Guideline

Subject: **Pillar 3 Disclosure Requirements**

Category: **Accounting & Disclosures**

Date: **April 2017** **Effective Date: October 31, 2018**

OSFI supports relevant disclosures as a way to ensure stakeholders have access to key risk information that would enable them to gain a thorough understanding and knowledge of a deposit-taking institution's activities. The importance of disclosure is recognized by many bodies[1] as a key tool for decision-making and market discipline. Accordingly, disclosures help OSFI to meet our mandate of protecting deposit holders by ensuring appropriate information is available for the public to understand the financial condition of Canadian federally regulated deposit-taking institutions [2] and the risks to which they are exposed.

In the wake of the 2007-09 financial crisis, it became apparent that the existing Pillar 3 framework[3] did not adequately promote the identification of internationally active banks material risks and did not provide sufficiently comparable information to enable market participants to assess a bank's overall capital adequacy and to compare it with its peers.

In January 2015, the Basel Committee on Banking Supervision (BCBS) published the standard for the *Revised Pillar 3 Disclosure Requirements*[4] (Revised Basel Pillar 3 standard). The Revised Basel Pillar 3 standard aim to address the problems identified through the financial crisis and to improve comparability and consistency of financial regulatory disclosures through more standardized formats between banks and across jurisdictions.

The Revised Basel Pillar 3 standard represents Phase I of the Basel Committee Pillar 3 disclosure project. Phase I supersedes the disclosure requirements issued under Basel II (including subsequent Basel II enhancements and revisions) in the areas of credit risk, counterparty credit risk, market risk and securitization activities.

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1 For example, the Financial Stability Board considers disclosure of key importance. For additional information please see the FSB's Enhanced Disclosure Task Force reports.

2 Banks and bank holding companies to which the *Bank Act* applies, federally regulated trust or loan companies to which the *Trust and Loan Companies Act* applies and cooperative retail associations to which the *Cooperative Credit Association Act* applies are collectively referred to as "deposit-taking institutions".

3 *Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version*, June 2006 (the Basel II framework). Enhancements to the *Basel II framework* and revisions to the *Basel II market risk framework*, June 2009 (collectively referred to as the Basel 2.5 framework).

4 January 2015 Basel Committee *Revised Pillar 3 Disclosure Requirements*: http://www.bis.org/bcbs/publ/d309.html

Phase II of the Basel Committee Pillar 3 disclosure project will be addressed at a later date and relates to:

i. New disclosures to enhance the revised Pillar 3 framework,

ii. Revisions and additions to the Pillar 3 framework arising from ongoing reforms to the regulatory framework that are different from those covered by Phase I, and

iii. Consolidation of all existing and prospective Basel Committee disclosure requirements into the Pillar 3 framework.

This guideline provides clarification on the domestic implementation on Phase I of the Revised Basel Pillar 3 standard for Canadian domestic systemically important banks (D-SIBs)[5] and non-D-SIBs.

This guideline replaces OSFI's November 2007 Advisory on Pillar 3 Disclosure Requirements.

The guideline for Pillar 3 disclosure requirements is comprised of the following sections:

I. Guiding principles

II. Scope and implementation

The Annex to this guideline provides a schedule that summarizes the disclosure requirements and indicates whether they are required in a fixed or flexible format. The schedule also lists the publishing frequency associated with each table and template and includes page references to the complete Revised Basel Pillar 3 standard document.

I. Guiding principles

The Revised Basel Pillar 3 standard is based upon the following five guiding principles which aim to provide a firm foundation for achieving transparent, high-quality disclosures that will enable users to better understand and compare an institution's business and risks. [BCBS Jan 2015 par 12 and 13]

Principle 1 – Disclosures should be clear – They should be communicated in a form that is understandable to key stakeholders and through an accessible medium.

Principle 2 – Disclosures should be comprehensive – They should describe an institution's main activities and all significant risks, supported by relevant underlying data and information.

