



**Canadian Bond  
Investors' Association**  

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**Association canadienne des  
investisseurs obligataires**

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January 23, 2012

Julie Dickson  
Superintendent of Financial Institutions  
255 Albert Street  
Ottawa, Canada  
K1A 0H2  
Via E-mail: [julie.dickson@osfi-bsif.gc.ca](mailto:julie.dickson@osfi-bsif.gc.ca)

Re: Non Viable Contingent Capital (NVCC)

Dear Ms. Dickson

I am writing on behalf of the members of the Canadian Bond Investors' Association (CBIA), an industry organization which represents the interests of fixed income investors in Canada. The purpose of this letter is to alert OSFI of some of the concerns that the CBIA has with respect to NVCC, as well as the uncertainty regarding potential changes in the regulation of financial institutions in Canada.

Over the past several months our members have attended a number of conferences on NVCC hosted by various Canadian banks, some attended by OSFI, where their views were presented. Several issues have been raised in discussions among our membership concerning NVCC such as the transparency of triggers, and conversion features, valuation, as well as other key terms and conditions that are currently being contemplated by the banks.

Our initial intention was to actively engage the banks and OSFI in establishing appropriate terms and conditions for NVCC. However, we have come to the realization that there are potentially broader changes to follow with respect to the regulation of

financial institutions in Canada. For example, we understand that OSFI may be contemplating so called bail-in bonds. There are other questions regarding the ultimate capital requirements for Canadian banks (beyond Basel III minimums), the capital treatment of subordinated bonds, the amount of covered bond issuance that would be permitted for any given bank, and issues such as subsidiarization and/or ringfencing of certain operations. Further, comprehensive changes in legislation and regulation is either being enacted or being contemplated in the U.S. and the U.K. It is currently not clear to us where OSFI stands on these issues.

In our view allowing or encouraging the banks to proceed with NVCC issuance might be premature. Effective risk categorization, negotiation of terms and conditions, and the pricing of NVCC can best be addressed in the context of a full regulatory roadmap. Therefore, we believe that OSFI needs to take a step back from the issue of NVCC and formally address with Canadian fixed income investors the broader issues of legislation and regulation of financial institutions in Canada.

We appreciate that OSFI has made outreach efforts on the issue of NVCC over the past year. However, we hope you will understand that our organization is newly formed and we have only recently had the opportunity to discuss NVCC as a group. Further, it was only with the issuance of final OSFI guidelines in August, 2011 and subsequent presentations by OSFI that many of the issues outlined above have come into sharper focus. Canadian fixed income investors need to be engaged in a broader discussion of financial regulation and how any proposed changes will impact the overall credit quality of institutions and various fixed income instruments.

The CBIA would appreciate having the opportunity to directly discuss our concerns and perspectives with OSFI. We look forward to hearing back from you.

Sincerely,



Joe Morin  
Chair