underwriting standards for government backed residential mortgage loan insurance.

7. The BOC has a mandate to "promote the economic and financial welfare of Canada."[3] It leads analysis on the identification of financial sector vulnerabilities and risks and monitors these on an ongoing basis. It also provides other agencies with an analysis of risks and vulnerabilities, including to inform the discussion on the setting of cyclical capital buffers. The BOC takes a view of the overall financial system, including interconnections and amplifiers that can propagate systemic risk. Notwithstanding this important monitoring role—which is well understood and appreciated among the authorities—the BOC has no specific mandate on systemic risk.

8. OSFI has a mandate to monitor and evaluate system-wide events and issues that may have a negative impact on FRFIs. OSFI's mandate states that it should "promote public confidence in the Canadian financial system by regulating and supervising FRFIs and federally regulated funds." The mandate could benefit from some further clarification as it could be interpreted narrowly, as merely a microprudential mandate—focusing on individual institutions.

9. Recommendation: clarify that OSFI has a mandate on systemic risk and can take action over and above what is needed to ensure the soundness of individual institutions. One suggestion would be a mandate to "contribute to the stability of the financial system." In practice, OSFI's actions in support of its existing mandate already can have positive macroprudential impacts, but it would be useful to formalize this role in managing systemic risk. This would provide OSFI with a clearer mandate to point to when explaining its macroprudential policy actions.

[3] BOC also has a role overseeing and being the resolution authority for critical financial market infrastructure as well as providing settlement accounts for Payments Canada payment systems.

Table 2. Canada: Federal Agencies: Mandates and Key Tools Relating to Systemic Risk[1]

Who	Mandate	Tools
Minister of Finance (MOF)	• Responsibility for the supervision, control and direction relating to the financial affairs of Canada not assigned to any other Minister. • Responsibility for all federal macroprudential policy matters not assigned to the financial sector agencies. • Explicit authority over underwriting standards in respect of government-backed residential mortgage loan insurance. • Authority for approving the terms and conditions of CMHC's securitization programs, which include both the National Housing Act Mortgage-Backed Securities and Canada Mortgage Bond programs.	Rules on insured mortgages
Office of the Superintendent of Financial Institutions (OSFI)	• Mandate to contribute to public confidence in the Canadian financial system. • Monitors and evaluates system-wide and sectoral risk events. • Administers the regulatory framework designed to control and manage risks of individual FRFIs.	MQR and LTI on uninsured mortgages CCyB, DSB, D-SIB surcharge as well as capital and liquidity policies for banks. Supervision of federally regulated financial institutions (FRFIs) and pension plans
Bank of Canada (BOC)	• Mandate to implement monetary policy in support of the economic and financial welfare of Canada. • Oversight responsibility for systemically important financial market infrastructures and prominent payment systems. • Leads analysis on the identification and monitoring of financial sector vulnerabilities and risks on an ongoing basis. • Provides OSFI's Superintendent analysis to inform the discussion on activation of the DSB.	Monetary policy for financial stability concerns only in exceptional circumstances
Canada Mortgage and Housing Corporation (CMHC)	• Mandate to enable access to housing financing and ensure housing finance system stability through all economic cycles. • Provides mortgage insurance benefiting all Canadians and ensuring lenders have reliable access to mortgage funding.	Implement rules on insured mortgages

Sources: Canadian Authorities and IMF Staff.

[1] A detailed discussion of the tools can be found in the dedicated section on Macroprudential Toolkit.

10. The extent to which systemic risk or financial stability are included in the mandates of provincial authorities varies. Indeed, within a provincial authority the mandate can differ for different institution types that they oversee. For example, the Financial Services Regulatory Authority of Ontario (FSRA) has different mandates for pension funds and insurers. The OSC has a mandate to contribute to the stability of the financial system and the reduction of systemic risk. Québec's Autorité des marchés financiers (AMF) is mandated to regulate the financial sector in Québec while ensuring investor protection and market efficiency, but in practice does take into account systemic risks. However, the institutions that they oversee can pose systemic risks—for example, if pension funds had to firesale commercial real estate (CRE), this could exacerbate downward pressure on prices which could cause solvency risks elsewhere in the system.

11. A few of the provincial supervisors have put in place macroprudential teams to start taking more of a systemic risk perspective. FSRA and British Columbia Financial Services Authority (BCFSA) have macro teams in place, and this came out of the last FSAP which recommended strengthening monitoring of NBFIs[4] from a systemic risk perceptive. The main obstacle to all authorities doing this is resource constraints and trying to focus on and build capacity in the microprudential and consumer protection elements which are more immediate to their objectives.

12. Recommendation: The provincial authorities should have mandates that allow them to take actions for financial stability purposes—and contribute to financial stability. It is important to note that for many of the provincial regulators—although their actions are influential on the institutions that they oversee—their wider influence on the Canadian financial system is limited, except when acting together with other regulators. The purpose of the recommendation is not to give agencies responsibility for overall financial stability in Canada, something they cannot reasonably influence. Rather, it will be helpful if they have mandates to "contribute" to financial stability—both in the sectors that they supervise and for Canada as a whole.[5] These mandates should encompass monitoring and risk assessment but also allow for taking action to reduce systemic risks.

B. Ability to Act: Powers and Toolkit

13. Supervision and powers are highly fragmented within the Canadian financial system. Canada's financial system is supervised by a range of federal and provincial supervisors, each with their own reach and powers.

14. The MOF has overarching authority over federal financial sector legislation and policy. The MOF sets the regulations for residential mortgage insurance eligibility under the National Housing (for CMHC) and the Protection of Residential Mortgage or Hypothecary Insurance Act (for the private mortgage insurers). CMHC may provide advice to the government on specific operational issues as part of the process of formulating final policy proposals.

[4] NBFIs in this Technical Note refers to nonbanks that are not credit unions and encompass entities such as insurers, pension funds, mutual funds, hedge funds etc. Credit unions are not banks but they are structured and behave very similarly to banks. They are also subject to very similar regulation.

[5] For example: Section 3 (4) b of the *FSRA Act* mandates FSRA to contribute to the stability of the credit union sector in Ontario.

15. OSFI has the power to regulate and supervise federal financial institutions and pension funds. OSFI is not constrained in the types of instruments that it can apply.[6] However, it only has supervisory power over FRFIs and so coverage is limited to these institutions.

16. OSFI has considerable powers beyond formal rulemaking such as the ability to issue guidelines and regulatory notices. These powers allow for more flexible and nimbler policy making. The use of guidelines and notices is discussed in more detail in the section on the macroprudential toolkit.

17. BOC does not have formal powers to act on systemic risk beyond the provision of liquidity assistance. BOC have expressed that the lack of powers has been helpful to their monitoring role as institutions and agencies have been more willing to be open with them, for example in market intelligence conversations. Being considered more of a "neutral" party also positions the BOC well to give advice in technical working groups.

18. Provincial regulators control tools over provincially regulated financial institutions, some of which are systemic at the national level. A large credit union in Québec is a systemically important deposit taking institution and is supervised by AMF. Investment funds are large vehicles for household and institutional savings and are overseen by provincial securities supervisors (including the OSC and AMF) under the umbrella of Canadian Securities Administrators (CSA). And given that publicly listed corporations largely raise funds from capital markets—these are systemically important markets.

19. While it is generally clear which agencies have responsibility for dealing with different institutions, it is less clear who has responsibility for dealing with different risks. This most obviously manifests itself in the case of risks associated with housing and household indebtedness which have the potential to have significant effects on macroeconomic fluctuations, financial stability and the monetary policy transmission mechanism. Several agencies have responsibility and powers for different aspects of the risk associated with household indebtedness but no agency has overall responsibility or a coordination responsibility: the DOF has powers to change the policy over underwriting standards with insured mortgages, OSFI sets standards (most importantly LTI and MQR) on uninsured mortgages for federally regulated banks, and the provincial regulators can set the standards for provincially regulated institutions.

20. This underscores the importance of interagency cooperation, both on monitoring systemic risks and on taking action to prevent or reduce them. This aspect is covered in the next section.

C. Coordination, Cooperation, and Communication

21. Since the last FSAP, there has been a substantial increase in cooperation on systemic risk surveillance and analysis, but less of an increase in cooperation on preventative action. Important progress has been made in interagency cooperation on the monitoring and identification of systemic risks, which is now well developed. However, while there have been several instances where the

[6] In several countries the supervisor must ask the government for powers or only has designated instruments in legislation. This is not the case for OSFI.

authorities have cooperated well and taken action in a crisis (for example, during the pandemic), and progress has been made at discussing policy actions to prevent systemic risks at some levels, there remains relatively limited formal coordination on taking preventative action at the federal and provincial levels—and there is no systematic or publicly transparent mechanism to follow up on implementation.

Coordination Committees: Monitoring, Policy Discussion and Action

22. Canada has several coordination bodies. The committees and their membership are laid out in Table 3. It is worth noting that each of these committees are discussion committees. None of them are action committees with the powers to direct the institutions within the committee.

Table 3. Canada: Coordination Committees and their Membership

Committee	Head of Agencies (HOA)	Systemic Risk Surveillance Committee (SRSC)	Financial Institutions Supervisory Committee (FISC)	Senior Advisory Committee (SAC)
Department of Finance (DOF)	x	x	x	Chair
Banque of Canada (BOC)	Chair	Chair	x	x
Office of the Superintendent of Financial Institutions (OSFI)	x	x	Chair	x
Canada Deposit Insurance Corporation (CDIC)		x	x	x
Financial Consumer Agency of Canada (FCAC)			x	x
Canada Mortgage and Housing Corporation (CMHC)		x		
Autorité des marchés financiers (Québec) (AMF)[1]	x	x		
Alberta Securities Commission (ASC)	x	x		
British Columbia Financial Services Authority (BCFSA)		x		
British Columbia Securities Commission (BCSC)	x	x		
Ontario Securities Commission (OSC)	x	x		
Financial Services Regulatory Authority of Ontario (FSRA)		x		

Sources: Canadian Authorities and IMF Staff.

