



PAYMENTS
CANADA

CORPORATE PLAN

PAYMENTS CANADA
2018 TO 2022

payments.ca

CORE PURPOSE, VISION & VALUES

Payments Canada's core purpose, vision and values 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.

VALUES

THINK BIG, AND ACT RESPONSIBLY.

THINK BIG

Thinking big means willing to see and do things differently. It means applying our creativity to challenges, big or small. It means questioning assumptions before figuring out how to solve the problem.

ACT RESPONSIBLY

We will always remember we're a public-purpose organization. We have a duty to act responsibly in the best interest of all Canadians while also serving our participants and direct stakeholders.

BE AMBITIOUS, AND RAISE THE TEAM.

BE AMBITIOUS

It's important to push ourselves to take on challenges and achieve. To constantly learn and grow. To target greatness and work hard to get there.

RAISE THE TEAM

Ambition is most powerful when channeled towards making everyone around us better. We are a team of teams, and we thrive together when we are candid, collaborative and highly reliable. We love what we do and are at our best when we're having fun.

VISION

We will make the Canadian economy stronger if we always strive to lead the world in what we do.

KEEP MOMENTUM, AND BE RIGOROUS.

KEEP MOMENTUM

Decisions need to be rooted in diligence, but they also must get made. It's vital that we show persistent and prudent progress in all that we do, and deliver on what we say.

BE RIGOROUS

We know we need to make smart choices. We will do so with thorough research, individual learning, keen focus and a passion for performance.

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01 EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Since 1980, Payments Canada has been an important financial market infrastructure playing a leading role in the stability and efficiency of clearing and settlement in Canada through the operations and enhancements of its systems, by-laws, rules and standards. 2016 marked a turning point for Payments Canada with the launch of a vision to modernize the Canadian payments system.

This new five-year Corporate Plan articulates our strategy and progress to-date leading the industry-wide initiative to modernize Canadian payments to help make the Canadian economy stronger.

OUR OPERATING ENVIRONMENT

Regulatory and financial industry developments domestically and internationally strongly influence our corporate plan and will shape our future. In 2018, the review of the Canadian Payment Act, the Retail Payments Oversight Framework consultation and the Federal Financial Sector Framework review are of significant interest to our organization. The outcomes may further shape and guide the Modernization program and the broader payments ecosystem. Cyber security is posing increasing risks globally and the plan includes significant investments to continue to raise the security bar. The evolving financial technology space means that we must continue to monitor developments domestically and internationally so that we can ensure our systems and rules can readily adapt to user needs.

PAYMENTS CANADA'S THREE STRATEGIC OBJECTIVES AND SUPPORTING INITIATIVES

1. MODERNIZE THE CANADIAN PAYMENTS SYSTEMS

Payments Canada is leading a complex, industry-wide initiative to modernize core clearing and settlement systems to better meet the needs of the payments ecosystem. Given the nature of this change and the related commitment and investment required by payments system participants, significant industry engagement, detailed planning, and robust risk management are an integral part of the Modernization program. Our recently released Modernization Target State Whitepaper provides greater clarity on the scope of work and provides a refined timeline for changes over the next five years. Lynx has been identified as the Large Value Transfer System (LVTS) replacement; the Settlement Optimization Engine (SOE) as the replacement for the Automated Clearing Settlement System (ACSS) and the U.S. Dollar Bulk Exchange (USBE); and the new Real-Time Rail (RTR) for delivering faster, information rich payments. Signaling the transition from planning to implementation, 2018 will see the first deliverables with the ACSS Interim Credit Risk Model delivered in the first half of the year, followed by the operationalization of the third Automated Funds Transfer (AFT) Exchange window and two-hour funds availability later in the year. Significant progress will also occur on Lynx and RTR moving these systems from design to development.

2. OPERATE AND ENHANCE CURRENT SYSTEMS

Operating our current payment systems are the foundational deliverables of the organization and we will continue to meet the high expectations of our participants, stakeholders and regulators to manage operational risk, improve resiliency and be responsive to users. Resiliency efforts over the next five years are focused on an enhanced cyber security program to address our risk profile and meet rising cyber protection expectations. Operational excellence strategies are being developed and executed to ensure the organization is ready to transition the modernized systems into operation as they become ready for service, from 2019 to 2021.

3. ADVANCE NEW OPPORTUNITIES

Facilitating payments efficiency through innovation and engagement paves the way for Payments Canada's long-term relevance and success. We are committed to providing our participants and stakeholders with avenues to inform, engage and improve the ecosystem with innovative payments products and information. This involves facilitating connections and collaborations in the marketplace, developing new member-driven services, and staying on top of emerging payment technologies and trends. Project Jasper is a prime example of pushing the boundaries of collaborative research on new technologies with regulators, members and stakeholders.

FINANCIAL AND RESOURCE PLANS

This Corporate Plan reflects the following key assumptions:

- The Modernization program is funded by debt and repayment of this debt will commence in a staggered manner as each of the new systems is operational. Funds for the debt repayment will be attained through an additional levy applied to transaction fees in future years. The timeline and financial estimates of this program will be further validated with the contracting of the Lynx and RTR vendors in 2018.
- The build of regulatory reserves required under the Bank of Canada's Principles for Financial Market Infrastructure (PfMI¹) requirements continue to be phased in and are evaluated on regular intervals. It is expected that the reserves for LVTS and ACSS will transfer to Lynx and SOE respectively. Reserve requirements for RTR, assuming this system is designated as a Prominent Payment System, will be phased in over a multi-year period once it is live.

For 2018, the Corporate Plan projects operating and capital expenditures of \$152 million, of which \$58 million relates to operations and \$94 million for the Modernization program.

¹ www.bis.org/cpmi/info_pfmi.htm

02 ABOUT PAYMENTS CANADA

WHO WE ARE

Payments Canada is headquartered in Ottawa and has an office in Toronto. We underpin the Canadian financial system and economy by operating Canada's payment clearing and settlement infrastructure, including associated systems, by-laws, rules and standards. In 2015, Payments Canada began a multi-year journey to modernize Canada's payment systems and rules, which has become a key part of our identity.

In late 2017, we adopted a new vision for our technology-inspired organization and we evolved our corporate values to better reflect who we are and to guide our plans. Our new vision and values have been chosen to truly reflect our unique organization and our outward focus towards the payments ecosystem and economy. Our organization thrives on being in the middle of the ecosystem and both leading and balancing multiple interests, ideas and challenges. We successfully navigate these pressures by adhering to a set of values that in themselves are tensions. Payments Canada is successful as an organization and for our members and stakeholders if we strike the balance that our new values recognize.

