

Public Consultation

Policy Proposals Related to Membership Expansion

February 2025

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Executive summary

Amendments to the [Canadian Payments Act](#) enacted in [Bill C-59](#), which are awaiting coming into force, will expand the list of entities eligible for membership in subsection 4(2) to include:

- Payment service providers, as defined in section 2 of the [Retail Payment Activities Act](#), that perform retail payment activities as defined in that section;
- Credit union locals that are a member of a central or a cooperative credit association, and;
- Clearing houses, as defined in section 2 of the [Payment Clearing and Settlement Act](#), of a clearing and settlement system designated under subsection 4(1) of that Act.

To support expanded membership, Payments Canada is proposing amendments to certain by-laws and rules for input in this consultation. Proposals are organized into three sections:

1. General: Proposals referring to [Canadian Payments Association By-law No. 1 – General](#) that are consequential to membership expansion. This includes required information in membership applications and eligibility for the Stakeholder Advisory Council.
2. System participation: Proposals relating to eligibility to participate in Payments Canada's systems. Payments Canada is not introducing entity-based restrictions for new entitled member categories, but proposes retaining the existing entity-based restrictions in [Canadian Payments Association By-law No. 3 – Payment Items and ACSS](#).
3. Compliance: Proposals referring to [Canadian Payments Association By-law No. 6 – Compliance](#). Proposals to introduce processes to expedite investigations in situations involving alleged contraventions that are considered straightforward or that are uncontested and to increase the maximum penalty amount under section 16.

The proposals, in addition to feedback received, will inform drafting instructions for amendments to the by-laws. Payments Canada will monitor the evolution of its membership. This evolution may necessitate additional enhancements to Payments Canada's by-laws and rules in the future.

Payments Canada invites comments on the proposals set out in this consultation and requests that respondents consolidate feedback from within their organization into one submission.

Please provide input in writing no later than 06/03/2025 to consultation@payments.ca.

Introduction

Amendments to the [Canadian Payments Act](#) (CP Act) received Royal Assent on June 20, 2024.¹ The amendments expand the list of entities eligible for membership under subsection 4(2) of the CP Act to include payment service providers (PSPs) as defined in section 2 of the [Retail Payment Activities Act](#) (RPAA) that perform retail payment activities, as defined in that section of the RPAA; credit union locals that are a member of a central or a cooperative credit association (credit union locals)²; and clearing houses as defined in section 2 of the [Payment Clearing and Settlement Act](#) (PCSA) of a clearing and settlement system designated under subsection 4(1) of the PCSA.³

In pursuing its objects, Payments Canada has a duty to promote the efficiency, safety and soundness of its clearing and settlement systems, while taking into account the interests of users. Payments Canada's Board of Directors may make by-laws and rules to support the attainment of its objects. To reflect amendments to the CP Act, Payments Canada is proposing certain amendments to its by-laws and rules. This consultation seeks input on proposed amendments relating to consequential changes to membership and participation in Payments Canada's advisory councils as contained in [Canadian Payments Association By-law No. 1 – General](#) (By-law No. 1) and system participation requirements to support new eligible member categories and facilitate member system access. Additionally, to ensure continued procedural efficiency for both existing and new members, Payments Canada seeks input on proposals to update [Canadian Payments Association By-law No. 6 – Compliance](#) (By-law No. 6).

To promote the transparency of the consultation process, Payments Canada may make public some or all of the responses received. In order to respect privacy and confidentiality, when providing your submission please indicate whether you:

- Consent to the disclosure of your submission;
- Request that your identity and any personal identifiers be removed prior to publication; or
- Wish any portions of your submission be kept confidential (with the confidential portions clearly identified).

Please provide input in writing no later than 06/03/2025 to consultation@payments.ca.

¹ House of Commons of Canada. [Bill C-59](#)

² The CP Act defines a local as 'a cooperative credit society incorporated by or under an Act of the legislature of a province whose members consist substantially of individuals, and whose principal purpose is to receive deposits from, and make loans to, its members.

³ The RPAA received Royal Assent in 2021, with [RPAA regulations published](#) in 2023. See [here](#) for more information on key milestones for retail payments supervision.

