CORPORATE PLAN

PAYMENTS CANADA
CORPORATE PLAN

2016-2020

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CPA'S FIVE-YEAR PLAN AT A GLANCE

Payments Canada is the operating brand name of The Canadian Payments Association (CPA). For legal purposes we continue to use CPA (or the Association) in all information related to rules, by-laws, standards and this Corporate Plan.

This Plan represents the first five-year Corporate Plan produced by the Canadian Payments Association (CPA) as mandated by changes to the Canadian Payments Act in 2015. This plan covers 2016 to 2020.

OUR OPERATING ENVIRONMENT

The CPA monitors payments trends and maintains awareness of emerging and ongoing issues in the payments landscape as they affect the CPA, its participants, stakeholders and Canadians. Overall, the CPA is operating in an environment of great change. The payments landscape is changing rapidly with evolving user needs, new payments players and technologies, and requirements for faster, more information-rich payments. Increased regulatory oversight of payments systems and interest in ensuring they are safe from threats are resulting in additional investments in our systems to meet new standards. Our current systems are limited in their ability to adapt to domestic and international forces and, as such, our Modernization objective is imperative to enable us to support change.

CPA'S THREE STRATEGIC OBJECTIVES AND SUPPORTING INITIATIVES

Modernize. The CPA is undertaking a multi-year program to modernize the core payments systems, including the rules, standards and technology infrastructure in order to ensure safe, secure and innovative systems for the coming years. As a multi-stakeholder, public-policy mandated corporation, this program will meet the needs of the ecosystem for the greatest benefit to Canada and Canadians. 2016 is focused on finalizing a Vision for the future payments landscape with our key participants and stakeholders, and developing requirements and a conceptual design for the CPA's systems.

Operate and Enhance. While driving the Modernization changes, the CPA is continuing to ensure that the safety, efficiency and effectiveness of its current systems are met through required enhancements to technology resilience and rules and through changes that respond to business needs. The focus is on meeting Bank of Canada Financial Market Infrastructure standards and aligning resiliency and risk practices with our new risk appetite, in addition to enhancing services and collaborating with participants and stakeholders.

Transition and Renewal. For the CPA to be successful, we must complete the governance changes that started in 2015, continue to build our organizational capacity and continue internal process improvements by focusing on leadership development, risk management, technology, operations and corporate administration.

KEY PLANNING ASSUMPTIONS

The Corporate Plan reflects the following key assumptions:

- The program to modernize CPA systems is in its early stages and only the initial investments to complete the planning activities have been included. The 2017 to 2021 Corporate Plan will more fully elaborate the Modernization Program scope, timing, staff and financial requirements for implementation. It is assumed that the required financial resources will be funded through borrowing, rather than operating dues/fees, and that mainly consulting resources will be employed.

- There is an initial increase in the ongoing operating costs in line with increases in organizational capacity in the early years. Operating costs for current systems will then stabilize in later years. Operating costs related to the Modernization Program have not been included in the financial forecast.

- It is assumed that the Automated Clearing Settlement System (ACSS) will be designated as a prominent payment system by the Bank of Canada. This will require system and risk management enhancements, as well as a reserve fund, all of which have been included in the plan and financial estimates.

FINANCIAL FORECAST

Based on the assumptions above, for 2016, the Corporate Plan projects total revenues of $50.6 million and total expenses of $48.2 million, allowing for $2.4 million in reserve fund increase. Capital expenditures for enhancement projects totaling $4.3 million are included in the above.

FOR MORE INFORMATION ABOUT THE CPA

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ABOUT THE CPA

WHO WE ARE

The Canadian Payments Association (CPA) was created by the **Canadian Payments Act** (CP Act) in 1980. The CP Act was most recently revised in 2015. We are Canada's core financial market infrastructure for payments. We underpin the Canadian financial system and economy by providing safe, efficient and effective clearing and settlement of payments.

Our vision is to be the centre of excellence for payments knowledge and expertise in Canada, focused on improving the overall payments system for the benefit of Canadians, the financial system, and the economy.

In 2015, our systems cleared and settled over seven billion payments totaling $49.6 trillion, or $196.8 billion on average each business day.

We are headquartered in Ottawa with an office in Toronto.

OUR MANDATE

Our legislated mandate, as detailed in the CP Act, states the objects of the CPA are to:

A. Establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;

B. Facilitate the interaction of its clearing and settlement systems and related arrangements with other systems or arrangements involved in the exchange, clearing or settlement of payments; and

C. Facilitate the development of new payment methods and technologies.

In pursuing these objects, the CPA must promote the efficiency, safety and soundness of its clearing and settlement systems and take into account the interests of users[1].

OUR SERVICES

As a public-purpose corporation, we act in the best interests of Canadians. Through our services we develop and promote the efficiency, safety and soundness of our clearing and settlement systems to meet the needs of participants, businesses and all stakeholders who rely on our payments rules and systems. The CPA fulfills its mandate with the delivery of six core services:

1. **Industry Support and Research:** Through research, policy development, modernization, and collaboration services, the CPA informs participants and stakeholders about payments in Canada. These industry support and research services are outward facing and future focused, providing informed thinking and groundwork to support new payment methods and technologies.

2. **Payments Rules and Compliance:** The CPA develops, implements, updates and ensures compliance with the rules and standards that govern the clearing and settlement of payments between participants and payments networks.

3. **Payments System Management:** Through business analysis and advice, risk management and reporting, the CPA manages its systems and suppliers.

4. **Exchange and Clearing Services:** The CPA operates the following payments systems:

   - The Large Value Transfer System (LVTS) – the high value system through which participant financial institutions transfer the largest value of payments in Canada.

   - The Automated Clearing Settlement System (ACSS) – the low value "retail" system through which the majority of payments in Canada are cleared.

   - The U.S. Dollar Bulk Exchange (USBE) – a parallel system to the ACSS used for clearing payments in U.S. dollars, drawn on U.S. dollar accounts at financial institutions in Canada, but settled in the U.S.

1 Canadian Payments Act, Section 5.

- The CPA operates two directory services:

  i. The Financial Institutions File (FIF) – an electronic directory to facilitate the routing of payments to the appropriate branches of CPA participants, as well as to other deposit-taking institutions in Canada.
  ii. The Corporate Creditor Identification Number (CCIN) Database — a non-transferable identification number assigned by the CPA to businesses, governments, and other billers to facilitate the routing of bill payments.

- The CPA Services Network (CSN) provides for secured network infrastructure services for the transfer of payment files. Examples include the exchange of Automated Funds Transfer (AFT) files and cheque images.

5. **Settlement Services:** The LVTS enables settlement of payments through the Bank of Canada in central bank funds.

6. **Client Support:** The CPA provides outreach, advisory, and educational services to stakeholders who directly or indirectly use our systems. The provision of these facilitation services to our clients is imperative to the stewardship of the payments ecosystem in Canada.

GOVERNANCE

The **Canadian Payments Act** (CP Act) sets out the legal framework for the CPA, including its mandate, the types of organizations eligible for participation, the role and composition of the Board of Directors, and the oversight responsibilities of the Minister of Finance.

The **Payment Clearing and Settlement Act** assigns the Bank of Canada responsibility for overseeing clearing and settlement systems for the purpose of controlling systemic risk and payments system risk. The CPA's LVTS has been designated as systemically important and it is expected that in 2016 the ACSS will be designated as prominently important, making these the only two payment systems under the oversight of the Bank of Canada.

The CPA Board of Directors is charged with directing and managing the affairs of the CPA, with a focus on strategic, risk and policy matters.

The composition of the CPA Board of Directors was changed in 2015 to a majority-independent structure. The new structure includes:

- 7 independent directors

- 5 member directors (two of whom must be representatives of designated domestic systemically important banks)

- The CPA President and Chief Executive Officer (CEO)

Directors are elected by the financial institution members of the CPA on a one vote per member basis. The Chairperson of the Board is chosen from the independent directors.

The CPA's Stakeholder Advisory Council (SAC) was formalized in the CP Act in 2001. It has a maximum of 20 members representing the views of our broad stakeholder base, providing advice to the CPA Board of Directors on payments, clearing, and settlement matters, and contributing input on proposed strategic initiatives.

The CPA's Member Advisory Council (MAC), a 20-person council, was established in the CP Act in 2015. MAC serves as a consultative and engagement forum for CPA's members. It was created to ensure members continue to have a strong voice with the new majority-independent Board.

CPA's Board of Directors, Executive Team, SAC and MAC members are listed in Appendix I.

MEMBERSHIP

All chartered banks operating in Canada, as well as the Bank of Canada, are required by legislation to be members of the CPA. Trust and loan companies, credit union centrals, and other deposit-taking institutions have been eligible for membership since the CPA's inception in 1980. Life insurance companies, securities dealers, and qualified corporations on behalf of money market mutual funds have been eligible since 2001. At the end of 2015, the CPA's membership stood at 114.

CPA'S FIVE-YEAR PLAN

OPERATING ENVIRONMENT

The CPA monitors payments trends and maintains awareness of emerging and ongoing issues in the payments landscape as they affect the CPA, participants and stakeholders. The CPA has identified key trends in the regulatory, financial institution and corporate environment that have been taken into consideration in developing its five-year plan as identified below.

REGULATORY ENVIRONMENT

Regulatory requirements in Canada are evolving in line with international best practices. In 2015, the Department of Finance released the consultation document **Balancing Oversight and Innovation in the Ways We Pay: A Consultation Paper** seeking views from all Canadians on the oversight of national payments systems, specifically national retail systems. One of the expected outcomes is that the ACSS will be designated as a prominent payment system in early 2016, resulting in enhanced oversight by the Bank of Canada and the need for investment by the CPA to meet new risk management standards.

There is heightened attention on cybersecurity. Internationally, there is heightened awareness of the risks from cyberattacks. Given the role financial market infrastructures play in promoting stability in the financial system, the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO) released a consultation paper in December 2015 with guidance for cyber resilience for financial market infrastructures. The CPA has been working closely with the Bank of Canada over the past year on the relevant standards for FMI cyber resilience and has initiatives planned to improve its cyber approach. As well, in 2015, the Government announced its intention to consider further regulation of certain infrastructures, including CPA systems, which are considered “vital cyber systems.” The CPA will continue to work with the government as this initiative moves forward.

PARTICIPANT ENVIRONMENT

Financial Institutions continue to report strong results. As a sector, Canadian financial institutions continue to post healthy returns confirming the soundness of the participants of the payment system. However, the financial institutions are facing challenges to their traditional banking and payments activities from new entrants, customer expectations and technology investments, including cybersecurity.

End user needs and expectations are evolving. Stakeholder expectations for speed, ubiquity, and available data in payments are increasing as digitization of the economy continues. Security and privacy must keep pace with payments in the digital age.

New payments players and technologies are entering the market. Some of the world’s most innovative companies are introducing payments products and services. New entrants are focused on providing a seamless customer experience and are willing to take on risk to do so. Many of these companies are not subject to the level of regulation covering existing financial institutions. Disruptive technologies (e.g. blockchain) are generating substantial interest because of their potential use in payment alternatives.

CPA ENVIRONMENT

The world is moving to faster, more information-rich payments. More than 40 countries have begun modernizing their payments infrastructure. Global standards are emerging for payment message associated data (i.e. ISO 20022). Adopting these standards in Canada will require substantial investment.

Canada’s core payments systems are aging and are limited in their ability to adapt to domestic and international forces. Technology infrastructure will need to be enhanced to manage risk and provide the flexibility required to support innovation.

CPA governance changes have been underway and are continuing. Legislative changes in 2015 paved the way for governance changes. A newly constituted majority-independent Board was elected in July 2015, followed by the appointment of the new Member Advisory Council (MAC). This Board transition is taking place over a three-year period. Follow-on by-law changes to the CPA's financial and administrative regulations are planned for 2016 and a review of the CP Act is set for 2018. The Board committees were restructured in 2015 and there are now four standing committees: the Human Resources and Compensation Committee; the revised Governance and Nominating Committee; the Risk, Audit and Finance Committee; and the new Technology and Modernization Committee.