[5] Chapter 1 of the Capital Adequacy Requirements (CAR) Guideline identifies D-SIBs as Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada, Royal Bank of Canada and Toronto-Dominion Bank. Non-D-SIBs consist of all other federally regulated deposit-taking institutions that are not D-SIBs. Non-D-SIBs are also known as small and medium size banks.

Principle 3 – Disclosures should be meaningful to users – They should highlight an institution's most significant current and emerging risks and how those risks are managed including information that is likely to receive market attention. Information that is not meaningful or relevant to users should be removed. Information that is excluded on this basis will require a narrative commentary to explain why such information is not meaningful to users.

Principle 4 – Disclosures should be consistent over time – They should be consistent over time to enable key stakeholders to identify trends in an institution's risk profile across all significant aspects of its business.

Principle 5 – Disclosures should be comparable across deposit-taking institutions – The level of detail and format of presentation of disclosures should enable key stakeholders to perform meaningful comparisons of business activities, prudential metrics, risks and risk management between deposit-taking institutions and across jurisdictions.

Deposit-taking institutions are expected to present disclosures that reflect the above principles.

II. Scope and Implementation

1. Scope of Application

D-SIBs

The Revised Basel Pillar 3 standard issued by the Basel Committee applies to internationally active banks at the top consolidated level [BCBS Jan 2015 par 4].

In considering the need for adopting the Revised Basel Pillar 3 standard in full form (with the exception of market risk disclosures – see discussion below) for Canadian D-SIBs, OSFI took into account the relevance and importance of improving the overall comparability and consistency of disclosures across Canadian D-SIBs and alignment with internationally active banks in other jurisdictions.

It is important that Canadian D-SIBs continue to retain high levels of public confidence and have public information disclosure practices covering their financial condition and risk management activities that are among the best of their international peers.[6]

Phase II of the Basel Committee Pillar 3 disclosure project contains disclosure requirements for market risk that supersede those issued in January 2015 as part of Phase I of the Basel Committee Pillar 3 disclosure project.

D-SIBs may, at their discretion, continue to apply the market risk disclosures under Basel 2.5 framework until the market risk disclosures under Phase II come into effect in Canada.

6 OSFI CAR Guideline, Chapter 1, Annex 1, paragraph 11.

For D-SIBs, the Revised Basel Pillar 3 standard will replace the disclosure requirements issued under Basel II and the subsequent Basel 2.5 enhancements and revisions. Basel 2.5 revisions to the *Basel II market risk framework* will continue to apply for D-SIBs that opt to retain these disclosures until market risk disclosures under Phase II of the Basel Committee Pillar 3 disclosure project come into effect. OSFI's disclosure requirements for remuneration, composition of capital, global systemically important banks, liquidity coverage ratio and leverage ratio continue to be in force until they are addressed at a later date as part of Phase II of the Basel Committee's Pillar 3 disclosure project.

Non-D-SIBs

The Revised Basel Pillar 3 standard increases the volume and complexity of disclosures than were required under the Basel II framework. Applying the Revised Basel Pillar 3 standard in full form does not appropriately reflect the nature, size and complexity of non-D-SIBs.

As such, non-D-SIBs are expected to continue with their existing Pillar 3 disclosures. OSFI will determine the applicability of the Basel Pillar 3 disclosure requirements to non-D-SIBs when the Basel Committee completes all phases of the Basel Pillar 3 disclosure project.

Consistent with current practice, the content of the disclosures should be tailored to the nature, size and complexity of the institution.

Limited exemptions

Foreign bank branches, financial institutions that do not take deposits and subsidiaries of Canadian federally regulated deposit-taking institutions that report consolidated results to OSFI are exempt from the Basel Pillar 3 disclosure requirements.