Context

The Canadian Payments Association (d.b.a. Payments Canada) is a public purpose organization that underpins the Canadian financial system and economy through its ownership and operation of Canada's core payment clearing and settlement infrastructure, including associated systems, by-laws, rules and standards.⁴ In the operation of its systems, Payments Canada is responsible for promoting safety, security, and efficiency. Additionally, Payments Canada seeks to deliver innovative and globally competitive payment infrastructure for the benefit of Canadian businesses and consumers.

The CP Act sets out oversight responsibilities of the Minister of Finance relative to Payments Canada, including the authority to review and disallow rules and to issue directives, including a directive to make, amend, or repeal a by-law, rule, and standard. The development and enforcement of these rules supports the efficiency, safety, and soundness of Payments Canada's systems. Further, Payments Canada's designated payment systems are overseen by the Bank of Canada under the PCSA.

Canadian Payments Act

Payments Canada's objects, pursuant to subsection 5(1) of the CP Act are to:

- 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.

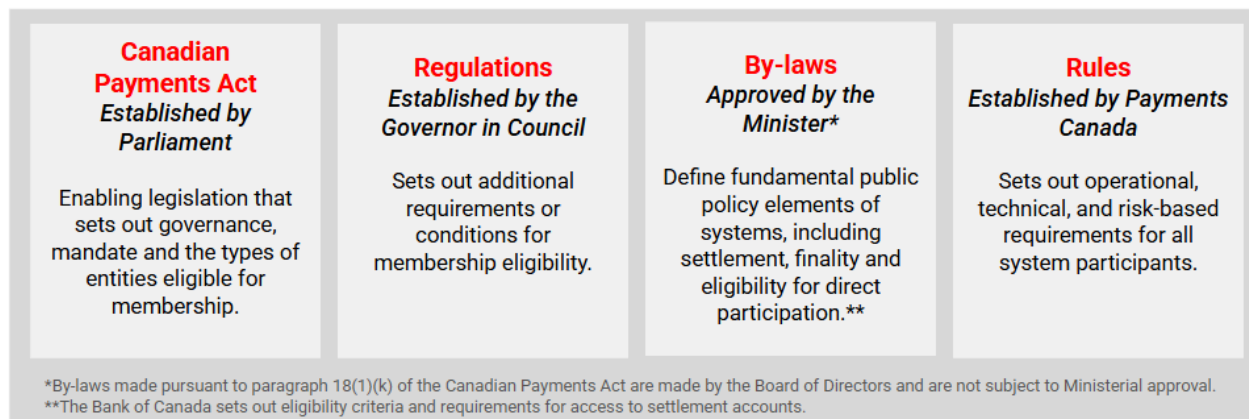
In pursuing its objects, Payments Canada has a duty to promote the efficiency, safety and soundness of its clearing and settlement systems and take into account the interests of users.

Section 18 of the CP Act establishes authority for Payments Canada's Board of Directors to make by-laws in fulfillment of Payments Canada's objects, subject to approval by the Minister of Finance. Section 35 of the CP Act establishes authority for the Governor in Council to make regulations, including with respect to establishing requirements for membership. Payments Canada's Board has the authority under the CP Act to establish rules and standards that outline

⁴ Payments Canada owns and operates the [Automated Clearing Settlement System](#) (ACSS), [Lynx](#), and is developing the [Real-Time Rail](#) (RTR). An overview of each system is provided below.

the roles, responsibilities, and obligations of members and participants. The Minister of Finance has the authority to review new rules or amendments to existing rules and, if appropriate, disallow the whole or part of a rule. Payments Canada has the authority to enforce compliance with its by-laws and rules, with procedures set out in By-law No. 6.

Figure 1: Payments Canada Legal Framework



General

The CP Act sets out the composition, and duties and powers of the board of directors (Board) of Payments Canada. The CP Act also establishes two advisory councils, the Stakeholder Advisory Council (SAC) and the Member Advisory Council (MAC), to provide counsel and advice to the Board, leveraging the expertise and experience of those within the payment ecosystem. Additional requirements relating to the appointment of persons to the SAC and MAC are contained in By-law No. 1.