[1] Blue text indicates Provincial Agency.

23. The various committees have distinct roles and focus. SAC is chaired by the Deputy Minister of Finance and is mainly a discussion forum for financial sector policy issues, including financial stability and systemic vulnerabilities. FISC is chaired by OSFI and was established to facilitate consultation and the exchange of information on matters relating to the supervision of federally-regulated financial institutions. HOA is chaired by BOC and is a federal-provincial forum for discussing emerging regulatory issues, financial system trends, and market developments that cut across functional responsibilities of HOA members. The SRSC (see next paragraph) reports to the HOA and is also chaired by the BOC and focuses on systemwide surveillance.

24. Since the last FSAP, a new committee has been introduced to discuss systemic risks, the SRSC, which includes provincial regulators. The SRSC was introduced in support of a recommendation by the IMF during the last FSAP and provides an enhancement to the earlier Inter-Agency Working Group on Systemic Risk chaired by the CSA. The SRSC meets throughout the year to identify key developments and themes. Prior to each meeting each member is surveyed in advance to ask what it is concerned about to ensure a wide range of views are considered. The SRSC also serves as the forum for discussion of emerging and frontier risks. Its primary function is as a discussion forum where institutions share concerns and analysis about certain aspects of the financial system. This committee appears to have been a successful innovation, receiving praise from several different authorities. The BOC and several provincial supervisory bodies have highlighted the value of these discussions in informing and enhancing their own risk assessment processes

25. The SRSC has brought several coordination benefits beyond the discussion, including working groups and data sharing agreements being set up. These have covered a wide range of topics from housing to OTC derivatives data. The authorities commented that the relationships built as a result of SRSC were pivotal in allowing these to happen.

26. The formation of the SRSC has substantially improved the ability of the authorities to monitor the broader Canadian financial system. This includes BOC's ability to monitor system components through data sharing and other agreements. Although supervision is fragmented, these data cooperation agreements have allowed BOC to observe a significant portion of the financial system, meaning that it is well placed to provide a system-wide view that other agencies are not able to see.

27. The SRSC reports to the HOA, which is a discussion committee rather than an action committee. The chair of SRSC presents the outcomes of the discussion at SRSC to HOA. There is no formal coordination on policy actions. However, following the discussion, every authority which is a member of HOA may individually decide to design and take action.

28. There are substantial synergies from policy action and, hence, gains from coordination. By coordinating more closely on action, the authorities can take these into account and work out an optimal solution to prevent systemic risks building up. Coordination promotes that spillovers from one sector to another can be internalized and taken into account when designing policies rather than each agency having to react to the actions of another. The analysis and policy design can also be done more efficiently and in a more consistent manner if resources are combined. Action by one authority can galvanize others into action. Acting collectively can also help authorities push back against lobbying.

29. The 2019 FSAP recommended that there should be a federal-provincial platform to discuss systemic risk issues and formulate policy responses. It proposed that the HOA should be expanded to include key provincial authorities. While this has largely been achieved—HOA (and SRSC) discusses systemic risk issues, and the provincial authorities are included—policy responses are not formulated. It is already in the terms of reference that HOA can "Discuss policy and inform the formulation of their agencies' own policies, including with respect to mitigating systemic risk."

30. While making HOA a decision committee remains desirable in principle, the authorities see several obstacles that have made them reluctant to pursue this. The Canadian constitution provides distinct powers to the federal and provincial governments. The federal government cannot direct policy/legislation in areas that are solely under provincial jurisdiction, and vice versa. Some agencies have also suggested that directive powers might also make authorities more reluctant to raise and discuss issues, which could potentially stifle the discussion in HOA, which is currently very open and free flowing. Lastly, the number of issues that can pose a systemic risk to the financial system is broad and not every issue will be of first-order importance to each represented institution. In practice, it can take considerable time and resources to get all HOA members up to speed and on the same page. For these reasons, consideration could be given to building on the existing setup, but give it more weight and power, while maintaining flexibility in recognition of the range of potential sources of systemic risk.

31. Recommendation: Establish a mechanism for taking action on systemic risks. One option remains for HOA to be designated as an "action" committee for macroprudential policy coordination, as suggested in the previous FSAP. In the absence of this, a second-best alternative is for HOA to set up a policy working group with a mandate to make recommendations on desirable actions to be taken on specific systemic risks. The working group should consist of the relevant authorities—which may vary based on the risk landscape—and the BOC. The BOC has extensive expertise in spillovers and interlinkages between sectors—allowing for a systemwide view—and because they do not have direct powers, they are considered to be neutral in providing advice. Similar working groups have already existed informally with high levels of success, and they are an alternative solution to making HOA a policy formulation committee. They permit better coordination on preventative action to reduce systemic risk whilst maintaining autonomy and not forcing the HOA to direct other institutions.

32. The group's findings and actions taken should be published. The group should publish the recommendations, analysis, and actions taken when appropriate. If it is not appropriate to publish, the group should report back to HOA. This reporting could be at a (very) high level, but with potential website links to the actions taken when necessary, so that agents can investigate in more depth. A mocked-up example is in Box 1 below.

Box 1. Canada: Hypothetical Example of a Future High-Level HOA Working Group Report

- In December 2028, the HOA determined that a bubble in CRE assets had emerged and that there could be significant spillovers from a drop in the price to the financial system (see Box in FSR)
- The working group investigated and published their conclusions (link to report)
- OSFI: issued guidelines on collateral valuations and provisioning for CRE lending and noted that their stress-tests had included a significant fall in CRE prices for the last few years.
- FSRA: stress tested pension fund liquidity in the case of a fall in CRE prices—of a magnitude similar to that used by OSFI—and asked some pension funds to hold additional liquid assets (see link). The working group also suggested some guidance to help investors in CRE adjust for changed valuations on their balance sheets—given the illiquidity of the CRE market.

Source: Author.

Sectoral Coordination Bodies

33. Securities regulators coordinate well, under the CSA umbrella. Their acts explicitly include provisions for data sharing. The CSA Systemic Risk Committee typically meets every two weeks and is a working committee. A high level of coordination means that when regulation is changed the securities regulators are all able to announce it and put it in place on the same day.

34. Credit union supervisors share information through the Credit Union Prudential Supervisors Association (CUPSA). Federal agencies also participate in CUPSA to share information on federal policy initiative, although they are not members. The forum meets regularly to share information and develop their macroprudential expertise—particularly relevant as some of the provincial regulators now supervise clearing houses for credit unions ("Centrals"). The forum is also the vehicle for establishing formal information sharing amongst the provinces. The forum has also facilitated cooperation on data templates and design, which has resulted in better data comparability. Each authority has an equal seat at the table regardless of its size, though the larger authorities tend to have more resources and so can contribute more extensively to join initiatives. This allows the smaller provinces to benefit from economies of scale. Some members noted that one of the biggest benefits from CUPSA is the potential for harmonizing policy. Industry organizations often push back against initiatives, and the provincial regulators have found that coordinated action makes it more difficult for pushback to be successful.

35. Insurance regulators meet in the CCIR. Currently most of the discussion is about market conduct issues but some other topics such as resolution planning and scenario planning for earthquakes have been discussed in recent meetings. Many of the insurers are provincially supervised and the sector is characterized by significant heterogeneity. Despite this, insurers are exposed to common shocks and risks. Given these shared exposures, CCIR should continue to discuss financial stability matters. Doing so would promote the exchange of information and enable members to learn from each other's experience.

Communication

36. Since the last FSAP, the BOC has revamped its FSR. The report was streamlined, and it has become more focused on risks that evolve within the broader economy, and on systemic risks arising from direct and indirect exposures within the financial system. The report is also circulated amongst the other members of SRSC for feedback before publication. The BOC has stated that the input and different perspectives from other members of the SRSC have been highly valuable in shaping the FSR.

37. The BOC has a "Financial System Hub" as an alternative outlet on financial stability issues. The hub entails a section on the BOC website that features analytical notes as well as data. The Financial System Hub is used to publish information and analysis about longer-term, more structural risks as well as non-financial risks and analysis of the efficiency of the financial system. Publications do not occur on a fixed schedule; instead the BOC strategically spaces them out to ensure that the analyses are topical and get significant traction. These are very high-quality analytical reports which provide a wealth of data and analytical insights

38. OSFI issues an annual report on key risks, with semi-annual updates. The report sets out the key risks that OSFI identifies and explains the actions it has taken to address them, clearly connecting the risks and responses. The semi-annual update does not seek to change the ranking of the risks but discusses relevant developments regarding the identified risks as well as new actions that OSFI has taken or intends to take.

39. OSFI also undertakes multiple forms of industry and public outreach. When OSFI issues regulatory guidance they host an industry webinar that is usually well attended. Senior OSFI officials also give speeches and interviews on specific topics, and additional avenues to enhance the public's understanding and confidence are being actively explored.

40. Recommendation: OSFI should further strengthen the attention to systemic risk in its communications. While OSFI's communication is generally clear and well-focused, there still appears to be a gap in understanding by some financial system participants of the macroprudential aspects of OSFI's actions. For example, many of the consultation responses to the proposed LTI limit focused narrowly on microprudential issues and default risk.[7] Increasing the communication around systemic risk would make it easier to make the case for macroprudential policy actions—actions where OSFI may go beyond what would be required for strictly microprudential purposes—and help with accountability. The strategy for the DSB is already clearly outlined on the website, together with how it helps improve financial stability, and provides an example of helpful communication. A similar exercise for other instruments would be helpful, as would be explaining how OSFI's actions help support and safeguard the overall system.

41. Several of the provincial regulators have also started producing annual reports on the key risks their institutions or markets are facing. An example is the publication of the CSA Systemic Risk Committee's Annual Report on Capital Markets, which is supported by the CSA's annual Systemic Risk

[7] OSFI was clear in its response that "high household indebtedness is still relevant to credit risk, the safety and soundness of FRFIs, and the overall stability of the financial system. In a benign, low-interest rate environment, higher household debt levels are easier to service, and this can mask the true risk to borrowers and lenders until conditions change."

