



Backgrounder

Title Backgrounder: Breaking down Basel III

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OSFI has updated its bank rules to reflect the final package of Basel III reforms. These reforms, which help ensure the resiliency of financial institutions, were developed in response to the 2007-2008 global financial crisis and were internationally accepted in 2017. These updated rules will take effect for Canada's banks in 2023 and will ensure better alignment of risk and capital in many areas through more risk-sensitive rules.

The following is an overview of how OSFI's updated rules will affect Canada's largest and smallest banks as well as Canadians. First, a few definitions:

Capital

The measure of a bank's capacity to absorb losses. OSFI requires banks to build up capital in good times, so it is available for use in periods of stress.

Disclosure

Information a bank makes public to help investors, customers and other stakeholders understand the bank's financial position and activities.

Liquidity

A measure of a bank's ability to meet its financial obligations, such as deposits, on a timely basis as they come due.



The big 6 banks

Canada's biggest six banks are vital to the functioning of Canada's economy, and their failure would result in unacceptable costs to our economy and financial system. Here's a quick look at how some of the new rules will affect them:

- More transparency into the capital, leverage and liquidity positions of Canada's largest banks, with disclosures that are consistent and comparable to those of global peers; and
- Restrictions on how models are used, to more consistently align their results with risks.

Small and medium sized banks

OSFI's implementation of the Basel III reforms account for a bank's size and complexity, because one-size fits-all isn't always appropriate. For small and medium-sized banks (SMSBs), OSFI's updated rules will mean:

- A set of approaches that are clear, fit-for-Canada, and more easily implemented by smaller institutions, all the while preserving financial resiliency; and
- Disclosure guidelines that recognize the size, sophistication, and risk profile of SMSBs.

Average Canadians and consumers

Here's what Canadians can expect once these new rules come into effect:

- Canada's capital and liquidity rules will remain aligned with internationally agreed-upon standards; and
- Canada's banks will remain sound, stable and competitive.

For more information and full details of OSFI's new rules for banks, please see the January 31 letter to industry.