INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/220

CANADA

FINANCIAL SYSTEM STABILITY ASSESSMENT—PRESS RELEASE AND STAFF REPORT

August 2025

In the context of Canada's Financial System Stability Assessment, the following documents have been released and are included in this package:

- A **Press Release**
- The **Financial System Stability Assessment** (FSSA) for Canada, prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis. This report is based on the work of IMF Financial Sector Assessment Program (FSAP) missions to Canada during October–November 2024 and February 2025. The FSSA report was completed on July 1, 2025.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

PRESS RELEASE

25/270

IMF Executive Board Concludes 2025 Financial System Stability Assessment with Canada

FOR IMMEDIATE RELEASE

Washington, DC – August 1, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the Financial Sector Assessment Program (FSAP)[1] with Canada on July 18, 2025 without convening formal discussions.[2] The Financial System Stability Assessment (FSSA) report was completed on July 1, 2025. The report is based on the work of IMF FSAP missions to Canada during October-November 2024 and February 2025.

Canada has a large and highly developed financial system. The banking system is concentrated with six systemically important banks accounting for 94 percent of total banking assets. Nonbank financial institutions (NBFIs) are also important and include mutual and pension funds and insurance firms. The FSAP was conducted amid slowing economic growth, trade policy uncertainty, and heightened geopolitical risks.

Canada's financial system is strong and well-regulated and has demonstrated resilience in recent years. Stress tests indicate that banks and NBFIs are generally resilient to severe solvency and liquidity shocks. Nonetheless, their substantial exposure to residential real estate warrants close monitoring due to risks related to debt serviceability and high household debt. Commercial real estate risks appear manageable for large banks but remain significant for pension funds and insurers. Intensifying geoeconomic fragmentation and mounting trade risks could weigh on economic growth, unemployment, and real estate valuations. The interconnectedness of the Canadian financial sector with global markets amplifies these risks.

While financial sector oversight and crisis management frameworks are robust, they could be further strengthened to proactively address emerging challenges. Enhancing cooperation and information sharing between federal and provincial authorities is essential to effectively monitor risks across the financial sector, particularly concerning NBFIs. Also, there is scope to strengthen data collection and stress testing practices for NBFIs. Supervisory authorities follow a sound risk-based approach focused on key priorities. However, further clarification of their mandates, enhanced budgetary autonomy and strengthened resources would support more effective oversight. The authorities have made notable progress in bolstering cyber resilience and advancing climate risk analysis, and are encouraged to continue building on these achievements. Enhancing Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) supervision and enforcement remains a priority, and the authorities' commitment to reviewing the AML/CFT sanctioning regime is welcome. Greater harmonization

---

[1] The Financial Sector Assessment Program (FSAP), established in 1999, is a comprehensive and in-depth assessment of a country's financial sector. FSAPs provide input for Article IV consultations and thus enhance Fund surveillance. FSAPs are mandatory for the 47 jurisdictions with systemically important financial sectors and otherwise conducted upon request from member countries. The key findings of an FSAP are summarized in a Financial System Stability Assessment (FSSA).

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

of deposit insurance schemes across jurisdictions would be beneficial. The authorities are also encouraged to further strengthen the resolution framework for insurers.

INTERNATIONAL MONETARY FUND

CANADA

FINANCIAL SYSTEM STABILITY ASSESSMENT

July 1, 2025

KEY ISSUES

Context: Canada has a large and highly developed financial system. The banking sector is very concentrated, with six Domestic Systemically Important Banks (D-SIBs) accounting for 94 percent of banks' assets. The nonbank financial institution (NBFI) sector is large and mainly composed of mutual and pension funds, and insurance firms. The financial sector oversight structure is complex, involving both federal and provincial agencies. The Financial Sector Assessment Program (FSAP) takes place against the backdrop of weak economic growth, increasing trade tariffs, and heightened geoeconomic risks.

Findings: Canada's strong and well-regulated financial system has shown resilience in recent years and the FSAP's stress tests confirm that banks and NBFIs can generally withstand severe macrofinancial solvency and liquidity shocks. Nonetheless, banks and NBFIs have large residential real estate exposures which face risks from debt serviceability and high household indebtedness that need to be monitored closely. Commercial Real Estate (CRE) risks appear contained for large banks but are significant for pension funds and insurers. Canada's large corporates seem broadly resilient but bankruptcies in small businesses increased during the pandemic. Deepening geoeconomic fragmentation and further risks to trade could impact growth and unemployment as well as real estate valuations. The global relevance of Canada's financial sector and significant exposure to the United States (U.S.) amplifies those risks.

Policy advice: Canada's financial sector oversight framework is robust but can be strengthened further. The evolving risk landscape requires further improvements in interagency cooperation and information sharing among federal and provincial authorities to monitor risks across the financial sector, particularly NBFIs. While the supervisory authorities have a sound risk-based approach focused on key priorities, their mandates need to be better specified, budgetary autonomy strengthened, and their resources enhanced to allow for more intrusive oversight. Data collection should be improved and stress testing practices for NBFIs strengthened. Significant strides have been made to enhance cyber resilience and monitor climate risks and the authorities are encouraged to further build upon these efforts. Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) supervision and enforcement should be strengthened. Safety net schemes would benefit from further harmonization across jurisdictions and the insurance resolution framework should be strengthened.

Approved By
May Khamis and Luis Cubeddu

Prepared By
Monetary and Capital Markets Department

This report is based on the assessment work under the Financial Sector Assessment Program (FSAP) conducted during October–November 2024 and February 2025. The findings were discussed with the authorities at the end of the mission in February 2025.

- The FSAP team was led by David Hofman (Mission Chief) and Rachid Awad (Deputy Mission Chief), and included Ana Carvalho, Chady El Khoury, Emran Islam, Tumer Kapan, Caterina Lepore, Shijia Luo, Mario Mansilla, Cecilia Melo Fernandes, Paola Morales, Kleopatra Nikolaou, Richard Stobo, Indulekha Thomas, Yuanchen Yang, and Xuege Zhang (all IMF), as well as Timo Broszeit, José García-Barroso Recio, and Rhiannon Sowerbutts (external experts). Mary Goodman led the FSAP in its early stages, including a virtual scoping mission in June 2024. Additional technical support was provided by Mátyás Farkas, Zoltan Jakab, Ruy Lama, and Hugo Rojas-Romagosa (all IMF). Shruti Chopra and Ravaka Prevost provided administrative support. The FSAP team collaborated closely with the Canada Article IV team.

- The team met with the Governor of the Bank of Canada (BOC) Tiff Macklem, BOC Senior Deputy Governor Carolyn Rogers, the Associate Deputy Minister of Finance and Intergovernmental Affairs Suzy McDonald, the Superintendent of Financial Institutions Peter Routledge, the Chief Executive Officer of Québec's Autorité des Marchés Financiers (AMF) Yves Ouellet, the vice president of Canada Deposit Insurance Corporation (CDIC) Gina Byrne; and other senior officials of the Department of Finance, BOC, Office of the Superintendent of Financial Institutions (OSFI), the Financial Consumer Agency of Canada (FCAC), CDIC, AMF, Financial Services Regulatory Authority (FSRA) of Ontario, British Columbia Financial Services Authority (BCFSA), Canadian Securities Administrators (CSA), the Ontario, Alberta, and British Columbia Securities Commissions, and other senior representatives of federal and provincial agencies, banks, financial institutions, professional associations, auditors, and other financial sector players.

- FSAPs assess the stability of the financial system as a whole and not that of individual institutions. They are intended to help countries identify key sources of systemic risk in the financial sector and implement policies to enhance its resilience to shocks and contagion. Certain categories of risk affecting financial institutions, such as operational or legal risk, or risk related to fraud, are not covered in FSAPs.

- Canada is deemed by the Fund to have a systemically important financial sector according to SM/10/235 (9/16/2010), and the stability assessment under this FSAP is part of bilateral surveillance under Article IV of the Fund's Articles of Agreement.

CONTENTS

FIGURES

TABLES

APPENDIX

Glossary

AMF	Autorité des marchés financiers (Québec)
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASPP	Accounting Standards for Pension Plans
BA	Banker's Acceptance
BCFSA	British Columbia Financial Services Authority
BCP	Basel Core Principles for Effective Banking Supervision
BCSC	British Columbia Securities Commission
BIS	Bank for International Settlements
BMA	Bayesian Model Averaging
BOC	Bank of Canada
CAD	Canadian Dollar
CAPSA	Canadian Association of Pension Supervisory Authorities
CCIR	Canadian Council of Insurance Regulators
CCMS	Canadian Collateral Management Service
CCP	Central Counterparty
CCyB	Counter-cyclical Capital Buffer
CCoB	Capital Conservation Buffer
CDIC	Canada Deposit Insurance Corporation
CET	Common Equity Tier
CFR	Client Focused Reforms
CIRO	Canadian Investment Regulatory Organization
CMRA	Cooperative Capital Markets Regulatory System
CPMI	The Committee on Payments and Market Infrastructures
CSA	Canadian Securities Administrators
CRE	Commercial Real Estate
CTRF	Contingent Term Repo Facility
CUPSA	Credit Union Prudential Supervisors Association
DB	Defined-benefit
DOF	Department of Finance
DSB	Domestic Stability Buffer
D-SIB	Domestic Systemically Important Bank
D-SIFI	Domestic Systemically Important Financial Institution
DSR	Debt Service Ratio
DTI	Deposit-taking Institution
ELA	Emergency Liquidity Assistance (in Canada: Emergency Lending Assistance)
ETF	Exchange-traded Fund
FA	Federal Authorities
FCAC	Financial Consumer Agency of Canada
FDI	Foreign Direct Investment
FICOM	Financial Institution Commission
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada

FMI	Financial Market Infrastructure
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSRA	Financial Services Regulatory Authority (Ontario)
FX	Foreign Exchange
GDP	Gross Domestic Product
G-SIB	Global Systemically Important Bank
HOA	Heads of Regulatory Agencies
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
IRB	Internal Ratings-Based
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LTI	Loan-To-Income
LTV	Loan-To-Value
ML/TF	Money-Laundering and Terrorism Financing
MOF	Minister of Finance (federal)
MOU	Memorandum of Understanding
MQR	Minimum Qualifying Rate
NBFI	Nonbank Financial Institution
NCCF	Net Cumulative Cash Flow
NFC	Non-Financial Corporate
NPL	Non-performing Loan
OSC	Ontario Securities Commission
OSFI	Office of the Superintendent of Financial Institutions
OTC	Over-the-Counter
P&C	Property and Casualty
PA	Provincial Authorities
PD	Probability of Default
PIT	Point in Time
PRFI	Provincially Regulated Financial Institution
RAM	Risk Assessment Matrix
RESL	Real Estate Secured Lending
RWA	Risk-weighted Asset
SAC	Senior Advisory Committee
SCSE	Standardized Climate Scenario Exercise
SICR	Significant Increase in Credit Risk
SRSC	Systemic Risk Surveillance Committee
U.S.	United States
WEO	World Economic Outlook
WURA	Winding-Up and Restructuring Act

EXECUTIVE SUMMARY

Canada's strong and well-regulated financial system has shown resilience during the pandemic and its aftermath. Since the last FSAP, Canada's large financial system has remained stable amid sizable swings in output, inflation, and interest rates. Banks' credit performance is robust, nonperforming loans are low, and capital and liquidity buffers comfortably exceed regulatory minima. Nonbank financial institutions (NBFIs)—including Canada's globally present insurance, pensions, and investment fund sectors—have also weathered shocks well.

The outlook is clouded by downside risks that could interact with key vulnerabilities. Slow growth, trade tariffs, and large geopolitical uncertainties present challenges. Banks have significant exposures to residential mortgages, which face risks from interest rate resets in a context of high household debt. Negative impacts on corporates or commercial real estate would also test banks and NBFIs. Interconnected funding markets and rising leverage in NBFIs give rise to further risks, as do climate change and evolving cybersecurity threats.

FSAP stress tests suggest that financial institutions are resilient. Under an adverse scenario—featuring deepening geoeconomic fragmentation, a sharp drop in output, rising interest rates, and large corrections in housing and equity valuations—the capital of all systemic deposit-taking institutions (DTIs) would remain above regulatory minima. Similarly, liquidity stress tests indicate that systemic DTIs are broadly resilient to sizable funding outflows. A range of sensitivity analyses corroborates these results. Solvency and liquidity stress tests for selected insurance companies and pension funds similarly suggest broad resilience.

Nonetheless, oversight and crisis management frameworks should be further bolstered to stay ahead of future challenges. To this end, the FSAP made the following recommendations.

Canada's complex financial sector oversight framework is robust but can be strengthened further. Many regulators have upgraded their supervisory frameworks, and Canada has been at the forefront of implementing Basel III. Nevertheless, the operational independence and budgetary autonomy of federal and some provincial supervisors should be strengthened, and their mandate for safety and soundness of institutions and contribution to financial stability enshrined as a primary objective in legislation. More cooperation and information sharing between federal and provincial supervisors is key for effective oversight, and data gaps, especially for NBFIs, should be addressed.

Coordination on systemic risk monitoring has improved, but this should be supported by a decision-making mechanism for policy action. The creation of the Systemic Risk Surveillance Committee (SRSC) has facilitated discussion between federal and provincial agencies. However, a policy coordination mechanism remains lacking. The existing Heads of Regulatory Agencies (HOA) committee could be leveraged for this purpose, with working groups advising on appropriate policy responses. Regarding tools, the releasable nature of the domestic stability buffer (DSB) is useful, but it should be applied to all systemically important DTIs and a positive-neutral counter-cyclical capital buffer (CCyB) could be applied to other DTIs.

While the supervisory frameworks for banks and nonbank DTIs are sound, some enhancements could improve effectiveness. Supervisors should perform more frequent deep onsite reviews for banks. They should also cover banks' internal risk models in more depth, and the frameworks for country and transfer risks and related parties should be aligned with Basel Core Principles (BCP). To facilitate these, it is key that supervisory resources keep pace with evolving risks.

NBFI oversight is of a high standard but could be further enhanced in several areas. Improved supervisory frameworks provide for adequate oversight over insurers' governance and risk management, but deeper federal-provincial cooperation and strengthening insurance group supervision would enhance effectiveness. For pensions, closer engagement with large public sector plans is needed. Oversight of governance and internal controls of the largest plans should be bolstered, while requiring them to report more frequent granular data. For securities supervision, progress made on harmonization by provincial and territorial supervisors should be further leveraged, including through consistent application of common rules, enhanced stress testing, adequate oversight of custodians, and further aligning the liquidity risk framework with Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) guidance.

Canada's cyber ecosystem and regulatory framework is mature but could be bolstered further. Effectiveness would be enhanced by developing a joint cyber strategy for the financial sector and leveraging existing structures to create a network that facilitates coordination and cooperation. A process to manage a systemic cyber incident also needs to be developed.

AML/CFT supervision should be more risk-driven, with adequate resources and sanctioning powers. Given the interconnected system and recent issues in a large bank, supervisory efforts should ensure a deeper understanding of ML/FT risks and an effective risk-based approach. Supervision should be more frequent, proactive, and intrusive for high-risk entities, while aligning resources with risk levels. The authorities' intention to strengthen the sanctioning regime is welcome in this regard.

The crisis management framework has been enhanced, but some key reform areas remain. The resolution framework for banks and nonbank DTIs is mature and new cooperation and indemnity mechanisms were put in place. The ongoing review of federal deposit insurance coverage could help ensure adequate safety nets, but consideration should be given to harmonizing coverage levels (federally and provincially) and strengthening the independence of the resolution authority. The authorities should complete the pending resolution framework for insurance companies.

To safeguard market functioning, foreign funding risks should be closely monitored and data gaps addressed. The high reliance of the Canadian funding market on the U.S. makes it imperative for the authorities to closely monitor foreign funding risks and review hedging practices, notably for NBFIs. In addition, the infrastructure of core Canadian funding markets should be strengthened and data collection for key market segments should be enhanced. The Bank of Canada (BOC) should clarify its Emergency Liquidity Assistance (ELA) policy and adjust its minimum pricing. It should also consider identifying regulated systemic NBFIs and granting them access to bilateral liquidity support to address severe idiosyncratic shocks under strict conditions to mitigate moral hazard.

Table 1. Canada: Key Recommendations	
Recommendations	**Timing[1]**
Systemic Risk Monitoring, Analysis, and Coordination, Including Climate	
Enhance coordination on stress testing methodologies and results (BOC, OSFI, and AMF)	ST
Continue to closely monitor mortgage refinancing risks, household and corporate liquidity buffers, and enhance RESL data coverage and quality (BOC, OSFI, and AMF)	ST
Expand reporting and monitor LCR for all large pension plans (OSFI, FSRA, FA, PA)	ST
Strengthen data sharing and collaboration with natural hazard and climate experts and establish standard climate data and risk frameworks across provinces (OSFI, AMF, FA, PA)	MT
Financial Oversight	
Provide OSFI, AMF, FSRA with an explicit mandate listing safety and soundness of supervised firms and contribution to financial stability as primary objectives (Federal, Provincial DOF)	ST
Strengthen budgetary autonomy of OSFI, AMF, and FSRA (Federal and Provincial DOF)	ST
Remove barriers for exchange of confidential information and strengthen federal-provincial supervisory cooperation, including on systemic risk issues (DOF, OSFI, PA, AMF, FSRA)	ST
Macroprudential Policy Establish a mechanism for taking action on systemic risks (BOC, other FA and PA)	ST
Extend the Domestic Stability Buffer to all domestically important deposit taking institutions (DTIs) and establish a positive neutral CCyB for remaining DTIs (OSFI, AMF, other PA)	ST
Regulation and Supervision of Banks and Nonbank DTIs Increase bank supervision intrusiveness through more frequent and deeper reviews (OSFI)	I
Align the related-party framework with international standards (FA, PA, OSFI, AMF, FSRA)	ST
Insurance and Pension Oversight Implement consolidated supervision for insurance groups (DOF–Federal and Québec)	ST
Enhance supervision of governance and internal controls at large pension plans (FSRA, OSFI)	ST
Strengthen authorities' powers to get confidential information from pension plans (FA, PA)	ST
Investment Fund Regulation and Supervision Align the liquidity framework with FSB-IOSCO guidance and strengthen stress-testing (CSA)	MT
Strengthen oversight of custodians and broaden related supervisory activities (CSA)	MT
Cyber Resilience Increase legal and regulatory powers over third-party providers (DOF, OSFI, BOC, PA)	MT
Leverage existing structures to set up a process to manage systemic cyber incidents (FA/PA)	I
AML/CFT Deepen understanding of cross-border ML/TF risks (DOF, FINTRAC, OSFI)	I
Ensure effective risk-based supervision of banks through more intrusive engagements, dissuasive sanctions, and adequate supervisory resources (DOF, FINTRAC)	I
Crisis Preparedness and Management	
Financial Safety Nets and Crisis Management Harmonize federal-provincial deposit insurance schemes and update their coverage (FA, PA)	MT
Establish a resolution framework for insurers (DOF, OSFI, PA)	MT
Systemic Liquidity Management Strengthen domestic funding markets and closely monitor foreign funding risks (FA, PA)	ST
Raise ELA minimum rate and grant systemic NBFIs access to bilateral liquidity support (BOC)	ST

[1/] Timing: I = Immediate (within one year); ST = Short Term (within 1–3 years); MT = Medium Term (3–5 years).

BACKGROUND

A. Context and Macrofinancial Developments

1. The Canadian economy has successfully achieved a soft landing, but large geopolitical uncertainties and slow growth pose key challenges. Amid a sharp monetary tightening, the economy slowed during 2023–24 without slipping into recession, while inflation fell. This allowed Canada to be the first G7 country to reduce policy rates in June 2024—now 225 basis points below earlier peaks, reaching 2.75 percent in March 2025. More recently, headline inflation has further eased to 2.3 percent in March 2025, amid emerging signs that activity and employment are again slowing on account of trade policy uncertainties. Real per capita gross domestic product (GDP) growth averaged only 1½ percent during 2023–24, in large part reflecting slow underlying productivity growth (Figure 1, Table 2).

2. Trade policy uncertainties weigh on the outlook for growth, employment, and inflation. A further intensification of trade tensions can exacerbate trade and supply-chain disruptions given strong international linkages, even if Canada could potentially experience some short-term benefits from trade diversion. Real GDP growth is expected to soften, mainly due to the U.S. tariffs, which will particularly impact sectors such as autos and energy, alongside weaker global conditions that dampen business sentiment. Retaliatory tariffs and elevated underlying inflation in key Consumer Price Index (CPI) components are expected to slow the disinflationary process.

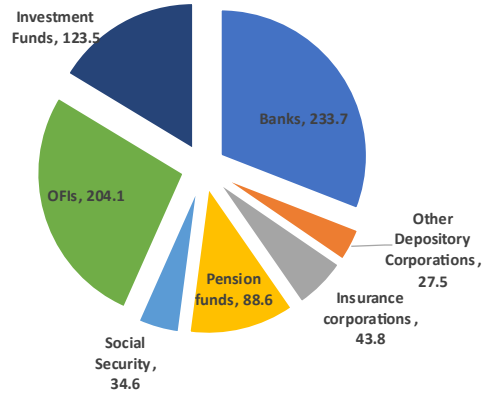
3. Housing vulnerabilities have become more accentuated and smaller businesses have faced stress. Home prices surged nearly 60 percent during 2020–22, fueled by low pandemic interest rates and a surge in immigration, before correcting by about 15 percent in late 2022, as mortgage rates rose. The large price runup has increased equity for most homeowners, but mortgage holders renewing their loans since 2022 have seen sizable increases in debt-servicing costs. Canada's household debt-to-GDP ratio is the highest among G7 economies. Meanwhile, large nonfinancial corporates have weathered the higher rate environment well, but smaller businesses have faced heightened stress (including from withdrawal of pandemic support), causing a surge in insolvency filings (Figures 1–2).

B. Financial Sector Structure

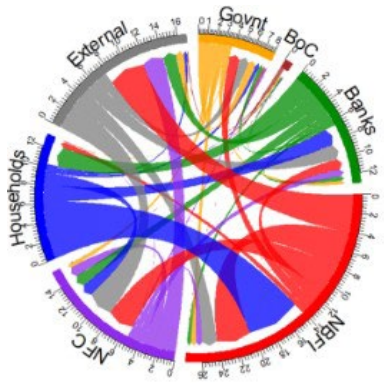
4. Canada has a large, highly developed, and sophisticated financial system. Total assets of financial institutions reached 756 percent of GDP in 2024, increasing by 43.3 percent since 2019. Relative to other G7 countries, Canada has one of the largest NBFI sectors, accounting for about 65 percent of financial system assets—mainly investment funds, pension funds, and insurance firms. Financial subsectors are highly interconnected and globally relevant, with significant exposures to the U.S. (Figure 3, Table 3).

Canada: Financial System Structure and Interconnectedness

Financial System Structure, end-2024
(total assets in percent of GDP)



Interconnectedness of Financial System
(2024Q1, trillion of Canadian dollars)



Sources: StatCan and IMF staff calculations.

Note: NBFI in the right chart includes pension funds, insurance corporations, investment funds and other depository corporations. Govnt includes general government, social security funds and government business services.

5. The banking system is highly concentrated. The six largest banks account for 94 percent of banking sector assets. With the inclusion of another domestically important cooperative credit institution in Québec, the seven entities hold over 90 percent of deposit-taking institutions' assets.[1] Loans represent about 50 percent of bank assets and are heavily concentrated in real estate (particularly residential). Banks' funding sources are roughly split between retail and commercial deposits (54 percent) and wholesale funding instruments including repos, derivatives, covered bonds, and senior debt (Figures 5–7).

6. Credit performance is robust, with capital and liquidity buffers exceeding regulatory minimums. Nonperforming loans (NPLs) are low at 0.6 percent as of December 2024, although there has been a recent uptick driven by credit cards and auto loans. Mortgage delinquency rates stand at 0.2 percent, below historical norms. However, as of December 2024, approximately 60 percent of mortgages will renew by 2026 at likely higher rates, which could increase payment burdens and delinquencies if economic conditions deteriorate.[2] Additionally, valuation risks in commercial real estate (CRE) may lead to losses. The banking sector's Common Equity Tier 1 (CET1) ratio is 13 percent and liquidity coverage ratios (LCR) for the six D-SIBs are over 125 percent (Figures 4–7, Table 4).

7. The insurance sector is large and interconnected with the rest of the financial system. Canada's insurance market ranks ninth globally in terms of written insurance premiums. In the life insurance sector, concentration is very high, with the three largest insurers accounting for around

[1] Canada has six D-SIBs, two of which are also considered G-SIBs: the Royal Bank of Canada and the Toronto-Dominion Bank. Québec has one D-SIFI: the Desjardins Group, a financial cooperative group.

[2] 80 percent of total mortgage loans are fixed-rate loans (most of which get renegotiated every five years), while the remaining 20 percent are variable-rate loans (75 percent of which have fixed payments).

85 percent of the total market, while nonlife is more diversified. Mortgage insurance—while a small niche—plays an important role in housing finance and is vulnerable to economic downturns and house price declines.

8. The pension fund sector is also large by international comparison and interconnected. Assets of trusteed pension funds reached Canadian Dollar (CAD) 2.2 trillion in 2023 (75 percent of GDP), four-fifths of which are held by public sector funds. In total, more than 16,000 plans exist, many of them extremely small. The largest public-sector plans, the so-called "Maple Eight," are defined-benefit (DB) schemes and faced significant funding pressures during the prolonged phase of low interest rates. Low interest rates and the maturity of most plans (with benefit payments exceeding contributions) have contributed to a search for yield through investments in longer-term (and less liquid) assets and increases in leverage using derivatives. Since 2020, funding ratios have steadily increased.

9. Investment funds are another major component of Canada's NBFI sector. Their net assets (on a standalone basis) grew from CAD 2.6 trillion in 2020 to about CAD 3 trillion in 2023 (about 110 percent of GDP). The sector is diversified across publicly offered and exempt funds, with a broad range of investment strategies and asset classes. Canadian exchange-traded funds (ETFs) have experienced significant growth in assets under management in recent years.

10. Canada's financial sector oversight architecture is composed of multiple federal and provincial agencies. A large share of financial institutions (particularly banks and insurance firms) is federally regulated by the Office of the Superintendent of Financial Institutions (OSFI), while securities markets are overseen by provincial authorities coordinating policy and regulatory matters under the umbrella of the Canadian Securities Administrators (CSA). Québec's provincial regulator, Autorité des Marchés Financiers (AMF), supervises a major credit cooperative group (considered a Domestic Systemically Important Financial Institution (D-SIFI)) among other DTIs and insurers. Some large pension plans are under the oversight of the Financial Services Regulatory Authority of Ontario (FSRA), while other pensions plans, including large ones, operate federally and in other provinces. At the federal level, multiple agencies are involved in crisis management and safety nets, including the Bank of Canada (BOC), the Canada Deposit Insurance Corporation (CDIC), and others. Each province/territory also has its own crisis management and safety net arrangements. While responsibility for systemic risk oversight is not explicitly assigned to any specific body, the BOC plays a leading role in systemic risk surveillance. Macroprudential tools lie with the Department of Finance (DOF) and OSFI.

C. Progress Since the 2019 FSAP and Remaining Gaps

11. While significant progress was made in addressing previous FSAP recommendations, key gaps remain. The 2019 FSAP noted that financial sector oversight in Canada is of high quality and that major DTIs would remain resilient after a severe macrofinancial shock, though mortgage insurers needed additional capital. Financial sector oversight and safety nets were found robust. While interagency cooperation and institutional arrangements for systemic risk oversight were

improved with the creation of the SRSC, collaboration in financial oversight between federal and provincial agencies remains a key issue, which also complicates attempts to address data gaps.[3] Further progress is needed in strengthening oversight and disclosures of large public pension funds, establishing a platform to formulate macroprudential policy responses, and strengthening the autonomy of financial authorities (Table 5).

