

Our File: P2830-1

October 27, 1998

To: All COOs of Banks and Federally Regulated Trust & Loan Companies

Subject: Press Release - Basle Committee on Banking Supervision

Attached for your information is a press release from the Basle Committee on Banking Supervision on the subject of Tier 1 capital. The Committee has issued an interpretation of the Basle Capital Accord limiting the extent to which innovative instruments may be included in Tier 1 capital. Their acceptance will also be subject to fulfilling a number of minimum requirements. Notwithstanding this interpretation, OSFI continues to believe that common shareholders' equity should remain at a predominant and prudent level among federally regulated financial institutions.

The Basle Committee interpretation should be viewed as the minimum standard applicable to the G-10 countries. The interpretation is subject to national discretion and regulators may set more stringent domestic requirements. OSFI needs to determine how to apply the interpretation in Canada and will liaise with the industry to develop criteria that are prudent given our domestic circumstances. Consultations will be conducted in due course through relevant industry associations and where required, with individual federally regulated institutions.

The text of the Basle Committee interpretation is also available on the OSFI web site at <http://www.osfi-bsif.gc.ca>. For further information regarding the process going forward, please contact Mr. Brad Shinn at (613) 998-9793 (fax (613) 998-8466).

John Palmer
Superintendent

Attachment