Stakeholder Advisory Council

Section 21.2 of the CP Act establishes the SAC, with its purpose to provide counsel and advice to the Board on payment and clearing and settlement matters and any other matter relating to Payments Canada’s objects. The SAC must be broadly representative of users and payment service providers (as terms defined in the CP Act and its by-laws).

Member Advisory Council

Section 21.4 of the CP Act establishes the MAC, with its purpose to provide counsel and advice to the Board on the operation of clearing and settlement systems, the interaction of those systems with others involved in the exchange, clearing or settlement of payments and the development of

new technologies. It must be broadly representative of the diversity of Payments Canada's membership.

Membership eligibility

Section 4 of the CP Act delineates members of the Association, both required and entitled. Required members, under subsection 4(1) of the CP Act, consist of the Bank of Canada; every bank and authorized foreign bank; and every cooperative credit association, loan company, or trust company designated as a bridge institution under the [Canada Deposit Insurance Corporation Act](#).

Entitled members under subsection 4(2) of the CP Act are eligible to apply for membership. Entities entitled to apply for membership at Payments Canada are: a central, a trust company, a loan company and any other person, other than a local that is a member of a central or a cooperative credit association, that accepts deposits transferable by order; Her Majesty in right of a province that accepts deposits transferable by order; a life insurance company; a securities dealer; a cooperative credit association; the trustee of a qualified trust; and a qualified corporation, on behalf of its money market mutual fund.

Entities that apply for membership must meet the requirements set out in the regulations and the by-laws. Applications for membership must be approved by the Board. Additional key requirements for membership and contents of the application are contained in the [Canadian Payments Association Membership Requirements Regulations](#) and By-law No. 1.

Members are eligible to apply to participate on Payments Canada's systems, are eligible for seats on the Board, the MAC, other committees and working groups, and have access to a number of payment services, member reports and research.⁵

Payment Clearing and Settlement Act

Under the PCSA, the Bank of Canada has responsibility for the oversight of designated clearing and settlement systems that, in the opinion of the Governor of the Bank, could be operated in a manner that poses systemic risk or payments system risk, to ensure that risks are adequately

⁵ Payment services available to members include eligibility to access to the Financial institutions file directory, the payment file validation service, the message validation service, the corporate creditor identification number database, and Payments Canada's API developer portal. See [here](#) for more on payment services.

controlled.⁶ Section 2 of the PCSA defines a clearing and settlement system.⁷ Generally, a clearing and settlement system is a system for the clearing or settlement of payment obligations or for the exchange of payment messages for the purposes of clearing or settlement obligations that meet certain conditions.

Based on the type of risks that clearing and settlement systems can pose to the Canadian financial ecosystem, the PCSA sets out two categories of designation:

- **Systemically Important:** clearing and settlement systems with the potential to pose systemic risk to the Canadian financial system.
- **Prominent:** clearing and settlement systems with the potential to pose risks to economic activity and confidence in the payment system in the case of disruption or failure.

The Bank of Canada, in addition to its responsibilities relating to designation, is also responsible for overseeing designated clearing and settlement systems, to ensure that they are adequately controlling systemic or payment system risk.^{8,9,10} All clearing and settlement systems and their participants are responsible for understanding and managing risks to which they are exposed, and must observe the applicable risk-management standards.¹¹

Payments Canada's systems, Lynx and ACSS, are designated under the PCSA and overseen by the Bank of Canada for the purposes of controlling systemic and payment system risk, respectively. As the owner and operator of these systems, Payments Canada is responsible for understanding and managing risk in its systems by observing the applicable risk-management standards.

Payments Canada's systems

Members of Payments Canada are eligible to apply to participate on Payments Canada's systems; Lynx, ACSS, and the future RTR. Members must meet the participation requirements associated

⁶ For more information on the Bank of Canada's oversight activities, see [here](#).

⁷ Clearing and settlement systems are often referred to as Financial Market Infrastructures (FMIs). This consultation paper will use the term 'clearing and settlement system' to reflect the language in the legislation.