SYSTEMIC RISKS AND VULNERABILITIES

A. Key Risks to Financial Stability

12. 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 related to debt serviceability and valuations, and household financial health is a concern despite buffers (Figures 8–9). While monetary policy has eased, renewing mortgage holders 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.

13. Funding markets are highly interconnected and concentrated, with leverage growing. This combination could exacerbate liquidity stress, while high dependence on foreign funding increases potential spillovers from external liquidity shocks. A decline in liquidity levels due to ongoing quantitative tightening is occurring amid shifts in key funding market instruments.[4]

14. The NBFI sector faces liquidity and leverage risks. Investment funds could face liquidity risks due to portfolio rebalancing needs, investor redemptions, use of leverage, and increasing margin requirements for derivative positions. Life insurers and pension funds are large investors in CRE and other illiquid assets, like infrastructure, and are subject to margin calls on their derivatives and other off-balance sheet positions.

15. The financial sector is exposed to both physical and transition climate risks. Floods and wildfires are prominent hazards (Figure 10). Canada is also exposed to transition risks as a major fossil fuel producer, the 10th largest global emitter, and having committed to reduce emissions by 40–45 percent by 2030 relative to 2005.

B. Macrofinancial Scenarios

16. The FSAP evaluated the resilience of the banking, insurance, and pensions sectors under two scenarios. These feature a baseline scenario, consistent with the October 2024 World Economic Outlook (WEO) projections, and an adverse scenario consistent with the IMF's Risk Assessment Matrix (RAM) (Table 6). The adverse scenario was simulated using the IMF's Global

[3] These include data related to cross-sectoral exposures, unregulated NBFIs, and funding market activities.

[4] Structural changes include phasing out of widely used money market instruments (Bankers' Acceptances) with new instruments and market segments (tri-party repos and 1-month Government securities) emerging to fill the gap.

Macro financial Model, which includes Canada, the U.S., the Euro Area, China, Mexico, and a rest of the world block. Since the mission, some downside risks from geoeconomic fragmentation materialized and April 2025 WEO projections show lower growth, and higher unemployment and inflation compared to the October baseline. However, the difference between the adverse scenario and the April WEO projections is still very large, and the scenario remains a severe and appropriate test of the system.[5,6]

17. The adverse scenario features deepening geoeconomic fragmentation, protectionism, and increased cross-border restrictions (Figures 11–12). It assumes a severe supply shock operating through various channels, including trade, migration, and foreign direct investment. The disruption of global production chains causes a sharp economic slowdown and temporary supply shortages, initially raising inflation with substantial knock-on effects on inflation expectations. These prompt central banks to pause or reverse interest rate cuts during the initial years of the scenario. As growth slows and unemployment rises, oil prices fall. A reassessment of fundamentals triggers corrections in valuations, including sharp drops in residential real estate and equity prices. Overall, the scenario features a cumulative contraction of 4.8 percent in real GDP in the first two years, with the cumulative loss representing a 2.7 standard deviation shock from the historical mean.

C. Household and Corporate Vulnerability Analysis

Households

18. In view of the structural vulnerabilities among Canadian households, the FSAP assessed the probability of default (PD) of mortgages. The analysis focuses on mortgages because these represent over 70 percent of Canadian household liabilities and a significant portion of banks' portfolios. Given the historically low arrears rates in the Canadian mortgage market and their strong correlation with unemployment (Figure 13), a two-stage approach on mortgage risks was employed, integrating structural simulation with econometric projections (Bayesian Model Averaging (BMA) as in Gross and Población, 2019).

19. The analysis finds that mortgage holders are generally resilient, but lower-income borrowers and those facing steep payment increases face challenges under adverse scenarios. Results of the exercise indicate that probabilities of default on mortgage loans increase under the adverse scenario, reaching 0.9 percent for uninsured loans and 1.4 percent for insured loans.[7] Unemployment is a key driver of mortgage default probabilities, with lower-income households

[5] Figure 11 plots the adverse scenario against both the October 2024 and April 2025 WEO projections.

[6] The FSAP stress tests are based on large macroeconomic shocks and did not model the impact of specific assumptions for tariffs. Regarding these, the BOC conducted an analysis to evaluate the impact of reciprocal 25 percent tariffs (Monetary Policy Report, January 2025). While the exercise identified potentially significant macroeconomic effects, these were less severe than those generated by the shock simulated in the FSAP.

[7] The mortgage PD projections should be interpreted with caution due to the short time series used for model estimation, based on data provided by the authorities.

being most affected. This highlights the importance of continued close monitoring of household risks, particularly those with lower-income and low liquidity buffers.

Corporates

20. The FSAP also assessed corporate sector vulnerabilities using a combination of aggregate and firm-level data. The assessment focused on leverage, profitability, and liquidity, identifying financially weak firms based on debt-servicing capacity, and analyzing drivers of historical corporate PDs. Under the baseline scenario, corporate PDs remain stable (0.5 percent) in early 2025 and gradually decline, whereas under the adverse scenario, they rise sharply to 1.3 percent by late 2027 (Figure 13). The results by industry suggest sharper increase in default risk, especially in mining, quarrying, oil, construction and real estate sectors, given their sensitivity to commodity price movements or capital-intensive nature combined with refinancing risks.

21. Firm-level fixed-effects regressions highlight the importance of liquidity ratios and cash buffers across sectors in driving corporate default risks. The findings underscore the importance of monitoring liquidity and debt servicing costs particularly in capital-intensive and commodity price-sensitive sectors, monitoring small business financial health, assessing labor market implications of potential trade disruptions, and integrating bottom-up corporate default modeling into financial stability assessments.

D. Bank Stress Testing

22. The FSAP assessed the resilience of the seven systemic DTIs with solvency and liquidity stress tests (Appendix 1). Based on the above scenario, the solvency stress tests assessed the impact on capital buffers via several channels, including credit, market, and interest rate risks. Liquidity risks were assessed with an LCR-based test and a cash flow analysis.[8]

Solvency

23. The results from solvency stress tests suggest the seven systemic DTIs are resilient under both baseline and adverse scenarios (Figure 14). Under the Baseline scenario, the aggregate CET1 capital ratio rises to 15.7 percent by 2027, from 13.7 percent in 2024. Under the adverse scenario, the CET1 ratio declines by 2.3 percentage points at the trough but remains above the regulatory minimum. Individually, all DTIs would remain well above regulatory thresholds. The changes to DTIs' capital ratio are primarily driven by a rise in loan losses and an increase in Risk-weighted Assets (RWAs).

24. Sensitivity analyses for market and credit risks confirm the system's resilience. Three sensitivity analyses were performed for: (i) impact of market risk on DTIs' security portfolios;

[8] Using the FSAP adverse scenario, the BOC applied its own stress testing framework to assess the resilience of the banking sector. A summary was published in its May 2025 Financial Stability Report. Although the BOC and FSAP frameworks differ in methodology and assumptions, they provide broadly comparable results.

(ii) impact on credit risk of higher PDs for the manufacturing and commodity sectors (given their vulnerability to tariffs, Figure 15); and (iii) more conservative PDs across all segments. The market risk analysis implies an additional capital depletion compared to the main adverse scenario, with the CET1 ratio declining by an extra 1.1 percentage points. Under the credit risk sensitivity analyses, higher PDs for the manufacturing and commodity sectors would cause an additional CET1 drop of 40 basis points against the adverse scenario, while more conservative PDs across all corporate and household loan portfolios would cause an additional drop of 1.7 percentage points with respect to the adverse scenario. In all three cases, all institutions would remain above the regulatory threshold.

Liquidity

25. Liquidity stress tests indicate that the banking system is liquid and broadly resilient to sizable funding outflows over a 30-day horizon. The LCR-based test assesses the resilience of DTIs against 12 scenarios ranging in severity from the Basel III LCR (benchmark) to a most severe scenario combining retail and wholesale shocks (Figure 16). Under each individual retail scenario, the aggregate LCR remains above the regulatory minimum of 100 percent. However, in the wholesale and combined scenarios, it falls somewhat below this threshold, highlighting a greater vulnerability to substantial wholesale outflows. An analysis by single currency reveals that the CAD LCR is more sensitive to retail deposit outflows, while the USD LCR is more sensitive to wholesale outflows. This underscores the importance of continuing to monitor LCR across different currencies, particularly USD given the strong interlinkages with US markets.

26. The cash flow analysis assesses DTIs' liquidity risk using two indicators: the cumulative net funding gap and the counterbalancing capacity. The analysis considers a range of 20 scenarios of increasing severity, affecting outflows and counterbalancing capacity. The scenarios are based on a linear grid of scenario severities across factors (run-off rates, haircuts) spanning from a mild scenario to an aggressive scenario (Table 7). The analysis is based on the end 2024 Net Cumulative Cash Flow (NCCF) data.

27. The seven systemic DTIs can withstand liquidity shocks over a three-month horizon under most of the cash flow scenarios considered (Figure 17). The cash flow analysis indicates that under the milder scenario the system would maintain a liquidity surplus for horizons shorter than six months and in the most severe scenario, for horizons equal or shorter than one month. Focusing on a three-month horizon, the findings imply that the system would maintain liquidity surpluses even under more severe scenarios, experiencing shortfalls only in the three most aggressive scenarios. Under the most aggressive scenario, the aggregate shortfalls represent 12 percent of the initial counterbalancing capacity which are considered moderate given the severity of the most aggressive scenario.

28. To preserve the resilience of the system, the authorities should increase coordination and analysis around vulnerabilities. The BOC, OSFI, and AMF should enhance and formalize their cooperation on stress testing methodologies, results, and implications. Efforts to enhance structural models on housing risks should continue while corporate sector stress tests could be developed to strengthen analysis of potential vulnerabilities. Credit registers could be established for corporate,

commercial and consumption loans, while continuing work towards improving the quality and coverage of Real Estate Secured Lending (RESL) data.

E. Interconnectedness and Contagion Analysis

29. An interconnectedness and contagion analysis evaluated the impact of funding and credit shocks among six D-SIBs and across sectors and borders. The analysis used the Espinosa-Vega Sole model and examined how disruptions reverberate among D-SIFIs and the wider financial ecosystem (as illustrated in the above chart on financial system interconnectedness), while incorporating the effects of cross-border banking relationships that may amplify the impact of domestic shocks.

30. The assessment highlighted that cross-sectoral and cross-border risks are relatively high. The multiple transmission channels in Canada's interconnected financial sector imply that credit and funding risks can propagate substantially across sectors, which requires vigilant monitoring and analysis to identify potential vulnerabilities that could emerge in stress periods.

31. While interbank exposures are significant, the analysis suggests that spillover risks associated with bank failures are mitigated by banks' capital buffers. The strong capital levels maintained by banks serve as a cushion against losses and underpin the banking system's resilience in the face of potential defaults of individual banks, at least in terms of direct impacts.

F. Insurance and Pension Risk Analysis

32. The FSAP conducted solvency and liquidity tests for both insurers and pension funds. The solvency analysis covered insurers under federal supervision and from Québec. This included seven life insurers and 17 property and casualty (P&C) insurers, covering around 90 percent and 50 percent of assets of each sector, respectively. For pensions, the solvency analysis covered 40 defined-benefit and hybrid schemes, supervised by OSFI and FSRA. The liquidity risk analysis covered three life insurers and 19 pension plans, including six of the "Maple Eight" public pension plans—covering more than 50 percent of pension assets.

Insurance Solvency Stress Test

33. Canadian insurers are resilient in an adverse scenario focused on market and credit risks. A top-down solvency stress test is conducted for insurers based on an adverse scenario that is in line with the one used for the banking sector, with relatively severe shocks for stock prices and commercial real estate combined with large swings in interest rates.

34. Life insurers would experience large variations in capital in the adverse scenario but are overall resilient with only a small cumulative decline in solvency ratios (Figure 18). The initial increase of long-term interest rates and CAD depreciation cause life insurers' solvency ratios to initially improve—for the median firm from 136 to 168 percent. But solvency ratios subsequently decline to 142 percent in the second year and 121 percent in the third year—driven by a reversal of

interest rates and higher liability values. No life insurer sees its solvency ratio falling below the regulatory threshold, and most remain above or close to their internal operational capital targets. An additional sensitivity simulating a large equity price shock corroborated the resilience of life insurers.

35. P&C insurers exhibit lower sensitivities to market and credit risks and are very resilient in the adverse scenario (Figure 19). Given shorter asset and liability maturities, the effect of the interest rate shocks leads to a different timing of the impacts. The solvency ratio of median P&C insurers initially falls from 259 to 222 percent in the first year and further to 218 percent in the following year before recovering to 237 percent in the third year. Shocks are mainly seen in the investments of P&C insurers' assets while liabilities remain largely stable.

Pensions' Funding Risk Analysis

36. The pension sector starts from a robust funding position prior to the simulated stress. For pension funds, the three-year adverse scenario followed the one used for the insurance sector. The funding position of Canadian pension plans has improved since 2021 with rising interest rates, providing a favorable starting position to withstand the adverse scenario (Figure 20).

37. Pension plans would face a deterioration of their funding ratios in the adverse scenario but remain considerably above funding levels seen prior to 2020. In the adverse scenario, funding ratios change only marginally for the majority of plans. As in the insurance sector, most of the adverse impact is seen in the second year, when the funding ratios fall by 13 and 16 percentage points for the median large public sector and private sector plans, respectively. By the third year, funding ratios stabilize and increase slightly for most of the plans. Still, over a quarter of the plans would experience a funding deficit in the third year (which, however, would not trigger any immediate refunding requirement). A sensitivity analysis for equity risk showed a considerable impact on private sector plans, but confirmed the result of the scenario analysis overall.

Insurance and Pensions Liquidity Risk Analysis

38. Through a bottom-up data collection, the FSAP also tested the liquidity risks of three life insurers and nineteen pension plans stemming from margin and collateral calls. In the scenario, short-term CAD interest rates increase overnight by 150 basis points, and the CAD depreciates against other major currencies. Margin calls are compared against available sources of income, including highly liquid assets and financing transactions.

39. Life insurers are resilient to the tested liquidity shock, and margin calls appear limited given sizable holdings in highly liquid investments (Figure 21). While 69 percent of margin calls stem from interest rate derivatives, the entities would rely mostly on their liquid assets holdings as a source of liquidity. Almost the full amount of margin calls could be met through settlement "in kind," that is, without having to liquidate collateral assets.

40. Margin calls can be sizable for some of the pension plans, but they remain able to source the required liquidity. Around 55 percent of the liquidity would be sourced from financing

transactions, including expiring reverse repos and using committed credit lines. Another 31 percent would be funded through highly liquid assets, many still make use of bilateral swap transactions which allow for settlement in kind, thereby lowering liquidity risks.

41. The authorities should strengthen stress testing for insurers and risk analysis for pension plans. Canada has an established regime of stress testing for insurers but would benefit from comprehensive macroprudential stress tests in this sector. Requiring more frequent and granular data on the largest pension plans would better facilitate top-down risk analysis. Similar to FSRA, other authorities should monitor LCR for large pension plans.

G. Climate Risk Analysis

42. The FSAP reviewed the authorities' framework for climate risk analysis. The authorities actively work on climate related risks, and in a collaboration of several agencies, they have recently embarked on a comprehensive climate risk stress test covering most Canadian financial institutions: the Standardized Climate Scenario Exercise (SCSE). The SCSE covers both transition risks and physical risks related to floods and wildfires and complements a variety of other studies conducted in recent years. The authorities' climate risk analyses adopt state-of-the-art methodologies and leverage data from both public and private sources. To ensure access to reliable and granular data, the authorities should reduce reliance on private data vendors while increasing data sharing and collaboration with climate experts in Canada.

43. The FSAP also performed an independent evaluation of key physical and transition risks for the Canadian banking sector. The analysis covered the seven systemic DTIs.

Physical Risk

44. The physical risk analysis investigated DTIs' financial stability risks from wildfires under current and potential future climate conditions. A significant portion of Canadian mortgage loans is located in areas with very high to extreme fire-weather, and this portion is expected to increase (Figure 22). The FSAP's analysis of related risks was exploratory as it was the first time a wildfire risk assessment was performed in an FSAP and data limitations were considerable. The analysis estimated potential damages from wildfires to residential buildings in selected at-risk areas and the potential losses to DTIs conditional on mortgage defaults. The wildfire damage was linked to DTIs' loss given defaults (LGDs), accounting for the role of both mortgage and P&C insurance.

45. The analysis suggests that DTIs' losses could be considerable under the most severe scenarios but are sensitive to assumptions. LGDs would increase more significantly under the high emission scenario than the medium emission scenario relative to historical climate. LGDs of loans in Saskatchewan and Manitoba would increase substantially more than in other affected provinces. Further, loans with high Loan-to-Value (LTV) ratios are more sensitive to wildfire losses, although these represent a small portion of mortgages. Results are sensitive to several parameters. For example, if the P&C insurance sector absorbs a smaller portion of wildfire damages, more losses

will be passed onto the DTIs. Similarly, results are also sensitive to the damage function adopted. If all houses experiencing a fire were to be destroyed completely, DTIs' losses would be significantly higher.

Transition Risk

46. The transition risk analysis estimated DTIs' credit losses from exposures to nonfinancial corporates (NFCs) under different transition scenarios. Three scenarios are considered: current policies, orderly transition ("Net-Zero 2050") and disorderly transition ("Delayed Transition"). The analysis adopted a micro-macro approach. The IMF-ENV model (Chateau and others, 2025) was used to derive scenario-conditional paths for macroeconomic and sectoral variables up to 2040 and a micro simulation connected those variables to NFCs and DTIs' balance sheets.

47. Under the transition scenarios, sectorial PDs and LGDs would generally increase modestly but with significant variations across sectors. Notable adverse impacts are observed for the oil and gas sector. The adverse impact is larger under Net-Zero 2050 than under Delayed Transition for most of the simulation period. However, from 2040 the Delayed Transition impacts would exceed those under Net-Zero 2050 for most sectors. DTIs' credit losses are estimated to increase between 3.8–7.1 percent under the Net Zero 2050 and Delayed Transition scenarios relative to current policies by 2040 (Figure 23).

48. Results from these analyses, while indicative, should be interpreted with caution. As climate risk analysis remains an emerging area, subject to many model and data constraints, results should be treated with caution. Also, both FSAP climate analyses focus on a specific credit risk channel and can only capture direct impacts, and not potential indirect and systemic effects. Hence, they may underestimate climate risks for the banking system.

FINANCIAL SECTOR OVERSIGHT

49. Financial sector oversight across Canada's various agencies is robust. New supervisory frameworks are being introduced to strengthen risk-based oversight, including of nonfinancial risks. Regulatory frameworks are regularly upgraded to ensure alignment with international standards. Progress has also been made on enhancing cooperation particularly in relation to systemic risk monitoring and securities oversight.

50. A few institutional issues cut across supervisory agencies and addressing them would make the overall framework more effective. The overarching priority to promote the safety and soundness of supervised entities and contribute to financial stability should be more explicitly enshrined in legislation as a primary objective for federal and provincial supervisors (OSFI, AMF, and FSRA). Strengthening the operational independence and budgetary autonomy of those supervisory authorities would ensure that their resources keep pace with their objectives and mandates, free from potential interference. Removing barriers to exchange of supervisory information and

concluding Memorandums of Understanding (MOUs) between OSFI and provincial authorities would facilitate more effective oversight.

A. Macroprudential Policy and Tools

51. There has been substantial improvement in the monitoring of systemic risks since the last FSAP. The creation of SRSC has enhanced discussion of systemic risks between the federal and provincial agencies. This led to the formation of working groups on specific issues and data sharing agreements. Other fora, such as the CSA and Credit Union Prudential Supervisors Association (CUPSA), also help promote cooperation and data comparability.

52. Nevertheless, key data gaps remain and further information sharing between federal and provincial supervisors is needed. For instance, information on nonbank activity remains incomplete and scattered across agencies, hence the need to strengthen information sharing between federal authorities (including BOC and OSFI) and provincial authorities. Building comprehensive credit registries would facilitate a better understanding of the impacts and calibration of macroprudential tools.

53. The framework would also still benefit from a mechanism to take action. While clearer mandates for authorities on macroprudential policy would help enable timely policy action, a coordination mechanism should also be developed. One option is 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.

54. The macroprudential toolkit is well developed. On the borrower side, a loan-to-value (LTV) limit of 80 percent effectively applies to all uninsured mortgages and a borrower-level stress test known as the minimum qualifying rate (MQR) has proven effective in bolstering household resilience during the recent episode of rising interest rates. On the capital tools side, OSFI applies a DSB to DSIBs that, similar to a CCyB, can be raised during upswings and released in times of stress. This is a welcome feature, but to improve coverage, the DSB should be applied to all systemic DTIs (including Québec's D-SIFI) and the provincial supervisors of such institutions (including AMF) should be part of the DSB setting process. The authorities should also explore setting in parallel a positive neutral CCyB for non-systemic DTIs.

55. The recent introduction of a loan-to-income (LTI) limit for uninsured mortgages is a welcome addition to the toolkit but could be better communicated. While applied to banks' portfolios rather than to individual borrowers, the bank-specific LTI limit will at the margin help curb household indebtedness and improve system resilience. However, clearer communication is needed about this objective, as well as about the functioning and monitoring of the new limit. Meanwhile, the existing MQR should be maintained while periodically assessing its continued benefits. The authorities should also monitor closely the impact of the LTI limit and take further action if housing vulnerabilities continue to build.

B. Banking Regulation and Supervision

56. A full BCP assessment was conducted. It was based on the 2024 BCP standard and covered OSFI since it regulates and supervises all banks and other federally regulated financial institutions.

57. OSFI has the legal powers to fulfill its mandate and enforce its guidelines, but its institutional legal underpinnings could be enhanced. The Minister of Finance (MOF) has a prominent statutory role in prudential matters and the Governor in Council has powers to bring forward regulations with respect to OSFI's mandate. While OSFI is funded by its regulated institutions, the MOF has to sign-off on its budget, which could undermine OSFI's autonomy and generate resource constraints. Promoting the safety and soundness of banks, and contributing to financial stability, should be more explicitly enshrined as OSFI's primary objective in the OSFI Act. The budgetary constraints aside, these legal shortcomings have generally not affected banking supervision in recent years.

58. The regulatory and supervisory framework established by OSFI is sound, principles- and risk-based. The final Basel III reforms were implemented effective February 1, 2023.[9] OSFI is at the forefront of liquidity risk requirements and supervisory practices, with thresholds for supervisory action closely monitored and acted upon. The new supervisory framework implemented in April 2024 significantly enhanced how supervisory issues are communicated to banks, leading to more clarity in remediation requirements.

59. Building on the strengths of its new supervisory framework, OSFI needs to achieve more intrusive supervision through more frequent and deeper reviews. OSFI's supervisory process is risk-based and predicated on the results of ongoing monitoring. Cross-sector reviews are increasingly common relative to institution-specific reviews. Resource constraints have impacted the supervision of core banking areas, such as credit and interest rate risks. Increasing the frequency of deep and targeted reviews would ensure more adequate oversight of banks' risk management and internal control policies, including the use of internal models to calculate capital requirements.

60. While the prudential framework is robust overall, some areas should be strengthened. The new supervisory framework places great emphasis on the assessment of corporate governance and nonfinancial risks, but the development of supervisory practices on operational resilience is ongoing. The sanctioning regime could be strengthened since monetary penalties are infrequently used and, due to the current low caps, do not serve as an effective enforcement tool. OSFI's supervisory approach and methodologies for credit risk are sound but further enhancements are needed to review the results of internal models, adequately cover country and transfer risk, and align the related-party prudential framework with the BCP standard (mainly with respect to the definition of related parties and oversight practices).

[9] On February 12, 2025, OSFI announced the deferral of further increases to the Basel III standardized capital floors until further notice.

61. Anti-money laundering and countering the financing of terrorism (AML/CFT) supervision should be intensified, ensuring adequate resources and enforcement powers. The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) is the financial intelligence unit and the sole AML/CFT supervisor since 2021. The regulatory framework is sound, but more frequent in-depth compliance reviews are needed. Also, penalties are currently too low to serve as an effective deterrent for noncompliance, though the authorities are planning to strengthen the sanctioning regime.[10] See financial integrity section for additional details on AML/CFT.

C. Insurance Regulation and Supervision

62. Insurance regulation and supervision in Canada is at a very high standard. Insurance oversight was reviewed primarily at the federal level and for Québec. The implementation of International Financial Reporting Standard (IFRS) 17 was broadly smooth with active involvement of supervisory authorities and relevant stakeholders. The risk-based capital framework—which is largely harmonized between the federal level and the province of Québec—is closely interlinked with the insurers' Own Risk and Solvency Assessment and the setting of internal capital targets.

63. Supervisory approaches for insurance have further improved since the last FSAP. OSFI's updated framework is robust and allows for a constructive dialogue with insurers on risks and supervisory expectations. The AMF also updated its risk-based supervisory framework, in January 2025. A comprehensive approach is applied to the supervision of corporate governance, risk management, and internal control functions among larger insurers. Substantial progress has recently been made in areas like operational resilience, third-party risks, and climate risk management.

64. Still, more work is needed on federal-provincial cooperation, supervisory mandate and budget autonomy, the legal framework for group supervision, and systemic risk oversight. Cooperation between federal and provincial supervisors should be further enhanced, most importantly through addressing legal impediments which hamper the exchange of confidential information. OSFI and AMF should have full budget autonomy to ensure sufficient resources, and their legal mandate should include an explicit obligation to contribute to financial stability. The legislative framework for group supervision needs to be strengthened. Shortcomings still exist at the federal level regarding the inclusion of nonregulated parent entities in the scope of supervision. In Québec, a group supervisory framework is almost entirely lacking. Systemic risk oversight should be improved by strong and unambiguous legal mandates for supervisory authorities, as well as for the BOC, to collect data on insurance for financial stability purposes.

D. Pension Oversight

65. The pension sector is highly dispersed, with the largest plans being either supervised by provincial supervisors or under joint federal-provincial oversight. The FSAP review of

[10] In its 2024 Fall Economic Statement, the Canadian government announced its intent to propose legislative changes increasing administrative monetary penalties for breaches of AML/CFT requirements.

pension oversight focused on the federal level and Ontario. Authorities in the individual provinces are differently equipped with resources. The Canadian Association of Pension Supervisory Authorities (CAPSA) facilitates the dialogue on regulatory guidance, but its resources are limited. A more active role for CAPSA in monitoring the implementation of applicable guidelines and in the joint development or proliferation of analytical tools is recommended.

66. As pension supervision is being strengthened, supervisory resources need to keep pace and mandates should be clarified. FSRA has significantly expanded its supervision, but its resources are limited relative to the size and number of plans under their purview. And while OSFI is still at an early stage of applying its new supervisory framework to pension plans, its need for additional resources should be closely monitored. The legal mandate of pension supervisors should explicitly take financial stability considerations into account.

67. Collecting more data from, and engaging more frequently with, different control functions of large public sector pension plans is also recommended. FSRA is limited in its legal basis to collect confidential information from pension plans (beyond regular supervisory reporting), which could lead to substantial delays in taking supervisory measures. It is therefore recommended to exempt FSRA from the Ontario Freedom of Information and Protection of Privacy Act related to confidential supervisory information.

68. Governance and internal control functions of the largest (private and public) pension plans should be supervised more intensively. This involves a robust supervisory framework, the establishment of necessary tools, and possibly more supervisory resources. More granular and more harmonized disclosures by larger pension plans are desirable to increase transparency and facilitate macroprudential supervision.

E. Regulation and Supervision of Investment Funds

69. The authorities should build on the significant progress made by the CSA to promote harmonization and consistency among the provincial and territorial authorities. In the medium term, the Ontario Securities Commission (OSC) should become a full member of the passporting system for registration of firms. Looking further ahead, regulatory and supervisory convergence would be facilitated by the CSA Secretariat taking on a more active role, including carrying out peer reviews of CSA members to encourage consistent application of common rules. The authorities also need to focus on deploying a full range of enforcement tools, including monetary sanctions, to constitute an effective deterrent.

