



**COMPUTERSHARE TRUST COMPANY OF CANADA**

**BASEL III PILLAR 3 DISCLOSURES**

**December 31, 2021**

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## Scope of Application

This document represents the Pillar 3 disclosures of the Basel III framework as required by the Office of the Superintendent of Financial Institutions (OSFI) which are based on standards established by the Bank of International Settlements, Basel Committee on Banking Supervision (BCBS).

Computershare Trust Company of Canada ("CTCC") is a Canadian federally incorporated trust company licensed under the Trust and Loan Companies Act. Its ultimate parent company, Computershare Limited ("CPU") is an Australian financial services company with worldwide business operations and considerable experience in the financial services industry.

In 2009, CTCC incorporated a wholly owned subsidiary, Computershare Technology Services Inc. ("CTS Canada"), to consolidate existing information technology development activities in one entity and conform to the CPU global structure for such businesses. All projects of CTS Canada relate to the information technology sector and are based out of its Montreal location.

CTCC operates across Canada with offices located in the following cities: Vancouver, Calgary, Toronto, and Montreal.

The major focus of CTCC is, and the majority of revenue is derived from, the corporate trust business. The corporate trust business has five major areas of focus; namely, debt services, trust services, broker registered products, structured finance and agency services. In addition, CTCC also provides service in the areas of employee stock purchase plans and stock transfer. CTCC does not lend money, engage in proprietary trading or take deposits.

The Pillar 3 disclosures are published on CTCC's website and made on a consolidated basis and include Computershare Trust Company of Canada and Computershare Technology Services Inc.

The report is subject to internal audit review but has not been audited by external auditors.

The Pillar 3 disclosures have been prepared using regulator capital adequacy concepts and rules and may not be in accordance with International Financial Reporting Standards (IFRS). All disclosures are presented in Canadian dollars.

## Capital Structure

CTCC's capital consists of common shares, contributed surplus and retained earnings. An unlimited number of common shares and preferred shares have been authorized. As at December 31, 2021, CTCC had one common share issued and outstanding. All of CTCC's capital is Common Equity Tier 1 capital.

## Capital Adequacy

CTCC manages its capital in accordance with guidelines established by regulatory requirements that CTCC is required to adhere to. The guidelines measure capital in relation to credit, market and operational risk.

CTCC's objectives include: (i) to continue to have profitable operations with reasonable growth rates and cash flow generated from profitable operations, (ii) conservative capital expenditure policies and (iii) to maintain capital levels in excess of regulatory limits.



Total capital ratio is calculated as total capital divided by risk-weighted assets (RWA). OSFI targets for Common Equity Tier 1 and total capital ratios for CTCC to be at least 7% and 10.5%, respectively. CTCC's Tier 1 and total capital ratios are the same.

The leverage ratio is calculated as Tier 1 capital divided by on-balance sheet exposures less asset amounts deducted in determining Basel III 'all-in' Tier 1 capital.

These guidelines are based on the "International Convergence of Capital Measurement and Capital Standards - A Revised Framework" (Basel III) issued by the Basel Committee on Banking Supervision.

During the year ended December 31, 2021, the capital position of CTCC was in excess of regulatory limits.

CTCC also uses the Internal Capital Adequacy Assessment Program (ICAAP) to examine the risks that are not included in the standardized risk weighting model and to determine any additional capital that is required to be set aside to mitigate these additional risks. The ICAAP analysis is performed by senior management and presented to the Board of Directors for review and approval. Several stress tests are performed as part of the ICAAP to determine if additional capital is required for Computershare under stressed conditions. ICAAP is also submitted to OSFI and reviewed by internal audit.

### **Credit Risk**

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and thus cause the other party to incur a financial loss.

CTCC's credit risk is derived from limited exposure in accounts receivable balances, inter-company loans and investments of excess cash balances which are subject to conservative investment policies. CTCC does not loan funds therefore credit risk exposure is quite limited.