Within the CPA, internal capacity and alignment of functions were enhanced in 2015 through recruitment of staff to fill 20 permanent roles and seven term roles in key areas including executive management, research, risk, technology operations and corporate administration. To clarify roles and enhance accountability, changes were introduced to the CPA's management operating structure and internal planning process. Further capacity enhancements and process improvements are expected in 2016.

ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management (ERM) is a critical function for the CPA. The CPA has a formal and rigorous risk management process that is overseen by the Board (with support from the Risk, Audit and Finance Committee), implemented by management, and executed by all in the CPA[2]. The Board-approved Enterprise Risk Management Policy sets the overall intent and expectations for risk management in the CPA. The CPA manages risks in accordance with the risk appetite approved by the Board.

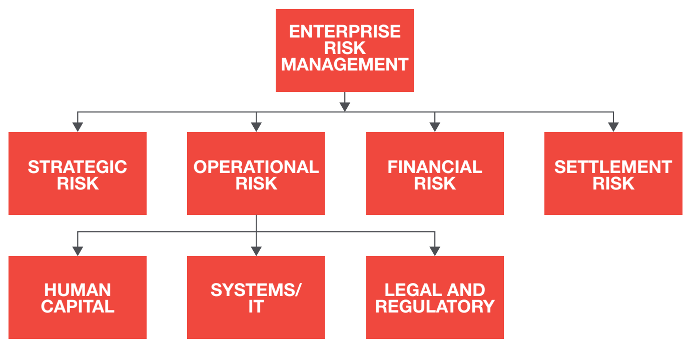
The objective of the CPA's ERM is to support decision-making in achieving the CPA's core purpose, vision and Corporate Plan by managing all key risks across the organization in a comprehensive and integrated way. In doing this:

- Staff have a framework to confidently identify and manage risks in their day-to-day activities;
- Management can confidently and effectively identify, understand and manage risk across the CPA and is able to provide assurance of this to the Board; and
- The Board can confidently provide oversight of risk management.

As a systemically important financial market infrastructure, the LVTS is held to Bank of Canada standards, which are consistent with the leading international standards for such systems[3].

RISK PROFILE

The CPA organizes risk into four main categories: strategic risk, operational risk, financial risk and settlement risk. Based on our most recent self-assessment[4], the CPA has concluded that the highest risks for 2016, after all mitigations are considered, are in the areas of strategic and operational risk. These are discussed below.



STRATEGIC RISK: Strategic risk affects, or is created by, the CPA's business strategy and strategic objectives:

Risk: Modernization Program fails to deliver expected results
This is the risk that the Modernization Program fails to deliver a payments clearing and settlement system that meets the needs of Canadians. The multi-year Modernization Program is the single most significant undertaking in the CPA since the creation of the LVTS in 1999. The CPA has developed and is continuing to monitor and update a comprehensive risk assessment to ensure existing and emerging risks are

2 See Appendix V: CPA Enterprise Risk Management Policy for more on how the CPA undertakes its risk management.
3 The Committee on Payments and Market Infrastructures (CPMI) and the Technical Committee of the International Organization of Securities Commissions (IOSCO), "Principles for Financial Market Infrastructures."
4 The CPA has a rigorous risk identification process that follows best practices to identify top risks to the CPA. Through a bottom up and top down approach, the CPA identifies the top risks, and articulates the causes, impacts, and effectiveness of mitigations, and plans for additional mitigation where warranted. The risks are reviewed, debated and updated quarterly by management and are reported to the Risk, Audit and Finance Committee, and the Board itself.

documented with mitigation plans in place. Mitigations in progress include 1) a sound governance model which includes Board, executive management and participant oversight; 2) a growing project team with executive expertise from industry and deeply knowledgeable consultants; 3) targeted and rigorous research, benchmarking international implementations; and 4) engaging participants and stakeholders with our findings.

OPERATIONAL RISK: Operational risk results from inadequate or failed processes, systems and IT, people or policies, or for external events.

Risk: Major LVTS incident

This is the risk that a major LVTS incident or accumulation of incidents causes serious impact on the Canadian financial system and damage to the CPA's reputation and credibility as system operator. Given the centrality of the LVTS to the Canadian financial system, the CPA is undertaking investment in 2016 and beyond to further enhance its operational resilience.

Risk: Cyber incident

This is the risk that a cyberattack results in a major payments system slowdown/outage and/or a breach that causes a serious impact on the Canadian financial system and damage to the CPA's reputation and credibility as system operator. The CPA's framework for cybersecurity is based on the National Institute of Standards and Technology (NIST) Cybersecurity Framework. During 2014 and 2015, the CPA completed several internal and external reviews of its cyber stance and identified opportunities for improvement. Investment will be made during 2016 and beyond to address the most important areas.

FINANCIAL AND SETTLEMENT RISK: Financial risk is the risk related to financial reporting, market, liquidity and credit risk. Settlement risk is the risk that settlement in CPA-operated payment systems will not take place as expected and may result in credit and/or liquidity and credit risks. No top-level risks have been identified in these areas.

STRATEGIC PLAN

In 2014, the CPA developed a five-year Strategic Plan that laid the foundation for the way forward by setting a new direction for the CPA. The revitalized core purpose, vision and values continue to guide the investments and priorities of the organization in this plan.

Core Purpose	We underpin the Canadian financial system and economy by providing safe, efficient and effective clearing and settlement of payments.
Vision	To be the centre of excellence for payments in Canada.
Values	*Excellence:* We embrace continuous learning and improvement and hold ourselves to high standards in the best interest of Canadians and the financial system.
	Trust: We act with integrity and transparency in everything we do.
	Collaboration: We share our expertise and work with our colleagues, financial institution participants and stakeholders to achieve optimal solutions for the Canadian payments system.

LONG-TERM DESIRED OUTCOMES

The CPA has identified three long-term desired outcomes that will lead us to attaining our vision, addressing payment trends and managing our risks. These outcomes focus CPA plans, investments and priorities. The three long-term desired outcomes are:

1. Modernize
2. Operate and Enhance, and
3. Transition and Renewal.

As described below, each of the long-term desired outcomes has a number of supporting initiatives that are planned over five years. In addition, a summary of 2016 priorities can be found in Appendix II.

I. MODERNIZE

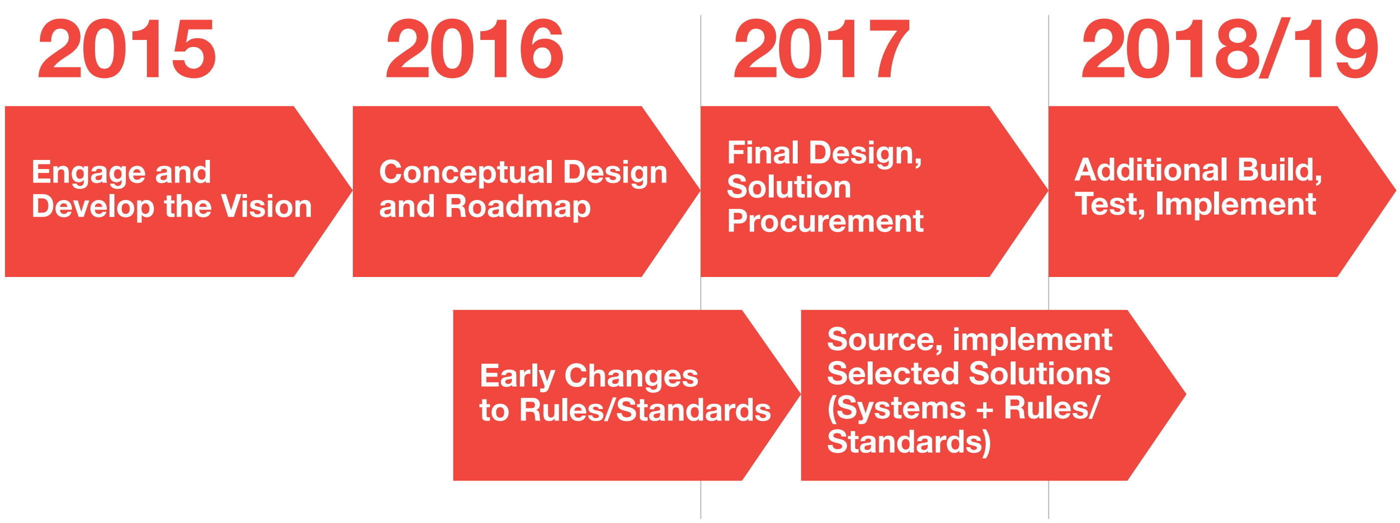
This long-term desired outcome is described as follows:

MODERNIZE	2016 TO 2020 OBJECTIVE
Leading to a safer, more efficient and effective Canadian payments system and enhancing our ability to influence the payments system for the benefit of all Canadians.	*To modernize the core payments systems, including the policies, rules, standards and technology infrastructure.*

Broadly, the payments ecosystem infrastructure in Canada is stable, well-run, secure and efficient. However, the global environment brings greater demand for stronger management of financial market infrastructure risk, the need for more fluid movement of payments and a rapidly evolving technology landscape. Domestically, we have regulatory reforms, new technological demands, growing market expectations and an infrastructure that is aging and is limited in its ability to adapt. To meet the needs of the future, the CPA is following countries around the world in a drive to modernize payments infrastructure and ensure safe, sound, secure and innovative systems for the coming years.

The Modernization Program is the single most significant undertaking in the CPA since the creation of the LVTS in 1999. As a multi-stakeholder, public purpose organization, this level of change requires a clear and collaborative process that uses the best research available, learns from the experiences of other jurisdictions, and effectively balances the needs of the financial institution participants and the ecosystem for the greatest benefit to Canada and Canadians.

Started in 2015, the Modernization Program is a multi-year initiative that is expected to run until 2020 when improved system(s) will become operational. An illustration of the program overview is found below.



In 2015 the CPA facilitated development of a Vision for the Canadian payments ecosystem to provide a key input into plans for modernizing core payments infrastructure. The Vision is the result of extensive stakeholder, participant and user consultation and input, supported by a leading global consulting firm.

VISION FOR THE CANADIAN PAYMENTS ECOSYSTEM

A modern payments system is fast, flexible and secure, promotes innovation and strengthens Canada's competitive position.

- More options to make funds available to recipients in near real-time;
- Expanded and standardized information accompanying payments;
- Transparency into transaction status for payors and payees;
- Easier ways to send and receive payments;
- More convenient cross-border payments;
- Organization-agnostic oversight rules, applied consistently based on activity;
- Open and risk based access; and
- Systems that are flexible, adaptable and that reduce processing costs over time.

The Vision will be used to guide CPA and industry initiatives to modernize payments infrastructure, as well as the rules and standards related to payment clearing and settlement, to ensure stakeholder needs are met. The potential impacts of Modernization are significant and Canada must determine how best to deliver the near real-time, data-rich payments.

2016 is an important year for defining the scope of the program. The Vision will be used to generate alignment between stakeholders, identify required go-forward payments features and functionality for the ecosystem, and ensure there is a strong case to proceed to the next phase of Modernization in 2016 – which is defining the CPA's role in enabling key aspects of the Vision and developing the conceptual design and solution options for the CPA infrastructure. To be in a position to procure and implement solutions in 2017 and beyond, the CPA will explore and work through a variety of issues related to participant engagement, policy, funding, procurement, technology and ownership/operational considerations in 2016.

One of the challenges at this stage is forecasting specific costs over the life of the program. We have a clear view of the process through which we will define, design and develop the system. However, uncertainties remain, such as the overall costs of the to-be-defined system, the timing of the incursion of these costs, the determination of which party will bear which costs, and how these costs will be funded. To date, we have consulted and retained nationally and internationally leading advisors and have conducted extensive analysis of the options and most likely scenarios. From this work, we have developed a working financial model that will be the basis of our plans and discussions in 2016. The model will be regularly updated as more accurate information becomes available on the scope and timing.

The main parts of the Modernization Program include progressing on key program dependencies and gaining industry support for foundational changes that will enable and enhance the current infrastructure, provide more functionality in the new system and reduce implementation risks and costs. The CPA has been developing ISO 20022 standards for Canada. In 2016, the CPA will publish the standards for AFT messages, including the rules framework, for use by the industry. We also will publish the ISO 20022 Electronic Data Interchange (EDI) and LVTS messages and standards for informational purposes only. ISO 20022 is being implemented with a market-driven approach which results in some uncertainty in the rate of adoption by financial institutions. The CPA will educate and promote demand of the service through its industry outreach and client services, while focusing on operationalizing the support of the standard for early adopters. The CPA will provide strategic direction for ISO 20022 and manage industry adoption through the Modernization Program and its governance model.