70. Canada has detailed and prudent rules on liquidity of assets held by publicly offered funds, but action is needed to align the framework with FSB and IOSCO guidance. The authorities should also strengthen their approach to stress testing, both at the level of industry practice and authority-led exercises. Meanwhile, the authorities' ongoing review of the regulatory framework for ETFs should be used to ensure robust arrangements for authorized participants and market makers. The CSA should evaluate the current oversight of custodians and broaden its supervisory activities to cover compliance with rules on custody of investment fund assets.

71. Improved data collection and more comprehensive regulatory mandates would provide a firmer basis for the CSA's work on systemic risk. The OSC's Investment Fund Survey should be expanded to cover investment funds' credit lines and principal counterparty exposures, while sector-wide data on leverage and liquidity should be collected quarterly. In parallel, the AMF's statutory mandate should be amended to include an explicit systemic risk objective.

F. Oversight of Nonbank Deposit-Taking Institutions

72. The FSAP reviewed the oversight of provincially regulated and supervised nonbank DTIs, one of which is domestically systemic. The review covered Québec's AMF and Ontario's FSRA. While the regulatory and supervisory framework of credit unions is fragmented amongst the provinces and at the federal level, AMF is the only authority in charge of a D-SIFI headquartered in Québec, with an affiliate operating in Ontario under FSRA's oversight.

73. Stronger federal-provincial and inter-provincial cooperation mechanisms are needed to bolster the effectiveness of supervisory oversight for nonbank DTIs. The absence of an effective coordination (including through a MOU) between AMF and both OSFI and FSRA respectively limits the ability to ensure a comprehensive supervisory assessment including incorporating a macroprudential view and performing peer comparisons.

74. AMF and FSRA should sustain intrusive supervision and address remaining gaps in their frameworks. Building on recent framework improvements, it is important for both agencies to keep supervision adequately intrusive through deep onsite reviews, including on risk management, internal controls, and interest rate risk in the banking book. Both authorities should have clearer safety and soundness mandates, increased budgetary autonomy, and a framework for related party transactions aligned with international standards while observing proportionality principles.

G. Cyber Resilience

75. Canada has a mature cyber ecosystem that could be enhanced by establishing a joint cyber strategy and a "financial sector network." There is no joint cyber strategy for the Canadian financial sector and no provincial-level cyber strategies, while coordination, cooperation, and communication between federal and provincial regulators could be further strengthened by enhancing existing structures to create a "financial sector network." The network should work together to develop cyber strategies for the financial sector at the federal and provincial level, facilitating a convergence in approach.

76. Federal and provincial authorities have a strong cyber oversight framework but should increase onsite examinations and powers over third party providers. While the regulations and guidelines are comprehensive and aligned with international standards, some provincial authorities could benefit from better integrating their guidelines into their supervisory and oversight processes. The supervisory framework relies on clearly defined processes, strong onsite and offsite supervision,

and third-party assurance; but some authorities could increase their onsite examinations. Finally, the authorities should increase their legal and regulatory powers over third-party providers.

77. There is no formal decision-making structure for a systemic cyber incident in the financial sector. While there are individual structures in the federal agencies, the authorities should consider leveraging these structures to put in place a process to manage a systemic cyber incident. This should facilitate collective decision-making, with a clear playbook of cyber scenarios that are regularly tested.

H. Financial Integrity

78. A deeper understanding of Money-Laundering and Terrorism Financing (ML/TF) risk exposures can help refine policy prioritization. Canada has a strong foundation for identifying domestic ML/TF vulnerabilities. However, strengthening risk assessments with a more robust analysis of illicit cross-border financial flows and a deeper understanding of the consequences of ML events will help enhance risk mitigation strategies.

79. A more risk-driven approach to supervisory engagement and an enhanced sanctioning regime are also priorities in effectively countering evolving financial crime threats. While the shifting of the AML/CFT supervisory mandate to FINTRAC in 2021 was accompanied by some resource augmentation, the frequency of supervisory engagements has since significantly decreased. FINTRAC should increase the frequency of intrusive supervisory activity for high-risk entities, ensuring resources are commensurate with assessed risk levels. Greater granularity in risk assessments can also help fine-tune supervisory engagements. Strengthening sanctions—through legislative amendments to ensure dissuasive remedial measures commensurate with the gravity of violations—will help strengthen risk mitigation in the financial sector.

80. Enhancing domestic and international cooperation is also critical for an effective risk-based framework. Leveraging their existing strong cooperation, FINTRAC and OSFI should enhance data sharing to drive more coordinated supervisory engagement and enforcement actions. The authorities should also take advantage of the extensive data available and advanced analytics tools to further enhance Canada's ability to track and respond to emerging financial crime threats. Improving cooperation with host jurisdictions of Canadian banks' subsidiaries would enhance Canada's ability to mitigate cross-border risks given the globally interconnected financial sector.

CRISIS PREPAREDNESS AND MANAGEMENT

A. Crisis Management and Financial Safety Nets

81. The Canadian financial system has been stable for a long time and the authorities have taken steps to enhance Canada-wide crisis preparedness and management. The country's institutional and legal framework weathered cyclical downturns, episodes of global instability, and idiosyncratic shocks in recent decades. The authorities have made progress with coordination

around crisis management and preparedness arrangements, formalization of information sharing agreements, and the establishment of indemnity mechanisms for ELA support to provincially regulated institutions. The authorities should, however, strengthen the independence of the CDIC as Canada's federal resolution authority.

82. Ongoing reviews of the CDIC and AMF's deposit insurance coverage could identify coverage adjustments and reconsider the maximum coverage amount. While CDIC's and AMF's limit of CAD 100,000 per depositor per institution and per category still achieves a good coverage of the number of accounts insured (about 95 percent), certain accounts, for example, those of small and medium enterprises, are likely to be above the limit and have lost coverage in real terms over the years. The current review of the federal scheme by the DOF, which should be periodically done, is an opportunity to make key recommendations in these areas.

83. The financial safety net for depositors in Canada is well developed, both at the federal and provincial level, but harmonization across the various schemes is needed. Federal and provincial authorities have established coordination mechanisms, for instance via the annual federal-provincial deposit insurance forum, and are seeking convergence in their practices. However, the diversity of deposit insurance coverage between the federal level and several provincial agencies could undermine confidence and negatively impact deposit flows during periods of instability. Hence, gradual convergence towards a national standard is desirable while respecting the current structure of the various deposit insurance mechanisms across Canada.

84. The framework for funding in resolution is robust and the BOC has the capacity to provide liquidity assistance in resolution. The framework has not been fully used in an actual resolution, but some of the BOC's liquidity support tools were activated during recent episodes of global instability and the authorities conduct periodic testing exercises. While the BOC has well established rules on ELA and frequently tests the framework's operational readiness, it is important to ensure Canada-wide ELA eligibility and access through indemnity agreements with the relevant authorities. The BOC should be able to offer ELA in foreign currency.

85. A resolution framework for insurance companies needs to be developed. There is no designated resolution authority for the insurance sector and the work on resolution planning has yet to start. The sector has two well-established industry-funded policyholder protection institutions for the P&C and life insurance sectors. Both have previously dealt with insurers' failures successfully, but their ability to help resolve systemic institutions is limited in absence of additional tools and access to funding. Issues of confidentiality, and board independence in one of those institutions, also limit their ability to effectively assist in crisis preparedness. Finally, liquidation of insurers falls under the Winding-Up and Restructuring Act (WURA), which is an outdated law that requires full reexamination. Any change in this area should cover provincially chartered insurers.

86. The authorities made strides towards several of the recommendations raised in the 2019 FSAP, but some have yet to be tackled. Noticeable progress has been made in (i) coordination among federal and key provincial authorities for crisis management purposes through the SRSC, (ii) expansion of the scope of recovery planning, (iii) recovery planning guidance,

and (iv) indemnity for provision of ELA to provincially regulated institutions. Other recommendations were not prioritized (institutional independence issues, adopting depositor preference, revising WURA), or remain in progress (review of the deposit insurance scheme).

B. Systemic Liquidity Management

87. Canadian institutions rely strongly on foreign funding sources, making it important to monitor foreign funding risks and assess global risk management practices. Short-term funding sources of key Canadian financial institutions are global, with particular presence in the U.S. funding markets. The extensive foreign funding exposures have led to growing turnover in the foreign exchange (FX) swap market, also due to increased hedging activity. While major Canadian financial institutions have taken measures to enhance risk management practices and diversify funding sources, the increase in global trading uncertainties has arguably increased foreign funding risks.

88. Efforts to enhance liquidity in the domestic secured funding market should be maintained. While much smaller compared to foreign funding, secured funding via repo markets is a core funding instrument for CAD liquidity. The market benefits from high-quality collateral, but, as experienced in many countries, inherent risks persist due to the short-term nature of transactions, the concentration of collateral types, and the dominance of a few market participants. The adoption and timely delivery of the Canadian Collateral Management Service can enhance the efficiency of collateral management and support liquidity in secured funding markets. Moreover, the authorities should explore the benefits and practical challenges of central clearing in repo trades, which could enhance the intermediation capacity of dealers. The increasing participation of foreign hedge funds in the Canadian repo market could increase efficiency but also amplify market stress. Hence, the authorities should closely monitor hedge fund strategies and analyze their involvement in Canadian funding and Government of Canada bond markets. The Canadian unsecured funding market remains in transition following the cessation of banker's acceptances (BA), with market volumes declining so far. The authorities should support the timely adoption of BA alternatives.

89. The authorities should prioritize addressing data gaps and enhancing transparency of funding markets. Data collection should be expanded to cover critical market segments such as securities lending while bank reporting should provide detailed insights into dealer activities and holdings to understand intermediation practices of dealers, and allocation of their balance sheets. In addition, consistent collection and publication of aggregate outstanding and trading volumes for core funding markets is essential for understanding systemic risks. Enhancing the understanding of risk profiles and leverage sources for foreign hedge funds is also key and currently remains a significant data blind spot.

Liquidity Support Instruments

90. ELA criteria are commendably broad, but some enhancements are needed. The BOC should clarify that access to ELA is not limited to institutions in formal recovery or resolution and that solvency remains a key factor for the authorities in decisions to grant ELA outside of resolution. In addition, it should recalibrate the minimum ELA pricing to reflect its role as a last resort liquidity

instrument, reduce moral hazard, and incentivize speedy exit. Given the significant cross border funding of Canadian banks, it is desirable for the BOC to have the operational capacity to provide ELA in foreign currency.

91. The BOC should also consider identifying regulated systemic NBFIs and granting them access to bilateral liquidity support. Providing bilateral support may be key if stress in a large interconnected NBFI poses a contagion risk or disrupts financial intermediation. The Contingent Term Repo Facility (CTRF) is a commendable initiative but is intended for system-wide stress and activating it too early may trigger market speculation. Establishing clear eligibility and readiness for bilateral support in response to severe disruptions caused by idiosyncratic shocks that could potentially become systemic would enhance market stability, provided strong safeguards are implemented to mitigate moral hazard.

AUTHORITIES' VIEWS

92. The authorities valued the constructive discussions and appreciated the recommendations made by the FSAP. They broadly concurred with the findings of the systemic risk analysis and appreciated the recognition that banks and other financial institutions remain resilient overall in the adverse scenarios agreed upon and presented in the FSAP. The authorities were receptive to many of the FSAP recommendations and were open to exploring opportunities to strengthen institutional arrangements, where feasible.

93. The authorities had some different views on the institutional framework for financial oversight. They believed that the supervisory authorities have a high degree of budget autonomy and operational independence in practice, and noted that the FSAP recommendations in this area are not feasible within the Canadian system of Parliamentary democracy and ministerial accountability. On macroprudential oversight, they welcomed the conclusion that coordination on monitoring systemic risks has improved but indicated that a federal-provincial decision-making mechanism is not practical within Canada' supervisory framework and federal-provincial division of powers. Provincial regulators, however, noted their interest in signing a MOU with the federal regulator as effective and sustainable information sharing is one way to achieve better collaboration and coordination of systemic risk.

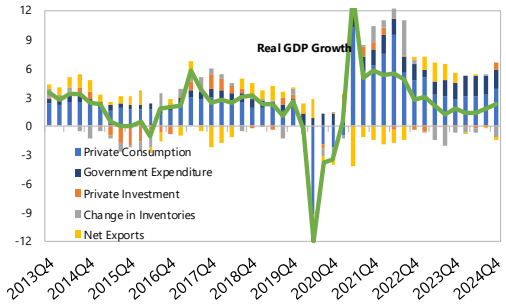
94. They also presented some nuances in relation to supervisory activities and resourcing. The authorities welcomed the recognition of Canada's progress on regulatory cooperation and implementation of financial and nonfinancial risk safeguards. They agreed that more resources are needed to further enhance the depth and scope of supervisory work. They acknowledged the benefit of gaining a deeper understanding of cross-border ML/TF risks to supplement their risk assessment foundation, but believed that enhancing AML/CFT supervision need not necessarily require additional resourcing. The authorities also underscored that the government has announced its intention to strengthen the AML/CFT penalty framework. Provincial securities regulators believed that oversight of securities and derivatives achieves highly harmonized outcomes while respecting Canada's constitutional division of authority over securities and derivatives.

95. The authorities broadly agreed with the FSAP findings on crisis management but offered different perspectives in some areas. In particular, they thought that mandating harmonization of the federal and provincial deposit insurance schemes would be unrealistic given the different jurisdictions involved, each of which has its own considerations. On the recommendation to raise ELA pricing, the BOC noted that the associated stigma already discourages use and there is discretion to charge a higher rate if deemed appropriate based on the context at the time of stress.

Figure 1. Canada: Recent Macroeconomic Developments

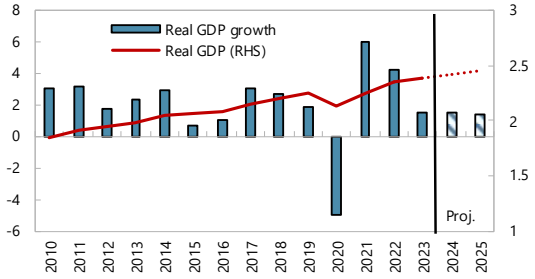
Real GDP was recovering post-pandemic but slowed down following monetary tightening …

Contribution to Real GDP Growth, 2013 -2024
(In percentage points; year -on-year)



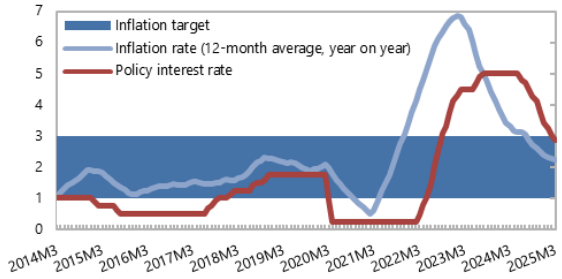
… GDP is expected to pick up as the policy stance eases.

Real GDP and Real GDP Growth
(Percent, LHS; in trillions of C$, RHS)



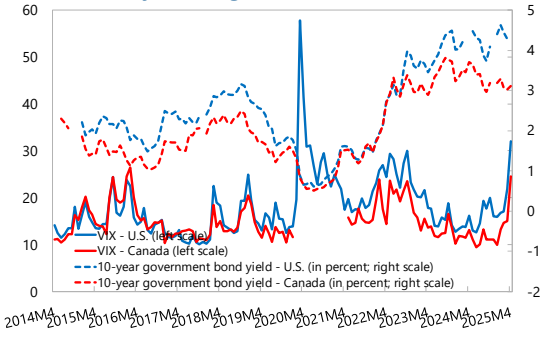
Following a spike in 2022, inflation has been declining and is now back within BOC's inflation target range …

Inflation and Monetary Policy, 2014-25
(In percent)



… and long-term bond yields have increased while volatility has fallen.

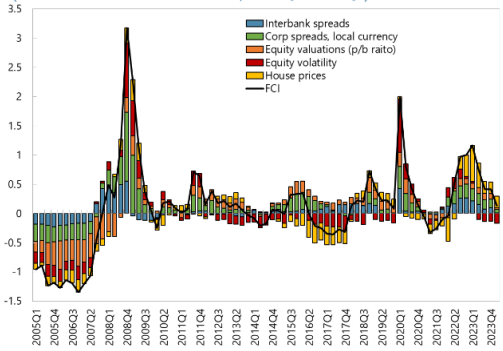
Market Volatility and Long-term Bond Yields, 2014-25



Note: VIX data of Canada during 2020M2 -2021M4 are not avaliable.

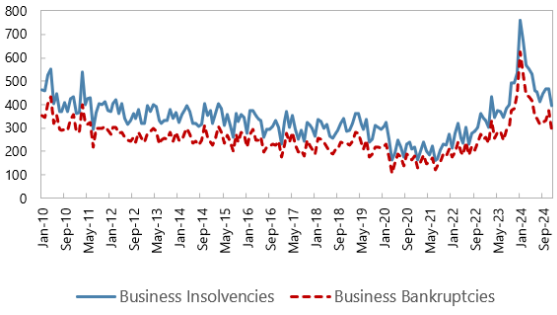
Financial conditions were tight during the rate hiking cycle.

Financial Conditions Index
(Standard deviations from mean, 2005Q1-2024Q1)



Business insolvencies rose in 2022–23 but have been normalizing since early 2024.

Business Insolvencies and Bankruptcies
(Number of filing)

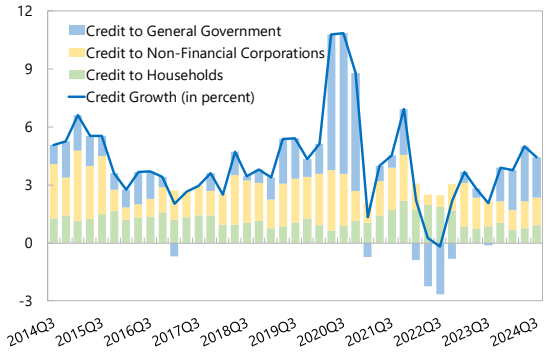


Sources: IMF; World Economic Outlook database; Have Analytics; Bloomberg Financial L.P; Office of the Superintendent of Bankruptcy; and IMF staff calculations.

Figure 2. Canada: Macrofinancial Developments

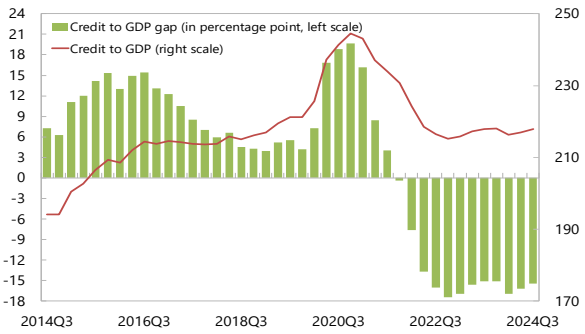
Credit growth declined during the tightening cycle but has recently started to recover…

Contribution to Credit Growth, 2014-24
(In percentage points; year-on-year)



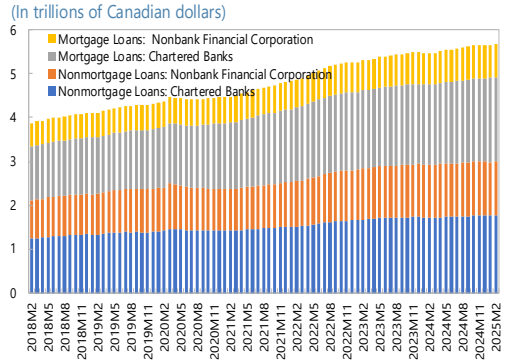
… while credit to GDP is somewhat above pre-pandemic levels.

Credit to GDP, 2014-24
(In percent)



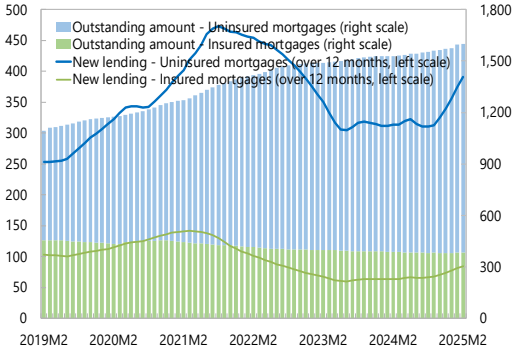
Mortgages represent a substantial share of financial sector assets…

Total Credit Assets of Financial Corporation Sector
(In trillions of Canadian dollars)



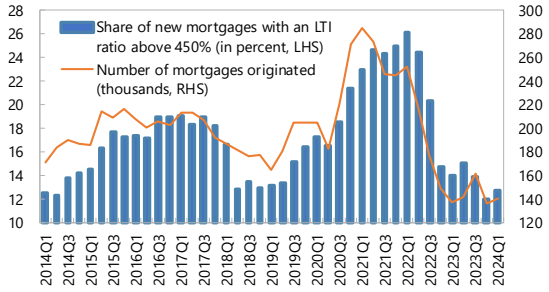
…and banks' residential mortgages are still increasing, with new lending picking up for uninsured mortgages, while insured lending remains subdued.

Banks' Residential Mortgage Lending, 2019-25
(In billions of Canadian dollar)



Along with slowing originations, the share of new mortgages to highly indebted borrowers has fallen…

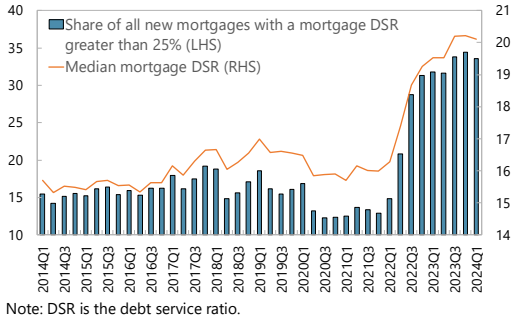
Total Lending and Share of New Lending to Highly Indebted Borrowers, 20142024



Note: LTI is loan-to-income.

… while mortgage debt service burdens for new mortgages climbed sharply as interest rates repriced.

Mortgage Debt Service Ratios, 2014-2024
(In percent)

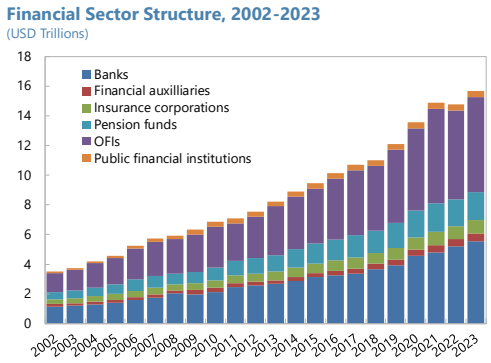


Note: DSR is the debt service ratio.

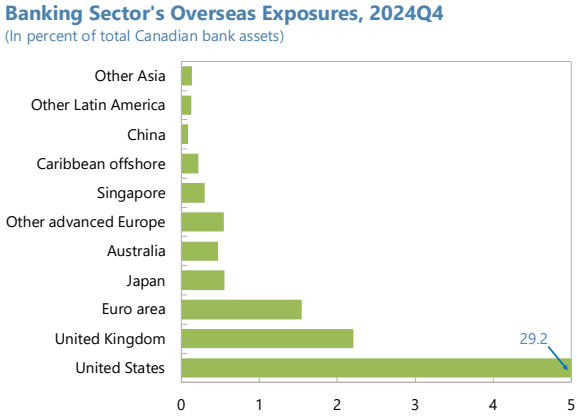
Sources: Haver Analytics; Bank of Canada and IMF staff calculations.

Figure 3. Canada: Structure of the Financial System

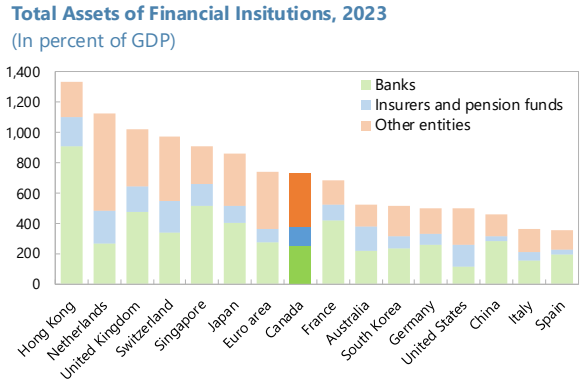
Financial system assets grew during the pandemic …



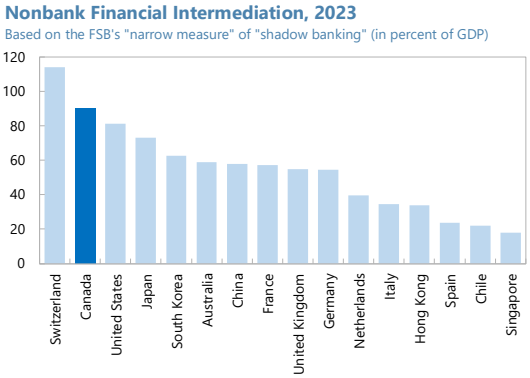
… and banks have large cross-border US exposures.



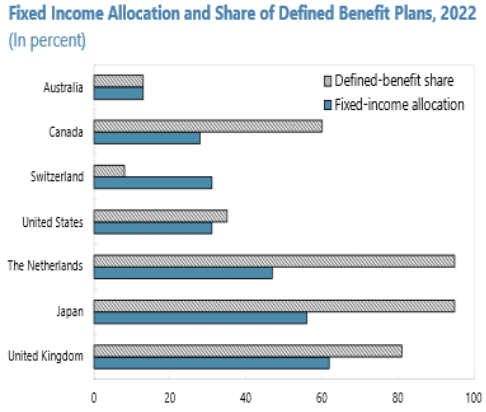
The size of the financial system is comparable to the average of other advanced peer economies …



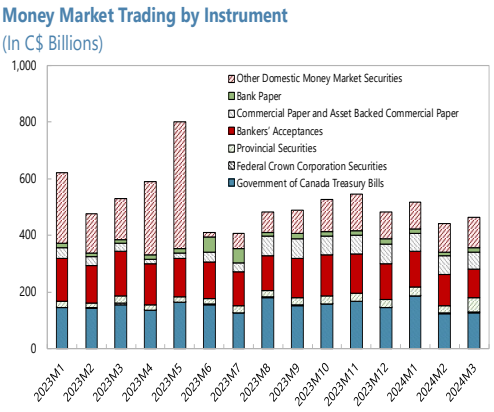
… but Canada's NBFI sector is among the largest relative to the size of the economy.



While DB pensions represent more than half of pension assets, fixed income holdings are more modest…



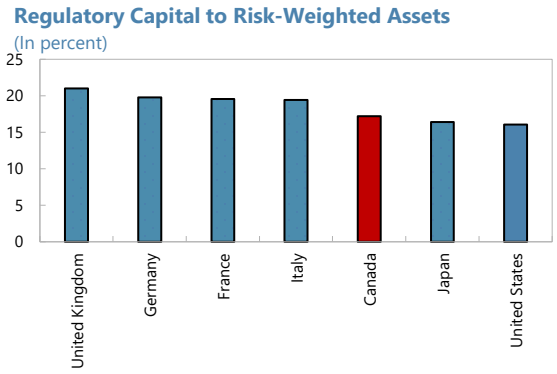
…and money market trading activity reflects a diverse set of investment instruments.



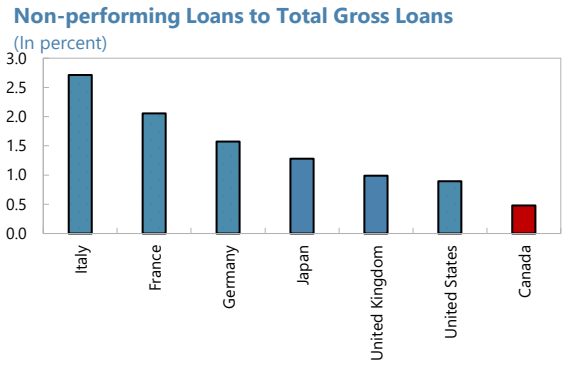
Sources: Haver Analytics; Bank of Canada; Financial Stability Board, Global Monitoring Report on Nonbank Financial Intermediation 2024; GFSR, April 2023; Canadian Investment Regulatory Organization; Bank of International Settlement; and IMF staff calculations.