The Bank of Canada and all chartered banks are required to be members of Payments Canada, while other regulated financial institutions are eligible for membership. As of December 2017, Payments Canada had 110 members and our systems cleared and settled payment transactions totaling \$50.5 trillion, averaging \$200 billion each business day.

OUR MANDATE

Our legislated mandate, as outlined in the [Canadian Payments Act \(CP Act\)](#), defines the following objectives:

- Establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;
- 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
- Facilitate the development of new payment methods and technologies.

In pursuing these objectives, Payments Canada must take into account public policy objectives to promote the efficiency, safety and soundness of its clearing and settlement systems and consider the interests of system users.

WHAT WE DO

As a public-purpose corporation, Payments Canada acts in the best interest of Canadians by ensuring that financial transactions are carried out safely and securely each day. As a member organization, we provide operational and other services to members.

Payments Canada owns and operates six main systems that support the clearing and settlement of payments in Canada — the Large Value Transfer System (LVTS), the Automated Clearing Settlement System (ACSS), the U.S. Dollar Bulk Exchange (USBE), the Financial Institutions File (FIF), the Corporate Creditor Identification Number (CCIN) database, and the Payments Canada Services Network (CSN)². Payments Canada also develops, implements, updates and ensures compliance with the rules and standards that govern the clearing and settlement of payments between participants and our payment systems.

Payments Canada, as a technology leader, continues to invest in the modernization and innovation of our payment systems to meet the evolving needs of the payments ecosystem and to ensure that convenient, safe and efficient payment options are available for Canadians.

We also offer a variety of outreach, advisory, policy, research and educational services, including our annual conference — the Payments Canada SUMMIT, a forum for industry experts, innovators and challengers to connect on a variety of topics that are central to the payments ecosystem. Our website, quarterly and daily e-newsletters, and our research also offer opportunities for Canadians to stay engaged and informed about our performance and the latest industry developments.

² www.payments.ca/resources/payments-glossary

OUR GOVERNANCE STRUCTURE

The CP Act sets out the legal framework for Payments Canada, 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 and payments system risk. The LVTS is designated as a Systemically Important Financial Market Infrastructure, and the ACSS is designated as a Prominent Payment System.

Payments Canada's Board of Directors is comprised of five member directors representing key financial institution groups, seven independent directors, including the Chair, and Payments Canada's President and Chief Executive Officer. Payments Canada's Board currently has five standing committees — the Audit and Finance Committee, the Human Resources and Compensation Committee, the Governance and Nominating Committee, the Risk Committee, and the Technology and Modernization Committee.

Payments Canada has two advisory councils — the Stakeholder Advisory Council (SAC) and the Member Advisory Council (MAC). The SAC is comprised of a maximum of twenty members who represent the views of our broad stakeholder base of payment system users and service providers — including consumer associations, businesses, retailers, and governments. The SAC's mandate is to provide counsel and advice to the board on stakeholder issues, proposed initiatives, by-laws, policy statements and rules. The MAC is comprised of a maximum of twenty members and serves as a consultative and engagement forum for financial institutions. The MAC's mandate is to provide counsel and advice to the board on our clearing and settlement systems, the interaction of those systems with other systems involved in the exchange, clearing or settlement of payments and the development of new technologies.

03 PAYMENTS CANADA'S FIVE-YEAR PLAN

OPERATING ENVIRONMENT

Payments Canada's operating environment is being influenced by several key industry trends and regulatory developments. Federal regulatory initiatives will likely impact Payments Canada's membership, systems and rules. In addition, the financial industry continues to evolve, with members, fintech firms and technology advancements driving change in financial and payment services.

REGULATORY ENVIRONMENT AND INITIATIVES

DEPARTMENT OF FINANCE CANADA

There are key policy and legislative reviews and consultations underway that will help shape the future of the Canadian payments ecosystem.

Canadian Payment Act Review: Payments Canada looks forward to the review of our enabling legislation, the Canadian Payments Act (CP Act), set to commence in 2018, as a chance to formally assess the effectiveness of the 2015 governance changes and to ensure Payments Canada is well positioned to continue to fulfill our public policy objectives. The government has indicated that it will include consultations with stakeholders, including provinces and territories. The review of the CP Act presents an opportunity to assess that our legislation and our plans are aligned for the future.

Retail Payments Oversight Framework: Canada's 2018 Federal budget announced the government's intention to introduce legislative amendments to implement a new oversight framework for retail payments in Canada following the completion of the current consultations. This will bring clarity and certainty to the regulation of retail payments in Canada and strengthen the reliability of the payment systems for consumers. Rules and requirements governing our retail systems will need to be coherent with the new federal framework.

Federal Financial Sector Framework Review³: The Department of Finance launched the Federal Financial Sector Framework review in 2016. As an outcome, they recently announced it will introduce targeted legislative updates to adapt to innovation

and financial sector developments. These updates include further facilitating collaborations with fintechs, and modernizing financial institution corporate governance amongst other things. Separately, the government will also review the merits of open banking to assess the benefits to consumers while considering privacy, data security and financial stability. Open banking could change how customers think about their banking data and their relationships with financial service providers. These outcomes could influence the Modernization program.

Financial Market Infrastructure Resolution: The government has indicated that it will propose legislative amendments to implement a resolution framework for Canada's systemically important financial market infrastructures. Payments Canada will collaborate with regulators to fully address any implications for our organization.

Interchange Fees: In September 2016, the Minister of Finance announced the Government will conduct a further assessment of the fees charged by credit card networks and review the effects of voluntary fee reductions undertaken by Visa and Mastercard. Should the outcome of this assessment lead to further changes in the fees charged by credit card networks, based on experiences internationally, relative price changes could alter market behaviour in Canada, which would be seen in future credit card and debit card transaction growth and, possibly, innovation. Trends could also provide indicators for future volumes on our systems.

BANK OF CANADA

Payments Canada operates systems that are overseen by the Bank of Canada.

Systemically Important Financial Market Infrastructure:

Payments Canada has met its obligations to fully observe the Principles for Financial Market Infrastructure standards at the end of 2017 for the Large Value Transfer System (LVTS) and is committed to ensuring the continuous adherence to these standards for the LVTS and its successor, Lynx.

³ www.fin.gc.ca/n17/17-074-eng.asp

Prominent Payment Systems (PPS): Payments Canada continues to address the PPS risk management standards set out by the Bank of Canada in 2016. For the Automated Clearing Settlement System (ACSS), the enhanced contingency procedures, including default testing, were completed in 2017, and the full implementation of the ACSS Interim Credit Risk Model is on schedule for the first quarter of 2018. Payments Canada is working closely with the Bank of Canada to incorporate the remaining PPS requirements into the ACSS' replacement system, the Settlement Optimization Engine (SOE). The new RTR system is also being designed to meet PPS standards.