2. Implementation date and frequency of reporting

OSFI enforces the disclosure requirements in accordance with the guideline implementation date. The reporting frequency varies between quarterly, semi-annually and annually depending upon the nature of the specific disclosure requirement. [BCBS Jan 2015 par 7-8]

D-SIBs

D-SIBs are expected to implement the Revised Basel Pillar 3 standard for the reporting period ending October 31, 2018. An exception is permitted for market risk disclosures, as discussed in the Scope of Application section above. As of October 31, 2018, D-SIBs are expected to prospectively disclose all tables and templates under the Revised Basel Pillar 3 standard, as summarised in the Annex to this guideline. Comparative period disclosures should be provided over future reporting periods.

On an ongoing basis after implementation, OSFI expects D-SIBs to adhere to the Revised Basel Pillar 3 standard for frequency of reporting. As the Revised Basel Pillar 3 standard reporting frequency is viewed as a minimum requirement, D-SIBs are permitted to provide Pillar 3 reporting on a more frequent basis.

Non-D-SIBs

Non-D-SIBs are expected to continue applying the existing Pillar 3 disclosures under Basel II (including subsequent Basel 2.5 enhancements and revisions)[7] and OSFI's guidelines for Basel III (e.g. leverage ratio and composition of capital) until OSFI concludes on the final Basel Committee Pillar 3 disclosure project.

However, non-D-SIBs are permitted to adopt and disclose any of the tables or templates from the Revised Basel Pillar 3 standard that are relevant in reflecting the risks and activities of the institution commencing with the 2018 fiscal year end reporting.

Although the Revised Basel Pillar 3 standard prescribes the frequency of disclosures, the frequency of the quantitative disclosures made by deposit-taking institutions should align with their financial reporting in Canada. If a non-D-SIB publishes information on an annual basis only, it should include sufficient information to support this frequency of disclosure.

3. Disclosure format

The tables and templates in the Revised Basel Pillar 3 standard are designated either as *fixed format* or *flexible format*. Fixed form templates are used for quantitative information that is considered essential for the analysis of an institution's regulatory capital requirements. Flexible form templates are proposed for information which is considered meaningful to the market but not central to the analysis of an institution's regulatory capital adequacy. [BCBS Jan 2015 par 3, 15-19]

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. [BCBS Jan 2015 par 14]

D-SIBs

D-SIBs are required to follow the disclosure format designated by the Revised Basel Pillar 3 standard, which are:

[7] *Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version*, June 2006. Enhancements to the *Basel II framework* and revisions to the *Basel II market risk framework*, June 2009.

Fixed format

Fixed format templates should be completed in accordance with the Basel Committee 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, D-SIBs may delete the specific row or column while keeping the numbering of subsequent rows or columns for ease of reference. In cases where certain rows or columns are excluded as they are not meaningful, the D-SIB should explain why the information is not relevant or meaningful to users. D-SIBs may also add extra sub-rows and sub-columns to provide additional granularity, such as to meet other disclosure requirements outside of Pillar 3.

Flexible format

Flexible format tables and templates allow D-SIBs to present the required information in a format that better suits the D-SIB, as long as the information provided is comparable to and at a similar level of granularity as the Revised Basel Pillar 3 standard. D-SIBs 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.

<u>EDTF Disclosures</u>

To help minimise duplication of disclosures, D-SIBs can remove those EDTF disclosures that are effectively disclosed by the more granular templates of the Revised Basel Pillar 3 standard. D-SIBs should retain those EDTF disclosures that are not covered by Pillar 3 requirements.

For those EDTF disclosures that are covered by the Revised Basel Pillar 3 standard, OSFI expects D-SIBs to follow the reporting frequency included in the Revised Basel Pillar 3 standard (refer to the Annex). D-SIBs are permitted to provide EDTF disclosures on a more frequent basis than Pillar 3 requirements should they choose to do so.

Non-D-SIBs

Where templates or tables are provided in the Revised Basel Pillar 3 standard, non-D-SIBs may present the required information in either the format provided or in one that better suits the financial reporting of the institution.