Survey gathering the views of buy- and sell-side market participants on prevailing risks and vulnerabilities in Canada.

MONITORING, DATA POWERS, AND METHODOLOGY

42. Since the last FSAP there have been considerable improvements in the authorities' ability to monitor systemic risks. The analytical capacity of several of the authorities has been increased substantially. For example, both the DOF and OSFI have a larger set of analytical staff, the OSC continues to expand its data specialist staff—which has greatly improved the quality of its data—and some of the provincial regulators have put in place macro teams. BOC continues to invest in data and technology to support its monitoring activities, including automation.

43. The authorities' Data Collection Modernisation (DCM) project for FRFIs is a welcome development. The DCM project was launched in 2023 with the goals of replacing an aging system with a modern data collection platform and enhancing the quality of regulatory data collected. The project is led by OSFI in collaboration with BOC and CDIC and in consultation with industry stakeholders in the banking, insurance, and private pension plan sectors. The DCM initiative is currently pivoting from the planning to the implementation phase, which is starting in 2025–26 and aims to be fully implemented by fiscal year 2028. The project will support the collection of regulatory data in various formats and facilitate data sharing among key authorities. The project is also exploring ways to collect more granular data, implement standards and improve the speed with which data collection can evolve and respond to shifting analytical priorities.

44. The BOC has upgraded its systemic risk assessment process and made it more structured. The FSRC now meets monthly, in part to discuss staff notes on financial system surveillance that are written once a quarter. Twice a year there is a full financial stability assessment, which feeds into the annual FSR as well as speeches by members of the Governing Council. Staff have commented that the more frequent and comprehensive format has ensured that more teams within BOC are contributing to assessing financial stability, and that there is much more focus on system-wide analysis than before.

A. Collaboration, Data Powers, and Data Gaps

45. Since there is no single oversight body at the national level, effective monitoring depends on cooperation agreements. Monitoring is hampered by the absence of a single regulator—in any sector—who is able to collect all the data for that sector. For example: in the pension sector, OSFI regulates federally-regulated private pension plans and some of the smaller public ones while provincial regulators generally oversee many of the large public pension funds. Several data sharing agreements between securities regulators and BOC together with efforts by Statistics Canada (StatCan) have improved the ability of BOC as well as the CSA to monitor developments in capital markets and nonbank institutions. While there have been attempts to build national datasets in the past, these have faced considerable obstacles and delays, and the focus has shifted to moving forward with collaboration and cooperation agreements. Having national agreements would be helpful but they appear to be difficult to achieve in practice.

46. Data sharing at the Federal level is generally good, and there has been improvement in data sharing also at the provincial level. Data sharing between FISC members is mandated by legislation (OSFI Act 18(4)). OSFI and BOC have a unified data platform, and BOC can access data on the FRFIs. At the provincial level, templates and codes for mortgage data are being shared, which ensures considerable harmonisation and increases efficiency across the provinces.

47. However, there are still significant gaps because of a lack of data sharing between the provincial and federal supervisors. This has led to some material challenges. For example, AMF, which effectively regulates a D-SIFI (albeit not officially designated under the DSB process), needs to wait several months before receiving the results from a top-down stress test. The delay is due to a lack of an MOU between OSFI and the AMF: because AMF does not have supervisory authority over the D-SIBs, it is not able to see some information about the D-SIBs. This makes it difficult for the AMF to benchmark its D-SIFI against other systemically important DTIs and delays results. It would also be helpful for OSFI to share future stress test scenarios and templates so that a parallel exercise can be executed at AMF for the D-SIFI it supervises. Separately, provincial supervisors indicated that they cannot easily get an overview of the regional market. For example, if a provincial authority wanted to examine risks from the housing market in Toronto, it would have to look at data from the FRFIs and the credit unions separately.

48. Recommendation: Establish a MOU or similar data sharing agreement between OSFI and the provincial regulators for specific systemic risk purposes. This need not be a blanket or wide data sharing agreement as these have been unsuccessful in the past and may face legal and constitutional barriers. Examples of data specific to systemic risk purposes could include common exposures, for example, to allow the full picture of lending in a province or to better benchmark for the purpose of the stress test. This would build on the existing cooperation agreements which allow the sharing of practices and aggregate information. The MOU should cover data sharing in both directions and potentially include BOC—particularly if the authorities continue to develop methods for stress-testing interlinkages between different sectors.

49. There has been considerable collaboration at the national level—between federal and provincial regulators, in large part because of discussions at SRSC. These have often involved multi-agency collaborations. These have either focused on particular institution types in the financial system or different markets and have led to material improvements on monitoring. Examples of such collaborations are outlined below.

Markets:

- **OTC derivatives:** OSC and BOC collaborate to explore where there might be mutual interest in using OTC derivatives data across agencies and to build working-level links and develop analysis collaboratively. A workshop was held at the AMF to share skills and expertise and OSC shared curated, anonymized OTC derivatives data with the BOC. A data sharing agreement signed in February 2025 will make data sharing easier.

Institution Types

- **Investment funds:** In 2021, the OSC launched the Investment Fund Survey to collect annual data on the investment fund market. Through the Investment Fund Survey, the OSC collects data on several areas, including leverage, liquidity, and asset class exposures of investment funds. This data is published at aggregate level on the OSC's website. The OSC started sharing fund-level data with the BOC in 2023 and is looking to expand data sharing to other domestic authorities. The OSC Investment Fund Survey covers almost the entire Canadian fund sector, because investment fund managers that distribute fund units to Ontario investors must be registered with the OSC.

- **Asset managers:** A multi-agency collaboration examines key activities by asset managers to get an overall picture of systemic risks. BOC is collaborating with the OSC and AMF on a joint project, as a proof of concept, to estimate a subset of market participants' historic risk exposure to variation margin from interest-rate swaps using regulatory data. BOC has received government bond futures transaction data from the Montreal Exchange and used the data for monitoring and research, including to monitor volumes of the cash-futures basis trade. BOC is now working with Canadian Derivatives Clearing Corporation (CDCC) to obtain access to bond futures positions for financial market research. Preliminary discussions between the CSA and BOC have occurred to consider ways to enhance Canadian Investment Regulatory Organization (CIRO) Market Trade Reporting System (MTRS).[8]

- **Pension funds:** The BOC has ongoing conversations with the Big 8 pension funds to better understand their liquidity risk management and potential impacts to markets in crises. This sometimes includes the exchange of proprietary data, subject to confidentiality provisions. The BOC has undertaken several deep dives into pension funds. The use of derivatives has resulted in a potentially large interconnection between banks and pension funds. OSFI has data on direct exposures to the NBFI sector from the institutions which it supervises, and this is shared with BOC under a data sharing agreement.

Data Gaps

50. Although there have been large improvements in data availability and monitoring, data gaps remain. BOC have expressed that there are still data gaps in core funding markets including:

- Repo market data. Although the MTRS data from the CIRO covers most of the Canadian repo market, granular data on repos is lacking for some bank treasuries who are not CIRO-registered dealers and therefore do not report data to CIRO. BOC also lacks data on foreign entities' use of Canadian dollar (CAD) collateral to obtain leverage through repo or other means involving foreign dealers.
- Granular data on securities lending markets (both domestic and foreign).
- Granular data on prime brokerage agreements (both domestic and foreign).

[8] This is a very comprehensive dataset on cash trading of money market instruments and bonds as well as repo market transactions, the BOC has access because of their relationship with the government securities distributors in Canada.

51. **Recommendation: BOC should have powers to collect data for systemic risk monitoring purposes, when it is unable to collect the data by other means**. To effectively monitor systemic risks, it would be helpful if BOC had powers to collect data in those areas where it has not been able to do so through other means (for example, no other agency already has the data). The data collection powers should be specific for systemic risk monitoring purposes. Appropriate governance should be established to support this, including consultation with other authorities, for example through the HOA.

B. Sectoral Monitoring

Housing and Households

52. **High level indicators of household vulnerabilities are available on the BOC website.**[9] These are updated on a quarterly basis and included in the internal vulnerabilities note written for the FSRC.

53. **The available data on household debt is rich, particularly on mortgages, which allows the authorities to do detailed analysis of tail-risks for households.** Modern modelling techniques are well integrated into the surveillance process. BOC is particularly well set up to monitor risks from household indebtedness due to close integration with the macro modelling in the monetary policy department.

54. **Information about the stock of mortgages is available through the enhanced Real Estate Secured Lending (RESL) dataset.** Whereas an earlier dataset (2014–24) only captured the flow of new mortgages, the new RESL dataset ("RESL2") is a stock dataset that provides monthly updates on outstanding mortgage and home equity line of credit (HELOC) loans. RESL2 also has a broader set of variables than RESL1, and the definitions were constructed using extensive knowledge gained from monitoring of new mortgages from RESL1. The resulting dataset includes variables that identify loans with respect to negative amortization, delinquent loans, and early renewals, etc. OSFI has invested considerable staff resources working with the data and finetuning the definitions of each variable. The RESL data includes both insured and uninsured lending. It covers stock and flow data, and it includes a wide range of information about the borrower, property and loan characteristics. It also includes information on products such as second liens and mortgage loans which have entered negative amortization due to the interest rate environment.

55. **RESL only covers mortgages from the FRFIs.** It is shared with BOC and other FISC agencies. While OSFI is not able to share the data with the provincial authorities, it shared the template with the credit unions as the basis to produce the template for collecting the same data from them. Each institution collecting their own data on the same basis using the same template—even if it cannot be shared—has allowed analysis to be done on a comparable basis.

56. **Additional data on insured mortgages is available from the CMHC and the private mortgage insurers.** CMHC and the private mortgage insurers provide detailed loan-level data to the

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[9] There are plans to increase the number of indicators reported under the two existing vulnerabilities (household indebtedness/house prices) but also expand the set of indicators to other sectors of the financial system (e.g., banks, non-bank financial intermediaries, system-wide indicators).

DOF, monthly, covering all insured loans from both federally regulated lenders and non-federally regulated lenders.[10] This data is shared with the BOC and OSFI.

