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# Draft Guideline

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**Subject: Pillar 3 Disclosure Guideline 2023 for Small and Medium-Sized Banks (SMSBs)**

**Category: Accounting & Disclosures**

**Date: August 2021**

**Effective Date: November 1, 2022**

1. OSFI supports relevant disclosures as a way to ensure stakeholders have access to key risk information that would enable them to gain a fundamental understanding and knowledge of small and medium-sized banks' (SMSBs<sup>1</sup>) activities. Many bodies recognize the importance of disclosure<sup>2</sup> as a key tool for decision-making and market discipline. Accordingly, disclosures help OSFI to meet our mandate of protecting depositors, policyholders, and creditors by ensuring appropriate information is available for the public to understand the financial condition of Canadian federally regulated SMSBs and the risks to which they are exposed.

## **I. Purpose of the Guideline**

2. This Guideline provides OSFI's updated disclosure expectations and serves as the comprehensive source for Pillar 3 disclosure requirements for SMSBs.
3. The Annex to this draft Guideline summarizes the disclosure requirements, indicate whether they are required in a fixed or flexible format, and lists the publishing frequency associated with each table and template.

## **II. Scope of Application**

4. This guideline applies to all SMSBs except for foreign bank branches, and subsidiaries of SMSBs or D-SIBs that report consolidated results to OSFI.

## **III. Guiding principles**

5. OSFI has agreed upon five guiding principles for SMSBs' Pillar 3 disclosures. Pillar 3 complements OSFI's minimum risk-based capital requirements and other quantitative requirements (Pillar 1) and OSFI's supervisory review process (Pillar 2) and aims to promote market discipline by providing meaningful regulatory information to investors and other interested parties on a consistent and comparable basis. The

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<sup>1</sup> For the purposes of this guideline, SMSBs are banks (including federal credit unions), bank holding companies, federally regulated trust companies, and federally regulated loan companies that have not been designated by OSFI as domestic systemically important banks (D-SIBs). This includes subsidiaries of SMSBs or D-SIBs that are banks (including federal credit unions), federally regulated trust companies or federally regulated loan companies.

<sup>2</sup> For example, the Financial Stability Board considers disclosure of key importance. For additional information please see the FSB's [Enhanced Disclosure Task Force reports](#)

guiding principles aim to provide a firm foundation for achieving transparent, high-quality Pillar 3 risk disclosures that will enable users to better understand and compare an SMSB's business and its risks, at a level of detail appropriate for SMSBs' nature, size and complexity. Regarding the appropriate level of disclosure for SMSBs, OSFI aims to strike a balance between facilitating the transparency of SMSBs' risks and risk management, and the level of resources required of SMSBs to provide that transparency. Accordingly, this draft guideline is adapted from OSFI's Pillar 3 Disclosure Guideline 2023 for D-SIBs.

**Principle 1 – Disclosures should be clear** – Disclosures should be presented in a form that is understandable to key stakeholders (i.e. depositors, creditors, analysts, others) and communicated through an accessible medium. Important messages should be highlighted and easy to find. Complex issues should be explained in simple language with important terms defined. Related risk information should be presented together.

**Principle 2 – Disclosures should be comprehensive** – Disclosures should describe an SMSB's main activities and all significant risks, supported by relevant underlying data and information. Significant changes in risk exposures between reporting periods should be described, together with the corresponding responses by management. The level of detail of such disclosure should be proportional to a SMSB's complexity. Approaches to disclosure should be sufficiently flexible to reflect how senior management and the board of directors internally assess and manage risks and strategy, helping users to better understand an SMSB's risk tolerance/appetite.

**Principle 3 – Disclosures should be meaningful to users** – Disclosures should highlight an SMSB's most significant risks and how those risks are managed, including information that is likely to receive market attention.

**Principle 4 – Disclosures should be consistent over time** – Disclosures should be consistent over time to enable key stakeholders to identify trends in an SMSB's risk profile across all significant aspects of its business. Additions, deletions and other important changes in disclosures from previous reports, including those arising from a SMSB's specific, regulatory or market developments, should be highlighted and explained.

**Principle 5 – Disclosures should be comparable across similar SMSBs.** The level of detail and the format of presentation of disclosures should enable key stakeholders to perform meaningful comparisons of business activities, prudential metrics, risks and risk management between SMSBs with similar characteristics.

6. OSFI expects SMSBs to present disclosures that reflect the above principles.

#### IV. Implementation Date

7. SMSBs are expected to disclose prospectively the tables and templates as required by section V of this Guideline in accordance with the implementation deadlines per the Annex to this Guideline. SMSBs may early adopt disclosure

requirements at their discretion. SMSBs should provide comparative period disclosures over future reporting periods.