Figure 4. Canada and Selected Countries: Key Financial Soundness Indicators

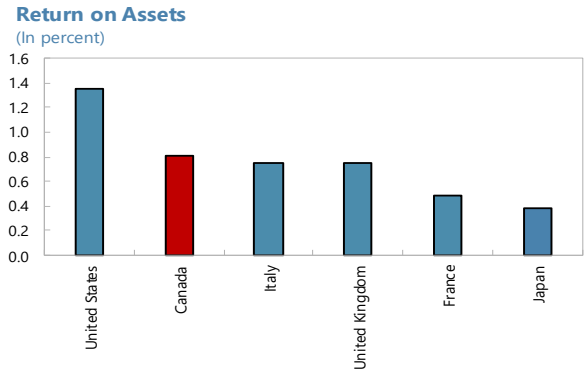
The banking sector's capital adequacy is comparable to other G7 countries …



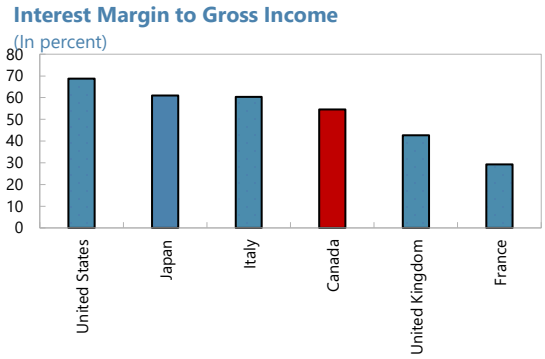
…while NPL levels are low relative to other G7 countries.



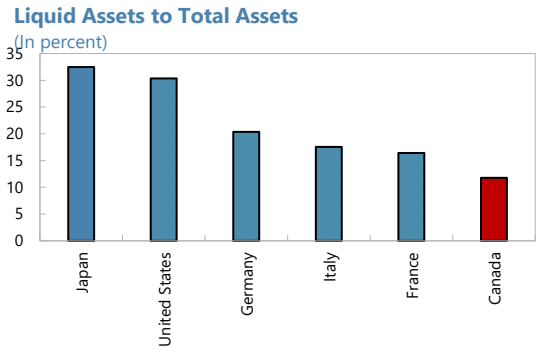
Banks' profitability is comparable to other G7 countries though lower than the US …



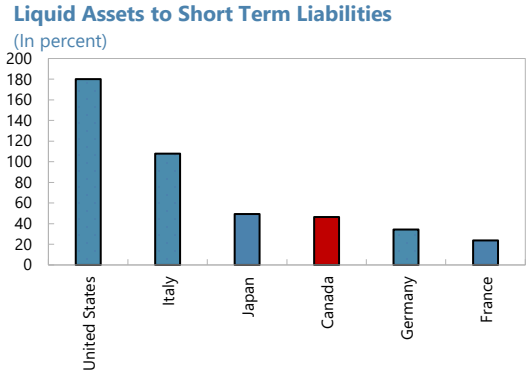
… with a similar pattern for interest margins.



Liquid assets are the lowest in G7 countries when compared to total assets….



….and are moderate compared to short-term liabilities.

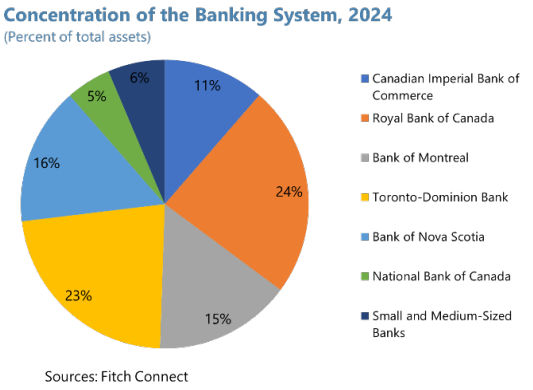


Sources: IMF and Financial Soundness Indicators database.

Note: Canada's data for these series are as of 2024: Q4 while others' values are based on 2024: Q3, except for Italy's data for 2024: Q2.

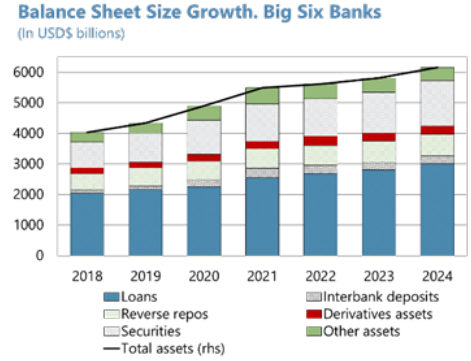
Figure 5. Canada: Banking Sector Key Performance Indicators

The banking system is highly concentrated.



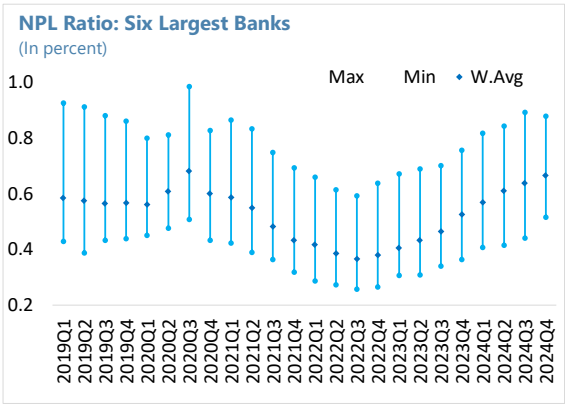
Sources: Fitch Connect

Banks' balance sheets expanded by 42 percent since the last FSAP, reflecting a faster growth rate compared to other G7 countries.

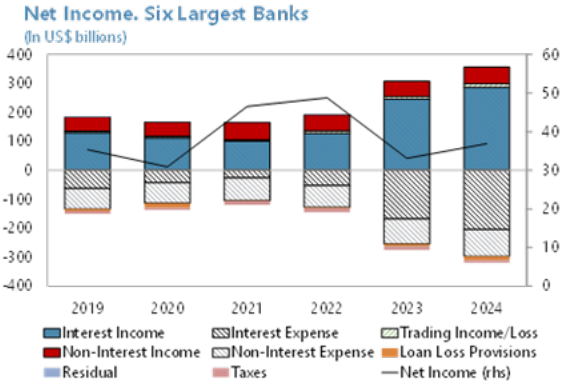


Sources: Fitch connect; and IMF staff estimates.

NPL ratios remain low despite a recent increase.

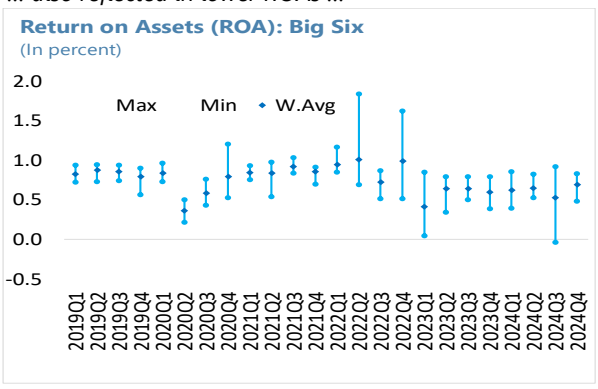


Net income has remained strong despite recent declines due to rising interest expenses and loan loss provisions.

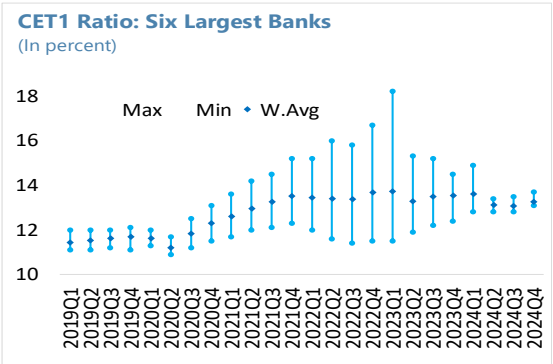


Sources: Fitch connect; and IMF estimates.

... also reflected in lower ROAs ...

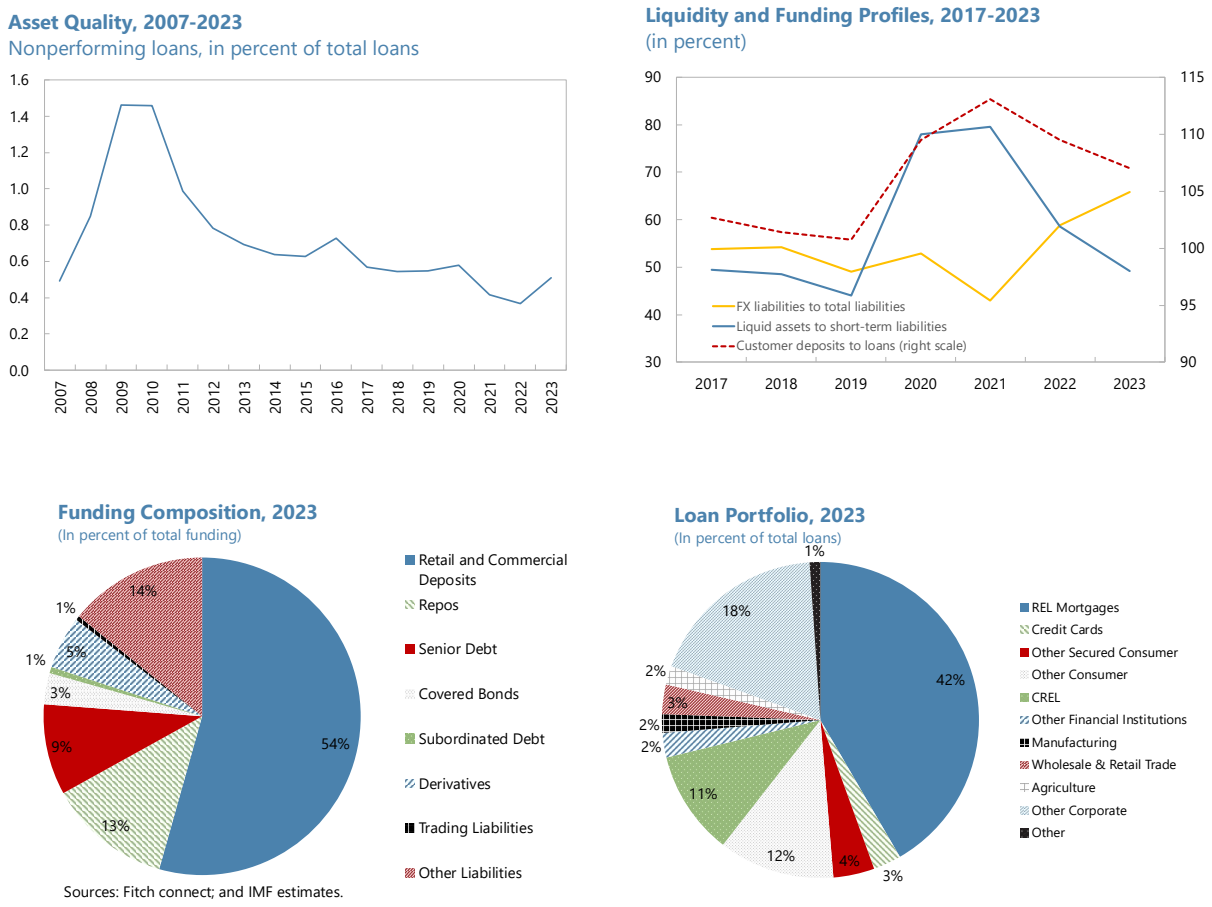


... yet banks remain well capitalized.



Sources: Fitch Connect; OSFI; and IMF staff calculations.

Figure 6. Canada: Banking Sector Asset Quality and Liquidity

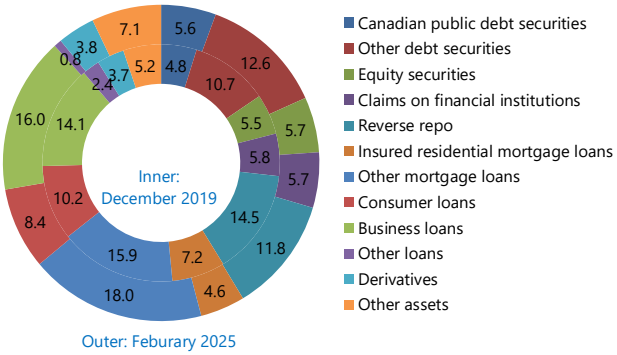


Sources: Fitch connect; and IMF estimates.

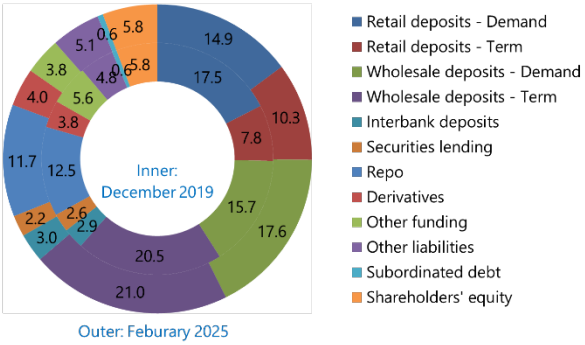
Sources: Fitch Connect; OSFI; IMF Financial Soundness Indicators; and IMF staff calculations.

Figure 7. Canada: Bank Balance Sheet Structure

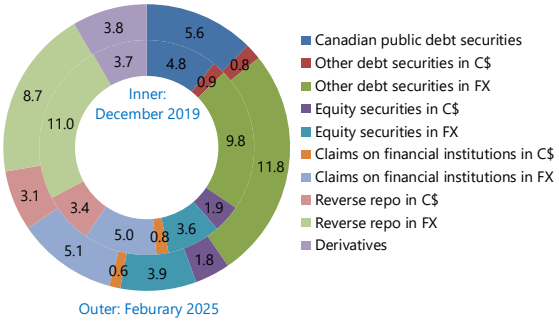
Composition of Banks' Assets, 2019-2025
(In percent of total assets)



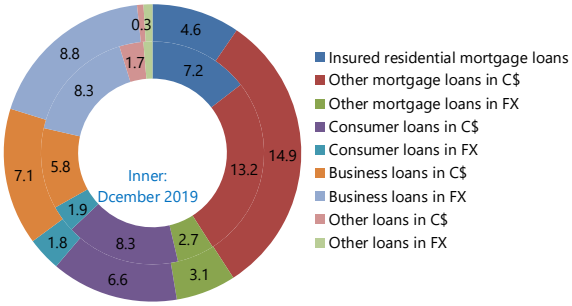
Composition of Banks' Liabilities and Equity, 2019-25
(In percent of total assets)



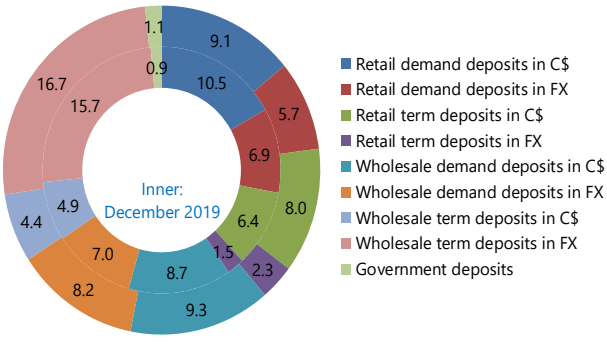
Composition of Banks' Investment Portfolios, 2019-25
(In percent of total assets)



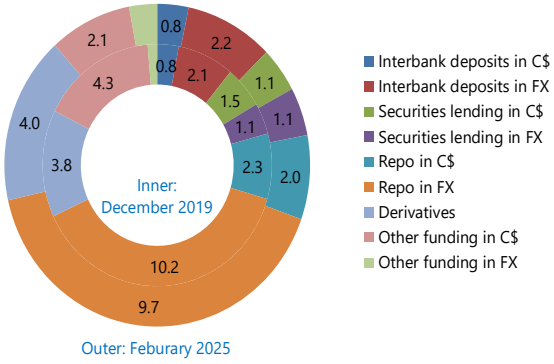
Composition of Banks' Lending Portfolios, 2019-25
(In percent of total assets)



Composition of Banks' Deposit Funding, 2019-25
(In percent of total assets)



Composition of Banks' Non-Deposit Funding, 2019-25
(In percent of total assets)

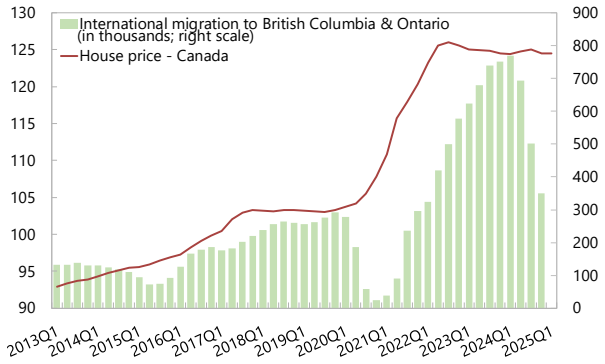


Source: OSFI and IMF staff calculations.

Figure 8. Canada: Trends in Credit and Real Estate Prices

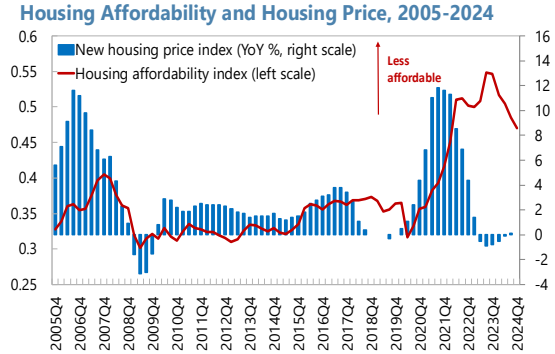
With immigration surging after the pandemic, housing prices peaked in 2022…

Housing Market Development, 2013-25
(2016=100)



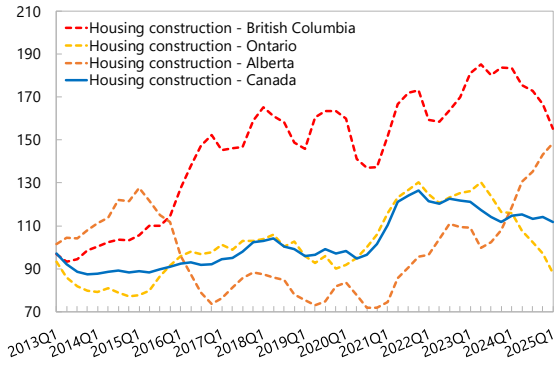
… causing housing affordability to worsen.

Housing Affordability and Housing Price, 2005-2024



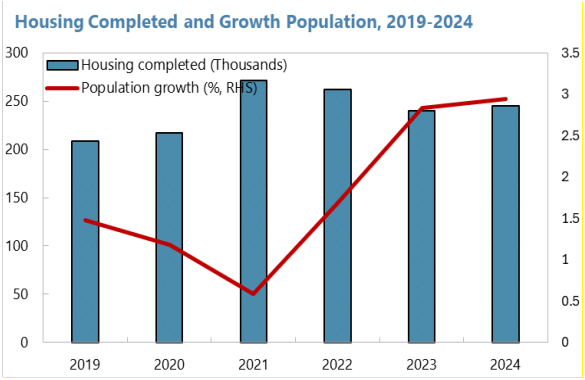
Construction activity levels have varied across provinces over the past decade….

Construction Activity, 2013-25
(2012=100, units)



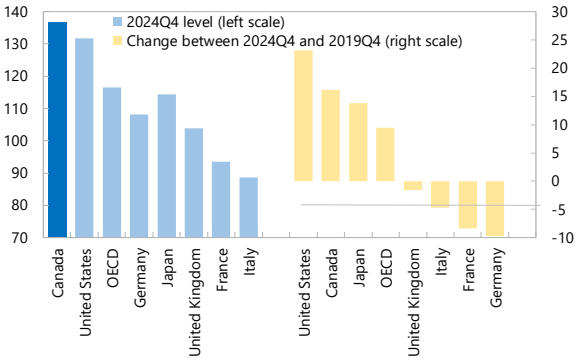
… but new units did not keep pace with the increase in demand as the population grew.

Housing Completed and Growth Population, 2019-2024



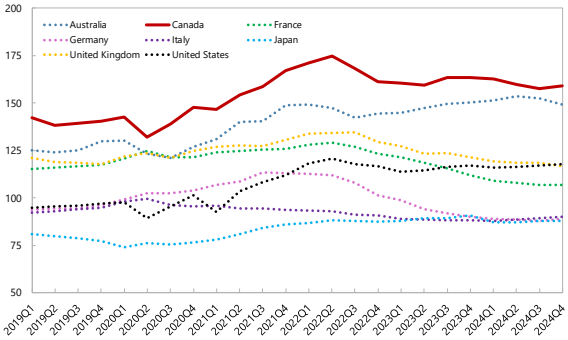
Housing affordability is the lowest of G7 countries …

House Price to Income, 2024Q4 vs. 2019Q4
(2015=100)



… and the gap with other G7 countries remains wide.

Standardized House Price-Income Ratio
(Percent of disposable income, 1980=100)

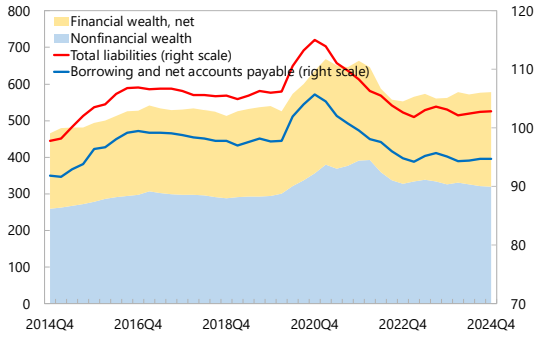


Sources: OECD, Housing Prices Indicator; Haver Analytics; Bank of Canada; OSFI; Canada Mortgage and Housing Corporation (CMHC); the Canada Real Estate Association; and IMF staff calculations.

Figure 9. Canada: Household and Corporate Soundness

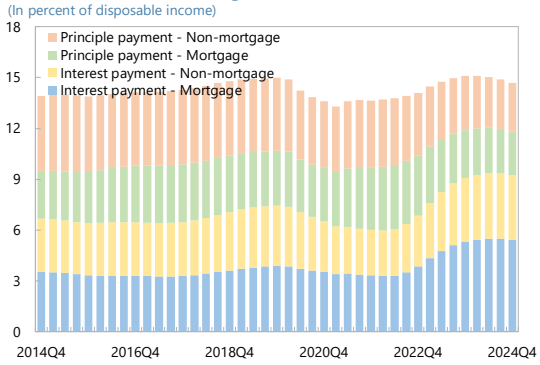
Household wealth and liabilities, relative to GDP, have dropped since the pandemic…

Household Indebtedness and Wealth, 2014-24
(In percent of GDP)



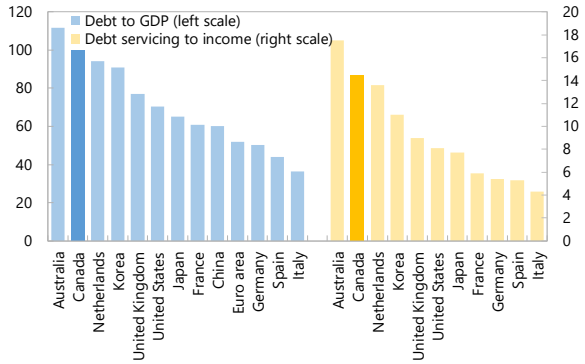
…and household debt service to income has increased due to higher interest costs but has been stabilizing since late 2024.

Household Debt-Servicing, 2014-24
(In percent of disposable income)



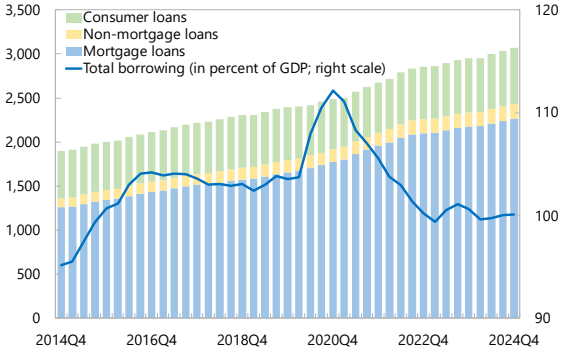
Household indebtedness ranks among the highest in industrial countries…

Household Indebtedness and Debt Servicing, 2024Q3
(In percent)



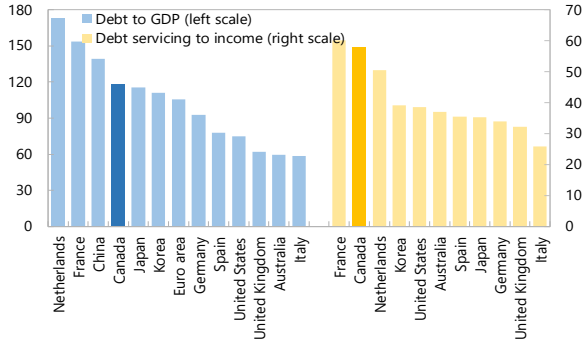
…driven by mortgage loans.

Household Borrowing, 2014-24
(In billions of Canadian dollar)



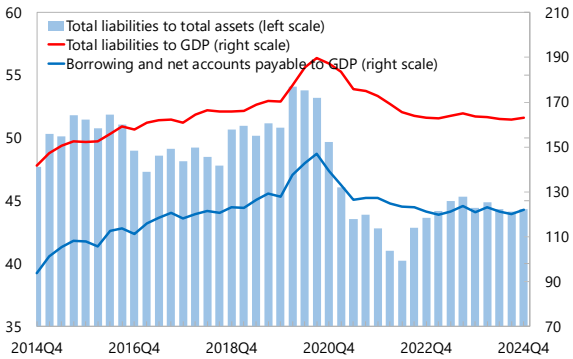
Corporate debt and debt service is also high relative to other industrial countries…

Corporate Indebtedness and Debt Servicing, 2024Q3
(In percent)



…despite some post-pandemic moderation.

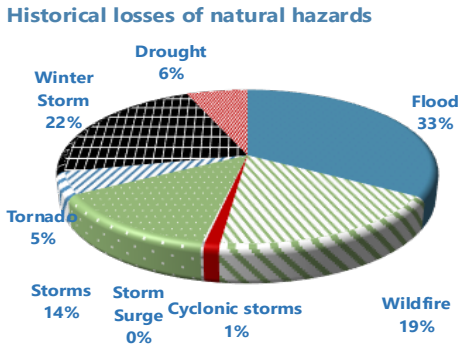
Corporate Indebtedness and Leverage, 2014-24
(In percent)



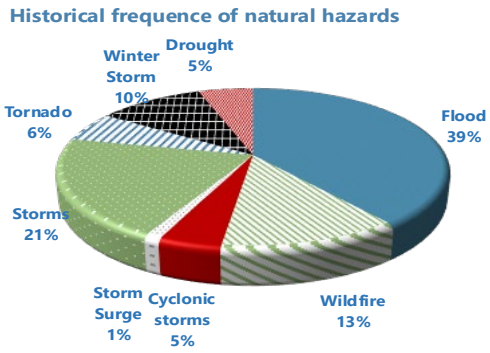
Sources: Haver Analytics and IMF staff calculations.

Figure 10. Canada: Climate Change and Climate Risk Assessment Matrix

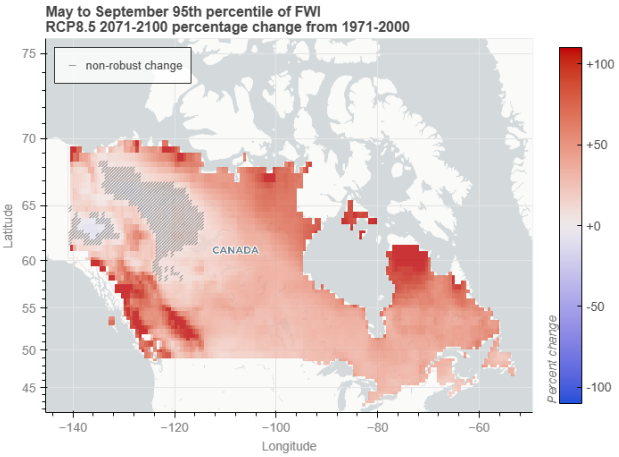
Floods and wildfires are among the costliest and...