OTHER INITIATIVES

Cyber security: Cyber incidents and data breaches continue to dominate the media and their impacts affect governments, industry and individuals. The Government of Canada has recently announced investment to support Canada's new Cyber Security Strategy and related programs to enhance its ability to keep critical infrastructure safe which includes working in collaboration with the financial sector. In addition, the Bank of Canada released the June 2017 Financial System Review⁴ warning that cyber threats and bank interconnectedness are exposing vulnerabilities. Payments Canada recognizes its critical role as both a financial market infrastructure provider and leading industry body and is committed through this five-year plan to continue to elevate its cyber defenses through building upon work completed to date.

FINANCIAL INDUSTRY ENVIRONMENT

Developments internationally and domestically reinforce the importance of both monitoring payments methods and trends and modernizing our own systems in order to stay relevant and responsive to users.

INTERNATIONAL ENVIRONMENT

International regulatory developments are influencing Canada's payments environment. In multiple jurisdictions, we are seeing regulation for payment system competition in response to the growing influence of fintech innovation and regulatory activity regarding credit card interchange fees⁵. International influences

can also be felt in Canada today in a wide range of areas, including: the planned introduction of a real-time payments system, and the risk management features of the modernized core settlement systems.

Internationally based payment service providers have become more adept offering remote online payments across borders and offering proximity payments through mobile devices. Payment service providers from other countries are also beginning to reach Canadian users through online social networks facilitated through social media.

DOMESTIC ENVIRONMENT

Domestically, the influence of new payment service providers is rising rapidly. While adoption rates appear lower in Canada than in other jurisdictions, a variety of new participants are enjoying success through collaborations with Canadian financial institutions. These collaborations are bringing new payment products and services to market in Canada. There has been several high-profile examples since 2016, including identity management tools, the agreements reached on debit card tokenization and issuance, and several distributed ledger pilots, including our own Project Jasper.

As evidenced through our 2017 Canadian Payment Methods and Trends Report⁶, there was a continued decline of cheques and cash as a means of payment in 2016. Online transfers (e-wallets and electronic person to person transfers) topped all growth categories: transactions rose to nearly 48 per cent to 177 million and value increased by 51 per cent to \$68 billion. Business use of online transfers grew to account for about 10 per cent of the total from 5 per cent, as efforts to target business payment use cases started gaining momentum.

Credit cards, which are an important force in enabling innovative payment products outside of Payment Canada systems, have become the most ubiquitous payment instrument in the Canadian retail payments ecosystem. For instance, credit cards are currently the dominant payment option for mobile or in-app payment services.

⁴ www.bankofcanada.ca/wp-content/uploads/2017/06/fsr-june2017.pdf

⁵ Regulation supporting payment service provider competition can be traced to European PSD1 and PSD2 regulations with a number of other jurisdictions at varying stages of regulation development (e.g., U.K., U.S., and Australia). Please see: www.ft.com/content/ff5b0be4-7381-11e6-bf48-b372cdb1043a In the case of interchange fee regulation, Australia was an early adopter (early 2000s) followed by Switzerland (2011), China, U.K., Europe, and South Korea, etc. See Public Authority Involvement in Payment Card Markets: Various Countries, FDRB Kansas City (Aug. 2015).

⁶ www.payments.ca/sites/default/files/14-Dec-17/paymentscanada_trendsreport2017_final.pdf

STRATEGIC OBJECTIVES AND KEY CORPORATE INITIATIVES

The strategic direction for the 2018 to 2022 period builds upon the 2017 plan to reflect our current operating environment and our progress to date to achieve our Vision. For 2018, there are three strategic objectives for the planning period:

- Modernize the Canadian payment systems;
- Operate and enhance the current Payments Canada systems; and
- Advance new opportunities to leverage our unique position in the payment system.

I. MODERNIZE THE CANADIAN PAYMENT SYSTEMS

2018-2022 EXPECTED OUTCOMES

Modernize the core payments systems, including the policies, rules, standards and technology infrastructure.

Payments Systems:

- Lynx - replacement for LVTS
- SOE - replacement for ACSS and USBE
- Real-time payments capability (RTR)
- Enhanced batch Automated Funds Transfer (AFT)

Regulatory:

- Adherence to Bank of Canada regulatory standards
- Rules and policy framework

The five-year outcome

The five-year outcome of the objective is a three-system end state consisting of a high-value payments system (Lynx), a batch payments system (SOE) and a real-time, low-value payments system (RTR). Lynx will replace the current Large Value Transfer System (LVTS), SOE will replace the current batch system: Automated Clearing and Settlement System (ACSS) and U.S. Bulk Exchange (USBE). A common messaging standard will be introduced with ISO 20022 as the underlying foundation of all three systems. All systems will be aligned to global standards and adhere to oversight requirements by our regulators. The rules and the overall policy framework will be made more relevant to govern, protect and allow for future innovation within the outlined systems and the broader ecosystem. In addition, the Interim Credit Risk Model implementation on the ACSS in 2018 will meet the near-term PPS requirements.

The Modernization program is a complex, multi-year initiative with far reaching impacts on the entire Canadian financial services industry as not only will our core systems be modernized but the industry systems and processes that interconnect will also be modernized. In 2011, the Task Force for the Payments Systems Review found that a modernized payments system could save the Canadian economy up to \$7.7 billion annually. Supplementary research by Payments Canada in 2015 indicated

the cost savings of adopting ISO 20022 could be upwards of \$1 billion annually simply from a reduction in the use of cheques. A more recent report in 2018 completed with Ernst and Young LLP indicated that the way Canadian business process payments costs them \$2.9 billion to \$6.5 billion annually. While the scope of these studies differed slightly in their measurements of payments modernization, together they point to significant benefits and opportunities on the part of Canadian businesses.

