



November 20, 2025

DOMESTIC STABILITY BUFFER COUNCIL

“Sluggish, Not Stressed, But Elevated Risks”: Council Recommends Leaving Buffer at 3.5 Percent

Fifth Meeting of the C.D. Howe Institute Domestic Stability Buffer Council

At its meeting on November 12, 2025, the C.D. Howe Institute’s **Domestic Stability Buffer Council** (DSBC) recommended that the Office of the Superintendent of Financial Institutions (OSFI) maintain the Domestic Stability Buffer (DSB) for the domestic systemically important banks (D-SIBs)¹ at 3.5 percent at its next setting in December.

The DSBC provides OSFI, industry participants, and key economic policy commentators with an independent assessment of the appropriate size of the buffer in pursuit of OSFI’s mandate of contributing to public confidence in the Canadian financial system. The Council consists of Vivian Abdelmessih, Cathy Cranston, Jamey Hubbs, Peter Levitt, Duncan Munn, Mark Zelmer, and Jeremy Kronick, who is Chair. Council members make recommendations for OSFI’s upcoming DSB announcement. Vivian Abdelmessih, Cathy Cranston, Peter Levitt, Duncan Munn, Mark Zelmer, and Jeremy Kronick attended this meeting.

The meeting began with members assessing Canadian economic and financial data and how they have evolved since OSFI left the buffer unchanged at 3.5 percent in June. Despite a small uptick, debt-to-disposable income has eased slightly, as have house-price-to-income ratios, though both remain elevated by historical standards. Debt service ratios have flattened and moved down from the peaks reached during the Bank of Canada’s interest rate tightening cycle. These somewhat improved metrics were tempered by rising unemployment (despite a small improvement in the latest October data), a geopolitical risk index that, though below its June high, is still elevated and appears to have settled at a higher equilibrium, and a global economic policy uncertainty index that is again very elevated relative to historical norms.

Taken together, members argued that the story told by this system-wide economic data has not changed materially since OSFI’s June DSB announcement.

1 D-SIBs refer to the six major banks in Canada: RBC, TD, Bank of Montreal, Scotiabank, CIBC, and National Bank.

At the financial institution level, the data again showed both positive and concerning developments. Non-financial corporate leverage remains stable at elevated levels, while financial-institution leverage has risen somewhat. D-SIB liquidity and net stable funding ratios remain strong, and CET1 ratios for all the big banks are healthy and well above regulatory capital requirements. Notably, for the first time in a while, provisions for credit losses fell despite continued growth in non-performing loans.

Members concluded that, in aggregate, the micro-level institutional data also point to a similar narrative as when OSFI last set the DSB in June.

With all these data in mind, members agreed that while the economy has been sluggish this year, there are no signs of severe stress in the financial system. Likewise, while underlying vulnerabilities continue, they have not yet crystallized. Taken together, this argues for keeping the DSB at its current level of 3.5 percent.

The conversation then shifted to near-term risks and how that might affect current and future decisions to trigger a release of part or all of the buffer.

Weighing on much of the discussion were the dynamics of Canada's trading relationship with the United States and the upcoming Canada-United States-Mexico Agreement (CUSMA) negotiations. Members were encouraged by Canada's approach and desire to diversify its trade relationships, but felt the benefits would only emerge over the medium to long term. Meanwhile, any marked deterioration in Canada's ability to access US markets would have a significantly negative impact on the economy. Members noted the US Supreme Court case on the use of the *International Emergency Economic Powers Act* (IEEPA) and the upcoming US midterm elections, given that both developments could affect Canada-US trade and, by extension, Canadian economic conditions. However, regardless of how these events unfold, they agreed that elevated protectionist sentiment in the United States is likely to persist, posing a continued risk to the Canadian economy.

This concern over a major deterioration in the Canadian economy left members arguing to keep the buffer powder dry, and led to the decision to leave the DSB unchanged. But members noted that OSFI should be prepared to quickly release all or part of the buffer if Canadian economic conditions worsen to the point where major banks need more capital headroom to maintain the flow of credit.

Members also discussed the significantly higher CET1 ratios relative to regulatory requirements and how to interpret them. While banks have always maintained a buffer above those requirements, that alone does not fully explain current levels – 13.2 percent is now the lowest CET1 bank ratio, still 170 basis points above the requirement. Members didn't pin the size of this cushion on any one factor but noted that it may represent a lack of favourable and credible capital allocation opportunities. As such, it was unclear what immediate effect a 25- or 50-basis-point buffer release would have. Members made the case that policymakers and regulators need to look at ways to safely unleash this surplus capital beyond simply reducing the DSB.

In summary, members agreed that systemic macroeconomic and financial vulnerabilities remain elevated but stable, while the D-SIBs, though healthy, face short-term risks that are also elevated. This elevated but stable narrative led the Council to vote to leave the buffer unchanged at 3.5 percent.

The Council will meet again in May 2026, ahead of OSFI's June 2026 announcement.

CHAIR OF THE COUNCIL:

- **Jeremy Kronick**, Vice-President, Economic Analysis and Strategy, C.D. Howe Institute.

MEMBERS OF THE COUNCIL:

- **Vivian Abdelmessih**, Chair of the Board at Export Development Canada.
- **Cathy Cranston**, Former Treasurer at BMO Financial Group.
- **Jamey Hubbs**, Senior Fellow, C.D. Howe Institute, Former Vice Superintendent, OSFI.
- **Peter Levitt**, Corporate and Philanthropic Director, Former EVP, Treasury and Taxation, CIBC.
- **Duncan Munn**, Chair and CEO, Elevate Export Finance.
- **Mark Zelmer**, Fellow-in-Residence, C.D. Howe Institute, Former Deputy Superintendent of Financial Institutions, OSFI.

Members of the Council participate in their personal capacities, and the views expressed do not represent those of any institution or client.