57. A key data gap concerns the ability to monitor the evolution of household income and wealth at the individual level. This is a material concern given the recent adjustment to higher interest rates and the current uncertain economic environment, where income shocks are likely. It is difficult to monitor households' debt and income levels after mortgage origination as privacy concerns preclude the possibility to join up mortgage data with asset and income data after origination. This is a common concern across countries. However, partially overcoming this obstacle, BOC does have aggregate information on assets from National balance sheet accounts (NBSA) which are provided by StatCan and the Canadian Financial Monitor (CFM) survey which has monthly updates on the asset holdings of sampled Canadian households. StatCan also undertakes a more detailed survey of assets and liabilities every few years. Both OSFI and BOC use several methods to try and develop the fuller picture of household balance sheets, including inferring likely assets of households in the RESL dataset.

58. For forward-looking expectations about household finances, BOC uses survey data. The Canadian Survey of Consumer Expectation (CSCE) is conducted quarterly by the BOC. It surveys about 2000 people about the labor market, inflation and household finances. It asks about their current situation but also future expectations. During the period of increasing interest rates, it included special questions about the interest rate stress and ability to make payments when interest rates increase.

Consumer Credit

59. Consumer credit is an important risk that is well-monitored. Consumer credit is a growing risk, and defaults have been rising especially amongst households without a mortgage. BOC gets data from private credit bureaus which provides monthly updates on the credit portfolio for Canadian borrowers, including payment and delinquency information on mortgage, credit card, auto and unsecured credit lines. Risks from consumer credit have been extensively covered in the BOC's FSR.

Commercial Real Estate

60. Several sectors of the financial system have exposures to CRE, and there are some data gaps. Statistics Canada provides conventional CRE information such as property values, commercial rents, occupancy, constructions. It reports that roughly half of non-residential mortgages in Canada are held by institutions other than banks and credit unions. And there is considerable heterogeneity amongst them. Through data sharing, market intelligence and discussions at SRSC, the BOC has managed to undertake a deep dive on this issue. This was recently reported in the 2024 FSR. Among nonbank financial intermediaries, substantial data gaps—such as on the potential liquidity of the property held and valuation methods—limit the ability to fully assess the potential systemic risks from CRE exposures.

[10] The share of insured mortgages has declined, and is now around 15 percent of the flow of originations.

Corporates

61. In Canada, most publicly listed businesses rely on issuing bonds as their primary source of debt financing, rather than relying on bank loans. Currently, about two-thirds of the bonds on their balance sheets have a remaining maturity of five years or more. For many firms, this means the cost to finance their existing debt will not increase for some time. However, smaller firms are under more financing pressure and there appears to be an increase in delinquencies though the level of loan impairments remains modest.

62. To monitor corporates, BOC uses a combination of aggregate and microdata from both government and private providers. The main sources of aggregate data on Non-Financial Corporates (NFCs) are the NBSA and quarterly survey of financial statements for enterprises (QSFS) from Statistics Canada.

- NBSA contain aggregate balance sheet for the entire NFC sector. It includes all publicly listed and non-publicly listed incorporated firms in Canada and excludes all non-incorporated businesses (for example, sole proprietorship, partnerships, non-for profits, etc.). Data comes out about three months after the reference quarter's end.

- Quarterly Financial Statistics for Enterprises (QFS) contains detailed balance sheet and income statements for industry aggregates (39 industries). Industry aggregates are derived mainly from sampling 5,000 larger incorporated firms. Sample weights applied to make it representative of 25,000 largest incorporated firms. It covers over 70 percent of total assets and total revenue in each industry. Data for smaller incorporated firms backfilled using tax data with a considerable lag. Data comes out about two months after the reference quarter's end. BOC also receives the microdata from this survey.

63. For small businesses there are two main sources of information. These are (imputed) microdata from the QSFS survey and insolvency data from the Office of the Superintendent of Bankruptcy. The latter series reflects the number of businesses filing for debt restructuring or bankruptcy under the Business Insolvency Act.

Banks and Credit Unions

64. Monitoring of systemic risks faced by and caused by banks and credit unions is highly advanced in Canada. There have been several deep dives by BOC on key developments in the banking sector. Recent examples are the bank-NBFI nexus, interest rate risk in the Canadian banking system and the evolution of bank wholesale funding.

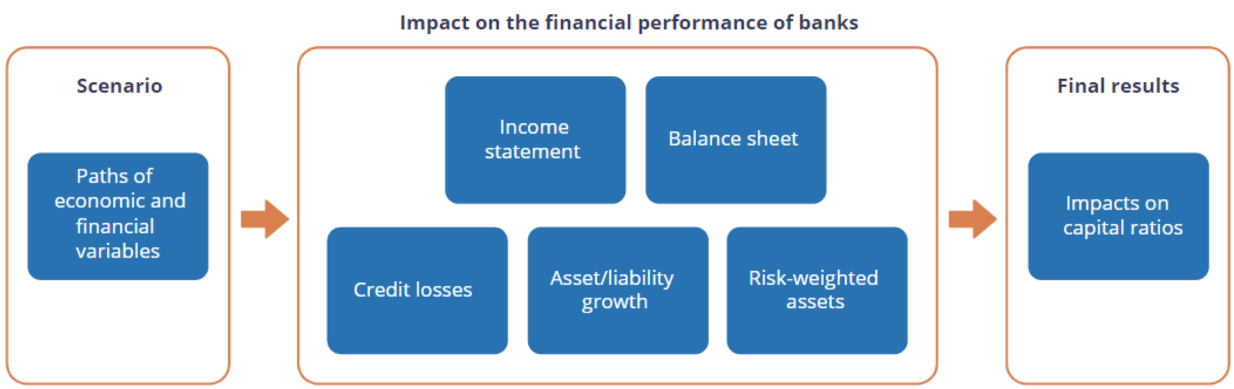
65. There has been a bottom-up stress test exercise in place for about 15 years by OSFI. It is conducted every two years and covers the six D-SIBs which OSFI supervises and uses an adversely severe (or exploratory) economic scenario. The results are inputs for supervisory actions including capital setting but are also used for challenging banks' risk modelling, risk management and contingency planning.

66. The information regarding OSFI's supervisory stress test is not in the public domain—including the scenario. OSFI may publish selected aspects of its supervisory stress tests when required to enhance the confidence of the financial system. OSFI's supervisory stress test exercise focuses on severe economic scenarios consistent with the Canadian economic experience. Exploratory scenarios that may include scenarios that are less likely to occur are not part of OSFI's regular supervisory stress test—which inform supervisory actions—but may be included in ad-hoc stress tests.

67. OSFI is redesigning and enhancing its supervisory stress testing program. Starting in 2026, the supervisory scenario will be annual and the scope will be expanded to include some smaller banks. OSFI expects that building capacity in the small banks would be needed when this is implemented. To support this, there will be amendments to simplify the program and ensure better comparability between institutions. The scenario will be more consistent across years and cover some constant themes: an economic recession, a decline in house prices, a rise in unemployment, and an increase in credit and liquidity risk premia. Additionally, each year the scenario will explore timely themes such as CRE risks.

68. BOC also has a top-down solvency assessment tool which it uses to assess the banking system. It is a test of the banking system and the resilience of the system as a whole (where the "system" comprises the D-SIFIs which are tested as a group) rather than examining the solvency of individual banks separately. It quantifies the effects of risk scenarios on revenues, expenses, loan losses, earnings, together with the impact on balance sheet and capital position (see Figure 1 from BOC). It uses data from regulatory returns, macro and financial variables. The results are occasionally explained on the BOC website.

Figure 1. Canada: Key Mechanics of the Top-Down Solvency Assessment



Source: Bank of Canada.

69. Recommendation: publish details of the methodology behind OSFI stress tests; BOC to regularly publish the top-down results on an aggregate basis. As noted above, OSFI does not make information available about its stress tests and BOC does not regularly publish the top-down results. However, there are potential benefits to financial stability of publishing details of the stress tests: if the stress test is credible, then knowing the types of scenarios which the financial system can survive can increase confidence. Publishing the results would also be helpful as it would provide information, allow for market discipline and better differentiation amongst the institutions involved. However, there can be downsides to publishing individual bank results especially if the institutions do not pass the stress without remedial action. The authorities should consider the potential costs and benefits of publishing the results, but only after publishing the methodology and scenario and observing the reaction of financial market agents.

Nonbanks and Capital Markets

70. Commendable progress has been made with the monitoring of NBFIs and capital markets, but sizable gaps remain. Collaboration between BOC and the provincial regulators has gone far beyond data sharing and also involves close collaboration and the sharing of expertise.

71. Systemic risk oversight of nonbanks in Canada is fragmented.[11] In contrast to the banking and credit union sector—where OSFI and AMF cover over 90 percent by assets—oversight of the nonbank sector is more fragmented and there are structural differences between the pension funds which are regulated at federal or provincial level. Investment fund managers must register with the OSC or the AMF if they have unitholders in Ontario or Québec, enabling securities regulators to collect data on a large proportion of investment funds across the country.

72. In the past few years BOC—in close collaboration with the relevant federal and provincial authorities—has been improving its understanding of different nonbank sectors. Reports on some of these efforts have also been published on BOC's financial system hub including pension funds, hedge funds and insurance companies. But for many of the nonbank sectors, both BOC and the provincial regulators consider that they are still in "learning mode," particularly regarding how these sectors might react to, and propagate, systemic risks. This is a reflection of how the financial system is constantly evolving, including increasing interconnectedness.

C. Interlinkages, Systemwide Monitoring, and Modelling

73. At the top-down level, BOC is using some well-established measures of systemic risk. BOC has a dashboard of systemic risk indicators and are using metrics such as COVAR, SRISK, CISS—while being aware of their limitations. BOC compiled an internal dashboard of systemic risk indicators, including measures combining book and market-based information on bank contagion risk (Hipp, 2020, 2024), market-based measures of spillovers across banks and NBFI within Canada and across countries (forthcoming, Ojea Ferreiro, 2025), recurrent bank stress scenario to assess shifting initial conditions (forthcoming, Hipp 2025).