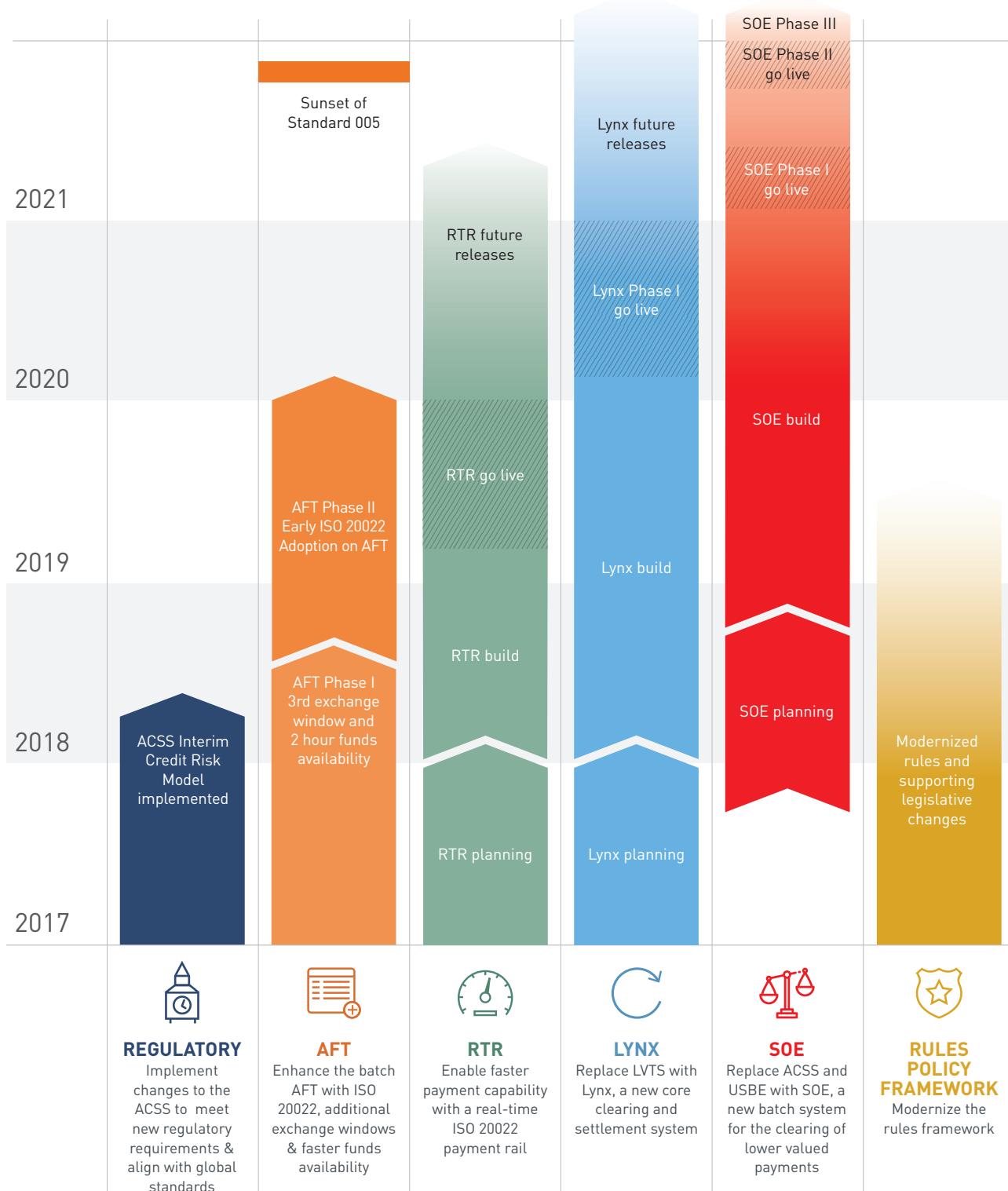
The program has progressed steadily since the release of our foundational [Vision for the Canadian Payments Ecosystem](#) and the preliminary [Industry Roadmap and High Level Plan](#) in 2016. As an industry journey, we have undertaken extensive engagement and consultation with industry and regulators on our plan and have completed detailed and integrated planning, explored new regulatory requirements and introduced approaches to reduce key risks for ourselves and industry. We have built, with our consulting partner Accenture, an industry-wide project management office as an integral part of the governance structure and stakeholder engagement model. This work has resulted in the [Modernization Target State Whitepaper](#) and [Companion Reader](#) which articulates a detailed view of the program, descriptions of the modernized systems, their fundamental support structures, including risk, regulatory and access models, and the anticipated benefits for Canadian businesses and households.

The Target State Whitepaper has resulted in some key changes from the original high-level plans. Lynx and SOE delivery are being decoupled as a result of research, consultation and suggested regulatory requirements. AFT Phase II will solely focus on the ISO 20022 strategy across all systems versus adding more exchange windows so that the business benefits can first materialize and be evaluated. In addition, delivery timelines have been staggered with enhanced testing periods to reduce delivery risk and to be mindful of industry capacity constraints and financial market infrastructure projects outside of Payments Canada.

The program signals a change from planning to implementation in 2018 with the delivery of the ACSS Interim Credit Risk Model and the AFT third exchange with two-hour funds availability. Priority focus is being given to Lynx and RTR in 2018. Vendor contracting, starting the build out of RTR and Lynx, and additional SOE planning in 2018 will provide greater clarity on the planned release strategies and more precise implementation timing of these systems. It is important to acknowledge that both program and industry risk management may result in future adjustments to the timelines, particularly in the outer years, as key milestones are achieved and more information becomes available. The roadmap will be reconfirmed annually with members.

Engagement with member financial institutions to generate the delivery momentum is a critical activity in 2018 and beyond to meet the program's objectives and timelines. The program has significant implications on member financial institutions' technology and processes that will require the mobilization of significant resources as most of the elements are mandatory. Based on experiences in other jurisdictions, the cost to the industry is estimated to be a ratio of 10:1 to the cost of the program. These process changes include ISO 20022 enhanced remittance information, Lynx moving towards a defaulter pay cover-all system, the new RTR system with its own risk model, access and settlement models, and new credit, liquidity and collateral requirements for the SOE. Payments Canada will continue to share important artifacts pertaining to key decisions, system requirements, detailed designs, test strategies, approaches, risks and plans with financial institutions.

FIGURE 1: Modernization Roadmap Timeline



THE PILLARS OF MODERNIZATION



REGULATORY

The near-term PPS requirements are being met with the implementation of the ACSS Interim Credit Risk Model implementation in 2018. We continue to work closely with our regulators to ensure that the new and replacement systems will meet all regulatory requirements and align with global risk standards.



ENHANCED BATCH AUTOMATED FUNDS TRANSFER (AFT)

AFT enhancements will improve uniformity and processing speed across Canada. Phase I will deliver in September 2018 with a third exchange, and in October, it will comply with two-hour funds availability following each exchange. Phase II focuses on early ISO 20022 adoption on AFT, and 2018 will focus of increasing ISO 20022 awareness, developing a migration approach and a preliminary assessment on the rules.



