



Advisory

Subject: Innovative Tier 1 Instruments and Accounting Guideline 15 (AcG 15)

Category: Capital

Date: July 2003

The *Interim Appendix to Guideline A-2 (Banks/T&L/Life)*, “*Principles Governing Inclusion of Innovative Instruments in Tier 1 Capital*”, requires, among other things, that a Special Purpose Vehicle (SPV) issuing innovative instruments be consolidated with the federally regulated financial institution (FRFI) in order for those instruments to be recognized as Tier 1 capital of the FRFI. Although the final determination has not been made, AcG 15 may affect the ability of FRFIs to consolidate the SPVs in innovative structures that have been accepted in the Canadian marketplace.

OSFI confirms that all qualifying innovative Tier 1 instruments outstanding as of June 30, 2003, and any in respect of which OSFI has received a formal request for capital confirmation as of the same date, will continue to receive innovative Tier 1 regulatory capital treatment by OSFI, regardless of the final accounting effects of AcG 15.

This Advisory relates only to the impact of AcG 15 on innovative Tier 1 instruments and does not restrict OSFI’s ability to reconsider the recognition of these instruments in the light of other accounting, tax or regulatory guidance that may be introduced in the future. Furthermore, OSFI’s decision regarding the impact of AcG 15 on other capital-related matters will not be affected by this decision.

Going forward, FRFIs interested in raising Tier 1 capital in the form of innovative instruments are encouraged to consider the potential impact of AcG 15 on the ability of those instruments to qualify as Tier 1 capital under the *Interim Appendix to Guideline A-2*. OSFI is prepared to work with those FRFIs and their advisors to consider any modifications that, as a result of AcG 15, may be required to innovative structures that have been accepted to date by OSFI and industry stakeholders.

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