KEY 2016 INITIATIVES

- **Modernization Program:** The Vision for the Canadian payments ecosystem was developed in 2015 and will be broadly socialized to gain acceptance by critical stakeholders in 2016. The CPA will analyze and define requirements and develop a conceptual design in 2016 and 2017. The design will include high-level business requirements and a roadmap for change, a preferred solution impact analysis and a high-level business case for proceeding to the next phase of the Modernization Program. The program governance model will evolve to address the upcoming project stages; and a funding approach will be finalized.
- **Policy and research:** Research will be focused on the analysis of key features of a modernized Canadian payments system, on the quantitative analysis of the current systems to measure risks to better understand how to mitigate them in a new system, and on coordinating with researchers in other institutions. Policy work will focus on the key functions required in core systems, the extent of access to those systems and how, and the roles of the CPA in delivering services.
- **ISO 20022 for AFT:** The ISO 20022 messages and rules framework for AFT will be approved and published in 2016. The CPA will undertake industry promotion and education to encourage the adoption of the standard in addition to operationalizing the standard. The CPA will continue to explore opportunities for the expanded use of ISO 20022.
- **By-laws and Rules Analytical Framework:** Modernization of the payments ecosystem is anticipated to result in changes to the by-laws, rules and standards. This initiative is to review and populate a repository of CPA by-laws, rules and standards within a framework that can be used to analyze the impact of choices and tradeoffs.
- **CPA brand refresh:** This initiative is to refresh the current CPA brand in support of the Corporate Plan and Modernization. The scope will include an operating name change to Payments Canada and an updated website with the new branding to reflect our new direction, our changed governance, and vision.

II. Operate and Enhance

This long-term desired outcome is described as follows:

OPERATE AND ENHANCE	2016 TO 2020 OBJECTIVE
Ensuring our current payments clearing and settlement systems and supporting rules and standards meet global standards of safety, efficiency and effectiveness.	• *Observe Bank of Canada Financial Market Infrastructure standards* • *Align our resiliency and risk practices with the CPA's risk appetite and best practices* • *Enhance our services and collaboration with participants and stakeholders.*

This outcome concentrates on the current state of systems and operational risks to ensure that safety, soundness and efficiency are met through up-to-date technology and system rules, and by providing enhancements that respond to business needs. It is also focused on ensuring that our systems and supporting rules framework meet the Bank of Canada's standards for systemically important systems, including requirements with respect to technology, availability, stronger resiliency and better security. Relationship management, a key activity as we navigate to a modernized CPA, also ensures the risks regarding loss of participant and stakeholder support and relevancy in the marketplace are addressed.

BANK OF CANADA STANDARDS FOR FINANCIAL MARKET INFRASTRUCTURES

In December 2012, the Bank of Canada adopted new, more stringent, international guidance into its standards for systemically important systems and is soon expected to release standards for prominent payment systems. The CPA is working towards meeting these higher requirements. The LVTS already observes or broadly observes all key standards and our objective is to observe the remaining standards by the end of 2017. This includes raising the maturity level of our Enterprise Risk Management practices and our compliance frameworks over the next two years and completing the build-up of required financial reserves.

The CPA will conduct a formal assessment of the ACSS against the new prominent standards and will develop a plan to identify and address any gaps. Meeting these standards is expected to be a multi-year initiative, and will require upgrades to the system and infrastructure.

RESILIENCY AND RISK PRACTICES

The CPA developed a resilience and security strategy in 2015, which sets the roadmap for significant technology investments to current systems from 2016 to 2018. These investments will enhance the resiliency and disaster recovery capabilities of core infrastructure and will improve our ability to withstand and respond to cyber incidents, while new systems are being implemented under the Modernization Program.

SERVICE ENHANCEMENTS AND COLLABORATION

The CPA is focused on ensuring that existing services remain current and that functionality is enhanced wherever business needs exist (e.g. cheque image exchange). In the later years of the plan, enhancements to the existing systems will be critically evaluated against progress on the Modernization Program to ensure investments are made most efficiently.

A more formal and enhanced participant and stakeholder engagement program is a key focus over the next five years, as we transition to a modernized CPA with our new governance model. More in-depth, targeted relationships will assist in our Modernization Program and entrench our renewed client service orientation.

KEY 2016 INITIATIVES

- **Enterprise Risk Management (ERM):** The CPA has committed to developing a new Board-approved risk appetite in 2016 as part of the ERM improvements. An assessment of the ACSS against the new prominent standards will be conducted and a plan to address identified gaps will be developed.
- **Compliance Framework enhanced:** To raise the maturity level, the current compliance framework for corporate and participant compliance will be reviewed and enhanced so that the program is more clearly defined and documented, effective, current, and appropriately aligned with the CPA internal audit and risk programs. 2016 focuses on identifying improvements to the current models and starting the implementation of proposed changes over a multi-year period.
- **Resiliency enhancements:** 2016 is the first year of a multi-year initiative to improve our availability and resiliency capabilities in line with our risk appetite. 2016 initiatives include:
    - Improving the resiliency recovery at the CPA's secondary data centre through infrastructure enhancements, improved disaster recovery plan execution, and increased operational capacity.
    - Improving our approach to cybersecurity event handling through improved processes, detection tools and exercises.
- **Implement a participant and stakeholder engagement program.** The CPA will implement a formal participant and stakeholder engagement program in order to enhance our influence and engagement.
- **Deliver a high-quality, influential Payments Panorama conference.** In addition to working to deliver a successful payments conference in June 2016, the CPA is changing the conference from a biennial to an annual format. The conference will include a broader, more engaging agenda and is expected to attract a larger audience.

III. Transition and Renewal

This long-term desired outcome is described as follows:

TRANSITION AND RENEWAL	2016 TO 2020 OBJECTIVE
Transforming our processes, culture, capacity and structure to support Modernization and excellence.	• *Finalize our governance changes* • *Improve our internal business processes* • *Optimize organizational performance*

For the CPA to be successful in the ongoing operation, planning and implementation of Modernization, and to effectively operate well into the future, we must have the appropriate governance and internal capability. This includes completing the governance changes, adding additional resources, improving the productivity of existing resources and engaging the ecosystem. Successful execution in the later years of the plan is dependent on building the foundation in the early years.

In 2015, we put in place a new governance structure with a majority-independent Board of Directors and a new Member Advisory Council (MAC). This structure will be fully transitioned over a three-year period. We are anticipating the renewal of our Memorandums of Understanding (MOUs) with the Bank of Canada and the Department of Finance for 2016, and for a legislative review of the Act in 2018.

The CPA is working with the Department of Finance in 2016 to revise its Finance By-law to enable a new pricing model that allows for more flexibility in pricing new services than the current model permits. Subject to Ministerial approval of the revised Finance By-law in 2016, the CPA is expected to roll out the new model in 2017.

2016 will mark the completion of two years of recruitment. The focus will migrate from capacity building to improving ongoing operations and reinforcing a culture of excellence, collaboration and trust.

The CPA is also continuing to build research and policy functions to strengthen knowledge internally and to leverage and share knowledge with our stakeholders. In the early years of the plan, research and policy will be focused on supporting Modernization, as research is conducted on the broader payments ecosystem.

KEY 2016 INITIATIVES

- **Implement remaining governance changes:** Implementing the new legislation, including transitioning to a new Board structure and enhancing capacity (skills and expertise), has been a focus in 2015 and will continue to be so in 2016. A complete review and revision of Board policies will be undertaken, MOUs with the Department of Finance and the Bank of Canada will be renewed, the operational committee structure will be reviewed and revised, (including corresponding amendments to the Administration and General By-laws), and the revised Finance By-law will be submitted for Ministerial approval.

- **Complete the Organizational Renewal Program:** The Organizational Renewal Program is in its third and final year to improve the capacity and align the culture to the CPA's vision and Strategic Plan. This final year focuses on leadership, risk management, technology and operations, and corporate administration.

HUMAN RESOURCE PLAN

The CPA's employees are foundational to the success of the CPA. We are recognized as an excellent operator of clearing and settlement systems due, in part, to the depth of knowledge of our staff. By the end of 2016 we will be at a steady state of 110 full-time employees compared to 101 at the end of 2015. Additional resources are targeted in risk management, regulatory and governance; payments, technology and constituent relationships; and supporting corporate services. We invest in the continued development of our staff to further our proficiency and reinforce a culture of performance.

The CPA delivers its services through mainly full-time employees who are experts in the CPA's unique business, and who understand our participants and stakeholders. Short-term needs to address specific skill sets and peak workloads are generally supplemented by term employees. Strategic vendors and consultants are mainly used for the efficient delivery of non-core services. The decision to use the different types of staffing depends on the flexibility required, the skills sets available and the efficiencies gained.

The Modernization Program resourcing strategy uses a combination of experienced full-time employees, terms who bring specific skills, and vendors/consulting firms under tendered contracts. In 2016, the Modernization Program will require approximately 15 full-time employees, in addition to third-party vendors, to complete the conceptual design. The skills and number of resources required to achieve the next phase(s) of Modernization will be identified after the conceptual design. It is expected that the project will continue to rely heavily on external consultants throughout its development. As we get closer to building and operationalizing the system, we will determine the operational staff requirements.

FINANCIAL PLAN

The Financial Plan forecasts the financial requirements to deliver sound and robust core operations, fund projects to support and enhance core systems, and support Modernization of the CPA's clearing and settlement infrastructure. Given that the financial forecasts are for a five-year period, updates will be made to the future-year forecasts as work is prioritized and fully scoped.

PLANNING ASSUMPTIONS

A. Modernization: The financial investment in Modernization will be significant and will extend over a period of years. For the purposes of the Corporate Plan, the investments to study, scope and design have been included for the years 2017 through 2020. The capital costs related to acquisition, development and implementation; costs related to financing; and the participant costs, have not been included as they are unknown at this time and are dependent on identifying and agreeing on the scope of changes and our approach to funding. It is expected that the required financial resources for the later phases will be funded through borrowing, rather than operating dues/fees.

B. People: Financial estimates assume that we are able to attract and retain the highest-quality people through a mix of full-time, term, and consulting arrangements.

C. Ongoing operations: The Financial Plan outlines an initial increase in the ongoing operational costs in line with increases in capacity in the early years. Operating costs for current systems will then stabilize in later years. Annual costs are typically predictable and stable over time and are largely based on assumptions with respect to expected cost increases in line with technology and labour. Furthermore, to reflect a commitment to optimize resources and realize efficiencies, the annual estimates related to operating expenses in the years beyond 2016 incorporate annual efficiency savings.

D. PFMI reserve: The PFMI reserve includes an assumption that the ACSS will be designated as a prominent payment system and that a reserve similar to the LVTS will be required and has been built into the Financial Plan.

FINANCIAL PLAN 2016 TO 2020

The Financial Plan includes two key components:

A. Operating costs required to ensure the safe and efficient functioning of the CPA's core systems. The core operating costs of the CPA include the day-to-day activities of the clearing and settlement systems and include items such as human resources (permanent and consulting), infrastructure (e.g. hardware, software and service contracts), and facilities and administration.

B. Project costs to support and implement service and performance enhancements, transform the organization, and enable modernization. These investments are made up of development projects along with capital outlays that are required to strengthen the safety and soundness of the country's clearing and settlement systems.

The revenue for the CPA is protected and assured as the institutions that are mandatory members of the CPA are also required to fund the CPA operations.