REAL-TIME RAIL (RTR)

RTR is a new 24/7/365 system for Canada that facilitates the delivery of low-value payment items with immediate funds availability for the recipient. The RTR will support rich remittance information through ISO 20022 as its native messaging protocol and will provide enhanced functionalities to serve low-value payments. It will support the development of overlay services to serve as a platform for innovation for consumer, commercial and government payment services. The system will be designed according to PPS standards. In 2018, the focus will centre on determining the phased approach for functionality delivery, finalizing the service provider arrangements, and initiating design and development in preparation for an emerging 2019 delivery.



LYNX

Lynx is the new core clearing and settlement system to replace LVTS for high value, high-urgency payments, allowing customers to send large valued payments securely in real-time with certainty that the payments will settle. Lynx will comply with the Bank of Canada requirements for systemic Financial Market Infrastructures, and will facilitate the settlement of other clearing systems and Financial Market Infrastructures (e.g. CDSX®, CLS). The focus for 2018 will be to finalize selection of the Lynx application provider, the system integrator and infrastructure hosting partners and commence the design and development of the systems in preparation for 2019 industry testing and late 2020 go-live.



SETTLEMENT OPTIMIZATION ENGINE (SOE)

The SOE is a batch total entry system for the clearing of low-value, multiple currency payments that will replace the existing ACSS and U.S. Dollar Bulk Exchange (USBE) applications. Payments Canada is working with the industry to examine how best to address Bank of Canada's PPS standards and additional regulatory requirements. Certain electronic payments streams, such as AFT, will migrate to the ISO 20022 messaging standard over the course of its delivery. The focus in 2018 will be on developing a strategy to close the remaining gaps with the PPS standards, determining high level requirements and defining the overall SOE delivery strategy.



RULES POLICY FRAMEWORK

Modernize Payments Canada's rules and policy framework so that they remain relevant and reflect current market practices. In 2018, we will focus on developing a rules framework that will foster competition and innovation, in addition to delivering prioritized rules and amendments that support the changes planned for 2018.

II. OPERATE AND ENHANCE CURRENT PAYMENTS CANADA SYSTEMS

2018-2022 EXPECTED OUTCOMES

Strengthen management and overall performance in the key areas of:

| Payment systems resiliency | Operational excellence

The five-year outcome

The five-year outcome of the “operate and enhance” objective is two-fold: the continued reliability and resiliency of our current systems and processes until their retirement and the successful transition of new Modernization systems, processes, and people into operations. This will be achieved through multi-year programs to manage legacy systems until retirement, greatly strengthen our cyber security practices, and ensure our operations are ready to receive the new and replacement systems.

PAYMENT SYSTEM RESILIENCY

Core payment systems: The current payment systems must operate seamlessly to meet the expectations and obligations of our members and our regulators until they are decommissioned. The emerging Modernization roadmap provides early indicators of the LVTS being retired in 2020/2021 and the ACSS in 2021/2022. In the meantime, we will continue to support and provide regular releases to these payment products when necessary, avoiding major changes where possible. Product plans are compared to and prioritized against the Modernization plans to ensure alignment and value for money. For 2018, we are executing the first annual ACSS audit as part of the PPS designation, and refining the associated business processes.

Cyber security program: Cyber developments and their prominent placement in our risk profile have prompted Payments Canada to take action to further improve our cyber posture reflective of our position as a financial market infrastructure operator and industry body. Our five-year program will make improvements in keeping the national payments systems safe, ensuring that new payment methods are secure, while improving our security ratings. As a starting point, we will close identified gaps and improve our security capacity, capability and maturity to operate 24x7. During the period, we plan to give greater assurance to members that we handle data safely through obtaining an ISO 27001 certification (targeting for late 2019), that members are connecting safely through improved attestations, and that new services such as overlays, go through appropriate

certification protocols. The focus in 2018 will be on defining the program and timeline to achieve these results, closing internal gaps, improving engagement in the cyber community, and executing on the plans.

OPERATIONAL EXCELLENCE

Modernization readiness: Modernization brings the replacement of ACSS and LVTS, the introduction of a new system, RTR, plus enhancements to the overall security, availability, and rules framework when these systems move into operations. To support these systems, we are migrating our internal structure in 2018 to be more outward facing and product focused, so as to be agile in response to changes in the future. Modernization readiness will also be supported by plans over the next two years to gain efficiencies in our information technology environment (e.g. cloud opportunities for corporate systems), continued automation of manual processes and workspaces designed for increased productivity and collaboration.

Organizational development: Ensuring a high degree of employee engagement for all employees through the transition to modern systems is fundamental to our near and long term success. Accordingly, this five-year plan includes a focus on employee development with the delivery of a leadership program for senior leaders, and an influencers program for senior subject matter experts, and core employee competency improvements.

III. ADVANCE NEW OPPORTUNITIES TO LEVERAGE OUR UNIQUE POSITION IN THE PAYMENT SYSTEM

2018-2022 EXPECTED OUTCOMES

Uncover and develop opportunities that are within our mandate, are non-competitive and add value to our members and Canadians.

Deliver one to two new or enhanced service capabilities each year

Facilitate connections and collaboration

Identify and evaluate emerging technologies

The five-year outcome

The five-year outcome of this objective is the exploration, innovation and delivery of new services that bring benefits to our members in a cooperative space. Our enhanced connections and collaboration helps provide a platform that facilitates payments knowledge, innovation and efficiency in the payments ecosystem.

Payments Canada is moving forward with advancing new opportunities and innovation beyond Modernization to ensure long-term organizational success. We are on track for establishing the base to sustain the delivery of value-add services to our members in the collaborative space while being mindful of our larger programs.

New service offerings: An initial discovery and qualification of opportunities started in 2017 with proof-of-concepts continuing to be underway with our members in multiple areas including APIs, artificial intelligence, Distributed Ledger Technology (DLT) and data. Our objective is to deliver one to two new service offerings or enhancements each year during the period that address market demand and provide improvements to the ecosystem. A new payment file validation service for facilitating the member bank onboarding of corporate clients to ISO 20022 standard format by providing a file testing and validation platform will be delivered into production operations in the first half of 2018. In addition the Financial Institutions File (FIF) application is being modified to allow direct access by financial institutions to input and receive data through APIs eliminating the need for manual processes.

Connections and collaboration: We are connecting and collaborating with fintechs, businesses, payments service providers and consumers to help them understand the impact and benefits of modern payment systems and to provide a platform to facilitate discussion and innovation. We are working toward this goal in 2018 through increasing the volume and quality of work in the research and academic community, extending the reach and quality of our annual Payments Canada SUMMIT conference, and more targeted ecosystem engagement.