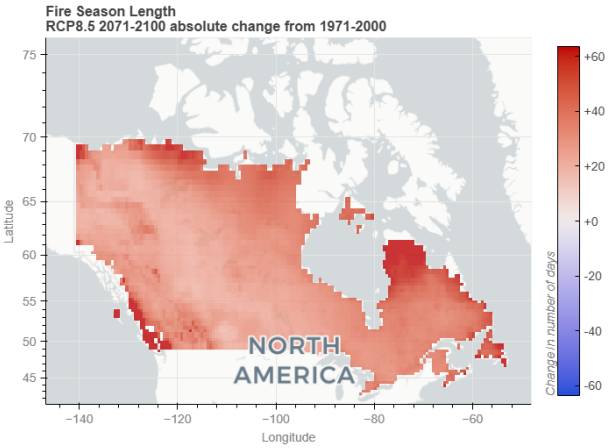
...most frequent natural hazards in Canada.



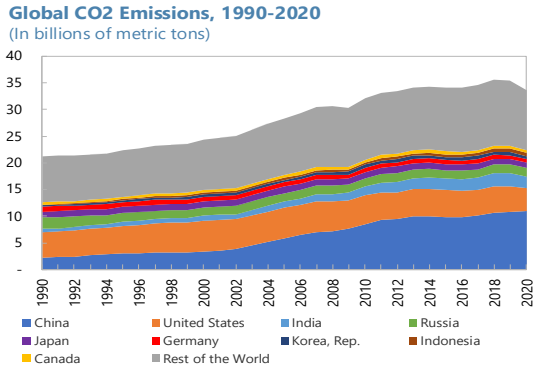
Climate change can further exacerbate natural hazards. By end century, under RCP8.5, wildfire intensity and...



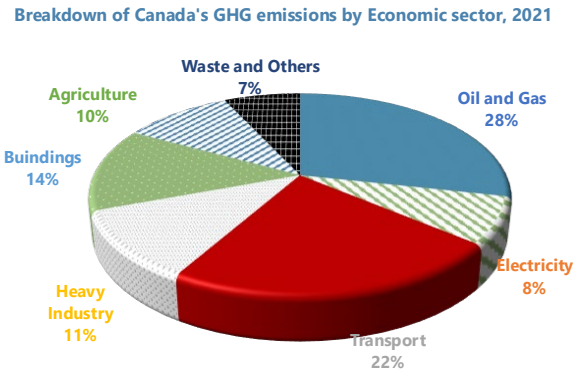
...the length of fire season are projected to increase substantially relative to 1971–2000 across most of Canada.



Canada is also exposed to transition risks, being the tenth largest emitter in the world.



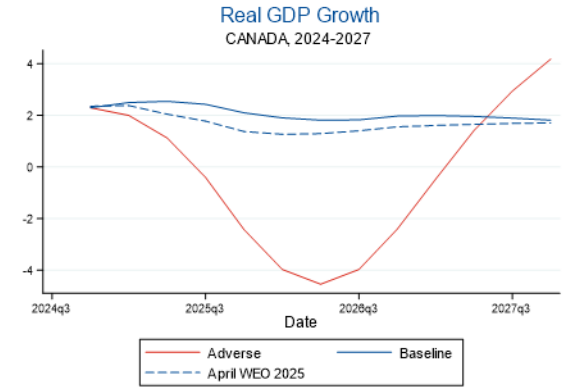
A large share of Canada's greenhouse gas emissions is in the oil and gas sector, followed by transport and buildings.



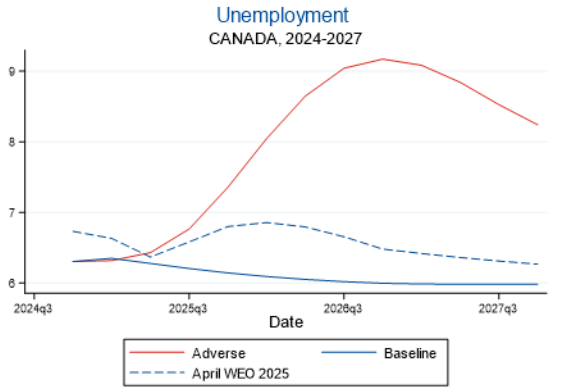
Sources: Public Safety Canada, ClimateData.ca, The World Bank, Canadian Climate Institute. Note: The top two charts represent the share by natural hazard of total historical losses (left) and number of occurrence (right) from 1900 to present day in Canada.

Figure 11. Canada: Macrofinancial Scenarios

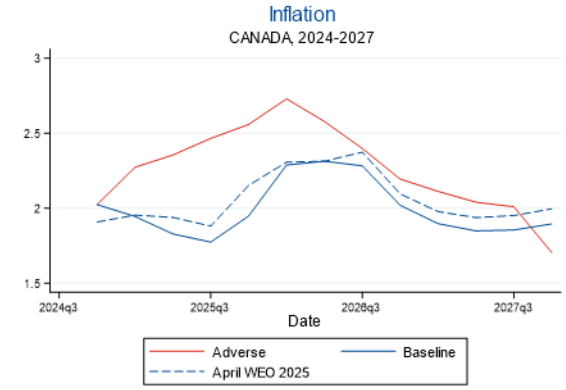
Under the adverse scenario real GDP growth drops to 4.9 percent….



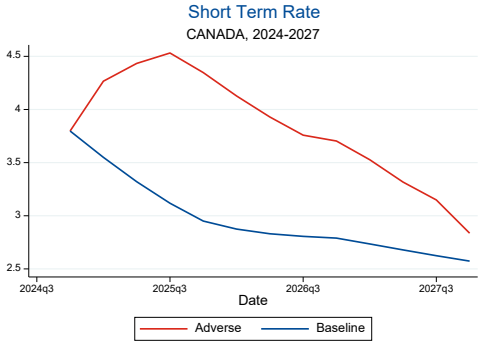
… while unemployment increases to 9.6 percent.



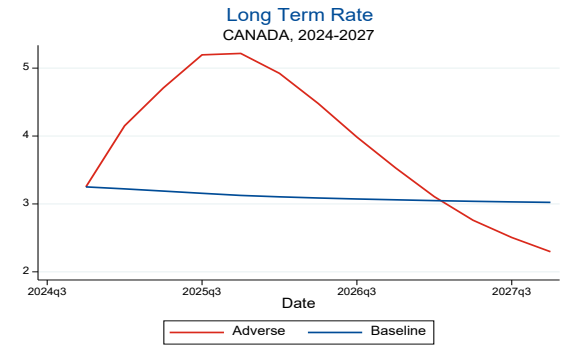
Inflation increases moderately, by about 1pp….



… and short-term rates increase 60 bps—driven by high inflation expectations….



There is an increase in long term rates…



… and the exchange rate depreciates by about 10 percent.

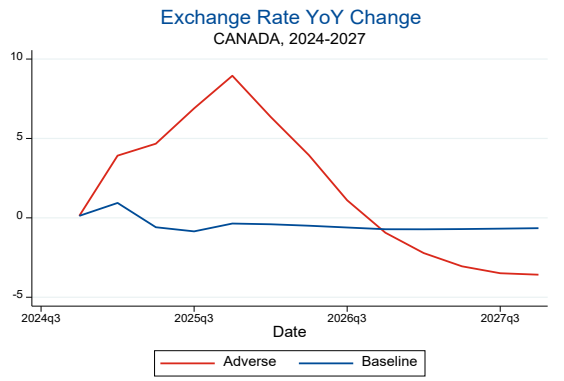
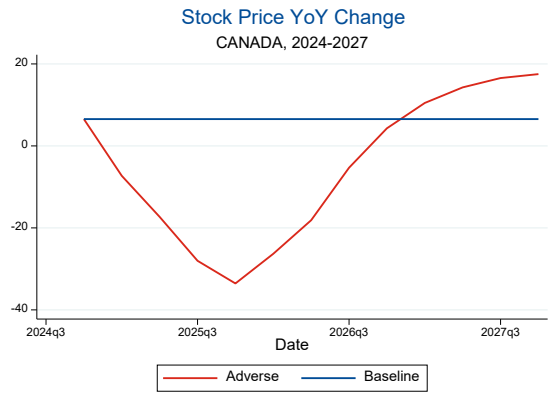
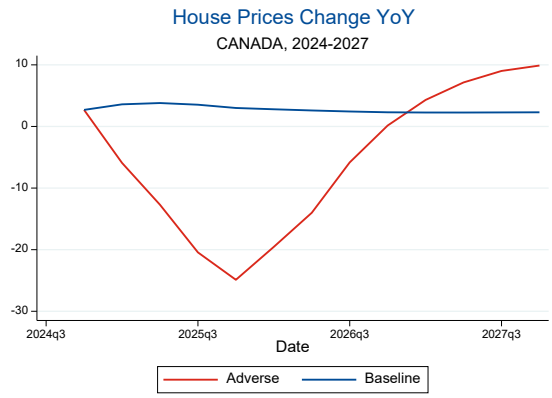


Figure 11. Canada: Macrofinancial Scenarios (concluded)

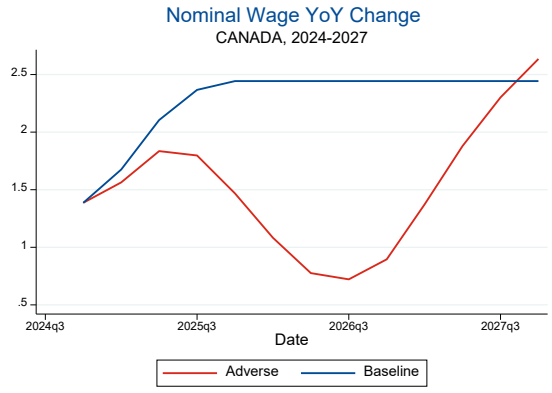
Stock prices fall by 33 percent…



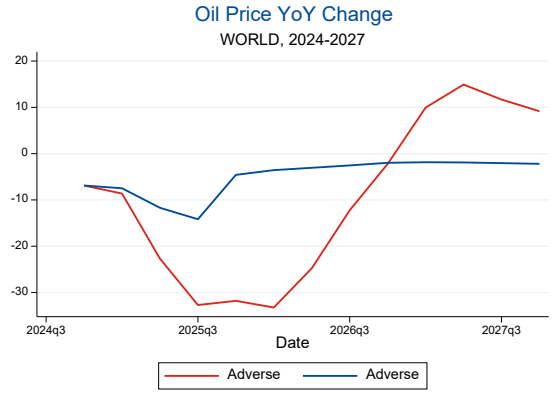
… and house prices drop by 25 percent.



Nominal wage experiences a decline of 0.5 percent….

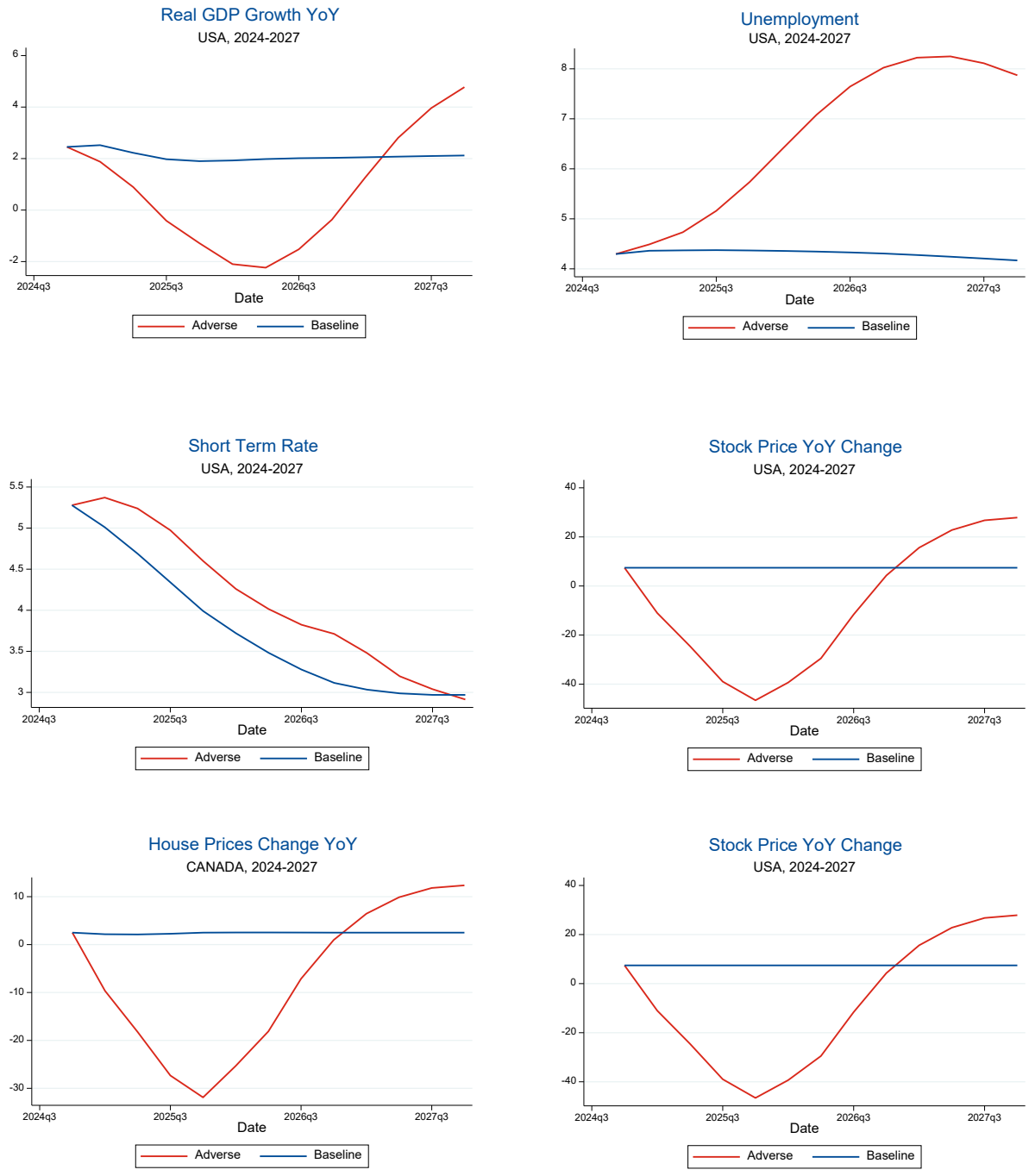


… and oil prices slump by 33 percent.



Sources: World Economic Outlook and IMF staff calculations.

Figure 12. Canada: Movement in Macrofinancial Scenario Fundamentals in the United States

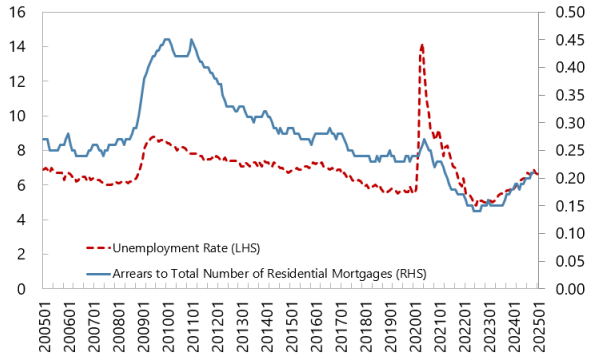


Sources: World Economic Outlook and Staff Calculations

Figure 13. Canada: Household and Corporate Sector Vulnerabilities

Mortgage Arrears and Unemployment Rate

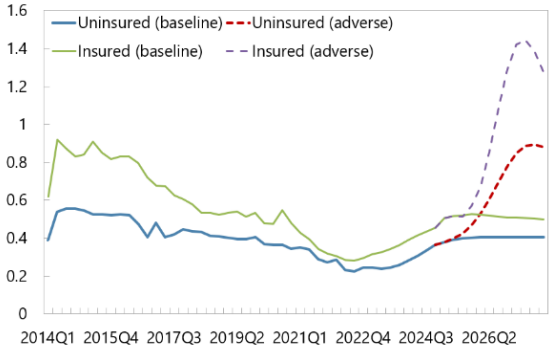
(Unit: Percent)



Sources: Canadian Bankers Association, Statistics Canada, and and IMF staff calculations.

Mortgage PD Projection

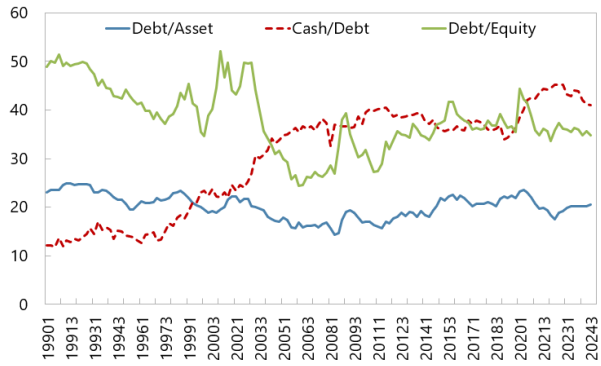
(Unit: Percent)



Sources: OSFI RESL, Statistics Canada and IMF staff calculation

NFC Indebtedness and Liquidity

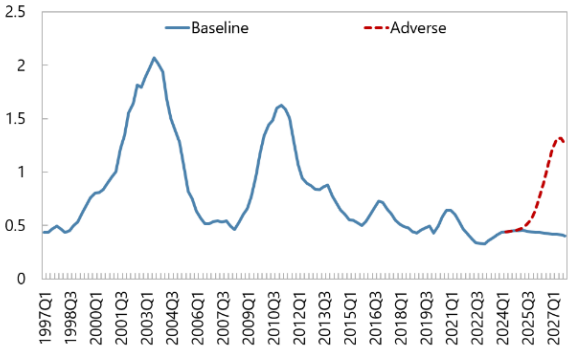
(Unit: Percent)



Sources: Statistics Canada and IMF staff calculations.

Corporate PD Projection

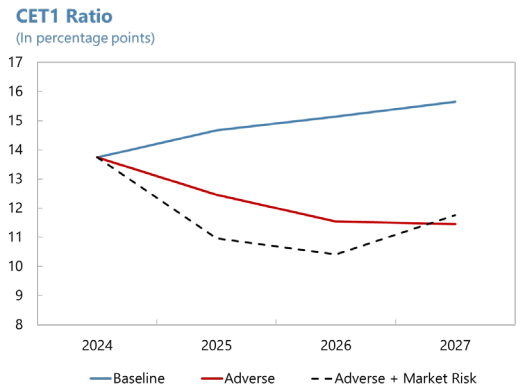
(Unit: Percent)



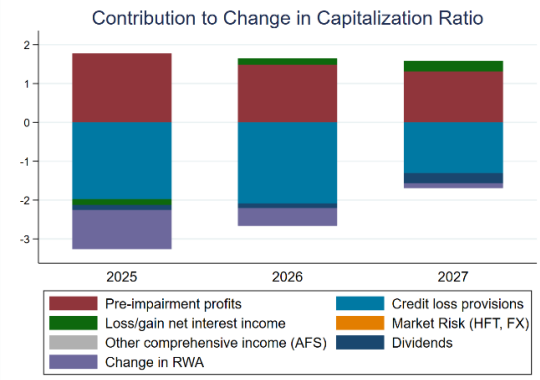
Sources: BoC, Statistics Canada, and IMF staff calculations.

Figure 14. Canada: Solvency Stress Test Results

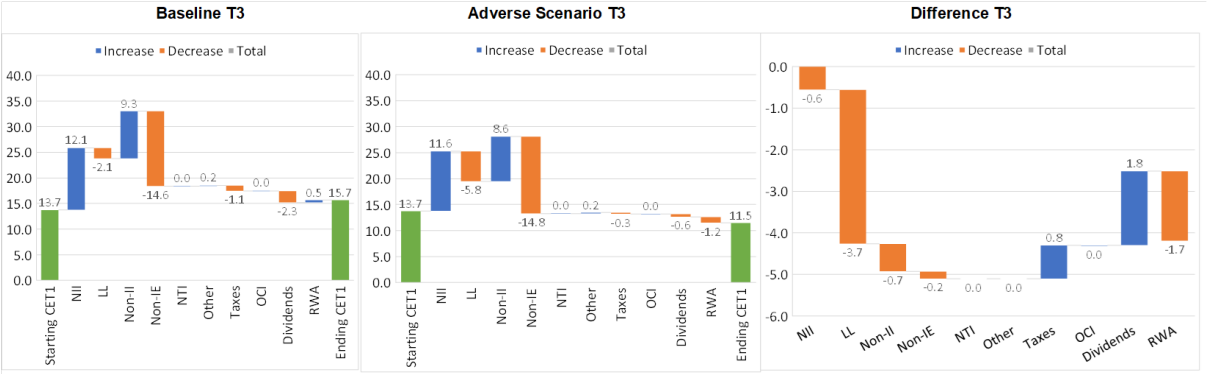
The CET1 ratio for the 7 systemic DTIs declines by 2.3 percentage points under the adverse scenario ....



.... primarily driven by a rise in loan losses, an increase in RWAs and a decrease in pre-impairment profits.

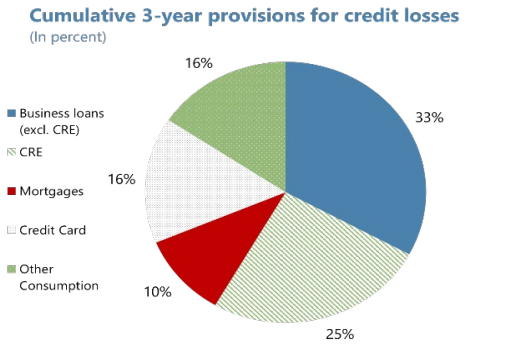


Over the three-year horizon, the 7 systemic DTIs face lower net interest income, higher loan losses, lower non-interest income, higher non-interest expense, lower taxes, lower divided distribution and higher RWAs under the adverse scenario than under the baseline.



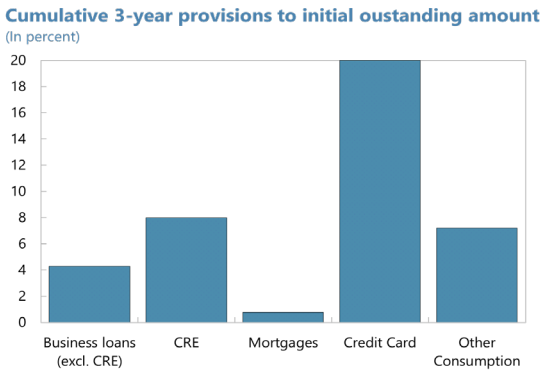
Note: NII stands for Net Interest Income, LL for Loan losses, Non-II for Non Interest Income, Non-IE for Non Interest Expenses, NTI for Net Traiding Income, OCI for other comprenhensive income.

A large portion of cumulative provisions consists of business and CRE loans...



Note: CRE loans comprise non-residential mortgages and construction real estate.

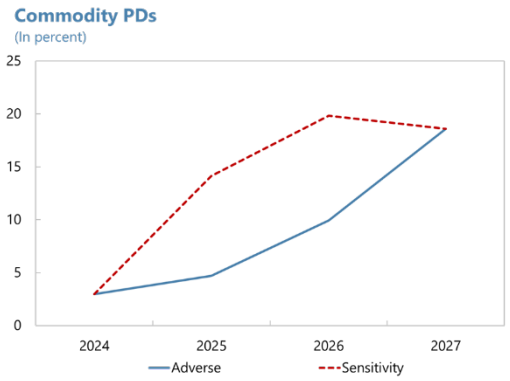
...while the ratio of cumulative provisions over initial outstanding amount is higher for credit cards loans.



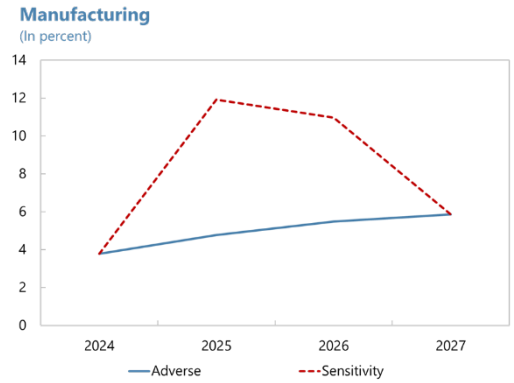
Source: IMF staff calculations.

Figure 15. Canada: Solvency Stress Test Sensitivity Analysis

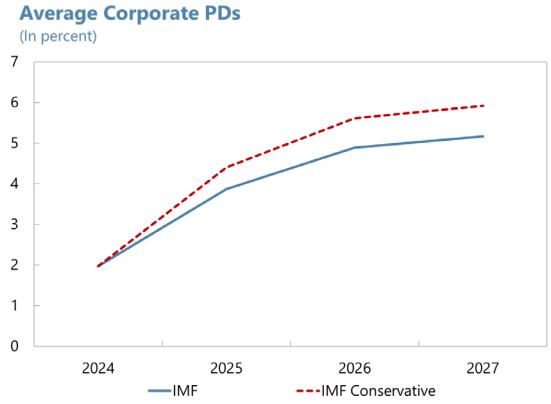
Commodities PDs used for sensitivity 2....



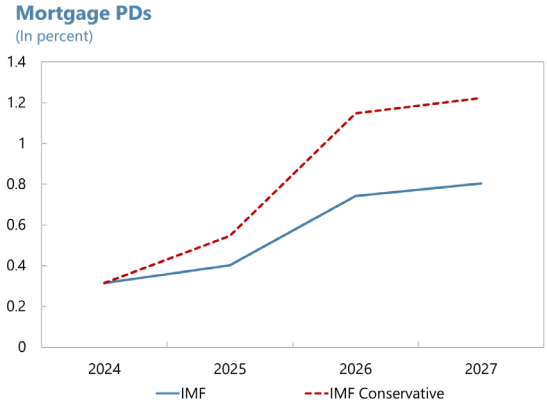
... Manufacturing PDs used for sensitivity 2.



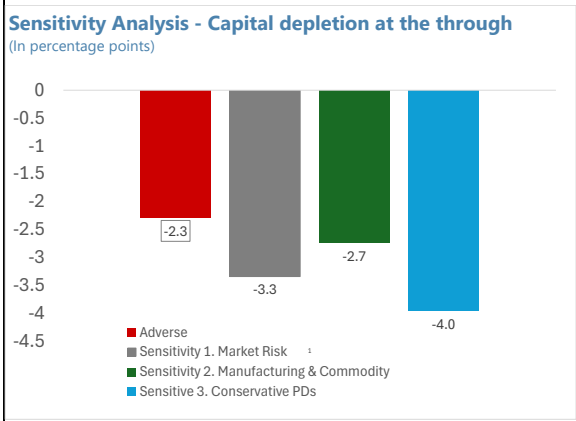
Corporate PDs used for sensitivity 3....



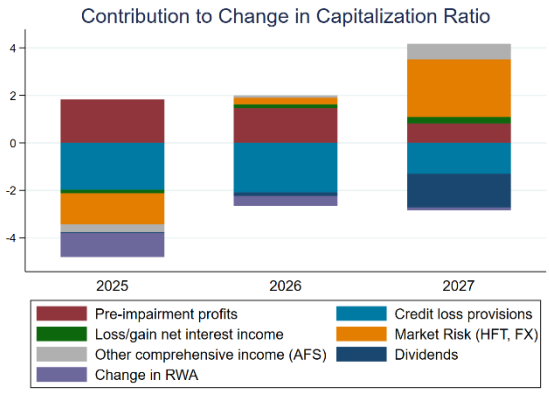
...Mortgage PDs used for sensitivity 3.



The banking system is robust to various sensitivity analysis related to market risk and credit risk...