⁸ For more information on the Bank of Canada's processes for identifying and designating systemically important clearing and settlement systems and prominent payment systems, see [here](#).

⁹ See the Bank of Canada's [Annual Oversight Report \(2023\)](#) for more information on cooperative arrangements.

¹⁰ For more information on the Bank of Canada's oversight responsibilities and supporting powers, see [here](#).

¹¹ The Bank of Canada has adopted the [Principles for Financial Market Infrastructures](#) (PFMIs) into its [risk-management standards for systemically important FMIs](#). [Risk-management standards for prominent payment systems](#) are based on the PFMIs, but designed to be proportional to a level of risk that is relatively less than in systemic FMIs. The Bank of Canada's standards and their applicability can be found [here](#).

with each system as part of their application, which must be approved by Payments Canada. Each system is unique in its structure, risk model, and requirements for participation. Participation in one system does not guarantee nor result in the participation in another. As set out in the applicable risk management standards by the Bank of Canada, Payments Canada must have objective, risk-based, and publicly disclosed participation criteria that promote fair and open access.

Lynx is not tiered, contemplating only direct participants. Alternatively, access to the ACSS and participation in the RTR are formally tiered. In tiered systems, there are two forms of participation.

- **Direct participation:** refers to members who are approved to participate, and exchange, clear and settle on their own or on behalf of an indirect participant.
- **Indirect participation:** refers to arrangements where a direct participant exchanges or effects clearing and settlement in a system on behalf of another participant.

Direct participation in Payments Canada’s systems requires that members obtain a settlement account from the Bank of Canada. The Bank of Canada has dedicated settlement account policies for [Lynx and the ACSS](#), as well as [the RTR](#). These policies encompass a comprehensive set of criteria, differing in key ways that can serve to determine the types of entity granted a settlement account, and are thus eligible for direct participation in Payments Canada’s systems.¹²

Indirect participation requires members to enter into arrangements with approved direct participants in order to access the systems. Additionally, indirect participants are required to adhere to certain provisions in the by-laws and rules.

Direct participation: Requirements of Payments Canada vs. the Bank of Canada

	Payments Canada	Bank of Canada
Lynx	Member applicants must meet the requirements set out in	Member applicants must meet

¹² For an overview of the Bank of Canada’s settlement account policies, see Appendix I.

(Lynx participant)	Canadian Payments Association By-law No. 9 – Lynx and associated rules, and must obtain a Lynx settlement account from the Bank of Canada.	requirements set out in the Bank of Canada's Lynx settlement account policy .
ACSS (Direct clearer / group clearer)	Member applicants must meet the requirements set out in Canadian Payments Association By-law No. 3 – Payments Items and ACSS and associated rules, and must obtain an ACSS settlement account from the Bank of Canada.	Member applicants must meet requirements set out in the Bank of Canada's ACSS settlement account policy .
RTR (Direct settlement participant)	Member applicants must meet the requirements set out in the future RTR By-law and associated rules, and must obtain an RTR settlement account from the Bank of Canada.	Member applicants must meet requirements set out in the Bank of Canada's RTR settlement account policy .

An overview of Payments Canada's systems can be found below.

High-value payment system:
Lynx

Retail batch payment system:
ACSS/USBE

Real-Time Rail payment system:
RTR



Real-time gross-settlement (RTGS) wire transfer system that facilitates the final and irrevocable transfer of central bank money between participants' settlement accounts.

Designated as systemically important by the Bank of Canada.

Settlement occurs in real time and only if sufficient intraday liquidity is available, therefore Lynx does not give rise to credit risk exposures between participants

The legal foundation for Lynx is outlined in [Canadian Payments Association By-law No. 9 – Lynx](#).

Participation is not tiered, contemplating only direct participants (Lynx Participants).

Members that apply for participation must meet operational, technical, and security requirements for participants.¹³ Access to Lynx is currently limited to participants that are prudentially regulated entities based on the Bank of Canada's settlement account policies.

Lynx rules and procedures can be found [here](#).