Emerging technologies: The multiple phases of Project Jasper continues to provide an innovative program to investigate DLT. Phase II explored using DLT for interbank payments using a central bank issued digital currency. A key conclusion of Jasper II was that material benefits for the financial system of a DLT-based system would depend on interaction with a larger DLT ecosystem of financial market infrastructures. As a result, for Jasper Phase III, Payments Canada is collaborating with the Toronto Stock Exchange and the Bank of Canada to build an integrated securities and payment (i.e. Delivery vs Payment) financial market infrastructure proof-of-concept which will complete in 2018. Throughout the five-year period we will continue to invest in exploring new technologies to understand their potential benefits and impacts to payments and to be a leader in payments technology and financial market infrastructures.

ENTERPRISE RISKS

Payments Canada maintains a robust Enterprise Risk Management (ERM) program to identify and manage the key risks that could prevent the organization from achieving its objectives and mandate. The ERM program includes a comprehensive annual assessment, and quarterly updates which are reported to the Risk Committee of the Board.

As an organization, we identify the risks as well as the effectiveness of prevention and mitigation strategies. Risks are categorized into operational, strategic, financial and settlement risks and are also evaluated in terms of their potential impact on Payments Canada's reputation, particularly with respect to our credibility to deliver our plan and mandate.

Special attention continues to be given to risk management for our largest initiative, the Modernization program, to ensure that we are continuously and proactively identifying, managing, mitigating and reporting program and related financial ecosystem risks.

The highest risks to Payments Canada after all mitigations are considered are the following:

CORE OPERATIONAL RISKS

- 1. Cyber incident:** Payments Canada, or a major participant, is the subject of a cyberattack which results in the failure to meet availability service level agreements, leakage of sensitive information, system integrity issues or outages across Payments Canada and Participants, impacting the payments ecosystem as a whole. Payments Canada is committing to further improve its cyber security stance through a new five-year cyber security program.
- 2. Deterioration of critical service offerings:** Failure to effectively balance priorities and capacity across core operations and the Modernization program result in one or more key objectives being missed. Payments Canada is putting increased emphasis on organizational development, prioritization and monitoring for 2018 activities.
- 3. Major payment system outage:** A major LVTS or ACSS incident, or accumulation of incidents, results in failure to meet service level agreements, delays settlement, causing liquidity issues, and downstream effects on the ecosystem. Payments Canada has reduced this risk by enhancing its disaster recovery capability in 2017, with further risk reduction planned through the implementation of the cyber security program.

- 4. Payments Canada loses long-term relevance:** Over the long term, external events cause Payments Canada to become irrelevant and therefore unable to meet its public policy objectives. Payments Canada is paving the way for long-term relevance through enhanced research, the development of new services, evaluation and testing of emerging technologies, and facilitating connections in the marketplace further to a comprehensive stakeholder engagement plan.

MODERNIZATION RISKS

- 1. Scale, scope, complexity, timeline for Modernization program exceeds industry ability to execute:** The scale, scope, timeline and complexity of changes related to Modernization program coupled with industry infrastructure modernization changes exceed member financial institutions' ability to execute. This risk is being mitigated by a strong governance structure, engagement with industry, and ongoing monitoring of Payments Canada's and member financial institutions' progress and risk.
- 2. Inability to deliver a Payments Canada controlled real-time capability:** Payments Canada is unable to reach an agreement with the RTR vendor, or finds the vendor unsuitable as a service provider, resulting in the need to adopt an alternate plan and associated impacts to the Modernization schedule. Payments Canada is engaging in an ongoing assessment process with the vendor and has identified potential alternative approaches.
- 3. Unsuccessful delivery of Lynx:** Major problems occurring before, during or after implementation of Lynx cause a disruption to the financial system or prevent Lynx from going live resulting in failed execution e.g., failure of vendor to deliver, unforeseen impacts of new risk models on member financial institutions' processes or ineffective roll back at cut-over. Payments Canada is mitigating this risk through consultation with members and the Bank of Canada, and extensive testing periods of the new Lynx.
- 4. Inability to align interests of regulators, financial institutions and other stakeholders:** Misalignment with regulator expectations regarding roles and responsibilities, or an actual or perceived failure to effectively balance the needs of regulators, financial institutions, and other ecosystem stakeholders causes program delays. Payments Canada is balancing expectations through a broad stakeholder engagement strategy and consultation process.

04 RESOURCE AND FINANCIAL PLANS

Our human resource and financial plans ensure that Payments Canada has the capacity, skills and resources available to carry out its mandate effectively. These plans reflect operating environment realities and key risks that will impact significant initiatives that Payments Canada is undertaking in support of its strategic objectives and desired outcomes.

HUMAN RESOURCE PLAN

A comprehensive human resource plan is in place to ensure that we can deliver on our industry-wide initiative and continue to maintain our operations. The three pillars of our people strategy include being an employer of choice in order to attract highly qualified candidates to meet our resourcing needs, building superior and recognized leaders and having a committed, engaged and diverse team. Organizational development is a key area of focus for 2018 to 2020.

We have 150 established positions in 2018. In addition, the use of temporary and consulting resources increases our capacity and is enabling us to meet our Modernization deliveries and short term requirements. Our consulting partner in the delivery of Modernization is Accenture. Overall resourcing is projected to peak in 2019-2020 to approximately 250 as Lynx will be readying to replace the Large Value Transfer System (LVTS), and the Settlement Optimization Engine (SOE) will be preparing to go-live. The transfer of the new systems into operations and the subsequent decommissioning of the existing systems will result in a steady state resource plan through 2021 and 2022. The timing of these events and the final projected positions will become clearer as we continue to meet our milestones, make key vendor decisions and finalize the support models for the new and replacement systems. Over this period, our cyber security program, the new Real-Time Rail (RTR), and the increased resiliency and functionality that will come with the implementation of Lynx and SOE systems will drive resource changes. Our strategy includes integrating key resources from the Modernization project teams back into core operations and retooling employees to ensure knowledge continuity and support.

FINANCIAL PLAN 2018 TO 2022

The financial plan forecasts the financial resources required to deliver sound and robust core operations while also supporting the Modernization of Canada's clearing and settlement infrastructure.

EXPENDITURES

The investment being made to modernize Canada's payment systems is a mix of capital and operating outlays and is funded through a loan. Interest costs during the Modernization program are reflected as program costs. As new systems are operationalized, interest costs will become part of operations and form part of the loan repayment.

