Office of the Superintendent
of Financial Institutions Canada

CAPITAL
ASSESSMENT CRITERIA

(The Assessment Criteria should be read in conjunction with OSFI's Supervisory Framework)

ROLE OF CAPITAL
Capital is a source of financial support to protect an institution against unexpected losses, and is, therefore, a key contributor to its safety and soundness. Capital management is the on-going process of raising and maintaining capital at levels sufficient to support planned operations. For complex institutions, it also involves allocation of capital to recognize the level of risk in its various activities. The assessment is made in the context of the nature, scope, complexity, and risk profile of an institution.

ADEQUACY OF CAPITAL
The following statements describe the rating categories used in assessing capital adequacy and capital management policies and practices of an institution. Capital adequacy includes both the level and quality of capital. The assessment is made in the context of the nature, scope, complexity, and risk profile of an institution.
Strong
Capital adequacy is strong for the nature, scope, complexity, and risk profile of the institution, and meets OSFI's target levels. The trend in capital adequacy over the next 12 months is expected to remain positive. Capital management policies and practices are superior to generally accepted industry practices.
Acceptable
Capital adequacy is appropriate for the nature, scope, complexity, and risk profile of the institution and meets OSFI's target levels. The trend in capital adequacy over the next 12 months is expected to remain positive. Capital management policies and practices meet generally accepted industry practices.
Needs Improvement
Capital adequacy is not always appropriate for the nature, scope, complexity, and risk profile of the institution and, although meeting minimum regulatory requirements, may not meet, or is trending below, OSFI's target levels. The trend in capital adequacy over the next 12 months is expected to remain uncertain. Capital management policies and practices may not meet generally accepted industry practices.
Weak
Capital adequacy is inappropriate for the nature, scope, complexity, and risk profile of the institution and does not meet, or marginally meets, minimum regulatory requirements. The trend in capital adequacy over the next 12 months is expected to remain negative. Capital management policies and practices do not meet generally accepted industry practices.

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The following statements describe the criteria for assessing an institution's capital adequacy and capital management policies and practices. The application and weighting of the individual criteria will depend on the nature, scope, complexity, and risk profile of an institution.		
Essential Elements		**Criteria**
1. Capital Adequacy	1.1	Adequacy of the level of capital in relation to regulatory minimum and target requirements, the institution's risk profile, and internal targets.
	1.2	Appropriateness of the types and mix of capital instruments, and the level of high quality capital.
	1.3	Extent of regulatory arbitrage in managing capital adequacy.
	1.4	Adequacy of the level of capital to support planned business activities.
	1.5	Willingness and ability of the shareholder(s) or head office to assist the institution in maintaining regulatory capital or vesting requirements and/or ability of the institution to raise capital externally.
2. Capital Management Policies and Practices	2.1	Extent to which capital management policies and practices are enterprise-wide and supported by sufficient authority and resources.
	2.2	Appropriateness of the process for developing capital management policies and practices.
	2.3	Appropriateness of capital management policies and practices.
	2.4	Extent to which the capital planning process is integrated with the institution's strategic and business plans and provides for regular monitoring to ensure that it continues to meet regulatory minimum and target capital requirements.
	2.5	Extent to which the capital management process provides for an appropriate level of stress testing under different scenarios, including possible events or changes in environmental conditions that could adversely impact the institution.
	2.6	Adequacy of the capital plan.
3. Senior Management and Board Oversight	3.1	Extent to which Senior Management and Board approval is required for: a) Capital management mandate and resources; b) Capital management policies and practices; and c) Annual capital plan.
	3.2	Adequacy of policies and practices to provide complete, accurate and timely reports on the institution's capital management to enable Senior Management and the Board (or a Board committee) to assess compliance with: a) The institution's capital plan, including the results of scenario testing; and b) Regulatory capital requirements.
	3.3	Adequacy of policies and practices to perform regular independent reviews to ensure that capital management complies with approved policies and practices, and regulatory requirements.