CTCC's exposure to credit risk is as indicated by the carrying values of its financial assets. Concentrations of credit risk exist for groups of clients when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. CTCC does not have a significant exposure to any individual client. Any cash held by CTCC is held with highly-rated, high-quality financial institutions.

CTCC minimizes concentrations of credit risk by undertaking transactions with a large number of debtors in various industries and monitoring credit collections on a regular basis.

Treasury policies are in place which permit investment with only highly rated financial institutions rated A- or higher.

Trade receivables are considered impaired where there is objective evidence that CTCC will not be able to collect all amounts due according to the original trade and other receivable terms. Terms of trade in relation to credit sales are on a weighted average of 30 days from date of invoice. Factors considered in determining if impairment exists include aging and timing of expected receipts and the credit worthiness of counterparties.



### **Market Risk**

Market risk is the risk that the value of investments may decline over a given time period simply because of economic changes or other events that impact large portions of the market.

CTCC does not engage in market trading activities or speculative investments.

### **Interest Rate Risk**

Interest rate risk is the current or prospective risk to earnings and/or balance sheet value arising from adverse movements in interest rates.

Since CTCC does not issue mortgages or loans to non-related parties, CTCC's main source of interest rate risk comes from off-balance sheet trust cash balances, which consist of stock transfer and corporate trust balances, as well as broker registered product balances. A decline in interest rates earned on these funds will have a negative impact on earnings. Interest earned is derived from short-term interest rates. In cases where clients are paid interest compensation, it is calculated based on the same short-term rates.

Client balances are subject to contractual agreements that typically provide floating interest rates that protect CTCC from material rate fluctuations.

### **Operational Risk**

CTCC uses the Basic Indicator Approach in determining its operational risk.

CTCC is very conservative and has a very strong internal control environment and oversight functions. Full risk and control self-assessment processes (business unit level assessment, documentation of identified risks, formulation of action plans) is embedded in the Company's business model as part of a corporate wide Enterprise Risk Management Program.

### **Liquidity Risk**

The current or prospective risk to earnings arising from CTCC's inability to meet its liabilities when they come due without incurring losses outside the parameters already captured in its day to day risk management framework.

CTCC has consistently delivered positive stable cash flows from earnings and expects this trend to continue. The Company has no debt and therefore could obtain financing, if required, by way of either a capital injection from its parent company or other forms of debt financing. The Liquidity Risk Management Policy provides for any necessary parent company injection as a last resort.

The nature of CTCC's cash flow model requires that our clients fund any obligations in advance of CTCC releasing those payments.

Approved investment instruments are short-term in nature to ensure matching with the nature of the corporate trust and broker registered product client balances.

## Remuneration

CTCC's processes regarding remuneration are governed by its parent company, CPU and in conjunction with the Board of CTCC through its Conduct Review and Corporate Governance Committee.

### **Overall Remuneration Approach:**

The Overall Remuneration Policy, as set by the Remuneration Committee of the Australian Board of Directors of Computershare Limited, includes the following:

1. CPU's approach to remuneration.
2. What the compensation program is designed to reward.
3. Each element of compensation.
4. Why CPU chooses to pay each element in any given cycle.
5. How CPU determines the amount (and, where applicable, the formula) for each element.
6. How each element of compensation and CPU's decision about that element fit into the overall compensation objectives and affect decisions about other elements.
7. If applicable, discloses performance goals that are based on objective and identifiable measures such as EBITDA and EPS.

CPU's goal is to ensure that remuneration policies are appropriate to business size and culture, and that the interest of directors, employees and shareholders are appropriately balanced.

CPU does not rely significantly on market comparisons in striking levels of remuneration. It has been difficult to find relevant comparison points for many of the key roles in the Group including CTCC. Some other roles, especially in support services, are easier to find relevant comparators for and market data is taken into account in setting remuneration for these roles.

During 2021, the total amount of all salaries, bonuses and long term incentives and other remuneration for key management and employees whose actions have a material impact on the risk exposure of CTCC was \$2,149,985.