D-SIBs and Non-D-SIBs

<u>Limited disclosure exceptions</u>

Deposit-taking institutions may choose not to disclose part or all the information requested in certain tables/templates if the exposures and risk weighted asset (RWAs) amounts are deemed immaterial or nil. [BCBS Jan 2015 par 15]

For exceptional cases, deposit-taking institutions may decide not to provide disclosure of certain line items required by Pillar 3 where disclosure may reveal the position or contravene its legal obligations by making information public that is proprietary or confidential in nature. For these exceptional cases, more general information should be provided along with an explanation on why certain line items are not disclosed. [BCBS Jan 2015 par 11]

4. Qualitative narrative to accompany the disclosure requirements

Deposit-taking institutions are expected to supplement the quantitative information with qualitative information. Disclosure of additional quantitative and qualitative information provides market participants with a broader picture of an institution's risk position and promotes market discipline. [BCBS Jan 2015 par 23-24]

D-SIBs and Non-D-SIBs

D-SIBs and Non-D-SIBs are expected to supplement the quantitative information provided in both fixed and flexible templates with a narrative commentary, in the same location as the template, to explain at least any significant changes between reporting periods and any other issues that management considers to be of interest to market participants.

5. Location of disclosures

The Pillar 3 report must be published concurrently with its financial report for the corresponding period. [BCBS Jan 2015 par 8]

Deposit-taking institutions 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. [BCBS Jan 2015 par 20-22]

D-SIBs

D-SIBs are required to publish Pillar 3 disclosures concurrently with the financial statements. 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 deposit-taking institution's financial reporting.

Pillar 3 disclosures should be publically available (such as on a website) and D-SIBs should have an ongoing archive of all Pillar 3 disclosures relating to prior reporting periods. D-SIBs 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.

To facilitate ease of locating disclosures, D-SIBs 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.

Non-D-SIBs

As per Basel II framework, all deposit-taking institutions are required to make the Pillar 3 disclosures available to the public. Unless otherwise required by another authority (e.g., accounting standards, securities regulations, etc.), OSFI will allow non-D-SIBs discretion on the location of Pillar 3 disclosures (e.g., annual report, quarterly report, website, etc.). Nevertheless, deposit-taking institutions are encouraged to provide all related information in one location to the extent possible.

6. Compliance with Pillar 3

D-SIBs and Non-D-SIBs

OSFI expects D-SIBs and non-D-SIBs to comply with the Revised Basel Pillar 3 disclosure requirements stated within this guideline. The Pillar 3 information disclosed must be subject to a similar level of internal review and internal control process as is the case for information provided for their financial reporting (e.g. similar operational process used to prepare information for the management's discussion and analysis or annual financial statements). [BCBS Jan 2015 par 9]

The internal audit function, or a review function with similar level of authority, should review compliance with revised Basel Pillar 3 standard on initial application and, subsequently, on a periodic basis. The initial review should be conducted within one year after implementation of the revised Basel Pillar 3 standard. Subsequent reviews should be conducted on a periodic basis consistent with the deposit-taking institution's normal reporting verification cycle. Issues of non-compliance with the Revised Pillar 3 standard will be addressed by OSFI on a case-by-case basis through bilateral discussions with the deposit-taking institutions.

