Reference: Guideline for Banks/ BHC/CRA/T&L

April 20, 2017

To: All federally regulated deposit-taking institutions[1]

Subject: Final Guideline – Pillar 3 Disclosure Requirements

OSFI is issuing the final guideline on *Pillar 3 Disclosure Requirements*. This guideline clarifies OSFI's expectations regarding domestic implementation by federally regulated deposit-taking institutions of the *Revised Pillar 3 Disclosure Requirements* (revised requirements) issued by the Basel Committee on Banking Supervision in January 2015.

The revised requirements represent Phase I of Pillar 3 disclosure requirements and supersedes the disclosure requirements issued under Basel II (including subsequent Basel II enhancements and revisions) in the areas of credit risk, counterparty credit risk and securitization activities.

The remaining areas with existing disclosure requirements under Basel II and Basel III (i.e., liquidity coverage ratio, leverage ratio, composition of capital, global systemically important banks, remuneration, market risk, operational risk and interest rate risk) continue to be in force until they are addressed at a later date as part of Phase II of the Basel Committee on Banking Supervision's Pillar 3 disclosure project.

The final version of the Pillar 3 Disclosure Requirements guideline will replace OSFI's November 2007 Advisory on *Pillar 3 Disclosure Requirements* and is effective for October 31, 2018. Consistent with OSFI's August 2016 letter on *Pillar 3 Disclosure Requirements*, the implementation date gives D-SIBs the time to focus on a high quality implementation of the *IFRS 9 Financial Instrument*s accounting standard and better aligns with the planned implementation dates for peer internationally active banks in other major jurisdictions.

Comments received on the draft guideline were taken into consideration in the drafting of the final guideline. The table in the Annex summarizes material comments received and provides an explanation of how OSFI has addressed the comments. We thank all those who participated in the consultation process.

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1 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 Associations Act* applies are collectively referred to as "deposit-taking institutions".

Questions regarding the final guideline may be addressed to: Ken Leung, Director, Accounting Policy Division at (kenneth.leung@osfi-bsif.gc.ca).

Yours truly,

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ANNEX: Summary of Consultation Comments and OSFI Responses

Pillar 3 Disclosure Requirements Guideline

Comments from respondents	OSFI response
Guiding Principles	
Some respondents suggested that "Section I. Guiding Principles" should allow for the removal of disclosures that are no longer relevant.	OSFI agrees with the comment and has clarified the final guideline to be consistent with the Basel Pillar 3 standard, whereby information which is not meaningful or relevant to users should be removed. Accordingly, information that is excluded on this basis will require an explanation of why this information is not meaningful to users.
Under Principle 5 – *Disclosures should be comparable across deposit-taking institutions*, some banks will be reporting the Pillar 3 disclosures in a separate document as required and will amend their Report to Shareholders to reflect only disclosures based on their management/business view.	To the extent possible, a standalone document for Pillar 3 reporting is preferable. However, we understand that deposit-taking institutions may wish to disclose certain Pillar 3 templates and/or tables in a financial reporting location separate from their Pillar 3 report. Consistent with the Basel Pillar 3 standard, OSFI's guideline allows flexibility by permitting signposting of tables and/or templates from the Pillar 3 report to where the disclosure requirements have been published. Deposit-taking institutions should also provide a reference index that maps the tables and templates to their specific location.
Frequency of Reporting	
The draft guideline stated that "For smaller less complex non-D-SIBs with stable risk profiles, annual reporting may be acceptable for all disclosures." Some respondents requested clarification on what is meant by "smaller less complex non-D-SIBs with stable risk profiles" in the context of determining frequency of reporting.	OSFI has removed the reference to smaller less complex non-D-SIBs with stable risk profiles. As such, non-D-SIBs are expected to align their Pillar 3 reports with the same frequency as their financial reporting in Canada.
Disclosure Format	
Some respondents requested clarification of the requirement for comparative period disclosure of Pillar 3 tables and templates on implementation.	OSFI has clarified the final guideline so that when implementing the revised Pillar 3 disclosure requirements for the first time, a deposit-taking institution should prospectively disclose the Pillar 3 tables and templates. Comparative period disclosures should be provided over future reporting periods.

Some respondents requested further clarity on the different reporting frequencies between EDTF and Pillar 3 disclosures. Furthermore, some respondents were concerned that some of the detail from their EDTF disclosures may not be captured in the new Pillar 3 tables and templates resulting in a decrease in usefulness of information to users.	OSFI has clarified the final guideline so that those EDTF disclosures that are covered by Pillar 3 disclosures will follow the reporting frequency specified in the Annex of the OSFI *Pillar 3 Disclosure Requirements* guideline. D-SIBs are permitted to provide EDTF or Pillar 3 disclosures on a more frequent basis than Pillar 3 requirements should they wish to do so. D-SIBs should retain those EDTF disclosures that are not covered by Pillar 3 requirements.
Qualitative narrative to accompany the disclosure requirements	
Some respondents inquired whether the qualitative narrative needs to be included in the same place as the fixed/flexible format templates, or whether the narrative that supports the period over period changes can be located within the MD&A where the banks tend to include their descriptive information.	OSFI has clarified in the final guideline that deposit-taking institutions are expected to supplement the quantitative information provided in both fixed and flexible templates with a qualitative commentary in the same place. The qualitative commentary should explain any significant changes between reporting periods and any issues that management considers to be of interest to market participants.
Compliance with Pillar 3	
Some respondents requested clarification on when to conduct a review of compliance with Pillar 3 disclosure requirements. As implementation timing is limited, respondents asked whether this verification work could occur during the normal reporting audit verification cycle.	OSFI expects the deposit-taking institution's internal audit function, or a review function with similar level of authority, to review compliance with the Pillar 3 disclosure requirements guideline within one year after initial application (i.e. initial review should be conducted in the 2019 fiscal year for D-SIBs). Subsequently, a review should be conducted on a periodic basis consistent with the deposit-taking institution's normal reporting verification cycle. This clarification has been reflected in the final guideline.
Some respondents requested OSFI to elaborate on the requirement that Pillar 3 information must be subject to the same level of internal review and internal control process as is the case for information provided for financial reporting.	OSFI expects deposit-taking institutions to prepare Pillar 3 information by applying a similar operational process used to prepare information for the management's discussion and analysis or annual financial statements. This clarification has been reflected in the final guideline.