Core operations: The 2018 to 2022 financial plan projects slightly higher operational costs as a result of increased investment and focus in the areas of cyber security, risk, data analytics, resiliency, as well as enhanced requirements as we operationalize Modernization's completed systems in future years.

Modernization: The Modernization program is a substantial undertaking for both Payments Canada and the broader payments industry. The current planning estimate of \$325 million for the delivery of the program is aligned with the [Target State Whitepaper](#). Near term program costs have greater certainty and total program costs will become firmer as key decisions are made and new information becomes available. Total Modernization expenses and capital expenditures are expected to peak in 2018 and then slowly reduce over the next two years before being completed at the end of 2021.

The 2018 operating budget including estimates for subsequent years is shown below.

FIGURE 2: Operating budget for the years 2016 to 2022

(in millions)	ACTUALS		PLAN				
	2016	2017	2018	2019	2020	2021	2022
Modernization Program Expenses	4	18	25	30	38	31	0
Staff costs	16	18	25	28	33	32	32
Technology and Professional Services	13	17	22	23	29	32	32
General and Administrative	5	5	6	7	8	9	8
Loan Interest	0	0	0	1	3	10	13
Regulatory and Fee Stabilization Reserve Funds	2	3	5	4	6	6	6
Total Operating Budget	40	61	83	93	117	120	91

- 2018 operating expenses are estimated based on internal work plans. For 2019 to 2022 actual budgets may differ materially from those presented above.
- Expenses presented on a modified accrual basis (i.e. exclude depreciation). Expenses in the income statement differ due to depreciation.

The 2018 capital budget including estimates for subsequent years is summarized below.

FIGURE 3: Capital budget for the years 2016 to 2022

(in millions)	ACTUALS		PLAN				
	2016	2017	2018	2019	2020	2021	2022
Core Operations	3	3	2	2	2	2	2
Modernization Program	-	12	69	58	31	14	-
Total Capital Spending	3	15	71	60	33	16	2

The majority of the 2018 capital budget of \$71 million reflects the development of new systems under the Modernization program, the largest of which is Lynx. It also includes some planned office reconfiguration costs in our Ottawa and Toronto

premises to better accommodate flexible working arrangements. Beyond 2018, capital investments in our core operations reflect small upgrades to ongoing corporate systems.

REVENUES

Payments Canada operates on a full cost recovery basis and is almost entirely funded by our members. Our primary source of revenue comes from two different types of fees: 1) a common service fee levied to all members and 2) transactions fees which are charged to participants of the LVTS and the Automated Clearing Settlement System (ACSS). As a result of our legislation these sources of revenue are both protected and assured.

Revenues will not be collected from members to finance the Modernization program during its execution phase as it is being funded through debt financing.

As new payment products go live over the next five years, fee revenues will be charged to users for the use of these systems. System fees will be priced to recover the cost of operations as well as sufficient funds to repay the modernization loan including interest charges. For example, in 2020 the new Lynx system will replace the LVTS and in 2021 the SOE will replace the ACSS. In 2019 the RTR will become a new product for Payments Canada which will result in a new revenue stream and corresponding expense stream. The RTR vendor costs are not reflected in this financial plan as the product strategy is still evolving aligned with risks.

BORROWING PLAN

A loan facility was arranged in 2017 to fund the costs of the Modernization program. The borrowing plan was established in consultation with our members in order to minimize large fluctuations in member fees during the Modernization program and create a reasonable timeframe to pay back the debt associated with the program. Repayment of the debt will commence in a staggered manner as payment systems are completed and brought on-line (e.g. RTR, Lynx, and SOE). The debt repayment will be covered through a debt retirement surcharge included in each new systems' transaction price.

PROJECTED FINANCIAL STATEMENTS AND PAST RESULTS

The tables that follow present Payments Canada's expected performance from 2018 to 2022, as well as the actual results for 2016 and 2017.

FIGURE 4: Summary statement of financial position for the years 2016 to 2022

(in millions)	ACTUALS		PLAN				
	2016	2017	2018	2019	2020	2021	2022
ASSETS							
Cash and Investments	27	32	52	54	56	60	60
Other Current Assets	2	15	15	17	20	20	20
Capital Assets	8	20	89	147	171	162	134
TOTAL ASSETS	37	67	156	218	247	242	214
LIABILITIES							
Trade and Other Payables	5	14	29	29	28	24	16
Demand Loan	-	25	123	210	271	286	244
Tenant Inducement	2	1	1	1	1	1	1
Other Liabilities	1	1	1	1	1	1	1
TOTAL LIABILITIES	8	41	154	241	301	312	262
TOTAL NET ASSETS	29	26	2	(23)	(54)	(70)	(48)
TOTAL LIABILITIES AND NET ASSETS	37	67	156	218	247	242	214

The Modernization program will lead to the development of new payment systems which will increase our capital assets. As a result of using debt to finance this program there will be a corresponding increase in the demand loan as this facility will cover both the capital and non-capital costs. Net assets are anticipated to be negative starting in 2019 as debt financing

exceeds recorded Modernization capital assets. This deficit occurs as a portion of Modernization outlays are expensed through the statement of operations with no offsetting revenue in the year incurred. The deficit will start to reduce in 2022 as full debt retirement charges are included in transaction fees for all new systems.

FIGURE 5: Summary statement of operations for the years 2016 to 2022

(in millions)	ACTUALS		PLAN				
	2016	2017	2018	2019	2020	2021	2022
REVENUES							
Fees ¹	48	54	52	59	70	71	71
Other revenues	3	4	4	5	8	9	9
Loan repayment charge	-	-	-	2	11	43	57
Total Revenues	51	58	56	66	89	123	137
EXPENSES							
Core operations ¹	34	40	53	59	73	83	85
Modernization Program	4	18	25	30	38	31	-
Depreciation	2	3	2	2	9	25	30
Total Expenses	40	61	80	91	120	139	115
Surplus / (Deficit)	11	(3)	(24)	(25)	(31)	(16)	22

1. Both fees and core operations expenses do not include the variable service provider costs for RTR. The impact to surplus is nil.

Between 2017 and 2021, an annual operating deficit occurs as a result of no revenue source being available to offset the Modernization program expenses which are funded by way

of a loan. 2022 is the first year in which revenues will exceed expenses as new systems are live and the recovery of the loan is collected through system fees.