The Automated Clearing Settlement System (ACSS) is a deferred net settlement (DNS) batch system that clears and settles electronic and paper-based retail payments. The United States Bulk Exchange (USBE) facilitates clearing and settlement of similar batch payments denominated in USD at accounts of financial institutions domiciled in Canada.¹⁴

The ACSS is designated as a prominent payment system by the Bank of Canada. The USBE is not a designated system.

The deferred settlement of payment items exchanged in both the ACSS and USBE results in credit exposures between direct clearers as there is no guarantee of settlement. Should a default on settlement occur, each system has its own procedures to resolve the default.

The legal foundation for the ACSS is outlined in [Canadian Payments Association By-law No. 3 – Payment Items and ACSS](#).

Participation is tiered, contemplating direct participants (direct and group clearers), indirect participants (indirect clearers), and direct clearers approved to act on behalf of indirect clearers (clearing agents).

Members that apply for participation must meet operational, technical, and security requirements. Access is currently limited to participants that are prudentially regulated entities based on the Bank of Canada's settlement account policies.

ACSS/USBE rules and procedures can be found [here](#).

A future 24/7/365 instant RTGS payment system that will facilitate the irrevocable transfer of funds in real-time. Anticipated to be designated by the Bank of Canada as a prominent payment system.

Will support instant, data-rich retail payments for improved efficiency, transparency and competition.

Settlement occurs in real time and only if sufficient intraday liquidity is available, therefore the RTR does not give rise to credit risk exposures between participants.

Consists of two components: RTR Exchange and RTR Clearing & Settlement (RTR C&S). Participation in the RTR is tiered, contemplating direct participants (direct settlement participants), indirect participants (indirect settlement participants), and direct participants approved to act on behalf of indirect participants (settlement agents).

The RTR is designed to accommodate open, risk-based access to new and smaller players. This is reflected in the Bank of Canada's settlement account policies, the system risk model and in the operational, technical and security requirements for participants.

More information on the RTR can be found [here](#).

¹³ Prudential regulation is a legal framework focused on the financial safety and stability of institutions and the broader financial system. Generally, this includes governance controls and quantitative supervisory tools. In Canada, this is conducted by both federal and provincial regulatory bodies.

¹⁴ Canada's retail batch payment system is made up of the ACSS and the USBE. Direct Clearers in the ACSS can elect to participate at each Bulk Exchange Point in the USBE. Only Direct Clearers may participate in the USBE.

Membership expansion: Bill C-59

Amendments enacted in [Bill C-59](#), an Act to implement certain provisions of the fall economic statement (Part 5, Division 5), expand membership eligibility under the CP Act to include PSPs as defined in the RPAA that perform retail payment activities, credit union locals, and clearing houses, as defined under section 2 of the PCSA, of clearing and settlement systems designated under subsection 4(1) of that Act. Bill C-59 has received Royal Assent, but coming into force of the amendments are still to be determined by an order of the Governor in Council.

The amendments to the CP Act also included consequential changes to support expanded membership, including that PSPs under the RPAA who become members of Payments Canada are not eligible to sit on the SAC. The amendments also include a review of the Act and its operation four years after the coming into force date to be conducted by the Minister of Finance.

Payment service providers

PSPs as defined in section 2 of the RPAA that perform retail payment activities (also as defined in the RPAA) will be eligible to apply to become members of Payments Canada.¹⁵

A PSP is defined in the RPAA as “an individual or entity that performs payment functions as a service or business activity that is not incidental to another service or business activity.” An individual or entity that performs at least one of the following payment functions may be considered a PSP:¹⁶

- A. Provision or maintenance of an account that is held on behalf of one end user or more;
- B. Holding funds on behalf of an end user;
- C. Initiation of an electronic funds transfer at the request of an end user;
- D. Authorization of an electronic funds transfer or transmission, reception or facilitation of an instruction in relation to an electronic funds transfer; or
- E. Provision of clearing or settlement services.

PSPs under the RPAA must apply for registration with the Bank of Canada.¹⁷ Registration decisions will be published by the Bank after the transition period ends in September of 2025.