## V. Disclosure Requirements for SMSBs, by Segmentation Category

8. OSFI's disclosure requirements for SMSBs are determined by SMSB segmentation category<sup>3</sup>. See Annex 1 of this Guideline for disclosure requirements for each Category of SMSB.

### Disclosures related to specific business activities

9. Disclosure requirements related to Securitization<sup>4</sup> and Counterparty credit risk are required only if the SMSB engages in those activities on a regular basis.
10. Quantitative Disclosure requirements for Category 1 SMSBs related to Operational Risk are required only if the SMSB has been approved by OSFI to use the Standardized Approach for Operational Risk<sup>5</sup>.

### Market Risk disclosures

11. OSFI expects that SMSBs currently making the market risk disclosures under Basel 2.5 revisions to the *Basel II market risk framework*, continue to do so until the market risk disclosures under Basel III, Pillar 3 come into effect in Canada.

### Disclosure of SMSB Segmentation Category

12. All SMSBs (other than those exempt per Section III of this Guideline) should include disclosure of their respective segmentation category as part of their Pillar 3 disclosures.

### OSFI's Financial Data Websites

13. All SMSBs (other than those exempt per Section III of this Guideline) are required to provide in their Pillar 3 disclosures a link to OSFI's Financial Data for Banks (or Trust Companies, or Loan Companies) website<sup>6</sup>, as appropriate, to alert readers to additional information available.
14. Category 2 and Category 3 SMSBs may provide the link to OSFI's Financial Data for Banks (or Trust Companies, or Loan Companies) website, as appropriate, in place of the disclosure requirement for Modified Template CC1 – Composition of regulatory capital.

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<sup>3</sup> For an explanation of OSFI's segmentation of SMSBs, see *OSFI's Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking Institutions (SMSBs)*, section entitled "[Segmentation of SMSBs](#)."

<sup>4</sup> For an explanation of "Securitization", see OSFI's *Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking Institutions (SMSBs)*, section entitled "[Securitization Exposures](#)."

<sup>5</sup> For an explanation of "Operational Risk", see OSFI's *Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking Institutions (SMSBs)*, section entitled "[Operational Risk](#)."

<sup>6</sup> OSFI's financial Data website: <https://www.osfi-bsif.gc.ca/Eng/wt-ow/Pages/fd-df.aspx>

## VI. Frequency of reporting

15. The reporting frequency varies depending upon the nature of the specific disclosure requirement per Annex 1 of this Guideline. On an ongoing basis after implementation, OSFI expects SMSBs to adhere to this Guideline for frequency and format of reporting. SMSBs may provide Pillar 3 reporting on a more frequent basis than is required by this draft Guideline.

## VII. Disclosure format

16. Annex 1 of this draft Guideline designate the required tables and templates in this Guideline as either fixed format or flexible format. Templates must be completed with quantitative data in accordance with the definitions provided. Tables generally relate to qualitative requirements, but quantitative information is also required in some instances.
17. SMSBs are required to follow the disclosure format designated by the Annex of this Guideline, which are:

### Fixed format

18. Fixed format templates should be completed in accordance with the OSFI-prescribed instructions for each template and located in a separate Pillar 3 report. If a row or column in a template is not considered relevant or meaningful to users (as it would contain a nil balance because it does not apply), SMSBs may delete the specific row or column, while keeping the numbering of subsequent rows or columns for ease of reference. SMSBs may also add extra sub-rows and sub-columns to provide additional granularity, but the numbering of prescribed rows and columns in the template must not be altered.

### Flexible format

19. Flexible format tables and templates allow SMSBs to present the required information either in the format provided in this document or in a format that better suits the SMSB, as long as the information provided is comparable to and at a similar level of granularity as required by this Guideline.
20. SMSBs can disclose flexible format tables and templates in a separate document other than in a Pillar 3 report (e.g., in the management discussion and analysis, financial statement notes or supplemental information) but must clearly indicate in the Pillar 3 report where the disclosure requirements have been published.

### Limited disclosure exceptions

21. OSFI believes that the disclosure requirements strike an appropriate balance between the need for meaningful disclosure and the protection of proprietary and confidential information. In exceptional cases, disclosure of certain items required by this

Guideline may contravene its legal obligations by making public information that is proprietary or confidential in nature. In such cases, an SMSB does not need to disclose those specific items, but must disclose more general information about the subject matter of the requirement instead. It must also explain in the narrative commentary to the disclosure requirement the fact that the specific items of information have not been disclosed and the reasons for this.

### **VIII. Qualitative narrative to accompany the disclosure requirements (Applicable to Category 1 SMSBs, only)**

22. SMSBs are expected to supplement the quantitative information provided in both fixed and flexible templates with a narrative commentary to explain at least any significant changes between reporting periods and any other issues that management considers to be of interest to users. The form taken by this additional narrative is at the SMSB's discretion.
23. Disclosure of additional quantitative and qualitative information provides market participants with a broader picture of an institution's risk position and promotes market discipline.