FIGURE 6: Summary statement of net assets for the period 2016 to 2022

(in millions)	ACTUALS		PLAN				
	2016	2017	2018	2019	2020	2021	2022
Net Assets							
Beginning of year	18	29	26	2	(23)	(54)	(70)
Surplus/(Deficit)	11	(3)	(24)	(25)	(31)	(16)	22
End of year	29	26	2	(23)	(54)	(70)	(48)
Net Assets - Restricted	16	22	28	33	39	46	53
Net Assets - Unrestricted	13	4	(26)	(56)	(93)	(116)	(101)

FIGURE 7: Summary statement of cash flows for the period 2016 to 2022

(in millions)	ACTUALS		PLAN				
	2016	2017	2018	2019	2020	2021	2022
OPERATING ACTIVITIES							
Surplus/(deficit)	11	(3)	(24)	(25)	(31)	(16)	22
Add (deduct) items not involving cash	2	3	2	2	9	25	30
Change in non-cash working capital	1	(5)	15	(2)	(4)	(4)	(8)
Net cash generated by/(used in) operating activities	14	(5)	(7)	(25)	(26)	5	44
INVESTING ACTIVITIES							
Net cash generated by/(used in) investing activities	(3)	(15)	(71)	(60)	(33)	(16)	(2)
FINANCING ACTIVITIES							
Net cash generated by/(used in) financing activities	-	25	98	87	61	15	(42)
Net change in cash	11	5	20	2	2	4	-
Cash, beginning of year	16	27	32	52	54	56	60
Cash, end of year	27	32	52	54	56	60	60

2017 ACTUAL TO PLAN

STATEMENT OF FINANCIAL POSITION

TOTAL ASSETS

Payments Canada's assets grew year-over-year predominately due to new capital and intangible assets associated with the Modernization program.

Total assets were \$67 million, against a planned asset base of \$83 million. Lower assets are attributable to the procurement of a new high value payments system moving into 2018.

TOTAL LIABILITIES AND NET ASSETS

Liabilities grew in line with expectations and the establishment of a demand loan facility. As with assets, the planned increase in liabilities can be attributed to the Modernization program.

Net assets reflects growth in fund balances. The planned growth in the restricted funds associated with the Principles for Financial Market Infrastructure requirements and the Modernization program was the result of member contributions.

STATEMENT OF OPERATIONS

Total revenue during the year was \$58 million, \$3 million higher than the planned revenue of \$55 million, and is attributable to higher transaction volumes.

Net operating expenses of \$61 million matches the planned expenditures.

05 PERFORMANCE AGAINST PAST PLANS

PERFORMANCE AGAINST PAST PLANS

As detailed in the 2017 to 2021 plan, progress was made against all the corporate strategies and initiatives, with the following modifications:

- The procurement schedule for Lynx has been delayed to Q1 2018 as a result of scope changes to SOE and socialization of these changes with members.

- While the Payments Canada SUMMIT was a success in rich content, positive feedback and double the attendance, it did not meet its profitability goal.

The 2017 priorities and status chart below includes additional information on the stage of these and other key corporate targets and initiatives.

2017 PRIORITIES AND STATUS

1. MODERNIZE	ON TRACK
EXPECTED OUTCOMES:	
To Modernize the core payments systems, including the policies, rules, standards and technology infrastructure.	
KEY INITIATIVES	STATUS
New core clearing and settlement system	▼ Requirements for Lynx and the SOE were defined, and vendor proof of concepts were completed with member involvement. The procurement schedule for Lynx has been delayed to 2018 as a result of scope changes to SOE and socialization of these changes with members.
Real-Time Rail (RTR)	▲ The RTR strategy and requirements were defined with working group participation. An assessment was completed on the feasibility of enhancing the existing market offering.
Enhanced Batch Automated Funds Transfer	▲ The development of a third exchange with faster funds availability is on track for Q3 2018 implementation by financial institutions. The ISO 20022 migration strategy approval is scheduled for early 2018.
Regulatory changes to align Canada with global standards	▲ A new Interim Credit Risk Model was developed for ACSS which is operationally ready for 2018 deployment. Risk monitoring, enhanced recovery plans and testing plan were also completed.
Rules Modernization	▲ The new policy framework was completed and socialized with members.

- LEGEND**
- ▲ Planned progress on schedule and within budget
 - ▼ Delays in terms of time to completion, budget and/or target variances
 - Deferred or cancelled

2. OPERATE AND ENHANCE

ON TRACK

EXPECTED OUTCOMES:

| Payments system resiliency | Regulatory requirements for LVTS | Operational excellence

KEY INITIATIVES	STATUS	UPDATE
Resiliency improvements through disaster recovery enhancements	▲	The project completed in Q3 2017 delivering near-continuous operations, strengthening disaster recovery capabilities, and improving overall resiliency.
Resiliency improvements through Cyber Security project	▲	The project completed in 2017 improving the capacity to reduce time between awareness and mitigation of threats and reducing the insider threat risk.
Fully observe LVTS PFMI requirements	▲	All requirements have been met. Quarterly reporting of intra-day liquidity monitoring and bi-annual reporting of tiered participation in our systems has been implemented.
Payment Systems Availability	▲	Payment systems exceeded service availability targets.
Engagement and Influence	▲	Confidence measures with our councils, operational committees and employees exceeded targets. We continue to engage and grow our influence through the expanded Payments Canada SUMMIT, and the steady increase in research papers, working groups and speaker presentations.
Strengthening our employees	▲	Targeted training and development has been delivered to assist with integrating the skills, education and experience of our growing team.

LEGEND ▲ Planned progress on schedule and within budget

▼ Delays in terms of time to completion, budget and/or target variances

● Deferred or cancelled

3. CREATE NEW OPPORTUNITIES

ON TRACK

EXPECTED OUTCOMES:

Foster an innovative culture	Grow non-transactional revenue	Identify and evaluate emerging technologies
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KEY INITIATIVES	STATUS	UPDATE
Innovation foundation	▲	Foundational elements were completed including adding capacity, and developing a data strategy roadmap.
New revenue opportunities	▼	We are creating value for our members through a number of innovations in the proof of concept stage, including FIF API, and ISO 20022 payment file validation services. The 2017 Payments Canada SUMMIT had double the attendance, broader content, increased sponsorship and positive feedback from attendees but did not meet its profitability target.
Emerging technologies	▲	Project Jasper Phase II showcased at the SUMMIT the proof-of-concept creation of a liquidity savings mechanism on a distributed ledger technology platform with substantial support from R3, BMO, BNS and TD. A joint white paper publication was released with Bank of Canada in 2017.

LEGEND

- ▲ Planned progress on schedule and within budget
- ▼ Delays in terms of time to completion, budget and/or target variances
- Deferred or cancelled

APPENDIX

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