Market risk losses are material only in the first year of the scenario horizon. Gains on securities contribute positively in the outer years ....



Source: IMF staff estimates.

Figure 16. Canada: Liquidity Coverage Ratio-Based Stress Test

Three market scenarios are combined with four run-off rates scenarios….

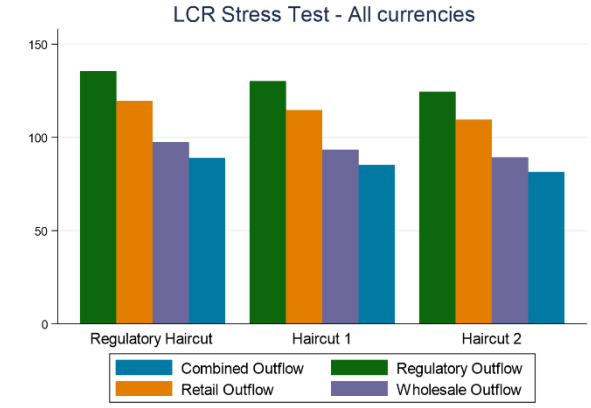
	Market Scenarios (weights)		
Assets	**Regulatory**	**Haircut 1**	**Haircut 2**
Level 1 assets	100%	95%-100%	90%-100%
Level 2A assets	85%	75%-80%	65%-75%
Level 2B assets	50%-75%	40%-70%	30%-70%

	Run-off Rates			
	Regulatory	**Retail**	**Wholesale**	**Combined**
Retail Liabilities				
Stable Deposits	3-5%	10%	3-5%	10%
Less-Stable Deposits	10%	20%	10%	20%
Wholesale Liabilities				
Stable Deposits	3-5%	3-5%	15%	15%
Less-Stable Deposits	10%	10%	30%	30%
Operational	3-25%	3-25%	15-45%	15-45%
Non-Operational, no FI	20-40%	20-40%	40-60%	40-60%

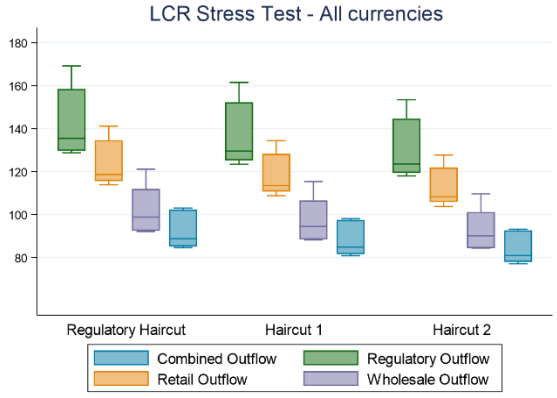
…for a total of 12 scenarios of varying severity.

	12 Scenarios ↑	↑	↑↑
Haircuts \ Run-off rates	**Regulatory**	**Retail**	**Wholesale**	**Combined**
Regulatory	S1	S2	S3	S4
Haircut 1 ↑	S5	S6	S7	S8
Haircut 2 ↑↑	S9	S10	S11	S12

The aggregate LCR for the 7 systemic DTIs remains above 100 percent under the retail scenarios ….



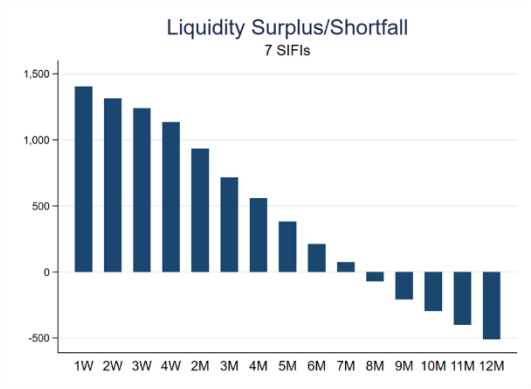
….under the wholesale scenario the LCR for some institutions falls below the threshold…



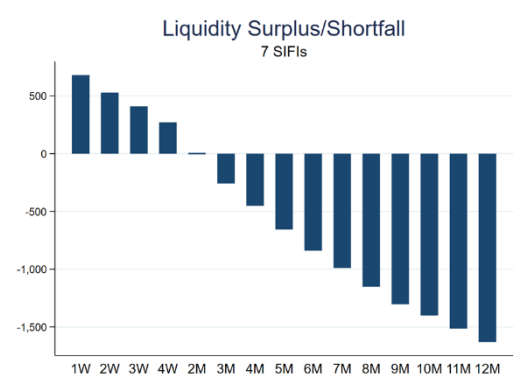
Source: IMF staff calculations.

Figure 17. Canada: Cash Flow Analysis

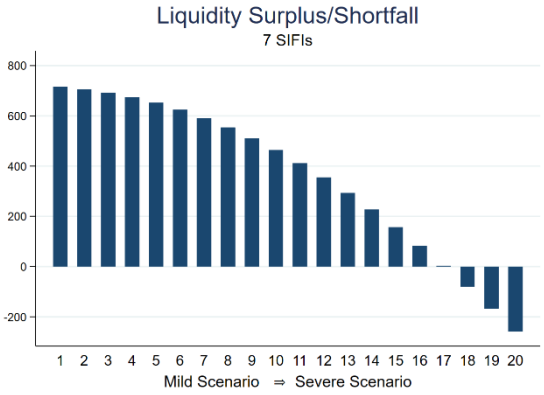
*The 7 systemic DTIs would maintain liquidity surpluses under the **milder scenario** for horizons shorter than 6 months….*



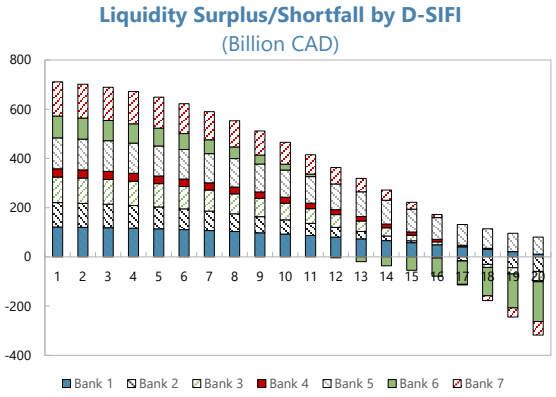
*Under the **most aggressive scenario** the systemic DTIs would maintain liquidity surpluses for all horizons equal or shorter than one month….*



Focusing on a three-month horizon, the 7 systemic DTIs experience shortfalls only in the three most aggressive scenarios…



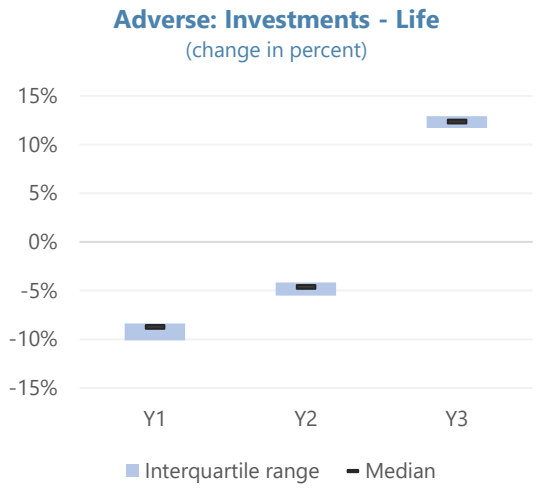
… with some heterogeneity at each institution's level.



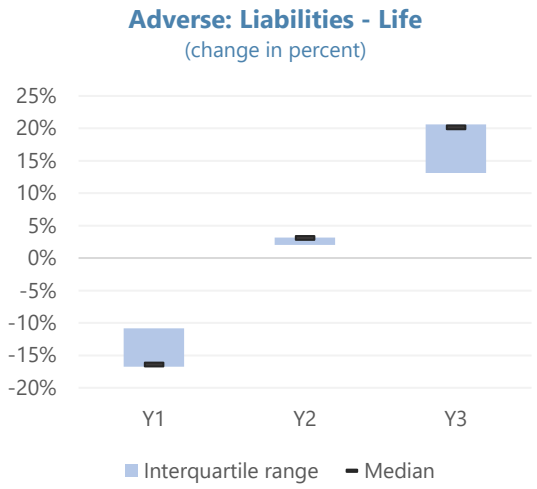
Source: IMF staff calculations.

Figure 18. Canada: Life Insurance Solvency Stress Test

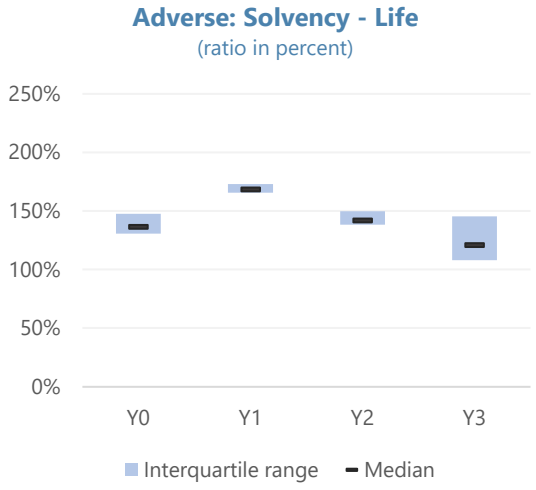
Assets of life insurers would decline significantly in year 1, followed by a further slight decline in year and a strong recovery in year 3.



Liabilities show even larger movements than assets in years 1 and 3, driven by long durations of life insurers' technical liabilities.



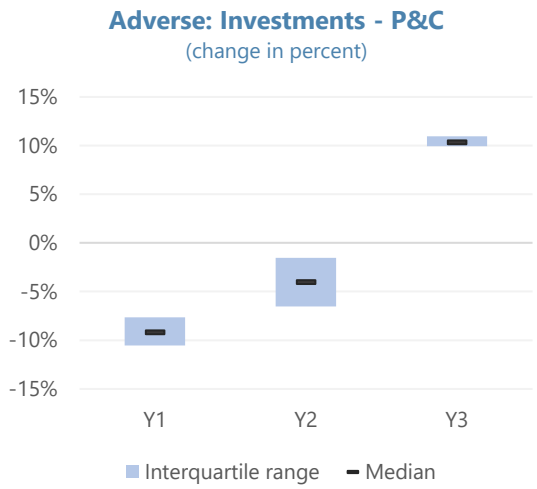
Life insurers' solvency ratios improve in year 1 due to lower liabilities, deteriorate in years 2 and 3, but remain above regulatory thresholds.



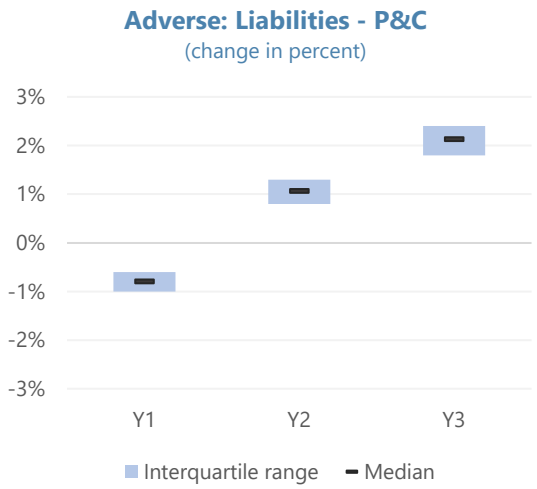
Sources: IMF staff calculations based on OSFI and AMF data.

Figure 19. Canada: Property and Casualty Insurance Solvency Stress Test

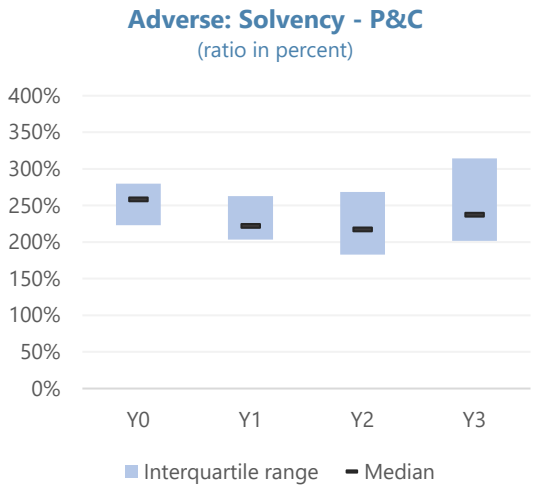
P&C insurers' assets are less affected by the market and credit shocks of the adverse scenario…



… and also liabilities are less sensitive than those of life insurers to the swings of interest rates.



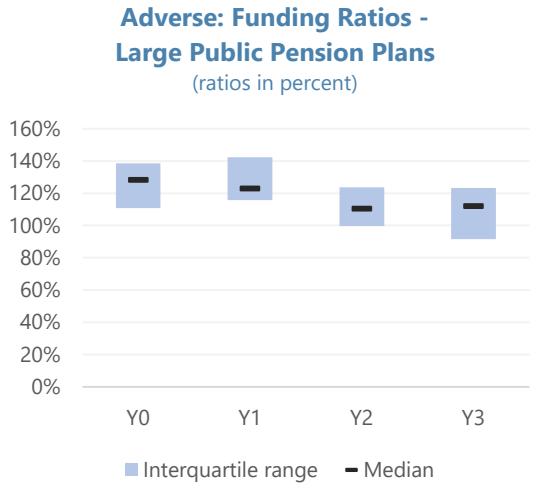
Solvency ratios improve in year 1 due to lower liabilities, start deteriorating in year 2, but remain above regulatory thresholds.



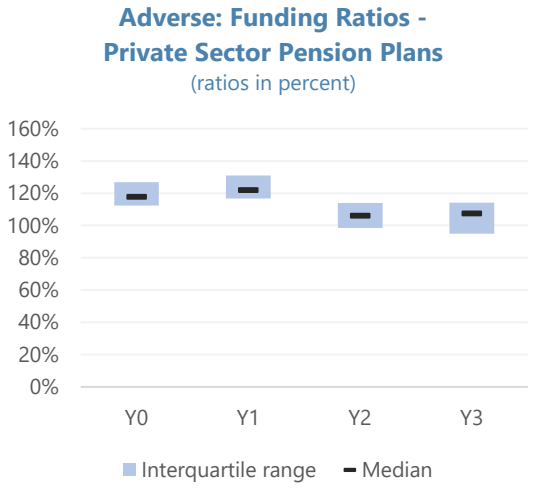
Sources: IMF staff calculations based on OSFI and AMF data.

Figure 20. Canada: Pensions Risk Analysis

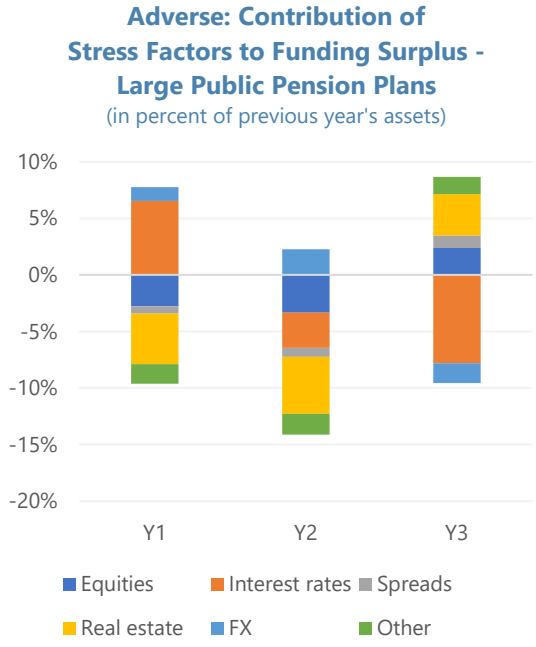
Funding ratios of large public sector pension plans decline slightly in year 1 then further deteriorate in year 2, by around 10 percentage points for the median plan.



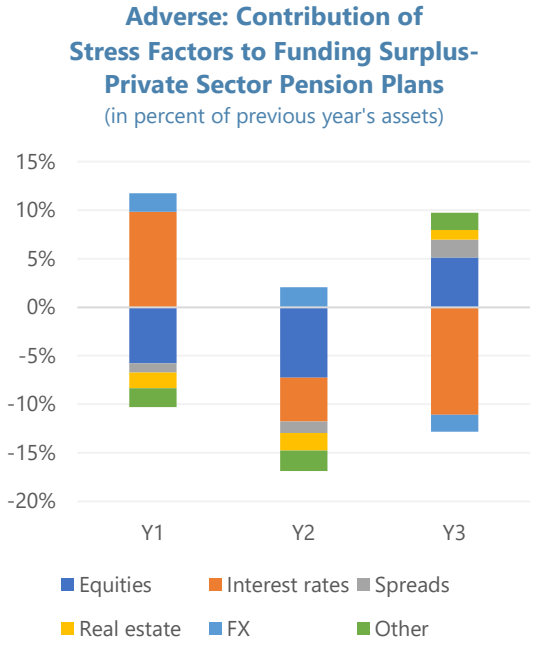
Private sector pension plans would even improve their funding position very slightly in year 1, before they decline in year 2.



Large public sector pension plans tend to have very diversified investments with larger allocations to real estate and other alternative assets…



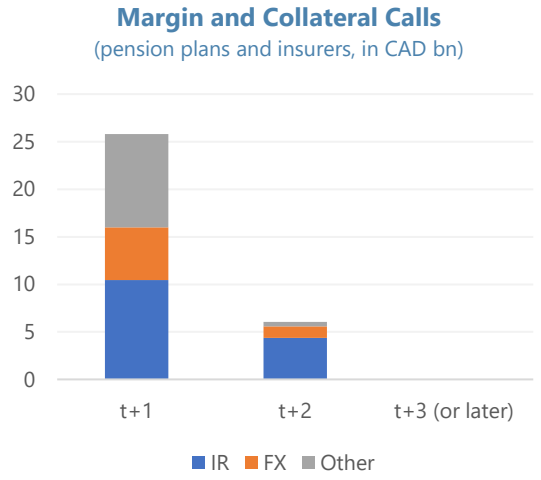
… while many (medium-sized) private sector plans tend to have more concentrated investments, mainly in stocks.



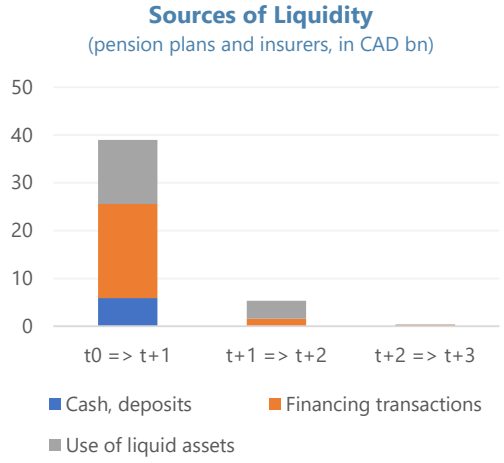
Sources: IMF staff calculations based on OSFI and FSRA data.

Figure 21. Canada: Insurance and Pensions Liquidity Risk Analysis

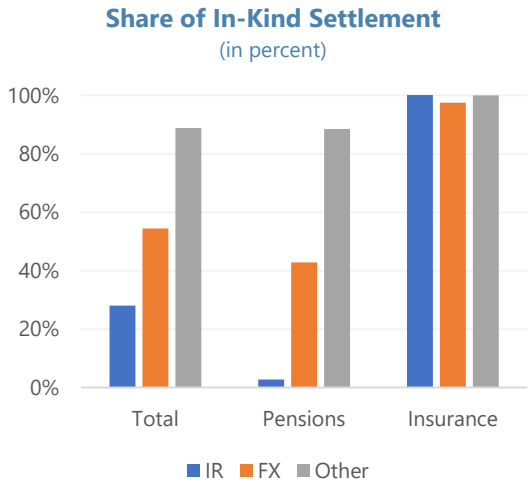
In total, margin and collateral calls in the tested scenario would amount to about CAD 32 billion, mostly due within t+1.



Life insurers and pension plans would be able to source even more liquidity than needed for the immediate settlement of the margin call, stemming mostly from financing transactions (repos, credit lines) and highly liquid assets.



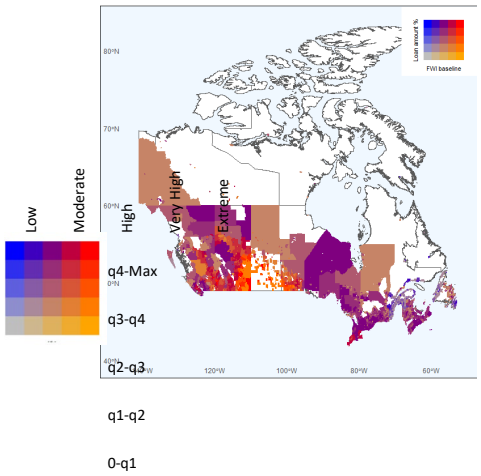
Life insurers are able to meet almost the entire margin calls through in-kind settlement, while pension plans use cash settlement particularly for their interest rate derivatives.



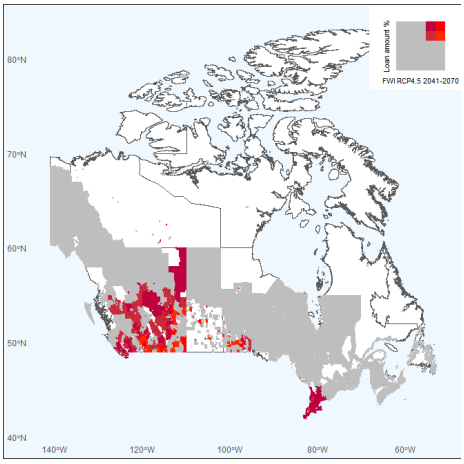
Source: IMF staff calculations based on company submissions.

Figure 22. Canada: Wildfire Risk Analysis

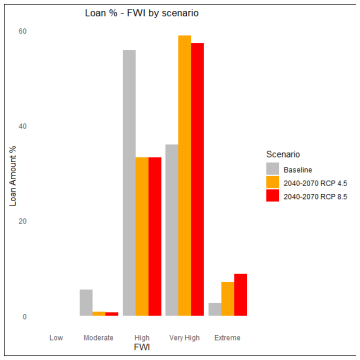
Almost half of total loans is currently located in areas with very high or extreme fire-weather and concentrated exposures.



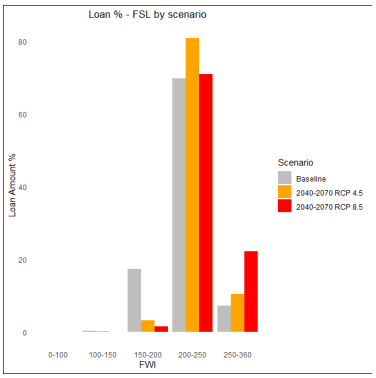
This portion increases with climate change under both medium and high-emissions scenarios (RCP4.5 mid-century below).



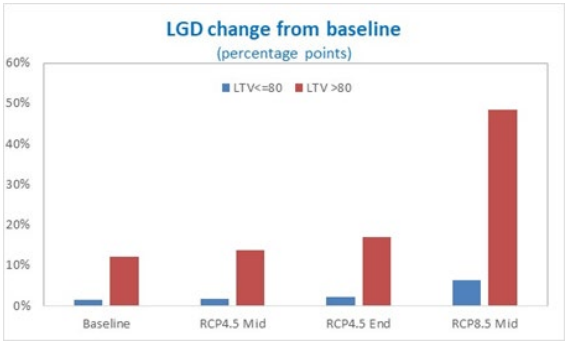
Already by mid-century a significant portion of loans migrates to very-high and extreme fire-weather under both RCP4.5 and RCP8.5.



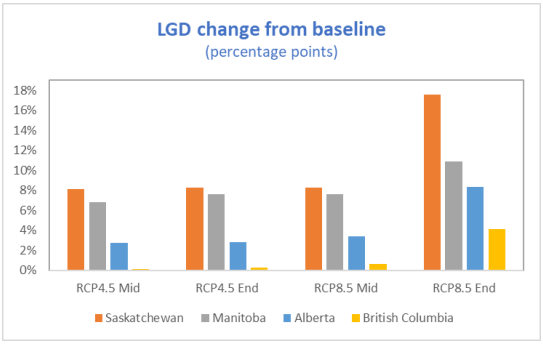
Under these scenarios, DTIs' residential real estate collateral will also be exposed to longer fire seasons.



Loans with high LTV are more sensitive than others.



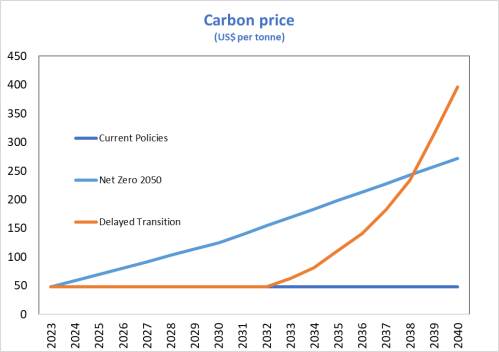
Some provinces are more affected than others.



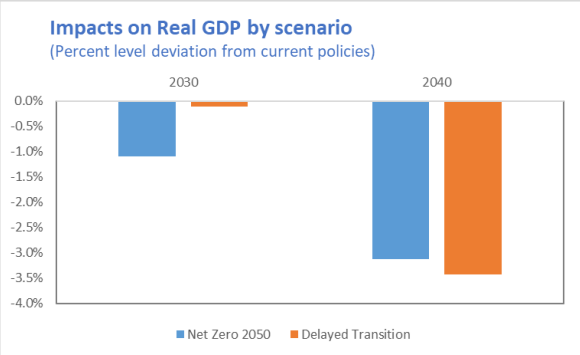
Sources: IMF staff calculations. The two figures at the top show the 6 D-SIBs' mortgages by Census Subdivisions categorized by FWI levels (from low to extreme) and loan amount in percentage over the total (from the first quantile q1 to the fourth q4). A separate map at Forward Sortation level has been produced for Québec's systemic DTI but not reported for confidentiality reasons. All other charts report data for the seven systemic DTIs.

Figure 23. Canada: Transition Risk Analysis

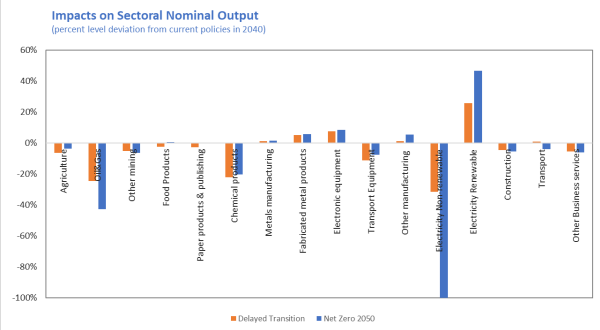
Under the Delayed Transition scenario, carbon prices would need to accelerate sharply and surpass those in the Net Zero 2050 scenario as we approach mid-century.



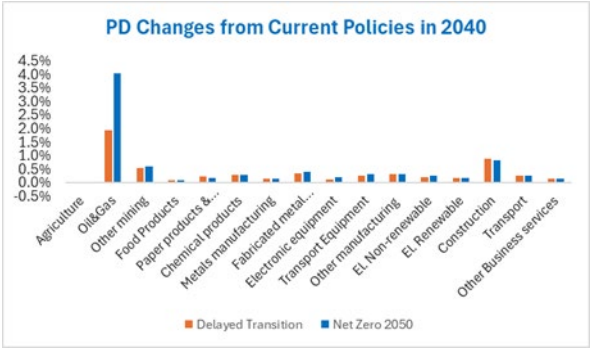
Macro impacts by 2040 are somewhat greater under the Delayed Transition scenario compared to the Net Zero 2050 scenario.