74. There have been substantial developments in modelling interlinkages between sectors. The BOC has established a dedicated team to examine interlinkages and feedback mechanisms within the financial system. Much of the model development has been driven by a strong commitment to

[11] For the purposes of this Technical Note "nonbanks" are defined as "the Canadian insurance, pension and investment fund industries". Credit unions are technically non-banks but are deposit taking institutions and behave similarly to banks.

long-term research, with researchers actively integrated into policy functions. Staff technical and emerging work is frequently presented in FSRCs—the internal risk assessment meetings at the BOC.[12]

75. The BOC models help explain how risks can propagate from one sector to another, which is key to understanding systemic risks. The models are also a useful communication device when it comes to the FSR to explain the linkages across the system, the spillovers of financial stability risks and the potential for coordinated policy action. This is particularly important given high interconnectedness of the Canadian system.

76. Recommendation: BOC should prioritize continued learning about different sectors and their interlinkages, with building a system-wide model as a perspective for the longer term. There has been substantial development internationally in system-wide stress testing models and exercises. Some countries have been undertaking systemwide stress tests—either desktop-based or with the participation of the financial system, sometimes with promising results. At the same time, such models are very country-specific, and any system-wide model needs to be carefully designed, which tends to be a very resource intensive exercise. Given BOC's current knowledge, and the significant improvements it has already made on modelling interlinkages, it may be premature to build a systemwide model or attempt a system-wide stress test at this time. Indeed, doing so may divert focus and resources from the important improvements underway. Instead, the BOC should continue to strengthen its expertise and analytical capabilities. This approach will enable more informed and more focused decisions regarding modelling frameworks and data requirements and scenarios when they develop system-wide stress-testing models in due course.

MACROPRUDENTIAL TOOLKIT

77. This section discusses the available toolkit for macroprudential policy, and the authorities' ability to use it in a timely manner to mitigate systemic risks. It then discusses the actions taken to address key risks within the financial system.

A. Available Tools and the Process

Process

78. The process of changing regulation to build resilience can be laborious, particularly at the provincial level. For example, given consultation—which includes public consultation and sign-off procedures—including but not limited to provincial ministers of finance, regulations can take well over two years to change. And this does not include the time to do research and design the regulation. Governance and accountability are important, but this time period is long and potentially hamstrings the authorities' ability to respond nimbly to emerging risks—even though the authorities indicated that in an emergency, changes can be made more rapidly. This is particularly acute in the NBFI sector where powers are less flexible than they are for the supervision and regulation of banks and credit unions.

[12] A number of research papers have been published recently such as Models of interconnectedness and systemic risk and technical notes such as https://www.bankofcanada.ca/wp-content/uploads/2019/04/tr115.pdf.

79. OSFI and the AMF have a flexible toolkit which goes beyond formal changes to regulation. For example, both can put out regulatory notices, and guidelines which set out expectations for all the firms that they supervise. Regulatory notices are intended to be transparent and flexible. These may be turned into guidelines which are more enduring and comprehensive. This approach allows OSFI to adapt its measures if it can see improvements that would make them more effective or efficient. The AMF also has a fast-track process enabling it to make ad-hoc changes to the regulatory framework, without, however, undermining governance safeguards for example the accelerated public consultation phase. Where required, published notices have been incorporated into the relevant guidelines when subsequently updated.[13] However, such options are not available for all provincial regulators and for all types of institutions that they regulate. CSA members are able to communicate expectations about conduct and practices through staff notices and policies on a much shorter timeframe and regularly do so, but such conduct expectations may not be sufficient to address systemic risk concerns.

80. Recommendation: Provincial authorities should have a more flexible toolkit to allow them to act faster to take preventative action—particularly if the action comes from a collaborative working group. Instruments for macroprudential purposes for NBFI are newer and relatively untested, and as a result the potential for unforeseen and unintended consequences is higher. Therefore, having a more flexible toolkit where adjustments can be made more easily to overcome these issues, leading to more effective policy design, is very important. As a result, there should be more circumstances in which provincial authorities—which are the main supervisors in the NBFI sector—are able to take preventative actions to build resilience in the NBFI sector without provincial MOF signoff. This should be particularly the case if they wish to align with the Federal authorities and prevent leakages in a timely manner. This does not mean that governance should be bypassed—but that it is streamlined, and duplication and inefficiency is minimised.

Available Toolkit

81. The Canadian macroprudential toolkit is focused on risks related to households and banks. For these risks, the toolkit is broad and well-targeted to address specific vulnerabilities. While the focus on households and banks makes sense as these are the key sources of systemic risk in the financial system, some gaps exist in the toolkit for nonbanks. The main instruments are outlined in Table 4. The following sections outline the key instruments in place, their application during recent stress periods, and the evolving role of regulatory guidance in supporting financial stability.

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[13] An example of flexible policymaking that enabled a timely response are OSFI's recent actions on CRE. In response to emerging concerns, OSFI conducted detailed supervisory reviews of several smaller banks and identified a number of recurring deficiencies. In addition to issuing supervisory letters to the individual institutions, OSFI published a regulatory notice that clearly and transparently outlined its high-level expectations. This notice was reviewed and approved through the supervision and policy committees. Despite involving four separate committees, the entire process—from initial concept to publication—was completed in approximately four weeks, demonstrating the agility of the regulatory framework. Regulatory notices offer a degree of flexibility, and OSFI used this flexibility by updating the original CRE notice about a year later to include additional expectations related to loan forbearance. The long-term intention is to evolve this notice into a more comprehensive and enduring guideline.

82. The toolkit to address risks from households is extensive, for both federal and provincial regulators. Authorities can mitigate risks stemming from household indebtedness through measures such as debt servicing ratio limits, which help ensure borrowers can manage their repayments. Additionally, direct risks to banks are addressed through effective loan-to-value (LTV) limits If households do not meet these thresholds, they are required to purchase mortgage insurance, thereby reducing default risks for lenders. While there is the potential for leakages from the nonbank non-credit-union sector, these risks are limited.

Table 4. Canada: The Main Macroprudential Tools in Use and who Controls them

Sector	**Tool**	**Who controls it**	**Current setting**
Households/ Residential Mortgages	Minimum Qualifying Rate (MQR) for uninsured mortgages	Office of the Superintendent of Financial Institutions (OSFI)	The greater of the mortgage contract rate plus 2 percent or 5.25 percent
	Loan-To-Income (LTI) limit for uninsured mortgages	OSFI	4.5 LTI (with a portfolio limit at the bank level)
	Federal *Bank Act* - Loan-To-Value (LTV) limit–at which point mortgages must get insurance	Ministry of Finance (MOF)	80 percent–above this limit households must purchase insurance
	Mortgage insurance regulations – maximum Total Debt Service Ratio (TDSR) and Gross Debt Service Ratio (GDSR) for insured mortgages	MOF	44 percent and 39 percent respectively. Strict limits.
	Mortgage insurance regulations - maximum amortization period for insured mortgages	MOF	25 years but 30 for first time buyers and purchases of new builds
	Mortgage insurance regulations - property value limit for insured mortgages	MOF	CAD 1.5 million
Commercial real estate	Lending standards guidance	OSFI	
Domestic Systemically Important Bank (D-SIBs)–aggregate risks	Domestic stability buffer (DSB)	OSFI	3.5 percent
D-SIBs–systemic importance	D-SIB buffer	OSFI	1 percent uniform across banks
Banks and credit unions	Counter-cyclical capital buffer	OSFI	0 percent
Banks and credit unions	Capital and liquidity standards	OSFI and the provincial credit union regulators	

In practice there are a wide range of guidelines and risk management processes that the authorities apply. For insured mortgages there are wide range of granular applications of insured mortgages (for example, basement conversions—these are omitted due to space).

Source: Author's summary.

83. The toolkit for banks is also comprehensive. The federal and provincial authorities have control over capital and liquidity requirements to address systemic risks, both time-varying and cross-sectional, for systemically important banks. A CCyB is available in the toolkit but has not been used.

84. The DSB is a countercyclical instrument applied to domestically systemic banks (D-SIBs). This instrument, which also has elements of a D-SIB buffer, is somewhat similar to the CCyB in that it can be raised and released, but with differences (see Actions Taken to Address Aggregate Risks: the . It was partially released during the COVID-19 pandemic, and then later raised again as Canada recovered while key vulnerabilities remained high.

85. Other measures used to address rising mortgage interest rates could also be helpful to ensure that household defaults and spending cutbacks do not produce a downward spiral. In July 2023, the Financial Consumer Agency of Canada (FCAC) issued a Guideline on Existing Consumer Mortgage Loans in Exceptional Circumstances to set out expectations for FRFIs to provide support to consumers at risk of defaulting on their mortgage for their principal residence. The FRFIs were expected, at a minimum, to proactively monitor and identify early signs of financial stress and develop criteria for offering mortgage relief measures. During the pandemic similar measures were accompanied by a large public awareness campaign. In March 2024, OSFI issued a Regulatory Notice on Reinforcing residential mortgage risk management practice which reinforced the expectations from FRFIs to proactively identify and address vulnerable accounts. The government also issued a mortgage charter building on FCAC's Guideline to outline some of the expectations on how financial institutions should provide tailored support to consumers with mortgages who are experiencing severe financial stress. Although not being used or adjusted for financial stability purposes these guidelines may have a positive benefit for financial stability.

86. For nonbanks, the toolkit is less complete. As with most countries, a gap remains in the toolkit for nonbanks. While selected tools do exist for some regulators, such as the ability to set capital and liquidity requirements for insurers and pension funds, such tools are lacking for other types of institutions which might also meaningfully contribute to systemic risk. Moreover, where tools exist, the focus of these—as, in many cases, is the regulator's remit—is mainly on microprudential resilience rather than macroprudential purposes. This means that the allowable calibration or coverage of an existing instrument may not be enough to fully address issues. However, the vast majority of credit is provided by banks and credit unions, meaning that the focus should remain on these institutions to ensure their resilience to systemic risks.

