



Reference: Banks/BHC/T&L/
Life/IHC

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To: Banks
Bank Holding Companies
Federally Regulated Trust and Loan Companies
Federally Regulated Life Insurance Companies
Insurance Holding Companies

Subject: Advisory - Innovative Tier 1 and Other Capital Clarifications – Revised Version

This Advisory is an update to the Advisory *Innovative Tier 1 and Other Capital Clarifications – Revised Version* issued in December 2006. There are four main areas where revisions have been made:

- Certain conditions in Section 5 have been revised to include additional detail on the limited inclusion of subordinated debt issued by non-consolidated financing entities in Tier 2B capital:
 - Condition 3, which discusses the level of subordination of the external financing instrument in liquidation and provides guidance on the term to maturity for the associated inter-company securities;
 - Condition 7, which includes a requirement for clarity in the notes to the consolidated financial statements of the FRE with respect to the subordination in liquidation of the instrument appearing on the balance sheet of the FRE;
 - Condition 10, which provides guidance on a permissible level of assets that may be held by the financing entity in cases where acceptable conversion or exchange features are appropriately incorporated into the financing structure.
- Section 6 has been significantly expanded to provide detailed criteria that OSFI will consider when reviewing a FRE proposal for consolidated capital recognition of an instrument that is counted in a particular capital tier by a recognized foreign regulator. Appendix B has been added to outline the considerations used by OSFI to assess REIT preferred shares issued by a wholly-owned subsidiary of a foreign regulated bank.

- Section 7 has been added to provide OSFI's assessment of "make-whole" provisions in Tier 2 capital.
- Section 8 has been included to discuss OSFI's position with respect to events of default, in relation to Tier 2A-qualifying debentures, that occur only after the event that triggered a deemed conversion to shares has taken place.

This Advisory replaces the December 2006 version and is effective immediately. Questions concerning the Advisory should be addressed to Paul Melaschenko, Capital, Accounting and Research Division, at (613) 990-6429, by facsimile at (613) 991-6822 or by e-mail at paul.melaschenko@osfi-bsif.gc.ca.

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