TABLE 1 SUMMARY BALANCE SHEET 2014 TO 2020

	ACTUALS		PROJECTED				
(in millions)	2014	2015	2016	2017	2018	2019	2020
ASSETS							
Cash and Investments	12.6	16.5	16.8	18.3	20.7	25.4	27.5
Other Current Assets	3.0	1.8	2.3	2.3	2.3	2.3	2.3
Capital Assets	7.6	6.5	10.8	14.8	18.8	22.8	26.8
TOTAL ASSETS	23.2	24.9	29.9	35.4	41.8	50.5	56.6
LIABILITIES							
Trade and Other payables	3.7	3.6	3.8	3.4	3.5	5.2	5.5
Tenant Inducement	2.1	1.7	1.5	1.3	1.0	0.8	0.6
Other Liabilities	1.4	1.7	0.9	1.0	1.0	1.1	1.1
TOTAL LIABILITIES	7.2	7.0	6.2	5.6	5.6	7.1	7.2
TOTAL NET ASSETS	16.1	17.8	23.6	29.7	36.2	43.5	49.3
TOTAL LIABILITIES AND NET ASSETS	23.2	24.9	29.9	35.4	41.8	50.5	56.6

TABLE 2 SUMMARY INCOME STATEMENT 2014 TO 2020

	ACTUALS		BUDGET				
(in millions)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
REVENUES							
Dues/Fees	30.1	34.0	47.7	51.5	53.5	54.5	54.5
Other Non-Dues Revenues	2.6	2.4	2.9	2.5	2.5	2.5	2.5
TOTAL REVENUES	32.7	36.4	50.6	54.0	56.0	57.0	57.0
EXPENSES							
Operating Costs	25.1	28.1	35.3	37.0	39.0	40.0	40.0
Projects	2.5	1.9	4.4	4.0	4.0	4.0	4.0
Modernization[i]	0.3	2.9	8.5	10.0	10.0	10.0	10.0
TOTAL EXPENSES	27.9	32.9	48.2	51.0	53.0	54.0	54.0
SURPLUS/DEFICIT	**4.8**	**3.5**	**2.4**	**3.0**	**3.0**	**3.0**	**3.0**
PFMI Reserve Build Up	(2.4)	(2.4)	(2.4)	(3.0)	(3.0)	(3.0)	(3.0)
NET SUPRPLUS/DEFICIT AFTER TRANSFER	**2.4**	**1.1**	-	-	-	-	-

Note i: *excludes capital costs for system acquisition or build*

For the period 2016 to 2020 operating costs account for approximately 70 to 75 per cent of the CPA's annual expenses. Specific costs of note include salaries and benefits, telecommunications and IT infrastructure, premises, professional services, governance and administration. Key items that affect the operating costs from 2016 to 2020 include the full impact of increased capacity, as a result of adding more positions, as well as required investments in the CPA's technology environment.

The PFMI on General Business Risk calls for the CPA to establish a reserve from which it can draw funds to continue to provide critical services in the face of materialized business risks. The continued funding of the PFMI reserves from 2016 to 2020 takes into consideration the following:

A. The LVTS reserve was established in 2013, with the size of the reserve being re-evaluated in 2017. A portion of the PFMI reserve reflects an assumed increase in the size of the reserve relative to the current budget. The increase in the LVTS reserve would be phased in over 2018 to 2020.

B. The establishment of a reserve to support the ACSS as a prominent system.

TOTAL EXPENDITURES 2014 TO 2020

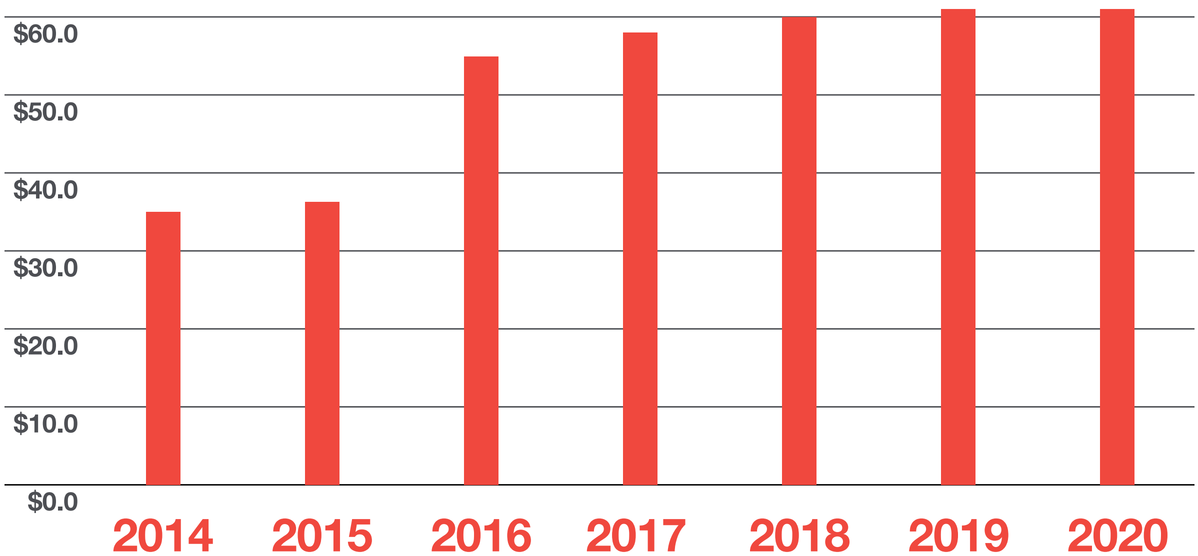


TABLE 3 SUMMARY INCOME STATEMENT 2014 TO 2020

	ACTUALS		BUDGET				
(in millions)	2014	2015	2016	2017	2018	2019	2020
CAPITAL PROJECTS	4.6	1.0	4.3	4.0	4.0	4.0	4.0
Total Capital Spending	**$ 4.7**	**$ 1.0**	**$ 4.3**	**$ 4.0**	**$ 4.0**	**$ 4.0**	**$ 4.0**

Table 3 outlines the total cash outlays for capital spending. In 2016, capital expenditures will be incurred to enhance resilience and disaster recovery. 2017 will see further enhancements to increase system availability. Beyond 2016, capital investments reflect upgrades to refresh software/hardware to ensure they remain current.

MODERNIZATION PLAN

The development of a modernized clearing and settlement infrastructure is expected to be a substantial undertaking involving significant resources and financial investment over a number of years.

The Modernization work planned in 2016 will cost $8.5 million, with the majority of the funds dedicated to developing the conceptual design of modernized clearing and settlement systems.

The CPA's overall costs for Modernization will be relatively minor compared to participants' costs for upgrading their systems and connections to the CPA and they are being considered as part of the Modernization activities. The incremental cost to individual participants for the broader Modernization Program will depend on the extent of development required to leverage the capabilities of the modernized infrastructure into their infrastructure and systems. The costs for the CPA and the financial institutions will be more explicitly defined in the 2017 to 2021 Corporate Plan.

APPENDIX I

CPA TEAM

CPA BOARD OF DIRECTORS

Eileen Mercier
Professional Director — Chair and Independent Director

Malcolm Knight
Centre for International Governance Innovation — Deputy Chair and Independent Director

Gerry Gaetz
President and Chief Operating Officer, CPA

Lib Gibson
Educator and Director — Independent Director

Brenda Clark
Canadian Imperial Bank of Commerce — Member Director

Chuck Hounsell
Toronto Dominion Bank — Member Director

Sean Lesy
Alberta Central — Member Director

Stewart MacKinnon
Stewart MacKinnon Consulting Limited (SMC) — Independent Director

Ron Matthews
Independent Industry Advisor — Independent Director

Dina Palozzi
Paladina Management Consulting Services — Independent Director

Curtis Stange
Alberta Treasury Branches Financial — Member Director

Doug Steiner
BEworks Inc./Kakayshun Corp. — Independent Director

Stephanie Zee
Citibank Canada – Member Director

CPA EXECUTIVE TEAM

Gerry Gaetz
President and Chief Executive Officer

Justin Ferrabee
Chief Operating Officer

Anne Butler
Vice-President, General Counsel and Corporate Secretary

Paul Hardy
Chief Finance Officer

Doug Kreviazuk
Vice-President, Next Generation Clearing and Settlement

Carol Ann Northcott
Vice-President, Risk, Security and Research and Chief Risk Officer

Jan Pilbauer
Vice-President, Payments and Technology and Chief Information Officer

Jeff van Duynhoven
Executive Director, Modernization Program

STAKEHOLDER ADVISORY COUNCIL

Brent Mizzen (Chair)
Canadian Life and Health Insurance Association

Bill Piggot (Vice-Chair)
ADP Canada

Doug Bruce
Canadian Federation of Independent Business

Pat Daley
Deloitte

Brenda Gibson
Wawanesa Insurance

Jean Hope
Province of British Columbia

Caroline Hubberstey
Interac Association

Sue Hutchison
D+H Canada

Ritu Khanna
PayPal Canada

Luc Lalonde
Canada Post Corporation

Mimi Lepage
Public Services and Procurement Canada

Sean Lesy (CPA Board)
Alberta Central

John McKenzie
Canadian Depository for Securities Ltd.

Don Mercer
Consumers Council of Canada

Tom Morrison
Association for Financial Professionals of Canada (Suncor Energy)

Angela Richardson
Canadian Gas Association (Union Gas Limited)

Jacques St Amant
Public Interest Advocacy Centre

Peter Thom
Bell Canada

Hugues Vaillancourt (Observer)
Department of Finance Canada

David Wilkes
Retail Council of Canada

Stephanie Zee (CPA Board)
Citibank Canada

MEMBER ADVISORY COUNCIL

Carolyn Burke (Chair)
Royal Bank of Canada

Patrice Dagenais (Vice-Chair)
La Fédération des caisses Desjardins du Québec

Charles Alexander
Citibank Canada

Amy Altersohn
JPMorgan Chase Bank, National Association

Diane Davies
Canadian Western Bank

Nathalie Généreux
Laurentian Bank of Canada

Brian Guillemin
Concentra Financial Services Association

Maureen Jarvis
Bank of America, National Association

Erminia (Ernie) Johannson
Bank of Montreal

Grahame Johnson
Bank of Canada

Rizwan Khalfan
Toronto-Dominion Bank

Charaka Kithulegoda
Tangerine Bank

Stephen Lacelle
National Bank of Canada

Rania Llewellyn
Bank of Nova Scotia

David Losier
La Fédération des caisses populaires Acadiennes Limitée

Todd Roberts
Canadian Imperial Bank of Commerce

Oscar van der Meer
Central 1 Credit Union

Ed White
HSBC Bank Canada

Mingxuan (William) Zhu
Industrial and Commercial Bank of China (Canada)

APPENDIX II

2016 PRIORITIES

The following chart summarizes the priorities of the organization for 2016. Details of goals and targets are included in the five-year plan.

OBJECTIVES	2016 INITIATIVES AND TARGETS
Modernize: Leading to a safer, more efficient and effective Canadian payments system and enhancing our ability to influence the payments system for the benefit of all Canadians.	
1. To modernize the core payment systems, including the policies, rules, standards and technology infrastructure.	• *Vision is supported by critical industry participants and stakeholders.* • *Conceptual design developed with industry input.* • *Program governance model evolved.* • *Viable funding approach developed.* • *ISO 20022 messages for AFT published.* • *A by-law and rules analytical framework is developed.* • *The CPA brand is refreshed.*
Operate and Enhance: Ensuring our current payments clearing and settlement systems and supporting rules and standards meet global standards of safety, efficiency and effectiveness.	