B. Key Risks and Actions Taken to Address them

87. The banking system is highly concentrated, and most lending is done via banks and credit unions. The six largest banks account for 94 percent of the sector's assets. With the inclusion of a systemically important credit union, seven entities hold over 90 percent of deposit-taking institutions' assets. Loans represent about 50 percent of bank assets and are heavily concentrated in real estate (particularly residential real estate).

88. Real estate-related vulnerabilities are among the top financial stability risks. Banks and NBFIs with significant exposures to residential real estate lending and investments face risks from the effects of high interest rates on debt serviceability and valuations, and household financial health is a concern despite buffers. While recent monetary easing reduces pressures, and a significant proportion of mortgagers have renewed since the low-interest rate environment prevailed, renewing mortgage holders who have not renewed since then still face large payment increases. CRE valuations are under pressure particularly in the office subsector. Risks are concentrated in insurance companies and pension funds, and to a lesser extent smaller banks.

89. As a result, this section focuses on actions to address risks to banks and real estate risks.

Actions Taken to Address Aggregate Risks: the DSB

90. Canada adopts a distinct approach to capital requirements for systemically important banks compared to most other jurisdictions. The Basel guidance is to have a D-SIB surcharge that differentiates between banks based on their domestic systemic importance; and a CCyB addressing time-varying systemic risks, which applies to domestic credit exposures. In contrast, Canada applies a uniform D-SIB surcharge of 1 percent to all banks designated as systemically important, without differentiation based on their relative systemic impact. For the time-varying dimension, although a CCyB framework exists, the buffer rate is currently set at 0 percent.

91. Instead of using the CCyB, the authorities apply the DSB as an alternative mechanism for addressing systemic vulnerabilities, though only for banks designated as D-SIBs. The DSB for D-SIBs was established by OSFI in 2018. It combines elements of a typical buffer for systemically important institutions and a CCyB. Key similarities and differences between the two instruments are laid out in Table 5 below. Unlike the CCyB, the DSB is not a Pillar 1 buffer, and breaches will not result in D-SIBs being subject to automatic constraints on capital distribution. However, if a D-SIB breaches its DSB, OSFI will require a remediation plan. While a more conventional setup with a separate differentiated D-SIB buffer for systemic banks and a (positive-neutral) CCyB applied to all DTIs would have provided for a more straightforward approach with broader coverage as a time-varying and releasable buffer, the DSB has attractive features and is a useful instrument that seems to be serving Canada well.

92. The DSB covers all exposures rather than just domestic credit exposures. In effect this results in substantially more releasable capital in the system for the Canadian D-SIBs than if the CCyB were used. Given the international nature of the Canadian banking system, using the DSB rather than the CCyB implies around twice as much capital. To achieve equivalent loss absorbency, without the DSB, the authorities would have to make substantial use of other instruments, which are not in the toolkit or are less transparent—such as using pillar 2 capital requirements or adding another systemic risk buffer.

93. The DSB is OSFI's most explicitly macroprudential and transparent instrument. There is a clear policy statement which explains the vulnerabilities that are considered together with the bank level metrics to examine the cost of raising the DSB. The statement is clear as to the likely circumstances in which the DSB would be released. And the methodology for determining the top of the range is also public.

Table 5. Canada: A High-Level Comparison of the DSB and the CCyB
(as it is usually applied internationally)

Issue	Domestic Stability Buffer (DSB)	Countercyclical Capital Buffer (CCyB)
Entities applied to	Six Federally regulated Domestic Systemically Important Banks (D-SIBs)	Generally: all banks to which Basel rules apply
Applied on	All exposures	Domestic credit exposures
Potential level	4 percent [Recently updated from 2.5]	No limit. But 2.5 percent is often used as the top of the range.
Vulnerabilities	Household and corporate indebtedness, asset price overvaluation, external factors including geopolitics	Credit growth is the major indicator, but authorities are encouraged to examine other variables.
Releasability	Designed to be released in a systemic stress Partially released during the pandemic from 2.25 percent to 1 percent.	Designed to be released in a systemic stress
Type of capital	Pillar 2	Pillar 1
Reciprocity	None	Up to 2.5 percent

Sources: Office of the Superintendent of Financial Institutions and IMF.

94. **Relative to the CCyB and the Basel framework, OSFI sees as a key benefit of the DSB the ability to increase it for non-credit related vulnerabilities.** While the DSB was implemented in 2018, since the COVID-19 pandemic several countries have adopted strategies for their CCyB that also go beyond the original Basel framework, such as adopting a positive cycle neutral rate for the CCyB.[14] The way that the DSB is applied may be perceived as similar to a positive cycle neutral rate strategy for the CCyB although the strategy is not explicitly described in that way. OSFI states that it would raise the DSB when the economy and financial system are in a period of growth and relative stability, there is evidence of high and rising household and business debt levels relative to related measures of income, housing or CRE experience valuations are rising and already elevated relative to income, or when there are external factors that could negatively impact the functioning of the financial system. The strategy of raising the rate in a state of growth and stability rather than waiting for indicators to be elevated is similar to a positive cycle neutral rate, as is the consideration of a wide range of vulnerabilities.

95. **In terms of overall financial system resilience, a downside of the DSB is that it does not apply to all banks and credit unions.** The DSB only applies to the six D-SIBs. While this covers the vast majority of the lending to households and businesses, it does exclude one systemically important credit union group headquartered in Québec. The AMF—who supervises this entity—recognize the problem and takes the DSB into account when setting their capital requirements for the systemic group, which also holds a substantially higher level of capital than the small- and medium-sized deposit takers.

[14] The Basel Committee has released a statement in favour of the voluntary application of positive cycle neutral rates [Newsletter on positive cycle-neutral countercyclical capital buffer rates]

96. Recommendation: Expand the scope of the DSB to include all systemic deposit-taking institutions (including the D-SIFI in Québec) and include the provincial supervisors of those institutions (including AMF) in the DSB setting process. Setting the DSB is currently a collaborative process: OSFI's DSB team conducts vulnerability and risk assessment analysis which is informed by BOC's assessment. We recommend that the authorities explore including systemic DTIs, currently the Québec D-SIFI in the next DSB status designation review; and if it is to be added then include the supervisory authorities of those systemic DTIs, currently the AMF, in the DSB-setting process.

97. Recommendation: explore applying the CCyB in parallel to the DSB for non-systemic deposit taking institutions, including non-systemic credit unions. Considering the desirability of a level playing field as well as the fact that credit unions are exposed to the same risks as banks, it would be helpful if the CCyB was activated and set at a positive level, in parallel with the DSB. The CCyB could be lower than the DSB, recognizing the larger systemic impact that the D-SIBs have on the Canadian financial system. The process for determining the parallel CCyB rate should include the provincial regulators and BOC. There are potential downsides to this suggestion as it complicates the framework and could potentially lead to unclear messaging if the rates are not changed in harmony with each other. Also, as non-systemic DTIs are a relatively small part of the system, the overall effect on provision of credit in a downturn and therefore resilience of the system is likely to be small. Therefore, this recommendation is exploratory compared to the above recommendation to include systemic DTIs and their supervisors in the DSB process.

Commercial Real Estate Risks

98. Higher borrowing costs and weaker demand for office space have put CRE valuations under pressure. Several different entities in the financial system have significant exposures to CRE.[15] In Canada, the CRE sector accounts for 10 percent of the total loan book of large banks, 20 percent of that of small and medium-sized banks, and roughly 30 percent for credit unions. There is significant variation among smaller lenders. Pension funds also have large investments in CRE, especially in the office property market. In some cases, the risk they face is reduced because these pension funds own or work closely with real estate management companies. This means they have experience and expertise in managing real estate, which helps them make more informed decisions and potentially manage risks better.

99. OSFI has taken significant action to limit the risks to the financial system from a possible fall in valuations from CRE. In September 2023, OSFI published a new regulatory notice on CRE risk management in response to heightened risks in the external environment and findings that several institutions had high levels of exposures. It set out regulatory expectations on governance and risk management, underwriting standards and portfolio management. In November 2024, OSFI initiated a loan level data collection on CRE to better understand exposures as well as monitor the effects of its regulatory notices. Provincial regulators have stress-tested pension funds' liquidity and concluded that they are unlikely to need to fire sale assets in the event of a stress; this will likely limit the spillovers through the financial system.

[15] For a fuller outline please see Box 2 in the 2024 BOC FSR here: Financial Stability Report—2024 - Bank of Canada

Risks Relating to Housing and Household Indebtedness

100. There are considerable and longstanding risks from the housing market and household indebtedness. Since the last FSAP, housing vulnerabilities have become more accentuated. Home prices surged nearly 60 percent during 2020–22, fueled by low pandemic interest rates and a surge in immigration, before correcting by about 15 percent in late 2022, as mortgage rates rose. The large price runup has increased equity for most homeowners, providing a buffer, but mortgage holders renewing their loans since 2022 have seen sizable increases in debt-servicing costs. The percentage of mortgages with a mortgage DSR greater than 25 percent surged from just over 11.5 percent in Q4: 2021 to reach a peak of 34 percent in Q4: 2023 but this has since fallen to below 23 percent. The share of high LTI loans (above 4.5) increased in the pandemic, hitting 25 percent at one point, but has since fallen to pre-pandemic levels. Canada's household debt-to-GDP ratio is the highest among G7 economies.

101. The likely impact of these two risk sources on financial stability differs. Volatility in house prices directly impacts the value of collateral against which loans are secured, and mortgage defaults lead directly to impairments on banks' balance sheets. In contrast, the risks from household debt are more indirect—highly indebted households are more likely to cut spending in a stress—which can accelerate the downturn and excessive fluctuations in GDP, and lead to corporate defaults. Mortgages in Canada are not zero recourse,[16] so that households usually cut spending considerably to pay their mortgage. As a result, mortgage defaults have historically been low. Recent house price increases make that most borrowers—even those buying relatively recently—have substantial levels of equity in their property. This implies that house prices could fall considerably before banks make losses on mortgage loans. An in-depth discussion of Canadian house prices is in Box 2.