### **IX. Location of disclosures**

24. The Pillar 3 report must be published concurrently with the SMSB's financial reporting for the corresponding period, even if the SMSB does not disclose financial reporting to the public.
25. The Pillar 3 report should be easily located by users, such as in a standalone document, appended to or part of a discrete section of the SMSB's financial reporting.
26. Pillar 3 disclosures should be publically available (such as on a website) and SMSBs should have an ongoing archive of all Pillar 3 disclosures relating to prior reporting periods. SMSBs are required to ensure public access to previously issued Pillar 3 disclosures for a minimum of 12 months; where investor information is made available for longer periods, the same archive period should be used for Pillar 3 disclosures.
27. For Category 1 SMSBs: to facilitate ease of locating disclosures, Category 1 SMSBs should provide a reference index that maps the tables and templates to their specific location. This index should include the template title, name of document referenced, specific page number or paragraph referenced and web link where relevant. For instances where entire, or portions of, certain tables or templates are not disclosed, explanations should be provided.

#### Signposting

28. Subject to OSFI discretion, SMSBs may disclose in a document separate from their Pillar 3 reports (e.g. in a SMSB's annual report) the templates / tables with a flexible format, and the fixed format templates where all of the following criteria are met:

- a) the disclosure in the signposted document is mandatory;
- b) the information contained in the signposted document
  - i) is equivalent in terms of presentation and content to that required in the fixed template;
  - ii) allows users to make meaningful comparison with information provided by SMSBs disclosing the fixed format templates;
  - iii) is based on the same scope of consolidation as the one used in the disclosure requirement.

29. In such circumstances, the SMSB must signpost clearly in its Pillar 3 report where the disclosure requirements have been published. This signposting in the Pillar 3 report must include:

- a) the title and number of the disclosure requirement;
- b) the full name of the separate document in which the disclosure requirement has been published;
- c) a web link, where relevant; and
- d) the page and paragraph number of the separate document where the disclosure requirements can be located.

30. SMSB's can only make use of signposting to another document if the level of assurance on the reliability of data in the separate document is equivalent to, or greater than, the internal assurance level required for the Pillar 3 report.

## **X. Compliance with Pillar 3**

31. The Pillar 3 information disclosed must be subject, at a minimum, to the same level of internal review and internal control process as the information provided for their financial reporting (i.e. the level of assurance must be the same as for information provided within the management discussion and analysis part of the annual financial statements).

32. The internal audit function should review compliance with Annex 1 of this draft Guideline on initial application and, subsequently, on a periodic basis. The initial review should be conducted within one year after implementation of this draft Guideline. Subsequent reviews should be conducted on a periodic basis consistent with the SMSB's normal reporting verification cycle. Issues of non-compliance with this draft Guideline will be addressed by OSFI on a case-by-case basis through bilateral discussions with the SMSB.