1. Observe Bank of Canada Financial Market Infrastructure standards.
2. Align our resiliency and risk management practices with the CPA's risk appetite and best practices.
3. Enhance our services and collaboration with participants and stakeholders.
	• *Payment systems exceed service availability targets.*
	• *Board approved new risk appetite.*
	• *Compliance Framework developed.*
	• *Resiliency enhancements.*
	  • *Secondary data centre improvements.*
	  • *Cyber event handling improvements.*
	• *Research produces regular, influential publications and engagements.*
	• *Implement a participant and stakeholder engagement program.*
	• *Deliver a high quality, influential Payments Panorama conference.*

Transition and Renewal: Transforming our processes, culture, capacity and structure to support Modernization and excellence.	
1. Finalize our governance changes. **2.** Improve our internal business processes. **3.** Optimize organizational performance	• *Implement the remaining governance changes.* • *Approval of the first Corporate Plan by the Minister of Finance.* • *Complete the Organizational Renewal Program*

APPENDIX III

2014 FINANCIAL STATEMENTS

Financial Statements of

CANADIAN PAYMENTS ASSOCIATION

Year ended December 31, 2014

KPMG LLP
Suite 1800
150 Elgin Street
Ottawa, ON K2P 2P8
Canada

Telephone (613) 212-KPMG
Fax (613) 212-2896
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Payments Association

We have audited the accompanying financial statements of the Canadian Payments Association, which comprise the statement of financial position as at December 31, 2014, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Payments Association as at December 31, 2014 and its results of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 17, 2015

Ottawa, Canada

CANADIAN PAYMENTS ASSOCIATION

Statement of Financial Position
(in thousands of dollars)

December 31, 2014, with comparative information for 2013

		2014		2013
				(note 2)
Assets				
Current assets:				
Cash	$	12,619	$	11,356
Accounts receivable		2,418		199
Prepaid expenses		625		621
		15,662		12,176
Capital and intangible assets (note 3)		7,567		4,124
	$	23,229	$	16,300
Liabilities and Net Assets				
Current liabilities:				
Accounts payable and accrued liabilities (note 4)	$	3,677	$	2,475
Deferred revenue		781		770
		4,458		3,245
Tenant inducement (note 5)		2,119		28
Accrued benefit liability (note 6)		590		494
Net assets:				
Invested in capital assets		7,567		4,124
Internally restricted (note 7)		4,990		4,047
Unrestricted		3,505		4,362
		16,062		12,533
Commitments (note 8)				
	$	23,229	$	16,300

See accompanying notes to financial statements.

On behalf of the Board:

_______________ Director

_______________ Director

_______________ Director

CANADIAN PAYMENTS ASSOCIATION

Statement of Operations
(in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	Direct ACSS Operations		Direct LVTS Operations		Indirect Operations		Total	Total
	2014	2013	2014	2013	2014	2013	2014	2013 (note 2)
Revenues:								
Dues	$ 4,780	$ 4,225	$ 12,380	$ 10,363	$ 12,940	$ 12,307	$ 30,100	$ 26,895
Corporate services network	489	503	824	873	–	–	1,313	1,376
Fees and subscriptions	463	447	–	–	–	–	463	447
Frame relay	–	–	–	216	–	–	–	216
Interest	–	–	18	9	153	154	171	163
IT Infrastructure-chargebacks	29	28	37	29	–	–	66	57
Miscellaneous	15	11	65	51	–	–	80	62
CCIN	25	25	–	–	–	–	25	25
Conference	–	–	–	–	473	–	473	–
	5,801	5,239	13,324	11,541	13,566	12,461	32,691	29,241
Expenses:								
Salaries and benefits	3,150	2,655	3,489	3,178	5,639	5,393	12,278	11,226
IT Infrastructure	772	709	4,007	3,739	722	357	5,501	4,805
General administration	413	461	878	828	3,121	2,805	4,412	4,094
Infrastructure/telecom -chargebacks	520	534	863	1,157	–	–	1,383	1,691
Development projects	7	12	56	40	2,692	1,408	2,755	1,460
Premises	332	322	485	470	564	482	1,381	1,274
Telecommunications	391	372	244	474	57	16	692	862
Conference	–	–	–	–	429	–	429	–
Account management fee	–	–	300	–	–	–	300	–
	5,585	5,065	10,322	9,886	13,224	10,461	29,131	25,412
Excess of revenues over expenses	$ 216	$ 174	$ 3,002	$ 1,655	$ 342	$ 2,000	$ 3,560	$ 3,829

See accompanying notes to financial statements.

CANADIAN PAYMENTS ASSOCIATION

Statement of Changes in Net Assets
(in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	Invested in capital assets	Internally restricted	Unrestricted	Total 2014	Total 2013 (note 2)
Net assets, beginning of year	$ 4,124	$ 4,047	$ 4,286	$ 12,457	$ 8,626
Adjustment per note 2	–	–	76	76	66
Net assets, beginning of year, as restated	4,124	4,047	4,362	12,533	8,692
Excess of revenues over expenses:					
Direct ACSS operations	–	–	216	216	174
Direct LVTS operations	–	–	3,002	3,002	1,655
Indirect operations	–	–	342	342	2,000
	–	–	3,560	3,560	3,829
Employee future benefit remeasurements and other items	–	–	(31)	(31)	12
Transfer to internally restricted net assets (note 7)	–	2,839	(2,839)	–	–
Transfer to unrestricted net assets (note 7)	–	(1,896)	1,896	–	–
Acquisitions of capital and intangible assets	4,660	–	(4,660)	–	–
Amortization of capital and intangible assets	(1,217)	–	1,217	–	–
Net assets, end of year	$ 7,567	$ 4,990	$ 3,505	$ 16,062	$ 12,533

See accompanying notes to financial statements.

CANADIAN PAYMENTS ASSOCIATION

Statement of Cash Flows
(in thousands of dollars)

Year ended December 31, 2014, with comparative information for 2013

	2014	2013 (note 2)
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses:		
Direct ACSS operations	$ 216	$ 174
Direct LVTS operations	3,002	1,655
Indirect operations	342	2,000
Add non-cash items:		
Amortization of capital and intangible assets	1,217	1,177
Employee future benefit remeasurements and other items	(31)	12
Increase (decrease) in tenant inducement	2,091	(25)
Change in employee future benefit liability	96	40
	6,933	5,033
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(2,219)	297
Decrease (increase) in prepaid expenses	(4)	34
Increase in accounts payable and accrued liabilities	1,202	237
Increase (decrease) in deferred revenue	11	(25)
	(1,010)	543
Investing activities:		
Acquisitions of capital and intangible assets	(4,660)	(1,598)
Increase in cash	1,263	3,978
Cash, beginning of year	11,356	7,378
Cash, end of year	$ 12,619	$ 11,356

See accompanying notes to financial statements.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements

Year ended December 31, 2014 (in thousands of dollars)

The Canadian Payments Association (the "Association") was incorporated by an Act of Parliament of Canada. The objects of the Association are to:

(a) establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;

(b) facilitate the interaction of its clearing and settlement systems and related arrangements with other systems or arrangements involved in the exchange, clearing or settlement of payments; and

(c) facilitate the development of new payment methods and technologies.

The costs associated with the central automated facilities and telecommunications facilities of the national clearing and settlement systems are the responsibility of the Association. All other significant operating costs in relation to the information technology infrastructure relative to the actual clearing process are the responsibility of the member institutions.

In accordance with its financial by-law, the Association is required to establish an Indirect Operations budget, a Direct Large Value Transfer System (LVTS) budget, and a Direct Automated Clearing Settlement System (ACSS) budget. The statement of operations includes the revenues and expenses for each of these activities.

The Association is a non-profit organization, under paragraph 149(1)(l) of the Income Tax Act and, as such, is not subject to income taxes.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Basis of presentation:

The Association uses the deferral method of accounting for contributions for not-for-profit organizations.

(b) Revenue recognition:

Dues are recognized as revenue on a fiscal year basis. Dues received in advance of the related fiscal year are recorded as deferred revenue.

Conference revenue is recognized in the year that the conference is held.

All other revenues are recognized in the year in which the related service is performed.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 2

Year ended December 31, 2014 (in thousands of dollars)

1. Significant accounting policies (continued):

(c) Employee future benefits:

The Association maintains a defined contribution pension plan for all employees who satisfy certain eligibility conditions. The Association also provides non-pension defined benefits consisting of a post-employment life and health insurance plan to its employees.

The Association accrues its obligations and related costs for funded employee future benefit plans as the employees render the service necessary to earn the pension and other retirement benefits, based on the latest going concern funding valuation. The actuarial determination of the accrued benefit obligations for pensions and other employee future benefits uses the projected method on service (which incorporates management's assumptions used for funding purposes, other cost escalation, retirement ages of employees and other actuarial factors). The actuarial valuation is performed at least every three years. In the years between valuations, pension plan results are prepared based on extrapolations of the latest available funding valuation results. Assets of the employee future benefit plans are valued using fair values at the date of the financial statements.

The benefit plan expense for the year consists of the current service and finance costs. Re-measurements and other items are recorded directly on the statement of changes in net assets.

The Association's contributions to the defined contribution plan are expensed in the year of contribution.

(d) Capital and intangible assets:

Capital and intangible assets are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over the following terms:

Asset	Term
Leasehold improvements	Term of the lease
Office furniture	Five years
Technology Strategy	Five years

When a capital or intangible asset no longer contributes to the Association's ability to provide services, its carrying amount is written down to its residual value.

The Technology Strategy program aims to enhance the current systems by renewing and modernizing the technology infrastructure. Costs directly attributable to the Technology Strategy and having future economic benefits are capitalized as incurred and amortization will commence in the period that the asset becomes operational.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 3

Year ended December 31, 2014 (in thousands of dollars)

1. Significant accounting policies (continued):

(e) Expenses:

In the statement of operations, the Association presents its expenses by function except for salaries and benefits, which are presented by object.

Expenses are recorded to the applicable function to which they are directly related.

The Association does not allocate expenses between functions after initial recognition.

(f) Internally restricted net assets:

The Association restricts the use of portions of its net assets for specific future purposes. When incurred, expenses are charged to operations and the balance of internally restricted assets is reduced accordingly.

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Association has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 4

Year ended December 31, 2014 (in thousands of dollars)

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include assets and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the year in which they become known.

2. Adoption of Section 3463 Reporting Employee Future Benefits by Not-for-profit Organizations:

Effective January 1, 2014, the Association adopted new CPA Canada Handbook Accounting Part III Section 3463, *Reporting Employee Future Benefits by Not-for-Profit Organizations* which incorporates *Section 3462, Employee Future Benefits*, as issued.

Under the new accounting standard, the actuarial gains and losses and past service costs are no longer deferred and amortized over future periods. The full actuarial liability net of assets is recorded in the Statement of Financial Position, the annual benefit cost is recorded in the Statement of Operations and the change in unamortized gains and losses is recognized in the Statement of Changes in Net Assets. In addition, interest cost and expected rate of return on plan assets are replaced with a net interest amount that is calculated by applying the discount rate used to calculate the net defined benefit obligation.

For defined benefit plans for which an actuarial valuation for funding purposes exists, an accounting policy choice between using the funding valuation or an accounting valuation is available. The Association has elected to use a valuation for funding purposes.

The Association implemented the new standard retrospectively. The impact is as follows:

Statement of Financial Position, as at December 31, 2013	As previously presented	Restatements	As restated
Employee future benefit liability	$ 570	$ (76)	$ 494

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 5

Year ended December 31, 2014 (in thousands of dollars)

2. Adoption of Section 3463 Reporting Employee Future Benefits by Not-for-profit Organizations (continued):

Statement of Operations, year ended December 31, 2013	As previously presented	Restatements	As restated
Excess of revenue over expenses	$ 3,831	$ (2)	$ 3,829

Statement of Changes in Net Assets, year ended December 31, 2013	As previously presented	Restatements	As restated
Net assets, beginning of year	$ 8,626	$ 66	$ 8,692
Net assets, end of year	12,457	76	12,533

3. Capital and intangible assets:

			2014	2013
	Cost	Accumulated amortization	Net book value	Net book value
Office furniture	$ 929	$ 30	$ 899	$ 51
Leasehold improvements	3,951	1,407	2,544	206
Technology	6,286	2,162	4,124	3,867
	$ 11,166	$ 3,599	$ 7,567	$ 4,124

Cost and accumulated amortization at December 31, 2013 amounted to $6,506 and $2,382, respectively.

4. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $26 (2013 - $33), which includes amounts payable for harmonized sales tax and payroll-related taxes.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 6

Year ended December 31, 2014 (in thousands of dollars)

5. Tenant inducement:

In 2014 the Association entered into a 10-year lease agreement for new office space. As part of the lease, the Association will receive lease inducements totaling $2,116. These inducements are comprised of a leasehold improvement allowance of $1,636 and free rent totaling $480. The new tenant inducement will be amortized over the lease term plus the rent-free period.