¹⁵ For more information on retail payment supervision by the Bank of Canada, see [here](#).

¹⁶ Retail Payment Activities Act, S.C. 2021, c.23, s. 2 (see definition of *payment function*) and s. 6-10 (which include the exceptions).

¹⁷ See the [Bank of Canada's Supervisory Framework](#) for more information.

Credit union locals

Credit union locals that are a member of a central or a cooperative credit association will be eligible to apply to become members of Payments Canada.

Locals are cooperative credit societies incorporated by or under an act of the legislature of a province whose members consist substantially of individuals. Locals are prudentially-regulated member-owned cooperative financial institutions with the principal purpose to receive deposits from and to make loans to their members. The credit union sector is organized into a system consisting of locals and centrals. Centrals provide their credit union local members access to the national clearing and settlement systems and other financial services, such as liquidity support.

Centrals are owned by their members, consisting wholly or primarily of locals. Most credit union locals have legislative requirements to be a member of a provincial central; however, they are distinct entities. The number of locals that own a central vary by province and in some cases centrals have ownership in other centrals.

Clearing houses

Clearing houses as defined in section 2 of the PCSA of clearing and settlement systems designated under subsection 4(1) of the PCSA will be eligible to apply to become members of Payments Canada.¹⁸

A clearing house is defined in section 2 of the PCSA as:

A corporation, association, partnership, agency, or other entity that provides clearing, settlement or payment message exchange services for a clearing and settlement system.

A clearing house, via its clearing and settlement system, will facilitate the clearing, settling or recording of payments, securities, derivatives or other financial transactions among participating entities. Clearing houses and their clearing and settlement systems designated under the PCSA must observe the Bank's risk-management standards and associated guidance.

¹⁸ For an overview on clearing houses and clearing and settlement systems designated under the PCSA, see Appendix II.

Policy proposals

General

Payments Canada proposes the following consequential amendments to By-law No. 1.

Proposals

- 1. PSPs entitled for membership must be registered in accordance with the RPAA and must provide evidence of this registration in its application for membership.**

Only PSPs registered with the Bank of Canada in accordance with the RPAA should be eligible for membership in Payments Canada, and evidence of registration should be provided as part of a PSP's application for membership. These requirements reflect the policy intent that only those PSPs that are supervised by the Bank of Canada should be eligible for membership at Payments Canada.¹⁹

Payments Canada proposes an amendment to By-law No. 1 that requires PSPs to provide evidence of their registration with the Bank of Canada in accordance with the RPAA in its application to become a member.

- 2. PSPs entitled for membership that are not members of Payments Canada should remain eligible for the SAC in order to maintain the SAC's representative character.**

The CP Act amendments require that the SAC be representative of payment service providers that are not members of Payments Canada and users. A 'payment service provider' in this context means "a person who, or an entity that, supports the operation, maintenance and development or enhancement of payment systems that directly or indirectly interface with the national clearing and settlement systems". Subsection 10(2)(b) of By-law No. 1 states that the SAC must include at least one person who is representative of payment service providers.

Section 11 of By-law No. 1 prevents directors, officers, or employees of an entitled member (under subsection 4(2) of the CP Act) from being eligible to sit on the SAC. Once the CP Act amendments come into force, any director, officer or employee of a PSP as defined in section 2 of the RPAA that performs retail payment activities, will not be eligible for the SAC, irrespective of whether that PSP is a member of Payments Canada. Under this language, it is unlikely that Payments Canada

¹⁹ See the Government of Canada's [2023 Budget](#).

will be able to maintain the representative character of the SAC as required in the CP Act, nor satisfy the composition criteria contained in By-law No. 1.

Payments Canada proposes an amendment to subsection 11(b) of By-law No. 1 to remove the restriction that prevents directors, officers or employees of entitled members from being eligible for the SAC. It remains that directors, officers or employees of PSPs that become members will not be eligible for the SAC as is currently stated in By-law No. 1.

Consultation questions

1. Are there any comments or concerns with the proposal to remove the SAC eligibility restriction for directors, officers or employees of entities entitled to apply for membership?