ANNEX – Format and reporting frequency for Revised Basel Pillar 3 standard

	Tables and templates*	***Basel page ref	Fixed format	Flexible format	Quarterly	Semi-annually	Annually
Part 2 – Overview of risk management and RWA	OVA – Bank risk management approach	9		✓			✓
	OV1 – Overview of RWA	10-12	✓		✓		
Part 3 – Linkages between financial statements and regulatory exposures	LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statements with regulatory risk categories	13-14		✓			✓
	LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements	15-16		✓			✓
	LIA – Explanations of differences between accounting and regulatory exposure amounts	17		✓			✓
Part 4 – Credit risk	CRA – General information about credit risk	18		✓			✓
	CR1 – Credit quality of assets	19	✓			✓	
	CR2 – Changes in stock of defaulted loans and debt securities	20	✓			✓	
	CRB – Additional disclosure related to the credit quality of assets	21		✓			✓
	CRC – Qualitative disclosure requirements related to credit risk mitigation techniques	22		✓			✓
	CR3 – Credit risk mitigation techniques – overview	23	✓			✓	
	CRD – Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk	24		✓			✓
	CR4 – Standardised approach – credit risk exposure and Credit Risk Mitigation (CRM) effects	25-26	✓			✓	
	CR5 – Standardised approach – exposures by asset classes and risk weights	27-28	✓			✓	
	CRE – Qualitative disclosures related to IRB models	29		✓			✓
	CR6 – IRB - Credit risk exposures by portfolio and PD range	30-31	✓			✓	
	CR7 – IRB – Effect on RWA of credit derivatives used as CRM techniques	32	✓			✓	
	CR8 – RWA flow statements of credit risk exposures under IRB	33	✓		✓		
	CR9 – IRB – Back testing of probability of default (PD) per portfolio	34		✓			✓
	CR10 – IRB (specialised lending and equities under the simple risk weight method)	35-36		✓		✓	

	Tables and templates*	***Basel page ref	Fixed format	Flexible format	Quarterly	Semi-annually	Annually
Part 5 – Counterparty credit risk	CCRA – Qualitative disclosure related to counterparty credit risk	37		✓			✓
	CCR1 – Analysis of counterparty credit risk (CCR) exposure by approach	38	✓			✓	
	CCR2 – Credit valuation adjustment (CVA) capital charge	39	✓			✓	
	CCR3 – Standardised approach of CCR exposures by regulatory portfolio and risk weights	40	✓			✓	
	CCR4 – IRB – CCR exposures by portfolio and PD scale	41-42	✓			✓	
	CCR5 – Composition of collateral for CCR exposure	43		✓		✓	
	CCR6 – Credit derivatives exposures	44		✓		✓	
	CCR7 – RWA flow statements of CCR exposures under the Internal Model Method (IMM)	45	✓		✓		
	CCR8 – Exposures to central counterparties	46-47	✓			✓	
Part 6 – Securitisation	SECA – Qualitative disclosure requirements related to securitisation exposures	48-49		✓			✓
	SEC1 – Securitisation exposures in the banking book	49-50		✓		✓	
	SEC2 – Securitisation exposures in the trading book	51-52		✓		✓	
	SEC3 – Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor	53-54	✓			✓	
	SEC4 – Securitisation exposures in the banking book and associated capital requirements – bank acting as investor	55-56	✓			✓	
Part 7 – Market risk**	MRA – Qualitative disclosure requirements related to market risk	57		✓			✓
	MRB – Qualitative disclosures for banks using the Internal Models Approach (IMA)	57-59		✓			✓
	MR1 – Market risk under standardised approach	59-60	✓			✓	
	MR2 – RWA flow statements of market risk exposures under an IMA	60-61	✓		✓		
	MR3 – IMA values for trading portfolios	62	✓			✓	
	MR4 – Comparison of VaR estimates with gains/losses	63		✓		✓	
			20	20	4	22	14

* The shaded rows refer to tables (mostly for qualitative information) (11 in total) and the unshaded rows are templates (for quantitative information) (29 in total).

** D-SIBs are permitted to continue using market risk disclosures under the Basel 2.5 revisions to the market risk framework until Phase II of the BCBS Pillar 3 disclosure project comes into effect in Canada.

*** **Details of the above tables and templates can be found in the BCBS publication titled *Revised Pillar 3 Disclosure Requirements* (January 2015): http://www.bis.org/bcbs/publ/d309.html**