	2014	2013
Leasehold improvement allowance	$ 1,639	$ 28
Free rent	480	–
	$ 2,119	$ 28

6. Employee future benefits:

	Other benefit plan	
	2014	2013
Accrued benefit obligation/deficit	$ 590	$ 494
Employee future benefit liability	$ 590	$ 494

7. Net assets:

The Association's objectives with respect to its net assets is to (i) fund capital assets and future operations, (ii) provide flexibility in the determination of dues by balancing dues in years where there may otherwise be a significant one-time increase, and (iii) provide funds for cash flow purposes at the beginning of a fiscal year in the event required to fund operations.

The Association manages its net assets through the use of internally restricted net assets. The Association is not subject to externally imposed capital requirements and its approach to capital management remains unchanged from the prior year.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 7

Year ended December 31, 2014 (in thousands of dollars)

7. Net assets (continued):

The Association's internally restricted net assets represent amounts restricted by the Board. In the year $2,839 (2013 - $3,047) was restricted. $1,896 (2013 - $103) was transferred to unrestricted net assets, of which $1,653 (2013 - $53) was expended for development projects and $194 (2013 - $50) was not required for the purpose originally intended.

At December 31, 2014, a total of $4,990 (2013 - $4,047) is held in internally restricted net assets.

	2014	2013
Development Projects	$ 439	$ 1,847
Special Reserve Fund - FMI	3,600	1,200
FMI Principles - Closing Gaps	951	1,000
	$ 4,990	$ 4,047

8. Commitments:

The Association is committed under long-term operating leases for the rental of premises, infrastructure services and office equipment. Minimum annual payments are approximately:

2015	$ 4,108
2016	4,411
2017	4,338
2018	4,198
2019	4,182
2020 and thereafter	4,406
	$ 25,643

9. Financial risks:

The Association is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes. The Association believes that it is not exposed to significant interest, currency, or credit risk arising from its financial instruments.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 8

Year ended December 31, 2014 (in thousands of dollars)

10. Operating line of credit:

The Association has credit available of $150 through a demand loan. The loan is unsecured and bears interest at the rate of prime. The loan has been authorized by the bank and is available to the Association for use at any time.

11. Comparative information:

Certain 2013 comparative information has been reclassified to conform to the financial statement presentation adopted for 2014.

APPENDIX IV

2015 FINANCIAL STATEMENTS

Financial Statements of

CANADIAN PAYMENTS ASSOCIATION

Year ended December 31, 2015

INDEPENDENT AUDITORS' REPORT

To the Members of the Canadian Payments Association

We have audited the accompanying financial statements of the Canadian Payments Association, which comprise the statement of financial position as at December 31, 2015, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Payments Association as at December 31, 2015 and its results of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants, Licensed Public Accountants

date

Ottawa, Canada

CANADIAN PAYMENTS ASSOCIATION

Statement of Financial Position
(in thousands of dollars)

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	$ 16,495	$ 12,619
Accounts receivable	842	2,418
Prepaid expenses	1,001	625
	18,338	15,662
Capital and intangible assets (note 2)	6,526	7,567
	$ 24,864	$ 23,229
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 3)	$ 3,610	$ 3,677
Deferred revenue	1,000	781
	4,610	4,458
Tenant inducement (note 4)	1,747	2,119
Accrued benefit liability (note 5)	683	590
Net assets:		
Invested in capital assets	6,526	7,567
Internally restricted (note 6)	7,354	4,990
Unrestricted	3,944	3,505
	17,824	16,062
Commitments (note 7)		
	$ 24,864	$ 23,229

See accompanying notes to financial statements.

On behalf of the Board:

_________________________ Director

_________________________ Director

_________________________ Director

CANADIAN PAYMENTS ASSOCIATION

Statement of Operations
(in thousands of dollars)

Year ended December 31, 2015, with comparative information for 2014

	Direct ACSS Operations		Direct LVTS Operations		Indirect Operations		Total	Total
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues:								
Dues	$ 6,200	$ 4,780	$ 12,300	$ 12,380	$ 15,500	$ 12,940	$ 34,000	$ 30,100
Corporate services network	519	489	897	824	–	–	1,416	1,313
Fees and subscriptions	487	463	–	–	–	–	487	463
Tech strategy-chargebacks	177	–	73	–	–	–	250	–
Interest	–	–	49	18	132	153	181	171
IT Infrastructure-chargebacks	11	29	24	37	–	–	35	66
Miscellaneous	19	15	16	65	–	–	35	80
CCIN	19	25	–	–	–	–	19	25
Conference	–	–	–	–	–	473	–	473
	7,432	5,801	13,359	13,324	15,632	13,566	36,423	32,691
Expenses:								
Salaries and benefits	3,279	3,150	4,101	3,489	7,284	5,639	14,664	12,278
IT Infrastructure	841	772	3,821	4,007	750	722	5,412	5,501
General administration	552	413	832	878	4,343	3,121	5,727	4,412
Infrastructure/telecom - chargebacks	685	520	1,014	863	–	–	1,699	1,383
Development projects	216	7	257	56	4,295	2,692	4,768	2,755
Premises	244	332	339	485	485	564	1,068	1,381
Telecommunications	396	391	281	244	34	57	711	692
Conference	–	–	–	–	–	429	–	429
Account management fee	–	–	600	300	–	–	600	300
	6,213	5,585	11,245	10,322	17,191	13,224	34,649	29,131
Excess (deficiency) of revenues over expenses	$ 1,219	$ 216	$ 2,114	$ 3,002	$ (1,559)	$ 342	$ 1,774	$ 3,560

See accompanying notes to financial statements.

CANADIAN PAYMENTS ASSOCIATION

Statement of Changes in Net Assets
(in thousands of dollars)

Year ended December 31, 2015, with comparative information for 2014

	Invested in capital assets	Internally restricted	Unrestricted	Total 2015	Total 2014
Net assets, beginning of year	$ 7,567	$ 4,990	$ 3,505	$ 16,062	$ 12,533
Excess (deficiency) of revenues over expenses:					
Direct ACSS operations	–	–	1,219	1,219	216
Direct LVTS operations	–	–	2,114	2,114	3,002
Indirect operations	–	–	(1,559)	(1,559)	342
	–	–	1,774	1,774	3,560
Employee future benefit remeasurements and other items	–	–	(12)	(12)	(31)
Transfer to internally restricted net assets (note 6)	–	3,021	(3,021)	–	–
Transfer to unrestricted net assets (note 6)	–	(657)	657	–	–
Acquisitions of capital and intangible assets	749	–	(749)	–	–
Amortization of capital and intangible assets	(1,790)	–	1,790	–	–
Net assets, end of year	$ 6,526	$ 7,354	$ 3,944	$ 17,824	$ 16,062

See accompanying notes to financial statements.

CANADIAN PAYMENTS ASSOCIATION

Statement of Cash Flows
(in thousands of dollars)

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenues over expenses:		
Direct ACSS operations	$ 1,219	$ 216
Direct LVTS operations	2,114	3,002
Indirect operations	(1,559)	342
Add non-cash items:		
Amortization of capital and intangible assets	1,790	1,217
Employee future benefit remeasurements and other items	(12)	(31)
Increase (decrease) in tenant inducement	(372)	2,091
Change in employee future benefit liability	93	96
	3,273	6,933
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	1,576	(2,219)
Increase in prepaid expenses	(376)	(4)
Increase (decrease) in accounts payable and accrued liabilities	(67)	1,202
Increase in deferred revenue	219	11
	1,352	(1,010)
Investing activities:		
Acquisitions of capital and intangible assets	(749)	(4,660)
Increase in cash	3,876	1,263
Cash, beginning of year	12,619	11,356
Cash, end of year	$ 16,495	$ 12,619

See accompanying notes to financial statements.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements

Year ended December 31, 2015 (in thousands of dollars)

The Canadian Payments Association (the "Association") was incorporated by an Act of Parliament of Canada. The objects of the Association are to:

(a) establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;

(b) facilitate the interaction of its clearing and settlement systems and related arrangements with other systems or arrangements involved in the exchange, clearing or settlement of payments; and

(c) facilitate the development of new payment methods and technologies.

The costs associated with the central automated facilities and telecommunications facilities of the national clearing and settlement systems are the responsibility of the Association. All other significant operating costs in relation to the information technology infrastructure relative to the actual clearing process are the responsibility of the member institutions.

In accordance with its financial by-law, the Association is required to establish an Indirect Operations budget, a Direct Large Value Transfer System (LVTS) budget, and a Direct Automated Clearing Settlement System (ACSS) budget. The statement of operations includes the revenues and expenses for each of these activities.

The Association is a non-profit organization, under paragraph 149(1)(l) of the Income Tax Act and, as such, is not subject to income taxes.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Basis of presentation:

The Association uses the deferral method of accounting for contributions for not-for-profit organizations.

(b) Revenue recognition:

Dues are recognized as revenue on a fiscal year basis. Dues received in advance of the related fiscal year are recorded as deferred revenue.

Conference revenue is recognized in the year that the conference is held.

All other revenues are recognized in the year in which the related service is performed.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 2

Year ended December 31, 2015 (in thousands of dollars)

1. Significant accounting policies (continued):

(c) Employee future benefits:

The Association maintains a defined contribution pension plan for all employees who satisfy certain eligibility conditions. The Association also provides non-pension defined benefits consisting of a post-employment life and health insurance plan to its employees.

The Association accrues its obligations and related costs for funded employee future benefit plans as the employees render the service necessary to earn the pension and other retirement benefits, based on the latest going concern funding valuation. The actuarial determination of the accrued benefit obligations for pensions and other employee future benefits uses the projected method on service (which incorporates management's assumptions used for funding purposes, other cost escalation, retirement ages of employees and other actuarial factors). The actuarial valuation is performed at least every three years. In the years between valuations, pension plan results are prepared based on extrapolations of the latest available funding valuation results. Assets of the employee future benefit plans are valued using fair values at the date of the financial statements.

The benefit plan expense for the year consists of the current service and finance costs. Remeasurements and other items are recorded directly on the statement of changes in net assets.

The Association's contributions to the defined contribution plan are expensed in the year of contribution.

(d) Capital and intangible assets:

Capital and intangible assets are recorded at cost less accumulated amortization. Amortization is provided on the straight-line basis over the following terms:

Asset	Term
Leasehold improvements	Term of the lease
Office furniture	Five years
Technology Strategy	Five years

When a capital or intangible asset no longer contributes to the Association's ability to provide services, its carrying amount is written down to its residual value.

The Technology Strategy program aims to enhance the current systems by renewing and modernizing the technology infrastructure. Costs directly attributable to the Technology Strategy and having future economic benefits are capitalized as incurred and amortization will commence in the period that the asset becomes operational.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 3

Year ended December 31, 2015 (in thousands of dollars)

1. Significant accounting policies (continued):

(e) Expenses:

In the statement of operations, the Association presents its expenses by function except for salaries and benefits, which are presented by object.

Expenses are recorded to the applicable function to which they are directly related.

The Association does not allocate expenses between functions after initial recognition.

(f) Internally restricted net assets:

The Association restricts the use of portions of its net assets for specific future purposes. When incurred, expenses are charged to operations and the balance of internally restricted assets is reduced accordingly.

(g) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Association has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 4

Year ended December 31, 2015 (in thousands of dollars)

1. Significant accounting policies (continued):

(h) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include assets and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the year in which they become known.

2. Capital and intangible assets:

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
Office furniture	$ 1,032	$ 230	$ 802	$ 899
Leasehold improvements	2,422	227	2,195	2,544
Technology	7,044	3,515	3,529	4,124
	$ 10,498	$ 3,972	$ 6,526	$ 7,567

Cost and accumulated amortization at December 31, 2014 amounted to $11,166 and $3,599, respectively.

During the year, the Association disposed of capital assets with a cost and accumulated amortization of $1,417.

3. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $228 (2014 - $26), which includes amounts payable for harmonized sales tax and payroll-related taxes.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 5

Year ended December 31, 2015 (in thousands of dollars)

4. Tenant inducement:

In 2014, the Association entered into a 10-year lease agreement for new office space. As part of the lease, the Association received lease inducements totaling $1,931. These inducements are comprised of a leasehold improvement allowance of $1,451 and free rent totaling $480. The new tenant inducement is amortized over the lease term plus the rent-free period.