**Annex 1 – Minimum Mandatory Disclosure Requirements for SMSBs  
Format, reporting frequency, implementation date**

	Risk Category	Tables and Templates	Format	Frequency	Per BCBS Guidance <sup>7</sup> , unless otherwise stated here	Mandatory Effective Date (Fiscal Quarter, Year)	Category 1, A-IRB-approved	Category 1, non-A-IRB-approved	Category 2	Category 3
1	Simplified Capital Ratio	Excerpt from BCAR schedule 10.011 <sup>8</sup>	Fixed	Quarterly	Per CAR 2023 Guideline	Q1, 2023				✓
2	Overview of risk management, key prudential metrics & RWA	OVA – Bank risk management approach	Flexible	Annual		Q1, 2023	✓	✓		
3	Overview of risk management, key prudential metrics & RWA	KM1 – Key metrics (at consolidated group level)	Fixed	Quarterly	OSFI disclosure will have no LCR	Q4, 2023	✓	✓	✓	
4	Composition of capital	Modified CC1 – Composition of regulatory capital	Fixed	Quarterly	Per Guideline: <a href="#">Capital Disclosure</a>	Already in force	✓	✓	✓	✓
5	Comparison of modelled & standardised RWA	CMS1 – Comparison of modelled and standardised RWA at risk level	Fixed	Quarterly		Q4, 2023	✓			
6	Comparison of modelled & standardised RWA	CMS2 – Comparison of modelled and standardised at asset class level	Fixed	Quarterly	OSFI disclosure will have an added row for covered bonds	Q4, 2023	✓			
7	Credit risk	CRA – General information about credit risk	Flexible	Annual		Q1, 2023	✓	✓	✓	
8	Credit risk	CR1 – Credit quality of assets	Fixed	Quarterly		Q1, 2023	✓	✓		
9	Credit risk	CRC – Qualitative disclosure requirements related to credit risk mitigation techniques	Flexible	Annual		Q1, 2023	✓	✓		
10	Credit risk	CR3 – Credit risk mitigation techniques – overview	Fixed	Quarterly		Q1, 2023	✓	✓		
11	Credit risk	CR4 – Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects	Fixed	Quarterly		Q4, 2023	✓	✓		
12	Credit risk	CR5 – Standardised approach – exposures by asset classes and risk weights	Fixed	Quarterly	OSFI disclosure template will have no rows for loan splitting	Q4, 2023	✓	✓		
13	Credit risk	CRE – Qualitative disclosures related to IRB models	Flexible	Annual		Q1, 2023	✓			
14	Credit risk	CR6 – IRB – Credit risk exposures by portfolio and PD range	Fixed	Quarterly		Q1, 2023	✓			
15	Credit risk	CR7 – IRB – Effect on RWA of credit derivatives used as CRM techniques	Fixed	Quarterly		Q1, 2023	✓			
16	Credit risk	CR8 – RWA flow statements of credit risk exposures under IRB	Fixed	Quarterly		Q1, 2023	✓			
17	Credit risk	CR9 – IRB – Backtesting of probability of default (PD) per portfolio	Flexible	Annual		Q1, 2023	✓			
18	Counterparty credit risk <sup>9</sup>	CCRA – Qualitative disclosure related to counterparty credit risk	Flexible	Annual		Q1, 2023	✓	✓		
19	Counterparty credit risk <sup>9</sup>	CCR1 – Analysis of counterparty credit risk (CCR) exposure by approach	Fixed	Quarterly		Q1, 2023	✓	✓		
20	Counterparty credit risk <sup>9</sup>	CCR3 – Standardised approach of CCR exposures by regulatory portfolio and risk weights	Fixed	Quarterly		Q4, 2023	✓	✓		
21	Counterparty credit risk <sup>9</sup>	CCR4 – IRB – CCR exposures by portfolio and PD scale	Fixed	Quarterly		Q4, 2023	✓			
22	Counterparty credit risk <sup>9</sup>	CCR5 – Composition of collateral for CCR exposure	Flexible	Quarterly		Q4, 2023	✓	✓		
23	Counterparty credit risk <sup>9</sup>	CCR6 – Credit derivatives exposures	Flexible	Quarterly		Q1, 2023	✓	✓		
24	Securitisation <sup>9</sup>	SECA – Qualitative disclosure requirements related to securitisation exposures	Flexible	Annual		Q1, 2023	✓	✓		
25	Operational Risk	ORA – General qualitative information on a bank's operational risk framework	Flexible	Annual		Q4, 2023	✓	✓	✓	✓
26	Operational Risk <sup>9</sup>	OR1 – Historical losses	Fixed	Annual	OSFI disclosure to use only \$30,000 CAD threshold	Q4, 2023	✓	✓		
27	Operational Risk <sup>9</sup>	OR2 – Business indicator and subcomponents	Fixed	Annual		Q4, 2023	✓	✓		
28	Operational Risk <sup>9</sup>	OR3 – Minimum required operational risk capital	Fixed	Annual		Q4, 2023	✓	✓		
29	Interest Rate Risk in the Banking Book	IRRBB – Risk management objectives and policies	Flexible	Annual	Per Guideline: <a href="#">IRRBB</a>	Already in force	✓	✓		
30	Interest Rate Risk in the Banking Book	IRRBB – Quantitative information	Flexible	Annual	Per Guideline: <a href="#">IRRBB</a>	Already in force	✓	✓		
31	Leverage Ratio	LR2 – Leverage ratio common disclosure template	Fixed	Quarterly	Per Guideline : <a href="#">D-12</a>	Already in force	✓	✓	✓	

<sup>7</sup> Templates and tables are as per BCBS Guidance: ([https://www.bis.org/baselframework/DIS10\\_20220101.xlsx](https://www.bis.org/baselframework/DIS10_20220101.xlsx))

<sup>8</sup> See Annex 2 for an example of BCAR schedule 10.011

<sup>9</sup> Only if applicable. See “Disclosure Requirements for SMSBs, by Segmentation Category” section of this Guideline for applicability.

**Annex 2 – example of Simplified Capital Ratio Disclosure Template for Category 3  
SMSBs**

*Dollars in thousands*

**A Ratio Calculations**

Common Equity Tier 1 (CET1) simplified risk-based capital ratio ratio (%)

Tier 1 simplified risk-based capital ratio (%)

Total simplified risk-based capital ratio (%)


**B Capital**

Net CET1 capital

Net Tier 1 capital

Total capital


**C Adjusted Total Assets and Operational Risk RWA**

Total Assets

CET1 capital deductions

Additional Tier 1 capital deductions

Tier 2 capital deductions

Adjusted Total Assets (CET1)

Adjusted Total Assets (Tier 1)

Adjusted Total Assets (Total Capital)

Operational Risk RWA

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