102. Households face considerable refinancing risk. About 65 percent of outstanding mortgages in Canada are scheduled to renew by the end of 2027. Based on current market expectations for interest rates, approximately 60 percent of mortgages in this group will see an increase in their payments at renewal. Most of these mortgages are five-year fixed-rate mortgages that were originated or renewed during the pandemic at record-low interest rates. Households that hold these mortgages will generally see a larger payment increase than those that have already renewed.

103. Uninsured mortgages have been subject to servicing limits, but they are not binding and have not contained the growth in household indebtedness. Canadian borrowers have tended to stick to conventional mortgages which have a fixed interest rate period of between 3–5 years but this is not always the case—for example, in late 2020/21 there was an increased proportion in variable rate mortgages. Mortgages with LTVs of 80 percent or less do not require mortgage insurance. For both insured and uninsured mortgages FRFIs follow OSFI's Guideline B-20, which includes expectations to stress test borrowers for mortgage qualification (known as the "minimum qualifying rate" or "MQR) as well as a general expectation that borrowers have the capacity to service their mortgages on a timely basis. These are guidelines, rather than rules as used in the insured space, that set expectations for

[16] Most provinces have full recourse mortgages, except for Alberta and Saskatchewan, which allow non-recourse mortgages on uninsured mortgages.

stress testing mortgages, but lenders have flexibility to set their own TDSR and GDSR limits, as well as allow exceptions to their policies, under OSFI's supervision.[17]

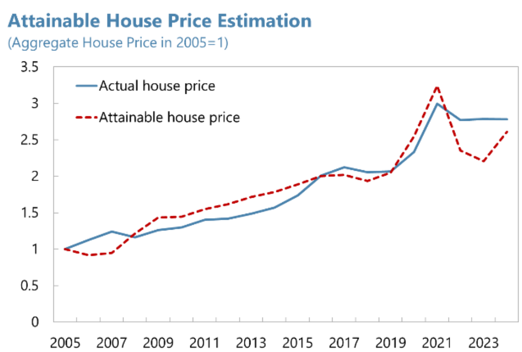
Box 2. Canada: House Price Dynamics in Canada

Following the sharp increase in house prices during the pandemic, house prices in Canada have retreated but ultimately remain well above pre-pandemic levels. This naturally prompts the question of whether house prices are excessively high or can be explained by fundamentals. Building on the analysis in Andrle and Plašil (2019), the IMF FSAP team adopted standard mortgage affordability formulas to link interest rates, income growth, and other household fundamentals to derive "attainable" house prices and compare them with actual price developments.

The analysis reveals that the change in house prices can largely be explained by households' increased borrowing capacity, driven by historically low mortgage rates and rising income. This aligns with the static borrowing-capacity approach, which presumes that house prices reflect the capacity of households to borrow and repay a mortgage. These estimates, labelled as "attainable house prices," are shown in Figure 1. The results suggest that, at the Canadian national level, house prices can be explained by dynamics in household income and mortgage rates. The results are in line with the CMHC's housing market assessment, which examines price acceleration and overvaluation across 15 CMAs (Census Metropolitan Areas) and concluded that there appears no overvaluation or excessive price acceleration in Canada.

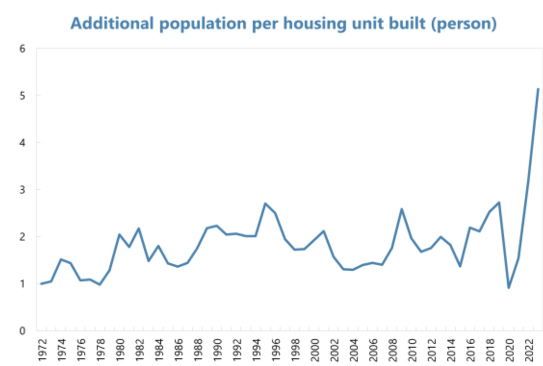
It is important to note that immigration is not directly accounted for in this model, which only considers households' capacity and willingness to pay. However, Canada saw unprecedented population growth during the pandemic fueled by a large influx of immigrants, which has led to a significant supply-demand mismatch in the housing market (Figure 2). Strong immigration flows may act as a floor for house prices, yet they also mean that house prices are sensitive to shifts in immigration policies. With recent immigration restrictions likely to slow population growth in the near term, the influence of immigration flows on house prices may also weaken.

Figure 1. Canada: Real Attainable House Price Estimation



Sources: Canadian Real Estate Association, Bank of Canada, StatCan, and IMF staff calculations

Figure 2. Canada: Housing Supply and Demand Gap



Source: StatCan and IMF staff calculations.

[17] The insured space relaxes the LTV to allow access to individuals, but has more stringent debt-servicing requirements to limit risk. This difference and discretion in some of the different standards on mortgages makes it difficult to say whether rules on insured or uninsured mortgages are more stringent in general as it is individual-dependent.

Table 6. Canada: Mortgage Loan Requirements

Feature	Insured Mortgages	Uninsured Mortgages
Loan-to-Value (LTV)	Greater than 80 percent	80 percent or lower
Maximum Property Value Limit	Up to CAD 1.5 million	No maximum
Amortization Period	Up to 25 years (30 years for first-time buyers or new construction)	Up to 30 years (supervisory expectation)
Property Type	Must be owner-occupied[1]	No restrictions
Debt Service Ratios	GDSR ≤ 39 percent and TDSR ≤ 44 percent (strictly enforced)	Lenders set their own internal GDSR and TDSR limits, as well as policies for permitting exceptions, all of which is reviewed by OSFI. Many lenders use GDSR ≤ 39 percent and TDSR ≤ 44 percent. Over 25 percent of loans have higher ratios.
Minimum qualifying rate	Must qualify at the greater of 5.25 percent or contract rate + 2 percent	Must qualify at the greater of 5.25 percent or contract rate + 2 percent

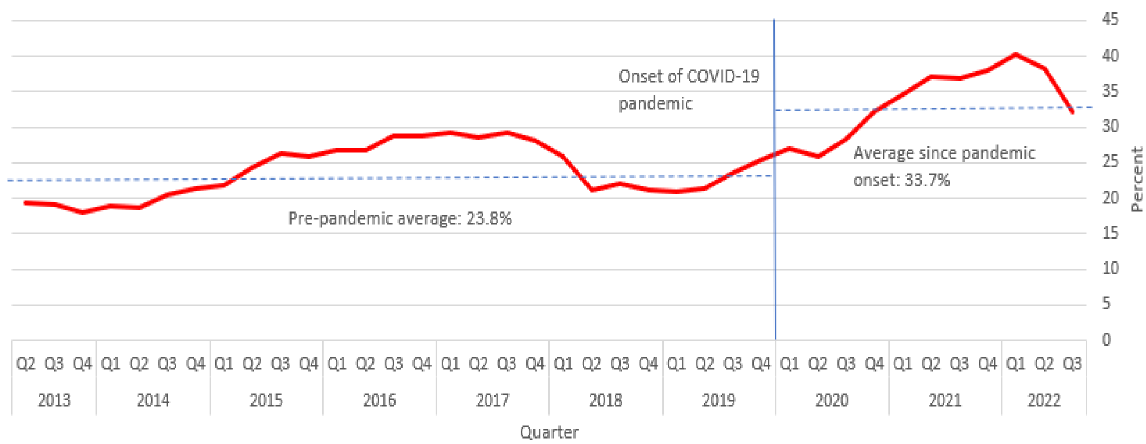
Sources: Office of the Superintendent of Financial Institutions and Department of Finance.

[1] More specifically: The eligible residential property may be 1 to 4 units, whereby at least one housing unit will be occupied by the borrower or by a person related to the borrower by marriage, common-law partnership or any legal parent-child relationship.

104. OSFI have recently introduced limits on the share of new uninsured mortgage loans with high LTI ratios. During the pandemic the proportion of loans issued at a high LTI ratio increased considerably reflecting the increase in house prices (Figure 2). The low-interest rate environment kept debt servicing ratios low, so that these were not a sufficient tool to constrain the increase in high LTI mortgages. Against this background, OSFI introduced portfolio-based LTI limits that differ per bank but are based on a 4.5 multiple of loan to income. This is a level which the authorities have been tracking for some time as an indicator.[18] OSFI have stated that their intent is to reduce the amount of highly leveraged mortgage originations in the future when rates are low and that an LTI limit may have prevented the buildup of household debt vulnerabilities in the pandemic.

[18] For insured mortgages, the introduction of a floor rate (i.e., 5.25 percent) in June 2021 as part of the MQR works in combination with the amortization period limit and the maximum GDSR to effectively limit the size of the loan a borrower may qualify for relative to their income.

Figure 2. Canada: The Proportion of Loans Issued at a Higher than 4.5 LTI Ratio



Source: Office of the Superintendent of Financial Institutions.
Note: The chart is based on the number of loans expressed as a proportion of uninsured mortgages.

105. Each FRFI is assigned an idiosyncratic LTI portfolio limit. This applies to new originations based on the number of loans—rather than value—and is calculated on a quarterly basis. The limit applies at the individual bank level, with each bank having an individually tailored limit which accounts for its market segment and previous lending. OSFI considered that a uniform limit might lead to considerable market disruption and the bank-by-bank approach allows the FRFIs to maintain their desired risk tolerance.

106. For the time being, the MQR for uninsured mortgages has been kept in place. It is difficult to assess the likely effect of the LTI measure and how it compares to the MQR as it had only just been introduced at the time of the FSAP. The LTI has an advantage of improving banks' resilience over the MQR as it is invariant to changes in interest rates. However, there is saliency in the MQR as it builds resilience directly at the household/borrower level and also because consumers are reminded that interest rates change. Moreover, there is evidence that the MQR was effective at improving the resilience of borrowers to financial shocks, including during the most recent spike in interest rates following the pandemic.[19]

107. Recommendation: The MQR should be maintained while periodically assessing its benefits in relation to the newly introduced LTI measure.