System participation

Payments Canada proposes the following in relation to system participation.

Proposals

1. **There should not be entity-based restrictions that prevent member PSPs, locals, or clearing houses from being eligible to apply for participation in Payments Canada's payment systems.**

New entitled members should be eligible to apply to participate on Payments Canada's systems, provided they meet the applicable system access and participation requirements.

Payments Canada does not propose any entity-based restrictions applying to member PSPs, locals, or clearing houses.

*Please note that Payments Canada is **not** proposing to remove the existing entity-based restrictions in section 32 of the [Canadian Payments Association By-law No. 3 – Payment Items and ACSS](#) for a qualified corporation on behalf of its money mutual fund, a trustee of a qualified trust and a life insurance company. These restrictions were put into place in light of the financial risk framework of the ACSS, as well as considerations regarding the application of insolvency laws. As some of these risks and complexities continue to exist today, Payments Canada does not propose that these institutional restrictions be removed.*

2. **ACSS participation requirements should restrict members that are affiliated in a manner that more accurately mitigates the risk this relationship may pose.**

Current ACSS participation requirements restrict a member that is affiliated with an existing direct clearer or group clearer, by way of ownership or control, from being permitted to become a direct clearer. This restriction is intended to reduce the risk of a direct clearer being unable to meet its settlement obligations due to its affiliation with another direct clearer or group clearer outside of the ACSS.

It is essential that participation requirements are risk-based, meaning they effectively address the risk they seek to mitigate, whilst maintaining fair and open access. For the purposes of access to the ACSS, a definition based broadly on ownership and control may unjustifiably restrict new members from participating, such as locals, and is not reflective of the relationships between current direct clearers/group clearers.

Payments Canada proposes that members should be permitted to participate as a direct clearer in the ACSS if it can be demonstrated that their affiliation with another direct clearer or group clearer would not result in them being unable to meet their settlement obligations. This definition would continue to restrict institutions whose operations and finances are intermingled, where this relationship could prevent them from meeting their settlement obligations in the ACSS.

Consultation Questions

1. Do you have comments or concerns on the proposal to contemplate no entity-based restrictions for new entitled member categories?
2. Do you have comments or concerns with the proposal to retain the current entity-based restrictions in the ACSS By-law?
3. Do you have comments or concerns with the proposal to amend ACSS participation requirements to redefine 'affiliation'?
4. Do you have comments or concerns regarding Payments Canada's system participation framework, in light of membership expansion, that have not been addressed by the policy proposals?

Compliance

Payments Canada proposes the following amendments to By-law No. 6.

Proposals

1. **Processes to expedite investigations involving alleged contraventions that are straightforward or uncontested should be included in By-law No. 6.**

By-law No. 6 outlines various compliance-related procedures, including investigating alleged contraventions.²⁰ The current process for conducting a compliance investigation can be cumbersome and time-consuming, lacking a distinction between alleged contraventions that are straightforward and those that are complex. Introducing a streamlined investigation process for alleged contraventions that are straightforward or uncontested would remove the need for a hearing and improve efficiency in conducting investigations. Straightforward and uncontested contraventions are proposed to be defined as follows:

- a) A contravention is considered **straightforward** when a member, or a non member and its clearing member, fails to meet an objective and measurable requirement, such as a deadline, cut off time or specific performance standards.
- b) A contravention is considered **uncontested** when a member, or a non-member and its clearing member, admits in writing to the President that they committed a contravention. Alternatively, a contravention is considered uncontested if there is agreement that a contravention was committed.

With membership expansion, it is important that Payments Canada enhances the efficiency with which compliance matters are addressed under By-law No. 6, where applicable.

Payments Canada proposes introducing a process to expedite investigations for straightforward and uncontested contraventions. Introducing processes for straightforward and uncontested contraventions would fast-track investigations, whilst maintaining fairness, impartiality, and appropriate procedural safeguards for members.