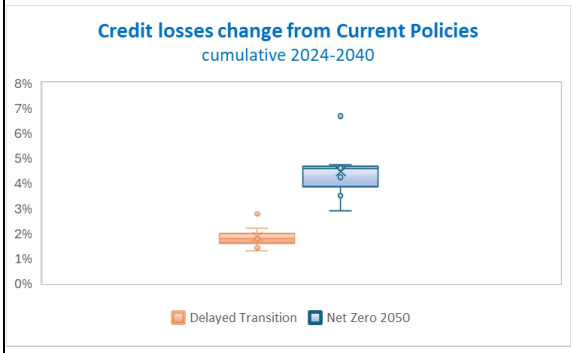
Output would decrease for most sectors, with some variations. The electricity non-renewable sector output declines substantially as electricity production transitions to renewable sources.



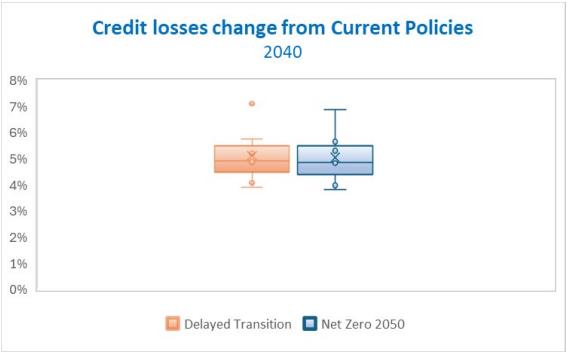
Sectorial PDs and LGDs would generally increase modestly, but notable impacts are observed for the oil and gas sector.



The cumulative impact is greater under the Net Zero 2050 scenario. However, DTIs' credit losses under Delayed Transition begin to exceed the ones under Net Zero in 2040.



DTIs' credit losses are estimated to increase between 3.8–7.1 percent under the Net Zero 2050 and Delayed Transition scenarios relative to Current Policies by 2040.



Sources: IMF staff calculations.

Table 2. Canada: Selected Economic and Financial Indicators

(Percentage change, unless otherwise indicated)

Nominal GDP (2023): Can$ 2,892 billion (US$ 2,142 billion) Quota: SDR 11,023.9 million
GDP per capita (2023): US$ 53,607 Population (2023): 40.0 million
Main exports: Oil and gas, autos and auto parts, gold, lumber, copper.

					Est.			Proj.		
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Output and Demand										
Real GDP	6.0	4.2	1.5	1.5	1.4	1.6	1.7	1.6	1.6	1.5
Total domestic demand	7.0	5.1	0.0	1.5	1.3	1.7	1.9	2.0	2.0	1.9
Private consumption	5.8	5.5	1.9	2.4	2.2	2.1	2.7	3.1	3.2	2.5
Total investment	15.0	6.3	-5.9	-2.1	-1.1	1.8	1.7	1.5	1.6	1.6
Net exports, contribution to growth	-1.7	-1.0	1.6	0.0	0.1	-0.1	-0.2	-0.4	-0.4	-0.4
Output gap 1/	-1.4	0.8	0.0	-0.5	-1.0	-0.8	-0.5	-0.2	-0.1	0.0
Unemployment and Inflation										
Unemployment rate (average) 2/	7.5	5.3	5.4	6.4	6.6	6.5	6.3	6.1	6.1	6.0
CPI inflation (average)	3.4	6.8	3.9	2.4	2.0	2.1	2.0	2.0	2.0	2.0
Saving and Investment 3/										
Gross national saving	24.3	25.0	23.3	22.8	22.6	22.4	22.2	21.8	21.4	21.6
General government	0.6	3.8	3.2	0.8	1.0	1.1	1.3	1.4	1.4	1.6
Private	23.7	21.2	20.1	21.9	21.6	21.3	20.9	20.4	20.0	20.0
Personal	19.5	7.6	7.3	12.2	11.9	12.5	13.9	13.4	12.6	11.3
Business	4.2	13.6	12.8	9.7	9.7	8.8	7.0	7.0	7.4	8.7
Gross domestic investment	24.3	25.3	23.9	23.3	22.7	22.7	22.7	22.7	22.6	22.5
General Government Fiscal Indicators 2/ (NA basis)										
Revenue	42.4	41.2	42.2	42.6	42.4	42.1	42.1	42.1	42.1	42.2
Expenditures	45.5	40.6	42.1	44.7	44.2	43.8	43.5	43.3	43.2	43.0
Overall balance	-3.1	0.6	0.1	-2.1	-1.9	-1.6	-1.4	-1.2	-1.0	-0.8
Structural balance 1/	-2.0	0.0	0.0	-0.9	-1.2	-1.2	-1.1	-1.0	-1.0	-0.8
Gross Debt	112.6	104.2	107.7	110.8	112.5	110.9	109.4	107.9	106.2	104.1
Net debt	14.2	13.6	14.4	11.9	12.5	13.2	13.6	13.9	14.2	14.1
Money and Credit (Annual average)										
Household Credit Growth	10.8	9.9	5.0	3.6	3.5	3.5	3.5	3.5	3.4	3.4
Business Credit Growth	-12.7	6.4	3.4	3.6	3.5	3.5	3.5	3.5	3.4	3.4
Balance of Payments										
Current account balance 3/	0.0	-0.3	-0.6	-0.5	-0.1	-0.3	-0.6	-0.9	-1.2	-0.9
Merchandise Trade balance 3/	0.1	0.7	0.0	-0.2	-0.1	-0.2	-0.5	-0.9	-1.2	-0.9
Export volume (percent change)	1.9	2.4	4.0	0.5	2.9	2.1	2.1	2.1	2.0	2.0
Import volume (percent change)	8.8	6.1	-1.2	0.2	2.7	3.0	3.2	3.9	3.9	3.8
Terms of trade	13.3	4.7	-5.8	-1.0	-0.2	0.0	0.0	0.0	0.0	0.0

Sources: Haver Analytics and Fund staff calculations.
1/ Percent of potential GDP.
2/ Percent.
3/ Percent of GDP.

Table 3. Canada: Financial System Structure

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
In Billions of CAD											
Chartered banks	3402.6	3710.6	3873.4	3981.3	4333.3	4648.2	5423.9	5695.3	6246.2	6633.6	7172.3
Quasi banks 1/	445.5	474.7	498.8	520.4	553.4	584.5	666.9	698.0	736.8	798.3	844.3
Insurance and pension funds	2530.8	2648.2	2801.7	2960.7	2952.0	3276.7	3512.9	3764.4	3532.0	3732.1	4064.5
o/w Life insurance business	438.4	435.4	468.5	475.3	475.0	514.1	542.5	564.2	525.0	560.8	601.1
o/w Property and casualty insurance companies	143.4	139.9	154.0	169.8	174.5	188.6	194.1	215.1	208.6	225.7	237.0
o/w Segregated funds of life insurance companies	272.6	287.4	308.6	334.5	315.2	362.5	392.2	439.2	406.5	439.9	507.0
o/w Trusteed pension plans	1676.5	1785.5	1870.6	1981.0	1987.4	2211.5	2384.1	2546.0	2392.0	2505.8	2719.4
Mutual funds	1605.4	1787.2	2015.6	2222.4	2202.3	2541.7	2829.0	3352.5	2971.3	3200.8	3789.3
o/w Money market funds	28.1	32.4	33.6	30.4	36.0	42.8	47.5	38.8	55.5	81.0	92.6
o/w Other mutual funds	1577.3	1754.8	1982.0	2192.0	2166.3	2498.9	2781.6	3313.7	2915.7	3119.9	3696.6
Other financial intermediaries 2/	1063.3	1174.2	1386.3	1498.0	1568.9	1716.9	1806.2	2070.0	2057.2	2096.0	2256.9
Financial auxiliaries	335.5	349.1	391.6	465.0	502.2	528.2	548.2	666.1	647.7	694.1	747.7
Captive financial institutions and money lenders	1865.3	1866.4	2026.8	2169.0	2048.6	2277.6	2544.0	3003.4	2786.4	2946.2	3260.7
Social security funds	344.7	427.8	432.3	488.8	537.3	615.4	673.0	798.8	798.5	892.8	1061.7
In Percent of Total Assets											
Chartered banks	29.4	29.8	28.8	27.8	29.5	28.7	30.1	28.4	31.6	31.6	30.9
Quasi banks 1/	3.8	3.8	3.7	3.6	3.8	3.6	3.7	3.5	3.7	3.8	3.6
Insurance and pension funds	21.8	21.3	20.9	20.7	20.1	20.2	19.5	18.8	17.9	17.8	17.5
o/w Life insurance business	3.8	3.5	3.5	3.3	3.2	3.2	3.0	2.8	2.7	2.7	2.6
o/w Property and casualty insurance companies	1.2	1.1	1.1	1.2	1.2	1.2	1.1	1.1	1.1	1.1	1.0
o/w Segregated funds of life insurance companies	2.4	2.3	2.3	2.3	2.1	2.2	2.2	2.2	2.1	2.1	2.2
o/w Trusteed pension plans	14.5	14.4	13.9	13.8	13.5	13.7	13.2	12.7	12.1	11.9	11.7
Mutual funds	13.8	14.4	15.0	15.5	15.0	15.7	15.7	16.7	15.0	15.2	16.3
o/w Money market funds	0.2	0.3	0.3	0.2	0.2	0.3	0.3	0.2	0.3	0.4	0.4
o/w Other mutual funds	13.6	14.1	14.8	15.3	14.7	15.4	15.4	16.5	14.7	14.9	15.9
Other financial intermediaries 2/	9.2	9.4	10.3	10.5	10.7	10.6	10.0	10.3	10.4	10.0	9.7
Financial auxiliaries	2.9	2.8	2.9	3.3	3.4	3.3	3.0	3.3	3.3	3.3	3.2
Captive financial institutions and money lenders	16.1	15.0	15.1	15.2	13.9	14.1	14.1	15.0	14.1	14.0	14.1
Social security funds	3.0	3.4	3.2	3.4	3.7	3.8	3.7	4.0	4.0	4.3	4.6
In Percent of GDP											
Chartered banks	170.6	186.4	191.2	186.0	193.8	200.9	244.3	224.6	219.1	226.1	233.7
Quasi banks 1/	22.3	23.8	24.6	24.3	24.8	25.3	30.0	27.5	25.8	27.2	27.5
Insurance and pension funds	126.9	133.0	138.3	138.3	132.0	141.6	158.2	148.4	123.9	127.2	132.4
o/w Life insurance business	22.0	21.9	23.1	22.2	21.2	22.2	24.4	22.2	18.4	19.1	19.6
o/w Property and casualty insurance companies	7.2	7.0	7.6	7.9	7.8	8.2	8.7	8.5	7.3	7.7	7.7
o/w Segregated funds of life insurance companies	13.7	14.4	15.2	15.6	14.1	15.7	17.7	17.3	14.3	15.0	16.5
o/w Trusteed pension plans	84.0	89.7	92.3	92.5	88.9	95.6	107.4	100.4	83.9	85.4	88.6
Mutual funds	80.5	89.8	99.5	103.8	98.5	109.9	127.4	132.2	104.2	109.1	123.5
o/w Money market funds	1.4	1.6	1.7	1.4	1.6	1.9	2.1	1.5	1.9	2.8	3.0
o/w Other mutual funds	79.1	88.2	97.9	102.4	96.9	108.0	125.3	130.7	102.3	106.3	120.4
Other financial intermediaries 2/	53.3	59.0	68.4	70.0	70.2	74.2	81.3	81.6	72.2	71.4	73.5
Financial auxiliaries	16.8	17.5	19.3	21.7	22.5	22.8	24.7	26.3	22.7	23.7	24.4
Captive financial institutions and money lenders	93.5	93.8	100.1	101.3	91.6	98.4	114.6	118.4	97.7	100.4	106.2
Social security funds	17.3	21.5	21.3	22.8	24.0	26.6	30.3	31.5	28.0	30.4	34.6

Sources: StatCan, National Balance Sheet Account and Fund staff calculations.
1/ Include credit unions, trust companies and mortgage loan companies.
2/ Other financial intermediaries, except insurance corporations and pension funds.

Table 4. Canada: Financial Soundness Indicators, 2014–24

(In percent, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets											
Total assets 1/	4,191	4,679	5,028	5,291	5,689	6,130	6,971	7,267	8,200	8,596	8,911
Percent of GDP	210.1	235.1	248.2	247.2	254.5	265.0	315.5	289.6	294.7	308.8	320.0
Capital Adequacy											
Total capital ratio	14.2	14.2	14.8	14.8	15.2	15.3	16.1	17.2	17.4	17.1	16.9
Tier 1 ratio	11.9	12.1	12.5	12.9	13.2	13.2	13.9	15.1	15.3	15.2	15.0
Capital to assets	4.5	4.6	4.7	4.8	4.8	4.7	4.6	4.8	4.8	4.7	4.7
Credit Risk											
NPLs net of provisions to capital	5.1	5.0	5.7	4.5	4.8	4.5	4.2	2.9	2.6	3.8	5.0
NPLs to Gross Loans	0.5	0.5	0.6	0.4	0.5	0.5	0.5	0.4	0.3	0.5	0.6
Profitability											
Return on assets	1.1	1.0	1.0	1.1	1.2	1.1	0.8	1.1	1.2	0.8	0.8
Return on equity	18.0	16.7	16.0	17.1	17.3	16.2	13.2	17.3	18.2	12.1	12.7
Interest margin on gross income	54.0	53.9	54.1	53.4	53.5	55.3	56.4	54.0	54.2	56.7	54.5
Trading income to gross income	3.3	3.3	3.6	3.7	4.7	3.8	4.2	3.4	6.4	5.7	8.0
Non-interest expenses to gross income	59.2	60.1	59.2	57.8	56.4	57.4	56.1	56.6	53.6	62.1	60.5
Liquidity											
Liquid assets to total assets	10.9	11.4	10.9	10.7	10.6	9.8	15.4	15.1	13.2	12.1	12.3
Liquid assets to short-term liabilities	50.5	45.4	54.6	49.4	48.5	44.1	78.0	79.6	58.5	49.6	52.7
Customer deposits to loans	102.1	104.1	104.3	102.7	101.4	100.7	109.5	113.1	109.5	107.2	108.3
Real estate markets											
Residential real estate loans to total loa	38.1	36.5	36.4	35.8	34.3	33.3	34.5	36.4	35.0	35.0	35.0
Commercial real estate loans to total lo	3.0	3.1	3.4	3.4	3.4	3.3	3.4	3.4	3.2	3.2	3.2
FX and Derivative Risk											
FX Assets to Total Assets	49.0	56.5	51.4	46.5	60.2	47.4	43.9	50.6	51.8	43.6	69.3
FX loans to total loans	30.1	33.4	34.3	35.5	37.2	38.5	37.8	35.8	38.1	39.5	38.1
FX liabilities to total liabilities	49.0	48.3	54.9	53.8	54.3	49.0	52.9	42.9	57.0	65.8	67.1

Sources: IMF FSI database; and IMF staff calculations.
1/ Billions of Canadian dollars.

Table 5. Canada: Implementation Status of 2019 FSAP Key Recommendations		
Recommendations	**Implementation Status**	**Observations**
Raise required capital for mortgage exposures at both banks and mortgage insurers to fully account for through-the-cycle risks; increase risk-based differentiation in mortgage pricing (OSFI, AMF, and DOF)	Partially implemented	OSFI's requirement that all Internal Ratings-Based (IRB) bank PD models be based on data samples that include a minimum of 10 percent of data from stress periods has made PD estimations, and therefore the capital required for mortgage exposures, more risk sensitive and representative of credit risk through the business cycle. While this enhances Basel compliance and introduces a more risk-sensitive calibration structure, it does not by itself guarantee prudently calibrated TTC capital requirements for mortgage exposures in Canada. That would require a holistic supervisory approach, including model validation, external benchmarking, and overlays, to compensate for the limitations of Canada's historically mild credit cycles. OSFI's ability to supervise IRB models is constrained by limited model risk resources (only 5 staff for all model-related tasks), the lack of guidance on what constitutes a material model change, and infrequent proactive model reviews. The capital framework for mortgage insurers (i.e., the Mortgage Insurer Capital Adequacy Test (MICAT)) has been updated for IFRS 17.
Develop the policy framework for managing a housing market downturn (BOC, AMF, British Columbia Securities Commission (BCSC), and OSC)	Partially implemented	Banks are subject to expectations on how to treat households who are experiencing payment difficulties as a result of the economic environment – which helps to limit the negative feedback loop between the macroeconomy and house prices. OSFI's recently introduced LTI limits which should limit the buildup in household vulnerabilities in a low-interest rate environment. AMF: The AMF has updated its Residential Hypothecary Lending Guideline (the equivalent of OSFI'S B-20 Guideline) in February 2024 to introduce expectations for combined loan plans, reverse hypothecary loans and hypothecary loans with shared equity features. It has also publicly expressed its intention to review it in the coming year to ensure its robustness against various housing market downturns, for example, several successive increases in interest rates.
Modernize the systemic risk oversight framework, underpinned by a federal-provincial platform (potentially, HOA) to discuss systemic issues and formulate policyresponses, supported by enhanced transparency (HOA and BOC)	Partially implemented	The SRSC has been a substantial improvement on discussing systemic issues which also led to a number of important benefits that go beyond the committee—such as data sharing and analytical partnerships. The SRSC continues to meet at a regular frequency. The Financial Stability Department of BOC also created a new Systemic Risk Analytics team. Its mandate will focus on interconnections and potential sources of contagion across financial system participants (including NBFIs) that can propagate shocks.

Table 5. Canada: Implementation Status of 2019 FSAP Key Recommendations (continued)		
Recommendations	**Implementation Status**	**Observations**
		The SRSC reports to the HOA. The SRSC membership is broader than the HOA to get a wide view on systemic risk. In spring of 2022, the HOA members signed a MOU for the protection of confidential information shared among the HOA. SRSC members who are not also members of the HOA have more recently adhered to the HOA MOU by way of a Letter of Adherence. Although policy can be discussed at HOA—in practice there is no formal mechanism to coordinate on taking preventative action. Recommendations on cooperation on policy action and transparency are made in this FSAP.
Develop a comprehensive systemic risk surveillance framework, supported by a more unified approach to data collection; address data gaps, particularly related to cross-sectoralexposures, unregulated nonbank financial intermediation, and funding market activities (BOC, competent authorities, governments)	Partially implemented (with ongoing efforts)	BOC continues to work cooperatively with asset managers, market infrastructures, and other regulatory agencies to identify data they have that could be helpful for financial system assessments. The BOC has put (and continues to put) in place voluntary data sharing agreements to support data sharing for the benefit of its own analysis. BOC continues to push forward on proof-of-concept analysis in partnership with the OSC and AMF to use Over-the-Counter (OTC) derivatives data to measure liquidity risk exposures for certain NBFIs. It is in active discussions with Canadian market infrastructures to obtain additional data on Canadian futures markets given their growing role in fixed income markets. While a lot has been addressed, the goal of addressing data gaps especially on funding market activities is ongoing. Substantial progress has been made in understanding and identifying risks to funding liquidity. Notably the use of transactions level data significantly deepened the BOC's insights into financial system risks. It has, however, also revealed the changing nature of risks, for example with the rising prominence of new investors, such as foreign hedge funds, as well as the need to understand better intermediation practices of dealers and the strategies and leverage levels of leveraged institutions. At the same time, further insights into foreign funding risks, especially relating to changes in hedging practices and the use of FX and interest rate derivatives, is an area of ongoing effort for monitoring. Finally, there is room for improvement on other data gaps, such as publication of regular, aggregate data on key funding secured and unsecured markets.

Table 5. Canada: Implementation Status of 2019 FSAP Key Recommendations (continued)		
Recommendations	**Implementation Status**	**Observations**
Enhance risk monitoring of banks' funding, risk-taking by nonbanks, housing finance-related vulnerabilities, and cross-border and intra-system interconnectedness; carry out Canada-wide surveillance in key sectors such as banking and insurance (BOC lead; HOA, SAC; OSFI, and AMF)	Partially implemented	BOC has operationalized new bank returns (e.g., updated EB/ET) that have cross-sectoral exposures, and StatCan has made progress on their "from-whom-to-whom" financial accounts. OSC has made their investment fund survey a regular data collection exercise which they are now sharing with BOC, and the BOC is working on getting derivatives data from OSC/ Canadian Investment Regulatory Organization (CIRO) via an MOU. While for banks' funding there seems to be substantial data available, information for other NBFIs, including the operations of dealer banks, involved in short-term funding markets has scope for improvement, along the lines noted above. On housing related vulnerabilities, the BOC has matched mortgage underwriting data to credit bureau data enabling monitoring of mortgage holders non-mortgage debt such as credit cards and auto loans. The CSA actively participates in the SRSC and relevant SRSC subgroups that are set up when required to investigate further specific risk topics.
Strengthen oversight of large public pension funds, and increase transparency of their financial disclosures (DOF, provincial governments)	Partially implemented	FSRA has stepped up its engagements with large public sector pension plans. It also sought to modernize its approach to supervision, including development of a supervisory framework and LCR reporting for those plans.
Strengthen autonomy and governance of financial sector authorities, including BOC andOSFI (powers), and FICOM (overall); clarify the roles and responsibilities of the authorities in charge of overseeing systemically important Financial Market Infrastructure (FMIs) (DOF, provincial governments; BOC; AMF,BCSC, and OSC)	Not implemented	OSFI: No further legislative work is being undertaken on this point at this time. AMF: Through the establishment of MOUs with BOC and CDIC in 2018, the AMF continues to strengthen its relations with both organizations by holding technical and/or quarterly meetings to exchange on different subjects of interest. Meetings on a regular basis with the Québec Minister of Finance (MFQ) were held to discuss topics related to the resolution framework. Financial Institution Commission (FICOM) was replaced in 2019 by British Columbia Financial Services Authority (BCFSA). It was not under the scope of the FSAP work on oversight of banks and non-bank DTIs.
Complete the Cooperative Capital Markets Regulatory System (CMRA) initiative (DOF, provincial governments)	Not implemented	This work was underway by certain CSA jurisdictions and the Federal Government. However, in 2021, due to delays in implementing the CMRA, the work of related organizations funded by the federal government was paused. The entity that had been established to work on the implementation of the CMRA was dissolved in 2022. The CSA continues its work harmonizing the regulation of Canadian financial markets.

Table 5. Canada: Implementation Status of 2019 FSAP Key Recommendations (continued)		
Recommendations	**Implementation Status**	**Observations**
Enhance inter-agency cooperation, particularly between federal and provincial authorities, with additional MOUs (OSFI, AMF, other relevant provincial authorities)	Not implemented	While federal-level coordination is well developed—anchored by the Financial Institutions Supervisory Committee (FISC), SAC, and OSFI's bilateral arrangements with federal agencies—cooperation with provincial authorities remains limited and fragmented. There is no formal forum for federal-provincial coordination on deposit-taking supervision, and no MOUs in place between OSFI and major provincial supervisors such as the AMF. Information-sharing is constrained by legal confidentiality barriers, notably concerns over the potential judicial disclosure of OSFI's Prescribed Supervisory Information (PSI) when shared with conduct supervisors that rely on court enforcement. As a result, supervisory coordination with key provincial regulators, including those overseeing systemically important institutions such as Desjardins, remains inadequate, both in institutional terms and in the practical exchange of prudential information. The CUPSA serves primarily as a best-practice forum and does not offer a substitute for formal, bilateral or multilateral MOUs covering supervision. Efforts by OSFI since 2019 to improve informal cooperation and policy communication have helped reduce the risk of regulatory arbitrage, but the recommendation to formalize and deepen inter-agency cooperation has not been fulfilled. Notably, an MOU between the AMF and FSRA is also not established, which not only impacts supervisory activities, but also impedes a broader exchange of important supervisory actions and views between the two.
Address shortcomings in the regulatory and supervisory frameworks related to credit risk ofmortgage exposures; adopt a common loan forbearance framework in all jurisdictions (OSFI, AMF, other provincial credit union supervisors)	Partially implemented (with ongoing efforts)	AMF: A new guideline named Guideline on the management of expected credit losses, which deals with forbearance, was published in June 2024. The guideline addresses sound methods regarding expected credit losses, the rating of this risk, the adequacy of capital, and the validation of models. The internal rating approach and the standardized approach will be discussed in the guideline. However, the AMF has not performed an in-depth analysis of the internal governance around the use of ECL models—it mainly relies on the opinion of the institutions' lines of defense. The AMF has updated its Residential Hypothecary Lending Guideline (the equivalent of OSFI'S B-20 Guideline) in February 2024 to introduce expectations for combined loan plans, reverse hypothecary loans and hypothecary loans with shared equity features. OSFI has increased its supervisory attention on forbearance and provisioning practices, including issuing a letter to banks on RESL forbearance in March 2024 and conducting targeted

Table 5. Canada: Implementation Status of 2019 FSAP Key Recommendations (continued)		
Recommendations	**Implementation Status**	**Observations**
		credit risk reviews. These reviews have professionally and effectively identified important differences in banks' internal treatment of forborne loans, including the widespread practice of continuing to classify forborne loans in Stage 1 and not treating forbearance as a SICR trigger. While this shows that OSFI is aware of the issue and capable of detecting it through its supervisory work, the lack of minimum prescribed expectations—such as cure periods, SICR triggers, and provisioning benchmarks—limits comparability and leaves scope for circumvention. Introducing a more prescriptive framework would strengthen consistency and support timely recognition of expected losses.
Strengthen legal foundation underpinning insurance group-wide supervision; apply theregulatory framework more consistently to group-wide supervision (OSFI, AMF; DOF, and Québec government)	Not Implemented	OSFI: Undertakings addressing group-wide supervision formed a component of the annual supervisory letters for the two Internationally Active Insurance Groups (IAIGs) with unregulated holding companies. For P&C insurance, undertakings are also being strengthened to ensure that group-wide capital calculations under the MCT (Minimum Capital Test) are consistent across supervision.
Complete reforms in the areas of OTC derivatives and duties towards clients; increasethe focus of oversight on high-impact firms; ensure the capacity to handle market-wide stress (CSA, relevant provincial governments)	Partially implemented	The authorities have made good progress on reforms in the area of OTC derivatives and duties towards clients, notably through adoption of: -National Instrument 93-101 Derivatives: Business Conduct -Trade Reporting Rules -Mandatory Clearing Rules Regarding increased focus of oversight on high-impact firms, the CSA works to align and coordinate reviews of registrants among all jurisdictions by sharing examination schedules on a monthly basis. CSA members also exchange information on their common registrants (with a presence in more than one province) monthly. However, more work is needed by the CSA to ensure that all jurisdictions adopt an increased focus of oversight on high-impact firms in an appropriately coordinated and consistent manner. Ontario already has a formal process for determining which firms are high impact, while other jurisdictions have informal processes that are being finalized. Finally, the authorities' capacity to handle market-wide stress has been strengthened through adoption of the CSA Market Disruption Plan, which has been tested twice since the 2019 FSAP.