108. The LTI rule for uninsured mortgages only applies to the FRFIs and not the provincially regulated financial institutions. This means that a substantial proportion of the market is not subject to the rules and there is considerable scope for leakages. However, it is not currently an issue as credit unions are currently doing less high LTI lending than the larger banks—mainly because high prices and therefore high LTIs are concentrated in a few areas.

109. Provincial regulators of credit unions should also consider applying an LTI limit at the portfolio level. While leakages are not currently an issue, they have the potential to become one as

[19] See https://www.bankofcanada.ca/2024/11/staff-analytical-note-2024-25/

house prices rise. If people borrow from credit unions instead then the effectiveness of the instrument to contain household indebtedness will be undermined. An LTI limit for credit unions is something the credit union regulators should explore as a way to level the playing field and help minimize leakages from OSFI's tool. In the consultation on the LTI limit, the main complaints were about the potential burden for small firms and so any LTI limit should apply proportionately. AMF adopted a similar approach to OSFI by imposing an LTI limit but asked for credit unions to propose a limit.

110. The authorities should closely monitor the impact of the LTI limit and take further action if vulnerabilities start to build. Banks have had some discretion over allowing exemptions to the TDSR and GDSR limits—in line with their risk tolerance. The application of an individual bank portfolio limit is a design that appears to be unique in Canada. The LTI limit has only recently been introduced, and the economic outlook is uncertain. All of these factors mean that the authorities should monitor the impact of the limit closely and take action if household vulnerabilities start to build despite the LTI limit.

111. Some other rules on insured mortgages have recently been relaxed. This includes the maximum property value limit being raised from CAD 1 million to CAD 1.5 million and the amortization period being increased from 25 years to 30 years for a subset of borrowers. These have only been enacted recently, and the Canadian housing market is very seasonal. So, the effect of the changes has yet to be fully observed (Box 2). However, the anticipated effects of the loosening in the house valuation are expected to be small: there is still a binding TDSR and GDSR along with a mortgage stress test. In the 2025 interest rate environment (which is within the BOC's neutral rate range), it is difficult to service a mortgage of over CAD 1 million and still be within all three debt affordability limits. The change in the maximum amortization length from 25 to 30 years for first time buyers and for new builds is expected to be more impactful, as it makes it easier to be within the debt servicing limits since the lengthening in amortization reduces the overall monthly payment.

112. Other changes to the rules for insured mortgages have had limited effects. For example, the MOF recently changed the rules to allow refinancing of insured mortgages for secondary suites—for example when converting a basement to be a livable housing unit. Specifically, this targeted measure will allow borrowers to access financing of up to 90 percent of the home value, including the value added by the secondary suite(s), and amortize the refinanced mortgage over a period of up to 30 years. Also, the measure increases the mortgage insurance property value limit to CAD 2 million for those refinancing to build a secondary suite, to ensure homeowners can access this refinancing in all housing markets across the country. At the time of the mission (February 2025), the CMHC had observed only one deal since the change was introduced in January 2025.

113. In practice, many unregulated lenders' mortgages also effectively adhere to the federal mortgage insurance rules and OSFI's Guideline B-20, and this limits leakages. For many unregulated lenders and mortgage finance companies, the public securitization programs, National Housing Act Mortgage-Backed Securities and Canada Mortgage Bond (NHA MBS and CMB), are the key funding source of their mortgage lending, and these securitization programs only provide funding for insured mortgages. As a result, the rules and regulations at the federal level are influential on the unregulated entities as the quality of the loans the unregulated entities underwrite effectively need to meet with the higher standards and expectations of the federal government and OSFI.

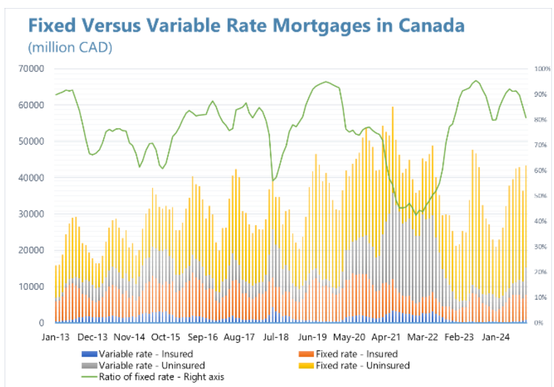
Annex I. Housing Market Structure in Canada and a Selection of Changes in the Housing Tools

A. Housing Finance Characteristics in Canada

1. Canadian mortgage terms are generally shorter compared to those in other countries, with most featuring a five-year fixed rate term combined with a 25- or 30-year amortization period, though various alternative mortgage products exist, including variable rate with fixed payments. Over 95 percent of mortgages have terms ranging from six months to five years, and about one-third of outstanding mortgages have variable interest rates.

2. The proportion of fixed-rate mortgages fluctuates during periods of mortgage rate tightening and loosening (Figure 1). Since the standard amortization period is 25 or 30 years, borrowers typically refinance or reset their mortgage terms at the end of the fixed-rate period, exposing them to the risk of higher interest rates at renewal. (Figure 2)

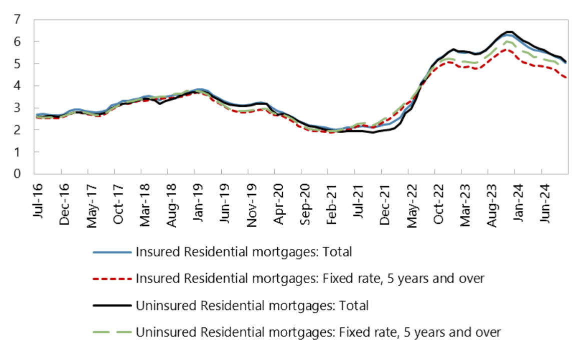
Figure 1. Canada: Share of Variable Versus Fixed Mortgages in Canada



Sources: StatCan and IMF staff calculations

Figure 2. Canada: Interest Rates Charged for New and Existing Lending

Interest Rates Charged for New and Existing Lending by Chartered Banks: Funds Advanced



Sources: Statistics Canada and IMF Staff Calculations.

Table 1. Canada: Prevailing Mortgage Rates Across Different Countries

Country	Share of Fixed Rate Mortgages (Flow)	Share of Fixed Rate Mortgages (Stock)	Household Debt to GDP (Ratio)	Typical Fixation Period (Years)	Availability of Free FRM Prepayment
Australia	4.6	-[a]	112.0	3	No
Austria	52.8	48.1	48.3	5	No
Belgium	90.6	92.0	60.7	10	No
Canada	75.3	63.9	102.7	5	Yes
Chile	-	0[b]	46.5	-	-
Colombia	-	83.0	28.6	15	-
Czech Republic	-	21.0	33.5	20	Yes
Denmark	57.5	39.8	84.8	-	Yes
Estonia	8.0	7.6	32.9	5	No
Finland	2.0	8.5	65.4	5	No
France	96.1	93.2	66.2	5	No
Germany	82.2	91.7	55.0	5	No
Greece	63.1	28.2	45.3	5	No
Hungary	-	81.8	18.6	-	No
Ireland	93.9	52.9	25.8	5	No
Israel	–	25.9	44.0	5	No
Italy	33.6	58.5	41.7	5	Yes
Japan	–	26.0[c]	68.4	10	Yes
Korea	80.9	34.9	100.4	-	No
Latvia	8.2	12.5	15.1	-	No
Lithuania	3.4	10.1	21.2	5	No
Luxembourg	48.3	68.6	67.2	5	No
Malta	42.6	18.3	48.8	5	No
Mexico	-	99.6	16.6	30	Yes
Netherlands	79.0	92.3	93.4	5	No
New Zealand	78.6	40.6	94.4	-	No
Norway	-	4.9	77.3	5	No
Poland	59.7	2.3[c]	26.5	5	No
Portugal	25.5	20.0	61.5	5	Yes
Slovak Republic	95.4	88.4	47.0	5	No
Slovenia	93.5	64.8	22.0	5	No
South Africa	–	1.5	34.3	-	No
Spain	72.2	35.5	53.0	5	No
Sweden	16.4	46.6	87.6	-	No
United Kingdom	94.5	85.5	83.5	5	No
United States	95.2	95.3	74.8	30	Yes

Sources: De Stefani and Mano, Long-Term Debt and Short-Term Rates: Fixed-Rate Mortgages and Monetary Transmission, IMF Working Paper No. 2025/024; Bank for International Settlements; country authorities; European Central Bank; national Central Banks; Haver; Federal Housing Finance Agency.

Note: Data is collected for Q4: 2022 unless otherwise specified.

Table 2. Canada: Selected Housing Finance Measures in Canada since 2019

The following table summarizes the major housing finance policy changes since the last FSAP in 2019.

Announcement Date	In-Force date	Description
May 20, 2021	June 1, 2021	The new minimum qualifying rates (MQR) or "floor" rate replaces the previous benchmark rate published by the bank of Canada (BOC) that represented the mode of the big six banks' posted rates for five-year fixed rate mortgages. The MQR for both insured and uninsured mortgages are now aligned and determined as the greater of the mortgage contractual rate plus 200 basis points <u>or</u> the "floor" rate.
June 11, 2024	August 1, 2024	30-year insured mortgages for first-time buyers of new builds
September 16, 2024	December 15, 2024	Expanding eligibility for 30-year amortizations on insured mortgages to include all first-time homebuyers and all buyers of new builds.
September 16, 2024	December 15, 2024	Increasing the CAD 1 million property value limit for insured mortgages to CAD 1.5 million. The down payment requirements for the loan are as follows: 5 percent on the portion of a purchase price up to CAD 500,000 10 percent on the portion of a purchase price between CAD 500,000 and CAD 1.5 million
October 8, 2024	January 15, 2025	Permitting insured mortgage refinancing for homeowners adding secondary suites to their homes
November 21, 2024	November 21, 2024	Remove the MQR requirement for "straight switches" for low-ratio FRFI mortgage renewals i.e., when a borrower switches to a new institution at renewal with no change in the loan terms.

Source: Author.