	2015	2014
Leasehold improvement allowance:		
Balance, beginning of year	$ 1,639	$ –
Additions during the year	–	1,639
Adjustments during the year	(188)	–
Amortization	(139)	–
Balance, end of year	1,312	1,639
Free rent:		
Balance, beginning of year	480	–
Additions during the year	–	480
Amortization	(45)	–
Balance, end of year	435	480
	$ 1,747	$ 2,119

5. Employee future benefits:

	Other benefit plan 2015	2014
Accrued benefit obligation/deficit	$ 683	$ 590
Employee future benefit liability	$ 683	$ 590

6. Net assets:

The Association’s objectives with respect to its net assets is to (i) fund capital assets and future operations, (ii) provide flexibility in the determination of dues by balancing dues in years where there may otherwise be a significant one-time increase, and (iii) provide funds for cash flow purposes at the beginning of a fiscal year in the event required to fund operations.

The Association manages its net assets through the use of internally restricted net assets. The Association is not subject to externally imposed capital requirements and its approach to capital management remains unchanged from the prior year.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 6

Year ended December 31, 2015 (in thousands of dollars)

6. Net assets (continued):

The Association's internally restricted net assets represent amounts restricted by the Board. In the year $3,021 (2014 - $2,839) was restricted. $657 (2014 - $1,896) was transferred to unrestricted net assets, of which $525 (2014 - $1,653) was expended for development projects and $132 (2014 - $194) was not required for the purpose originally intended.

At December 31, 2015, a total of $7,354 (2014 - $4,990) is held in internally restricted net assets.

	2015	2014
Development Projects	$ 559	$ 439
Special Reserve Fund - FMI	6,062	3,600
FMI Principles - Closing Gaps	733	951
	$ 7,354	$ 4,990

7. Commitments:

The Association is committed under long-term operating leases for the rental of premises, infrastructure services and office equipment. Minimum annual payments are approximately:

2016	$ 4,426
2017	4,339
2018	4,199
2019	4,183
2020 and thereafter	4,407
	$ 21,554

8. Financial risks:

The Association is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes. The Association believes that it is not exposed to significant interest, currency, or credit risk arising from its financial instruments.

CANADIAN PAYMENTS ASSOCIATION

Notes to Financial Statements, page 7

Year ended December 31, 2015 (in thousands of dollars)

9. Operating line of credit:

The Association has credit available of $150 through a demand loan. The loan is unsecured and bears interest at the rate of prime. The loan has been authorized by the bank and is available to the Association for use at any time.

10. Comparative information:

Certain 2014 comparative information has been reclassified to conform to the financial statement presentation adopted for 2015.

APPENDIX V

CPA ENTERPRISE RISK MANAGEMENT POLICY

OBJECTIVE OF THE CPA'S ENTERPRISE RISK MANAGEMENT

The CPA operates national payments clearing and settlement infrastructures that underpin the Canadian financial system and economy. Risk is the uncertainty that surrounds future events and outcomes. As such, it is inherent in all we do and, therefore, risk management is critical to the CPA fulfilling its core purpose, vision, and strategic plan.[1]

The objective of the CPA's Enterprise Risk Management (ERM) is to support decision-making in achieving the CPA's core purpose, vision and strategic plan by managing all key risks across the organization in a comprehensive and integrated way.

In doing this:

- All staff have a framework to confidently identify and manage risks in their day-to-day activities;
- The Executive Leadership Team can confidently and effectively identify, understand and manage risk across the CPA and is able to provide assurance of this to the Board; and
- The Board can confidently provide oversight of risk management.

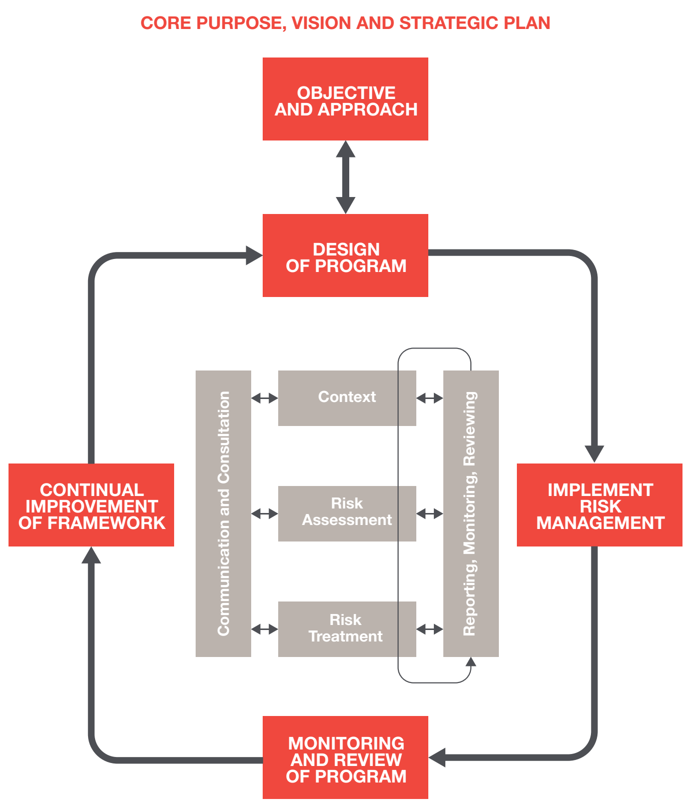
This ERM Policy sets the overall intent and expectations for risk management in the CPA. It is CPA policy to manage risk in accordance with a risk appetite approved by the Board. To do this, the CPA develops strategies to mitigate risk (both probability and impact), and maximizes the positive effects of strategic opportunities. The Board, President and CEO, Chief Risk Officer, Executive Leadership Team and CPA personnel and committees all play a role in this process. The CRO is accountable for this Policy and monitoring adherence to it.

APPROACH TO ENTERPRISE RISK MANAGEMENT

The ERM program is based on the ISO 31000 standard and is heavily influenced by the Financial Stability Board (2013) "Principles for an Effective Risk Appetite Framework" and Office of the Superintendent Financial Institutions (2013) "Corporate Governance Guideline". It also meets the requirements set out in the CPMI-IOSCO (2012) "Principles for Financial Market Infrastructures".[2]

Figure 1 provides an overview of the elements of the CPA's ERM. The Context includes the CPA's principles (section 3), risk appetite (section 4), key risks and related policies (section 5), and risk management governance (section 6).

FIGURE 1 ELEMENTS OF CPA'S ERM



1 The core purpose, vision and strategic plan are grounded in the CPA's legislative mandate. See Appendix 12.1 for a summary of the Strategic Plan.

2 The Committee on Payments and Market Infrastructures (CPMI) and Technical Committee of the International Organization of Securities Commissions (IOSCO) Principles are the relevant international best practises for the LVTS and are incorporated into the Bank of Canada standards for systemically important financial market infrastructures. The CPMI was previously known as the CPSS; renamed Sept. 2014 (http://www.bis.org/press/p140901.htm).

PRINCIPLES THAT ANCHOR THE CPA'S ERM

RISK MANAGEMENT IS ENTERPRISE-WIDE AND DONE IN AN INTEGRATED WAY	• Risk management spans all risks across the CPA, including those associated with third party vendors. • We consider how risks in one area impact another; that is, risk is managed in an integrated way, not in silos.
RISK MANAGEMENT SUPPORTS DECISION-MAKING	• Risk management is integrated into regular business practises to support decision-making at all levels of the CPA, from business line decisions to strategic planning and performance management. • Risk management is relevant and sized to fit the CPA; that is, it is proportional to the level of risk.
RISK MANAGEMENT IS DYNAMIC	• Risk management evolves through continuous learning. We proactively learn from risk events and near misses; incidents of sub-optimal performance are catalysts for improvement. • Risk management facilitates continuous improvement throughout the organization.
RISK MANAGEMENT REQUIRES ACCOUNTABILITY AND TRANSPARENCY	• There is clear accountability and ownership for all risks. • There is oversight of risk management and independent assurance. • All in the CPA are responsible for identifying and managing risks in their day-to-day activities.
RISK CULTURE IS IMPERATIVE TO SUCCESS	• The CPA rewards good risk management. • Everyone understands their roles and responsibilities as set out by this policy, the CPA's risk appetite, and other supporting risk documentation. • Integrated risk management requires active collaboration and cooperation. • There is open, frank, and respectful dialogue to identify risks and challenge assumptions. Risk issues are communicated in a timely, accurate, and forthright manner to all relevant parties. Bad news is escalated. • There is a spirit of continuous learning.

RISK CAPACITY, APPETITE AND LIMITS

All risks at the CPA are managed within a Board approved risk appetite, which is reviewed annually by the Board.

Risk capacity is the maximum amount of risk the CPA can assume before breaching constraints that endanger its ability to continue operations.

Risk appetite is the amount and type of risk the CPA is willing to pursue, retain, or accept to achieve its core purpose, vision and strategic plan. The risk appetite is developed and established by management and is reviewed and approved by the Board.

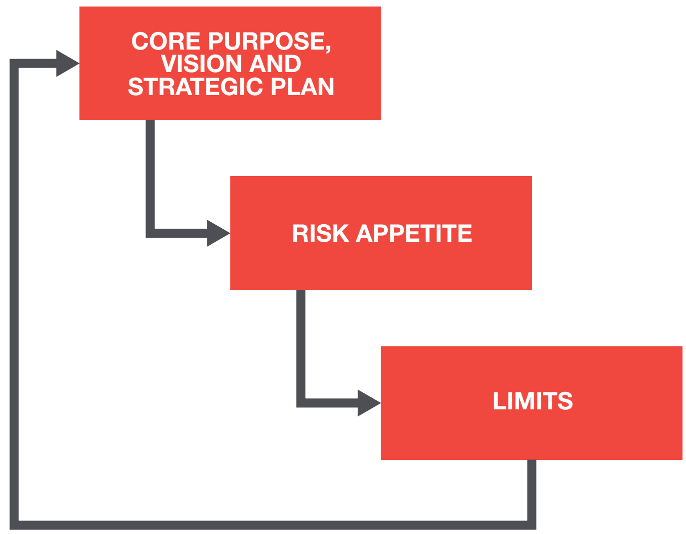
Risk limits are qualitative and quantitative thresholds derived from the risk appetite that are used to guide day-to-day decision-making. They address upside as well as downside risk.

RISK MANAGEMENT SUPPORTS DECISION-MAKING

In the CPA's approach to risk appetite:

- Risk appetite statements are translated into clear and relevant risk limits. This facilitates discussion and clarity around the strategic plan, and provides a guide for behaviour throughout the firm.
- The appetite and limits are simple and useful for those managing the risks; guide decision-making; and anchor the oversight of risk management by the Board. In this way, appetite and limits provide the basis for integrated risk reporting to the Executive Leadership Team and the Board.
- The appetite and limits are forward looking and subject to scenario analysis which allows them to act as an effective brake against excessive risk-taking behaviour.

In developing the risk appetite and limits, management considers the CPA's risk capacity and the CPA's general attitude toward risk.



Risk Appetite and limits facilitate the **behaviour** needed to achieve the CPA's purpose.

CPA KEY RISKS AND POLICY GOVERNANCE

The CPA's key risks are well understood throughout the organization and are managed in accordance with clearly articulated policies, guidelines, and/or procedures that are consistent with the CPA's risk appetite.

RISK MANAGEMENT IS ENTERPRISE-WIDE AND DONE IN AN INTEGRATED WAY

Enterprise risk management is the comprehensive management of all risks to support decision-making in an integrated way to achieve the CPA's mandate and strategic plan.

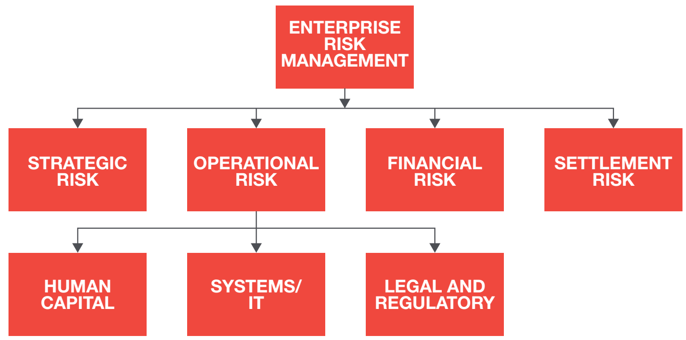
Strategic risk is the risk that affects, or is created by, CPA's business strategy and strategic objectives.