Table 5. Canada: Implementation Status of 2019 FSAP Key Recommendations (continued)		
Recommendations	**Implementation Status**	**Observations**
Task the Senior Advisory Committee (SAC) with responsibility of overseeing Canada-wide crisis preparedness, thus performing the roles of the coordination body at the federal level and the federal coordinator with key provincial authorities; strengthen CDIC's operational independence (MOF; SAC; and DOF)	Partially implemented	Canada has strengthened notably its coordination bodies to be able to have a Canada Wide crisis preparedness, even though it has not tasked the SAC to oversee this process. The main pending issue relates the lack of harmonization of the safety net which complements effective coordination. The recommendation on strengthening CDIC operational has not been implemented—though the authorities feel this is not an obstacle to fulfill their mandate.
Expand recovery planning to all deposit-taking institutions and resolution planning to those performing critical functions; further develop the valuation framework for compensation; adopt depositor preference; strengthen resolution powers (OSFI; AMF and CDIC; DOF, and Québec government)	Partially Implemented	OSFI: Based on the recent review of Small and Medium Sized Banks (SMSB) recovery plan criteria as well as OSFI's Supervision Risk Tolerance Framework, OSFI has concluded that comprehensive recovery planning requirements, that currently apply to D-SIBs, will apply to financial institutions (on a proportional basis) based on their systemic importance and OSFI's internal criteria of impact and substitutability. Additionally, for those financial institutions that do not meet the systemic importance criteria of impact and substitutability and are not required to prepare and submit recovery plans, OSFI has prudential controls in place which requires them to prepare tactical "recovery plans" for critical areas in compliance with OSFI's Guidelines AMF: Recovery and resolution plans for the Québec-chartered financial institution designated as a D-SIFI by the AMF, are continually updated. The legislation (WURA) enabling the introduction of depositor preference falls under federal jurisdiction and has not been updated yet.
Operationalize emergency lending assistance (ELA) with key provinces; improve testing to ensure smooth ELA operations (BOC; British Columbia, Ontario and Québec governments)	Implemented	BOC: The Bank continues to be engaged with provinces that have expressed interest in signing an indemnity agreement, a condition for Provincially Regulated Financial Institution (PRFIs) to be eligible for ELA. Bill C-59 received Royal Assent on June 20, 2024 and upon coming into force would allow provincially regulated credit unions to be Payments Canada members. BOC can only provide ELA to Payments Canada members, so the change to expand access is expected to provide a stronger rationale for provincial governments to put in place an indemnity agreement. AMF: Following the simulation exercise of ELA conducted by BOC and Desjardins Group in October 2022, preparatory measures are being implemented, including the ones to

Table 5. Canada: Implementation Status of 2019 FSAP Key Recommendations (concluded)		
Recommendations	**Implementation Status**	**Observations**
		ensure significant assets would be available to be pledged quickly. The AMF and Desjardins Group are working on setting up the operational process, the legal documentation, the required authorizations, and so on. The operationalization of the ELA was also discussed with the BOC. ELA testing exercises involving the AMF should be held when the progress of the work is judged appropriate.
Further develop contingency plans for market- wide liquidity provision, particularly intervention in securities markets and foreign- currency liquidity provision (BOC; DOF, provincial governments)	Partially implemented	The market-wide liquidity provision through the CTRF has been implemented successfully during periods of stress. The CTRF has been tested and further refined, with more clear terms and conditions. However, the BOC still lacks the operational capacity to provide ELA in foreign currency, relying instead on government support, while swap lines address market-wide stress.

Table 6. Canada: Risk Assessment Matrix		
Risk	**Overall Level of Concern**	
	Relative Likelihood	**Expected Impact if Materialized**
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	• Trading partners reduce demand for Canadian exports. Domestic producers constrain supply chains and production networks, increasing inflationary pressures. Investment distortions associated with trade protectionism reduce potential growth. Negative business climate limits corporate earnings growth, employment, and economic growth, damaging asset quality.
Regional conflicts. Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	**Medium**	• Global trade and supply-chain disruptions, together with increased uncertainty, would lead to an abrupt global and domestic economic slowdown. • Significant commodity price volatility and upward pressure on inflation would trigger a sharp increase in foreign and domestic interest rates. • Tighter financial conditions, including through term premia and house price declines, could heighten credit risk. Higher for longer interest rates could increase unemployment and affect borrowers' ability to repay their loans. • Nominal wage growth falls behind inflation rates, indicating a decrease in real wages and the ability of borrowers to service their debt. This would raise credit risk for banks and NBFIs. • Valuation losses from holdings of foreign and domestic debt securities under mark-to-market accounting.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from Emerging Markets and Developing Economies (EMDEs)	**Medium**	• Higher for longer interest rates could impact financial institutions' capital through bond valuation losses, higher credit risk and potentially lower net interest income (depending on relative pass-through rates to lending and funding rates). • A U.S. dollar appreciation could raise the cost of banks' USD funding, especially if the banks have not perfectly hedged this currency risk.

Table 6. Canada: Risk Assessment Matrix (concluded)		
Risk	**Overall Level of Concern**	
	Relative Likelihood	**Expected Impact if Materialized**
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth	**High**	• Trading partners reduce demand for Canadian exports. Domestic producers constrain supply chains and production networks, increasing inflationary pressures. Investment distortions associated with trade protectionism reduce potential growth. Negative business climate limits corporate earnings growth, employment, and economic growth, damaging asset quality.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	• Cyberattacks could disrupt payment and financial systems, posing a threat to the stability of financial institutions and their capacity to provide financial services.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium**	• Economic damage leading to credit, liquidity, and operational risks to financial institutions.
House price correction. A significant decrease or correction in housing prices across the real estate market, triggered possibly by elevated interest rates, a slowing economy, and reduced demand.	**Medium**	• A large correction in real estate prices could damp consumption and investment (especially across leveraged households and non-diversified real estate developers), thereby increasing unemployment. • Falls in house prices would widen LTV ratios and increase LGDs.

Table 7. Canada: Cash Flow Scenarios

The cash flow analysis considers a range of 20 scenarios affecting the outflows and the counterbalancing capacity…

	Run-off rates			
	Mild Scenario		Severe Scenario	
	Week 1-4	Month 2-12	Week 1-4	Month 2-12
Retail and Small Business				
Demand / Notice Deposits	0.25%-3.50%	0.75%-5.0%	1.0% - 8.0%	2.0%-12.0%
Term Deposits	0.25%-1.75%	0.50%-3.5%	0.75%-5.5%	1.50%-8.50%
Commercial, Corporate and Wholesale Deposits				
Demand/Notice Deposits (Original Term ≤30 Days)				
Operational	0.75%-2.50%	3.0%-3.25%	3.50%-4.0%	7.0%-7.5%
Non-Operational	3.00%	5.5%-12.0%	6.0%-7.0%	8.5%-15.5%
Notice Deposits (original term >30 days)				
Operational & Non-Operational	20%	20%	50%	50%
Term Deposits				
Other	100%	100%	100%	100%

… The scenarios are based on a linear grid of scenario severities across factors (run-off rates, haircuts) spanning from a mild scenario to an aggressive scenario.[1]

	Haircuts	
	Mild Scenario	Severe Scenario
Government Securities		
High Rated Government Securities	0.5%-5.0%	20%-60%
Medium Rated Government Securities	10%-20%	30%-100%
Low/Not Rated Government Securities	100%	100%
Mortgage Backed Securities (MBS)		
Agency MBS (High rated)	4.0%	15.0%
Other	100.0%	100.0%
Corporate Bonds and Paper		
High rated	5.0%-9.0%	10.0%-20.0%
Medium rated	10%-11%%	50%-100%
Low/not rated	100%	100%
Asset Backed Securities (ABS) and Asset Backed Commercial Paper (ABCP)		
High rated	2.0%-10.0%	40.0%-100.0%
Other	100%	100%

Source: IMF Staff calculations.

[1] See forthcoming Technical Note on stress testing and financial stability for Cash Flow scenarios' granular parameters.

Appendix I. Stress Test Matrix (STeM)

Banking Sector: Solvency Test		
Domain		**Framework**
		Top-down by FSAP Team
1. Institutional perimeter	Institutions included	• Seven domestic systemically important deposit-taking institutions (DTIs), including Québec's systemic DTI (Desjardins) and the six domestic systemically important banks (D-SIBs): Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal, Canadian Imperial Bank of Commerce, and National Bank of Canada. Royal Bank of Canada and Toronto-Dominion Bank are also considered global systemically important banks (G-SIBs).
	Market share	• The six D-SIBs represent about 93.6 percent of banking sector assets (excluding foreign bank branches). • The seven systemic DTIs represent above 90.2 percent of DTIs' assets.
	Data and baseline date	• Data: Various sources, including the following. ○ OSFI: Regulatory returns and supervisory data, loan level information from the RESL dataset. ○ AMF: Regulatory returns and loan level information for RESL. • Scope of consolidation: Global consolidated group basis. For Desjardins insurance business activities are excluded to facilitate comparability with D-SIBs. • Cut-off date: end-October 2024
2. Channels of risk propagation	Methodology	• Balance-sheet based approach. • Projections of key balance sheet, income statement, and capital account items conditional on scenarios • Static balance sheet assumption
	Satellite Models for Macro-Financial linkages	• Credit Risk: A comprehensive battery of models was used. ○ Mortgage Loans: Household financial conditions are adjusted based on macroeconomic developments, with employment dynamics modeled to align with projected trends. Loan-level risks are assessed through iterative simulations, and PD are estimated using a BMA approach. Refer to Household Vulnerability Analysis STeM section. ○ Corporate Loans: Corporate stress test satellite models that link credit risk variables with macroeconomic variables were estimated using a BMA methodology. • Net Interest Income: The net interest income was projected using a structural model that reflects the repricing dynamics of banks' balance sheets. Historical data on interest rates for newly originated interest-earning assets and liabilities were used to estimate the pass-through of policy rates to new lending and funding rates through econometric models. Non-performing loans will not generate any income. • Market risk: Valuation losses from full revaluation of sovereign securities, corporate fixed income debt securities and equity holdings will be calculated using a Mark to Market (MTM) approach for fair-valued securities. Valuation adjustments on securities held at

Banking Sector: Solvency Test		
Domain		**Framework**
		Top-down by FSAP Team
		amortized cost will be calculated using a credit risk approach. Market risk is estimated as a sensitivity analysis. • Other Profit and Loss (P&L) components: Econometric models will be estimated for fees and commission income and other income/expenses.
	Stress test horizon	• 3 years (2025–27)
3. Tail shocks	Scenario analysis	Two macroeconomic scenarios: • A baseline scenario based on the October 2024 WEO projections. • An adverse scenario that is consistent with the FSAP RAM and features deepening geoeconomic fragmentation that fuels greater protectionism and increases the use of cross-border restrictions. Deepening geopolitical fragmentation is evidenced through various channels, including international trade, restrictions on cross-border migration, limitations on foreign direct investment, and technology diffusion. Global trade is impeded by both non-tariff trade barriers and tariff barriers, including "trade wars" between some regions; particularly U.S.-China and U.S.- Canada. Sharp de-integration of highly integrated North American supply chains and goods and services markets leads to large deadweight losses (persistent supply shock). The disruption of established global production chains puts downward pressure on global economic growth and creates a series of temporary supply shortages, increasing inflation expectations. This prompts central banks to pause cutting interest rates (or reverse some of the recent cuts). Moreover, a slowdown in global economic growth increases unemployment and reduces commodity demand, causing oil prices to drop. Limitations on foreign direct investment and reduced technological diffusion dent innovation and lead to significant productivity decline. A reassessment of market fundamentals triggers a widespread risk-off event and asset valuation corrections. Elevated borrowing rates, higher unemployment and a reduction in household income contribute to sharp corrections in residential real estate particularly in countries with higher overvaluation estimates. CRE is also hit particularly hard.
4. Risks and buffers	Positions/risk factors assessed	Credit risk (provision costs) • Estimated according to Basel III framework. • Credit risk captures all on-balance sheet exposures at amortized cost by sector. Different paths are produced for different sectors. • The starting point of credit parameters is used to project scenario conditional forward paths. Sovereign risk • Mark-to-market valuation of sovereign securities from shocks to interest rates and credit spreads linked to macro scenario. Market risk other than sovereign risk

Banking Sector: Solvency Test		
Domain		**Framework**
		Top-down by FSAP Team
		• Market risk is reflected in valuation effects of Fair Value Through Profit or Loss (FVTPL) and Fair Value Through Other Comprehensive Income (FVOCI) positions. Profits • Net interest income is affected by the change in the reference rate and by the pass-through to asset-side and liability-side interest rates. • Net fee and commission income and other income/expense evolve with macroeconomic conditions and banks' balance sheets.
	Behavioral adjustments	• Balance sheet composition remaining constant over the stress test horizon. • There is no recognized interest on non-performing exposures. • Maturing assets are replaced by exposures of the same type and risk. • Statutory tax rates. • DTIs can only accumulate capital through retained earnings. • If DTIs' capital ratio falls below regulatory minimum during the stress test horizon, no prompt corrective action is assumed. • Dividend payout ratio is set at the T0 level. If the capital conservation buffer is breached, restrictions on dividend distributions are aligned with the regulatory framework.
5. Regulatory and market-based standards and parameters	Calibration of risk parameters	• Scenario dependent forward paths for Point in Time (PIT) PDs are estimated for each type of exposure. • For IRB exposures, risk weighted assets are projected on the basis of updated regulatory through-the-cycle PDs and downturn LGDs, using appropriate scaling multipliers from the PIT parameters. • For standardized approach (STA) exposures, risk weighted assets are projected based on constant risk weight densities.
	Regulatory standards	• In the baseline, hurdles include the regulatory minimum, the Capital Conservation Buffer (CCoB), the D-SIB surcharge, the DSB, and the Pillar 2 buffer for the six D-SIBs. The DSB and the Pillar 2 buffer are not required for Desjardins. • In the adverse scenario, DTIs are allowed to deplete the CCoB and the DSB. Other Pillar 1 and Pillar 2 requirements remain in place. • Hurdle rates are based on common equity tier-1, tier-1, and total capital ratios.
6. Reporting format for results	Output presentation	• Evolution of CET1, Tier 1, Capital Adequacy Ratio (CAR) for the seven systemic DTIs in aggregate. • Decomposition of key drivers to aggregate net profits and aggregate CET1 capital ratios, including differences between baseline scenarios and adverse scenarios. • Number of DTIs and share of total assets below hurdle rates.

Banking Sector: Liquidity Test		
Domain		**Framework**
		Top-down by FSAP Team
1. Institutional perimeter	Institutions included	• Seven systemic DTIs, including Desjardins and six D-SIBs: Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal, Canadian Imperial Bank of Commerce, and National Bank of Canada. Royal Bank of Canada and Toronto-Dominion Bank are also considered G-SIBs.
	Market share	• The six D-SIBs represent about 93.6 percent of banking sector assets (excluding foreign bank branches). • The seven systemic DTIs represent above 90.2 percent of DTIs' assets.
	Data and baseline date	• Data: Various sources, including the following. ○ OSFI: Regulatory returns based on the LCR and NCCF for the 6 D-SIBs. ○ AMF: Regulatory returns based on the LCR and the NCCF for Desjardins. • Scope of consolidation: Global consolidated group basis. • Cut-off date: end-October 2024
2. Channels of risk propagation	Methodology	The exercise is based on two types of tests—LCR test and cash-flow analysis. • The LCR test is in line with the standard Basel monitoring tool, featuring total liquidity and liquidity in all significant currencies (Canadian dollar, U.S. dollar, euro, British pound, and Japanese yen). A set of scenarios for LCR outflows and HQLA haircuts is used to produce stressed LCR ratios. The stress test horizon is 30 days. • The cash flow analysis assesses DTIs' liquidity risk using two indicators: the cumulative net funding gap and the counterbalancing capacity. The net funding gap is defined as the difference between cash inflows and outflows in each time bucket, and it is calculated as the sum of these differences across all time buckets within a given horizon. • The counterbalancing capacity refers to the cumulative value of liquid assets that DTIs can liquidate under stress at reasonable prices and is mainly composed of cash resources and securities. A liquidity shortfall arises when a DTI's counterbalancing capacity is insufficient to meet its net funding gap.
3. Risks and buffers	Risks	• Funding liquidity risk is reflected in funding run-off rates. • Market liquidity risk is reflected in asset haircuts, which could be influenced by market movements, potential fire sales and collateral supply considerations.
	Behavioral adjustments	• Liquidity from the Bank of Canada's ELA is not considered.
4. Tail shocks	Scenario analysis	• For the LCR test various scenarios are considered, with varying intensity of adverse liquidity conditions. • For the cash-flow analysis, a total of 20 scenarios are considered, with a range from mild to severely adverse liquidity conditions. The cash-flow analysis considers both funding and market liquidity risks.
5. Regulatory and market-	Regulatory standards	• The LCR hurdle rate is set at 100 percent at the aggregate currency level (per Basel III)

Banking Sector: Liquidity Test		
Domain		**Framework**
		Top-down by FSAP Team
based standards and parameters		
6. Reporting format for results	Output presentation	• Changes in the system-wide liquidity position, including important drivers for cash outflows, cash inflows, and counterbalancing capacity. • Distribution of DTIs' liquidity positions. • Number of institutions with LCR below 100 percent and/or negative net cash balance. • Amount of liquidity shortfalls.

Climate Risk Analysis and Stress Test	
Institutional perimeter	7 systemic DTIs (6 D-SIBs and Desjardins)
Data	• Physical risk: OSFI and AMF mortgage loan-level (RESL) data, September 2023. Fire weather data from Environment and Climate Change Canada (https://climatedata.ca/fire-weather/). Wildland Urban Interface from Natural Resources Canada (Johnston and Flannigan (2018)). • Transition risk: Moody's Orbis for Balance Sheet and P&L NFC data, Moody's CreditEdge data for NFC PDs, ICE for NFC emissions data. OSFI and AMF Rapid 2 data for NFC portfolios as of Q3 2024.
Methodology and risk drivers	• Physical risk: wildfires risks- under historical climate and two IPCC climate scenarios (RCP4.5 and RCP8.5)—to residential properties used as collateral for mortgages. Micro-approach at census subdivision for the 6 D-SIBs and forward sortation level (3-digit postal code) for Desjardins. Damages to residential properties from wildfires linked to banks' LGDs. • Transition risk: credit risk from the impact of the transition to a low carbon economy—under current policies, Net Zero 2050 and Delayed transition scenarios—on nonfinancial firms' balance sheets and income statements. Micro-macro simulation model (the IMF ENVISAGE-FIBA Model Framework, Gross and others, forthcoming).
Interconnectedness and Contagion Analysis	
Institutions involved	• Confidential interbank exposure data: six D-SIBs and aggregate data for the remaining banks (if available). • Publicly available cross-sectoral and cross-border data: Statistics Canada's financial accounts on a from-whom-to-whom basis.
Data and starting position	• Supervisory data: 2024: Q2 (or most recently available).
Methodology	• Contagion and interconnectedness Network Analysis: Espinosa-Vega Sole Model, 2010.
Risks	• Credit and funding losses related to bilateral exposures, and fire-sale of assets following sizeable withdrawals of deposits. • Cross-border exposures (data permitting).
Buffers	• Institution's own capital and liquidity buffers, sector's aggregate capital buffers.
Size of shocks	• Default of institutions.

Output/Presentation	• Network charts: Economy-wide and inter-financial network based on the exposures. • Entity-level contagion/vulnerability/amplification indices.
Household Sector Vulnerability Analysis	
Objective	• Assess the overall indebtedness in the household sector under FSAP baseline and adverse scenario. Project mortgage PD as input of banking sector stress test.
Data	• Vulnerabilities and PD will be assessed using OSFI mortgage loan-level (RESL) data, Sept 2023 version, supplemented by the most recent aggregated statistics from Statistics Canada. • Bank-level historical mortgage PD path shared by BOC.
Methodology	• The mortgage PD projection follows a two-stage approach, integrating a structural simulation with a Bayesian econometric framework to assess risks under baseline and adverse scenarios. • Stage 1: Structural Simulation: (1) Baseline Initialization: Update household financial variables to reflect end-2024 conditions based on the realized macroeconomic conditions. (2) Employment Status Simulation: Use a bootstrap approach to model employment evolution, aligning with projected unemployment trends. (3) Income and Debt Metrics Update: Adjust income based on employment status and wage growth, feeding into Debt Service Ratio (DSR). (4) Aggregation: Repeat the stochastic process across iterations, aggregating results into a debt-weighted PD estimate for projection horizon. • Stage 2: BMA Approach: (1) DSR Anchoring: Aligns projected DSRs with end-2024 aggregate statistics from Statistics Canada. (2) Econometric Estimation: Uses a by-bank panel BMA framework to refine PD projections by systematically selecting the most relevant macro-financial predictors. • FSAP Systematic Risk workstream also collaborates with Bank of Canada to refine Household Risk Assessment Model (HRAM) scenario and leverage its access to household survey data, credit bureau records and tax survey data that FSAP team does not have access obtain estimates BOC's PD path as reference.
Corporate Sector Vulnerability Analysis	
Objective	• Quantify the share of financially weak NFCs and assess the resilience of the corporate sector. • Project PD at both aggregate and industry level as input of banking sector stress test.
Data	• Firm-level balance sheet, income statement and credit data from Moody's Orbis and Moody's KMV expected default frequency. • Statistics Canada National Balance Sheet Account for aggregate NFC vulnerability indicator construction. • Overall and industry-level historical corporate PD shared by BOC.
Methodology	• Use most recent aggregate statistics from Statistics Canada National Balance Sheet Accounts (NBSA) for headline corporate sector vulnerability indicators (debt-to-asset ratio, cash-to-debt ratio, debt-to-equity ratio) to assess overall NFC resilience.

	• Analyze NFC balance sheets by integrating Moody's Orbis firm-level financial data and Moody's KMV 1-year EDF, focusing on leverage (various debt-to-asset measures, equity-to-asset), profitability (Return on Assets, Return on Equity), and liquidity (current ratio, interest coverage ratio, cash buffer) at both aggregate and by firm-size. Identify financially weak firms based on debt-servicing capacity and examine trends in firms-at-risk and debt-at-risk. • Conduct firm-level fixed effects regressions to analyze PD drivers, following the IMF Japan FSAP (2024) approach, and compare aggregate and sectoral results. • Project PDs using historical corporate PDs provided by BOC and macroeconomic scenarios, applying BMA methods from Gross and Población (2019) at both aggregate and industry levels. • Incorporate the most recent trends from FactSet on publicly traded NFCs provided by authorities to complement FSAP assessment based on Moody's Orbis. • Address SME data limitations by using supplementary information provided by authorities, given the lack of aggregate or firm-level SME data to inform vulnerabilities quantitatively with FSAP accessibility.

Pension Funds: Solvency Stress Test		
		Top-down
1. Institutional perimeter	Number of institutions	7 Public sector pension plans (Ontario) 33 Private sector single-employer and multi-employer pension plans (federal, Ontario)
	Market share	~35 percent, based on assets
	Data	Statutory returns
	Reference date	June 30, 2024
2. Channels of risk propagation	Methodology	• Investment assets: market value changes of assets after price shocks • Liabilities: valuation change due to interest rate shock • Impact on net assets (difference between stressed assets and liabilities) and funding ratios
	Time horizon	3 years
3. Scenario analysis	Tail shocks	Adverse scenario: aligned with the macrofinancial scenario, but with more granularity on market and interest rate risks, for example, • Canadian stocks: -17.3 percent (year 1), -18.1 percent (year 2), +14.3 percent (year 3) • Canadian commercial real estate: -14.0 percent (year 1) -15.4 percent (year 2), +7.9 percent (year 3) • Canadian short-term risk-free interest rates: -33 bps (year 1), - 80 bps (year 2), -22 bps (year 3) • Canadian short-term risk-free interest rates: +114 bps (year 1), - 53 bps (year 2), -133 bps (year 3) • Canadian sovereign bond spreads: +25 bps (year 1), +30 bps (year 2), -39 bps (year 3)

		• Corporate bond spreads: between +20 bps for AAA-rated and +101 bps for BB and lower (year 1), between +25 bps for AAA-rated and +124 bps for BB and lower (year 2), between -32 bps for AAA-rated and -158 bps for BB and lower (year 3) • Canadian dollar (external value): -4.7 percent (year 1), - 4.0 percent (year 2), +3.1 percent (year 3)
	Sensitivity analysis	Instantaneous market risk shocks • Stock price decline: -40 percent for ordinary shares, -20 percent for preferred shares • CAD appreciation: +10 percent
4. Risk factors assessed		• Market risks (equity, property, FX, alternative assets) • Interest rate risks • Credit risks (sovereign and corporate bond spreads)
5. Regulatory/accounting standards		Canadian Accounting Standards for Pension Plans (ASPP)
6. Reporting formats for results	Output presentation	• Change in values of assets and liabilities • Funding ratios • Contribution of individual shocks
Pension Funds: Liquidity Risk		
		Bottom-up
7. Institutional Perimeter	Number of institutions	10 Public sector pension plans (Ontario, British Columbia, federal, jointly federal-provincial) 9 Private sector single-employer pension plans (federal)
	Market Share	~70 percent, based on assets
	Data	Data collection from participating pension plans
	Reference Date	30 June 2024
8. Channels of Risk propagation	Methodology	Combination of interest rate and FX shocks leading to margin calls on pension plans' derivative and other off-balance sheet positions
	Time horizon	Up to three days
9. Scenario Analysis	Tail shocks	Instantaneous increase of interest rates (short-term +150 basis points, long-term +50 basis points; for all currencies) and a CAD depreciation (-2.9 percent against USD, and -4.8 percent against EUR)
10. Risk factors assessed		Short-term liquidity risks
11. Regulatory/accounting standards		Canadian ASPP
12. Reporting Formats for results	Output presentation	• Amount of margin call (per day) • Share of margin calls which could be met in kind • Liquid assets • Sources of liquidity to meet margin calls
Insurers Solvency Stress Test		
		Top-down

1. Institutional Perimeter	Number of institutions	~9 life insurers ~17 P&C insurers 3 mortgage insurers
	Market Share	Life: ~94 percent, based on balance sheet assets P&C: ~57 percent, based on gross premiums Mortgage: 100 percent, based on gross premiums
	Consolidation level	Unconsolidated
	Data	Statutory returns
	Reference Date	June 30, 2024
2. Channels of Risk propagation	Methodology	• Investment assets: market value changes of assets after price shocks; • Liabilities: valuation change due to interest rate shock; • Impact on available capital (net assets as the difference between stressed assets and liabilities). • For mortgage insurers: higher claims through heightened defaults on insured mortgage loans
	Time horizon	3 years
3. Scenario Analysis	Tail shocks	Adverse scenario: aligned with the macrofinancial scenario, but with more granularity on market and interest rate risks, for example: • Canadian stocks: -17.3 percent (year 1), -18.1 percent (year 2), +14.3 percent (year 3) • Canadian commercial real estate: -14.0 percent (year 1) -15.4 percent (year 2), +7.9 percent (year 3) • Canadian short-term risk-free interest rates: -33 bps (year 1), -80 bps (year 2), -22 bps (year 3) • Canadian short-term risk-free interest rates: +114 bps (year 1), -53 bps (year 2), -133 bps (year 3) • Canadian sovereign bond spreads: +25 bps (year 1), +30 bps (year 2), -39 bps (year 3) • Corporate bond spreads: between +20 bps for AAA-rated and +101 bps for BB and lower (year 1), between +25 bps for AAA-rated and +124 bps for BB and lower (year 2), between -32 bps for AAA-rated and -158 bps for BB and lower (year 3) • Canadian dollar (external value): -4.7 percent (year 1), -4.0 percent (year 2), +3.1 percent (year 3)
4. Sensitivity analysis		Instantaneous market risk shocks • Stock price decline: -40 percent for ordinary shares, -20 percent for preferred shares • CAD appreciation: +10 percent
5. Risk factors assessed		• Market risks (equity, property, FX, alternative assets) • Interest rate risks • Credit risks (sovereign and corporate bond spreads)

		• For mortgage insurers: credit risks from underwriting business
6. Regulatory/accounting standards		IFRS 17
7. Reporting Formats for results	Output presentation	• Change in valuation of assets and liabilities • Solvency ratios; • Aggregated capital shortfall (where applicable); • Dispersion across companies; • Contribution of individual shocks.
Insurers: Liquidity Stress Test		
		Bottom-up
1. Institutional perimeter	Number of institutions	3 life insurers
	Market share	Life: ~85 percent, based on balance sheet assets
	Consolidation level	Unconsolidated
	Data	Data collection from participating life insurers
	Reference date	June 30, 2024
2. Channels of risk propagation	Methodology	Combination of interest rate and FX shocks leading to margin calls on insurers' derivative and other off-balance sheet positions
	Time horizon	Up to three days
3. Scenario analysis	Tail shocks	• Instantaneous increase of interest rates (short-term +150 basis points, long-term +50 basis points; for all currencies) and a CAD depreciation (-2.9 percent against USD, and -4.8 percent against EUR)
4. Risk factors assessed		Short-term liquidity risks
5. Regulatory/accounting standards		IFRS 17
6. Reporting Formats for results	Output presentation	• Amount of margin call (per day) • Share of margin calls which could be met in kind • Liquid assets • Sources of liquidity to meet margin calls