Operational risk is the risk resulting from inadequate or failed processes, systems and IT, people or policies, or from external events. We consider operational risk from all sources, internal and external. For example, with respect to systems and IT, we consider risk to our systems posed by vendors and participants in our systems.

Financial risk is the risk related to financial reporting, market, liquidity and credit risks.

Settlement risk is the risk that settlement in CPA operated payments systems will not take place as expected and may result in credit and/or liquidity risk contagion for CPA members.[3]

Reputational risk - Since many risks can impact our reputation, all risks must be evaluated in terms of the potential impact on our reputation.



RISK MANAGEMENT GOVERNANCE

The risk management governance structure establishes roles and responsibilities throughout the organization, from the person in a business unit who makes a decision, right through to the Board who oversees risk management. The CPA follows a "Line of Defence" approach, which distinguishes among three groups or "lines" required to support effective risk management. The first lines of defence are the business units that perform day-to-day risk management – the functions that own and manage risks of relevance to their area of responsibility. The second line performs oversight functions and includes risk management oversight and compliance. The third line provides independent assurance, and includes internal and external audit and other independent assurance providers.

RISK MANAGEMENT REQUIRES ACCOUNTABILITY AND TRANSPARENCY

While risk management begins with the business units who are responsible for managing day-to-day risk (in the context of the overall risk appetite), governance of risk management starts with the Board of Directors who are responsible for the oversight of risk management of the CPA. The table below outlines the roles and responsibilities throughout the first and second lines of defense.

3 Consistent with the definition in CPMI-IOSCO (2012), "Principles for Financial Market Infrastructures".

RISK MANAGEMENT

BOARD OF DIRECTORS	• Provides risk management leadership and tone-from-the-top • Reviews and approves the CPA's ERM policy and risk appetite • Provides oversight of risk management by (i) understanding the most significant risks to the CPA, (ii) understanding the portfolio of risks to the CPA and (iii) reviewing management's treatment of risk in the context of the risk appetite
EXECUTIVE LEADERSHIP TEAM	• Provides risk management leadership, oversight and tone-from-the-top • Establishes an appropriate risk appetite • Ensures risk appetite is operationalized into risk limits and that these are implemented throughout the CPA • Is accountable for the timely identification, analysis and management of risks • Dedicates sufficient resources to risk management
RISK MANAGEMENT OVERSIGHT AND COMPLIANCE	• Sets enterprise-wide expectations for risk management • Provides oversight and independent challenge to business units through review, inquiry, and discussion • Provides guidance on risk management requirements and processes; provides training, tools and advice to business units • Facilitates the risk management process, including adherence to appetite and policies • Facilitates integrated risk reporting • Monitors compliance with relevant legislation and regulations
BUSINESS UNITS	• Develop relevant risk limits in line with the risk appetite, and operate within those limits • Identify, assess and treat risks in the context of the enterprise-wide boundaries • Monitor and report on risks • Design, implement and maintain effective and efficient risk treatment practices

RISK GOVERNANCE

All in the CPA are responsible for identifying, assessing and treating risk in their day-to-day activities

The Board of Directors has standing committees to assist the Board in fulfilling its responsibilities. The Governance and Risk Committee oversees the performance of risk management and makes recommendations to the Board.

The ELT is collectively responsible for management oversight of risk. All of ELT:

- Provide risk management leadership and tone-from-the-top
- Act in a timely manner to ensure effective risk management of material risk exposures
- Include risk management in performance assessments

Specific responsibilities are laid out in more detail below.

EXECUTIVE LEADERSHIP TEAM	**CEO**	• Overall responsibility for the effectiveness of the ERM program • Establish (with CRO and ELT) a risk appetite • Ensure (with CRO and ELT) that risk appetite is operationalized • Assign clear accountability for risk management activities • Accountable (with CRO and ELT) for timely and effective risk management • Dedicate sufficient resources and expertise to effectively undertake the ERM program
	CRO	• Functional reporting to CEO and risk reporting line to the GRC • Executive owner of the ERM program • Develop risk appetite (with the CEO and ELT) • Establish (with CEO and ELT) risk limits to operationalize the risk appetite • Establish the risk management processes to identify, assess, and report on risk. Provide guidance to business lines on risk management as needed • Independently monitor that business units are operating within the risk appetite • Provide integrated risk reporting to the ELT and Board • Escalate to CEO and Board material risk breaches that exceed the CPA's risk appetite • Obtain Board approval of relevant risk documents
	VICE-PRESIDENTS	• Executive owners of risks within their business unit; accountable for the timely and effective management of risk in their area • Contribute to the development of the risk appetite • Develop and implement risk limits for their area within the established risk appetite to ensure risk identification, assessment and treatment is undertaken as part of day-to-day activities • Monitor and report on adherence to risk limits • Establish effective risk processes and controls within the business unit • Escalate to the CRO and ELT material risk breaches that exceed the CPA's risk appetite • Provide input and advice to the CRO in the development of enterprise wide risk policies • Cooperate with the CRO and risk management function

Independent assurance (the third line of defense) is provided by internal and external audit, and by regulators.

INTERNAL AUDIT	• Provides a systematic, disciplined approach to evaluating the effectiveness of risk management, control, and governance processes and provides an impartial, unbiased opinion as to the effectiveness of such controls and processes.
EXTERNAL AUDIT	• Provides an independent assessment of controls, policies, processes, etc. in order to provide an opinion on the adequacy and fairness of presentation, most typically with respect to financial statements.
REGULATORS	• Regulators provide requirements and assess against those requirements. • In particular, the Bank of Canada holds the CPA's LVTS to Bank standards for systemically important Financial Market Infrastructures and reports its views annually to the CPA Board.

RISK ASSESSMENT AND TREATMENT

The CPA engages in a structured risk management process (Figure 1) that includes: establishing the context, risk assessment (identification, analysis and evaluation), and risk treatment (accept, avoid, transfer, mitigate, monitor, and seize opportunities).

RISK MANAGEMENT SUPPORTS DECISION-MAKING

Details on how the risk management process is implemented is articulated in the ERM Framework, and can be scaled up or down to fit the importance and complexity of the risk being assessed.

Structured risk assessments are encouraged at all levels for decision-making throughout the organization. At a minimum, they are required on:

- The strategic plan;
- The annual project plan;
- All projects that are under the Project Management Office (individually and as a portfolio).

CPA Risk Profile

- The CPA's risk profile identifies the top and emerging risks for the CPA, along with "owners" of these risks, treatment plans, and timelines for implementation of the plans.

Self-Assessments

- The CPA undertakes regular self-assessments against relevant risk management standards. At a minimum, the CPA does an annual self-assessment of the LVTS against the CPMI-IOSCO Principles for Financial Market Infrastructures.

REPORTING

CPA risk reports provide decision-makers with a comprehensive and integrated view of CPA risks, incorporating the risk appetite framework.

Risk reporting will:

- be performed according to clearly established processes and escalation paths [See ERM Framework]
- use the best available information, be of high quality and at the appropriate level of detail and analysis for the decision-maker
- report on monitoring activities and risk treatment plans
- include key risk indicators that are aligned with risk appetite and serve to provide early warnings of evolving risks
- be comprehensive and capture an integrated view of risks
- systematically embed lessons learned
- be reviewed regularly for opportunities for improvement as part of the ERM program

RISK MANAGEMENT IS DYNAMIC

While reporting will reflect organizational needs, at a minimum:

- Interim risk reports based on the risk appetite framework will be reviewed by ELT and the GRC regularly.
- Annually, the CPA's Risk Profile will be compiled which will include all key risks facing the CPA. This risk profile will be reviewed by the GRC and the Board.
- An Annual Risk Report to the GRC and Board summarizing the CPA's risk management performance relative to risk appetite and key risk activities throughout the past year.

COMMUNICATION AND CONSULTATION

CPA communication and consultation processes ensure that the right people are engaged at the right time to support integrated risk management. Clear communications throughout the CPA, to external stakeholders (e.g., to overseers and members), and to the Board support accountability and transparency. The Risk Function facilitates the communication and consultation process and incorporates significant outcomes of this process into risk analysis and reports to aid in decision-making across the CPA.

RISK CULTURE IS IMPERATIVE FOR SUCCESS

The consultation and communication process [See ERM framework] ensures:

- consultation of the right people at the right time to support integrated risk management
- effective multilateral discussion of risk by executives and subject matter experts
- clear communication to the Board and external stakeholders that supports accountability and transparency
- discussion with the Board on relevant issues around key risks
- efficient and effective horizontal and vertical communication of risks throughout the CPA
- a culture with escalation processes that support and encourage "bad news" flowing up

AUTHORITY AND REVIEW CYCLE

The Chief Risk Officer is the Executive Owner of this policy.

The Director, Risk and Security, is responsible for ensuring this policy is reviewed and amended, if required, at least every two years or when changes are introduced in higher order policies or legislative requirements, CPA mandate, CPA's organizational structure, or after any significant event or incident that may warrant a change in this policy.

The Board will review and approve the ERM Policy at least every two years, or when changes are made.

APPENDICES

STRATEGIC PLAN SUMMARY

CORE PURPOSE

To underpin the Canadian financial system and economy by providing safe, efficient and effective clearing and settlement of payments.

VISION

To be the centre of excellence for payments in Canada.

CORE VALUES

Excellence

Trust

Collaboration

LONG-TERM DESIRED OUTCOMES

1. Transition & Renewal

The transition to a new governance structure is fully implemented. A renewed organization has strengthened its internal capacity, policies, processes, culture and structure.

2. Modernize

The Canadian payments system is safer, more efficient and effective due to the modernization of the payments clearing and settlement systems.

3. Operate & Enhance

Payments clearing and settlement systems and supporting rules and standards meet global standards of safety, efficiency and effectiveness.

STRATEGIC PRIORITIES

- Implement new governance structure.
- Enhance organization capacity and culture to support future needs.
- Build collaboration and research capability to support modernization of the payments system.

- Develop and maintain a Payments Industry Outlook for the Canadian payments ecosystem.
- Develop and implement a process that delivers innovation to the payments industry within the collaborative space (eg. ISO).
- Develop strategy and plan for the modernization of the national payments clearing and settlement framework and infrastructure.

- Ensure systems are current (from a technology & business perspective) including the rules framework.
- Strengthen security and resiliency of systems and mature ERM framework.
- Develop & deliver first class communication program and strengthen CPA brand.

DEFINITIONS

ENTERPRISE RISK MANAGEMENT

The comprehensive management of all risks to support decision-making in an integrated way to achieve the CPA's core purpose and strategic plan.

FINANCIAL RISK (CPA)

Risk related to financial reporting, market, liquidity and credit risks.

FINANCIAL RISK (MEMBERS)

Related to the credit and liquidity risk borne by our members through the use of our systems. As operator of national payments clearing and settlement systems, the CPA provides members with the capacity to manage this risk in a manner consistent with the relevant international best practices, and the standards of domestic regulators.

OPERATIONAL RISK

Risk resulting from inadequate or failed internal processes, systems and IT, people or policies, or from external events.
We consider operational risk from all sources, internal and external. For example, with respect to systems and IT, we consider risk to our systems posed by vendors and participants.

REPUTATIONAL RISK

Since many risks can impact our reputation, all risks must be evaluated in terms of the potential impact on our reputation

RISK APPETITE

The amount and type of risk the CPA is willing to pursue, retain, or accept to achieve its core purpose, vision and strategic plan. The Risk appetite is developed and established by management and is reviewed and approved by the Board.

RISK CAPACITY

The maximum amount of risk the CPA can assume before breaching constraints that endanger its ability to continue operations.

RISK LIMITS

Qualitative and quantitative thresholds derived from the risk appetite that are used to guide day-to-day decision-making. They address upside as well as downside risk.

SETTLEMENT RISK

Is the risk that settlement in CPA operated payments systems will not take place as expected and may result in credit and/or liquidity risk contagion for CPA members.

STRATEGIC RISK

The risk that affects, or is created by, CPA's business strategy and strategic objectives.