It is proposed that the President would review the alleged contravention and assess its complexity. If the President deems the contravention straightforward, it would be referred to a committee along with a written recommendation that the contravention is straightforward. Regardless of whether the investigation is conducted by the President or a committee, if it is deemed straightforward by the President, it would be submitted to the committee for consideration. Where the committee initially determines that the contravention is straightforward, the party alleged to be in contravention would have the opportunity to dispute this finding by providing written notice of dispute to the President. The notice of dispute would provide support as to why alleged contravention does not satisfy the criteria for a straightforward contravention. A committee would reconsider the determination based on the facts and contents of the notice of dispute. The second determination by the committee would not be subject to appeal. If the

²⁰ A member commits a contravention when the member fails to comply with a provision of the by-laws or rules that imposes a duty on the member. A non-member commits a contravention when the non-member fails to comply with a provision in the by-laws or rules in respect of which a clearing member is responsible for ensuring compliance by the non-member.

committee maintains that the alleged contravention is straightforward, the process would proceed without a hearing. The member alleged to be in contravention would have the opportunity to submit and receive documentary evidence and provide written submissions. The submissions and evidence would be limited to confirming or refuting any allegations of a contravention of a by-law or rule.

Where the alleged contravention is not deemed straightforward, either initially by the President or by a decision of the committee, the current investigation process under By-law No. 6 would be leveraged.

For uncontested contraventions, the process would proceed directly to determining the appropriate sanctions. While the same sanctions apply to all contraventions, consideration will be given to mitigating factors, including providing an incentive for voluntary admission.

2. The maximum penalty amount should be increased to promote compliance.

Section 16 of By-law No. 6 sets out the actions that may be taken by the President or a compliance panel following an investigation and finding that a contravention has occurred. Specifically, subsection 16(1)(f) of By-law No. 6 currently permits ordering the member to pay a penalty not to exceed \$250,000 per contravention. As membership and participation evolve, it is important to ensure that Payments Canada's compliance measures remain effective and promote compliance. The maximum amount has not been amended since By-law No. 6 came into force in 2003.

Payments Canada proposes an amendment to increase this maximum amount to \$1,000,000 to ensure that penalties are an effective compliance tool and take into account factors such as impact, duration of noncompliance and compliance history. The proposed increase is reflective of inflation over time and of an amount to encourage compliance.

Consultation questions

1. Do you have comments or concerns with the proposal to introduce a streamlined process for uncontested contraventions and alleged contraventions that are considered straightforward?
2. Do you have comments or concerns with the proposal to increase the maximum penalty amount?

Regulatory analysis

The proposed amendments outlined in this consultation are either consequential in response to CP Act amendments, or necessary to promote efficiency in Payments Canada's governance, compliance, and funding processes. The proposed amendments would ensure Payments Canada's readiness to accept new entitled member categories as members and system participants, maintaining open and risk-based access.

Cost-benefit statement: The proposed amendments would result in additional costs to members in the event of a contravention resulting in a penalty. There are qualitative benefits associated with the amendments that cannot be monetized. The proposed amendments would strengthen Canada's commitments to expand membership and improve efficiency in Payments Canada's internal processes at the benefit of its members and participants.

Small business lens: Analysis under the small business lens determined that the proposed amendments would result in no anticipated costs or consequences for small businesses. The proposed amendments may have a positive impact on small businesses in Canada by (1) enabling and supporting expanded membership, which has the potential to promote competition and better financial services, including those for small businesses; and (2) enabling membership, system participation, and SAC representation for PSPs that are small businesses or offer services to small businesses.

Next steps

Payments Canada will consider any comments, questions or concerns from responses to the proposals set out in this paper and incorporate appropriate policies into by-law and rule amendments, working with its member and stakeholder committees. By-laws, as statutory instruments, will need to proceed through the regulatory process, including initial publishing in the Canada Gazette. Payments Canada's rules will proceed through the appropriate governance procedures.

In 2025, Payments Canada will be engaging publicly on the RTR rules and by-law.

Payments Canada invites interested parties to provide comments regarding these proposals by March 6, 2025 to consultation@payments.ca.

APPENDICES

APPENDIX I - Bank of Canada's Settlement Account Policies

The Bank of Canada provides settlement accounts to participants in Lynx, Direct Clearers in the ACSS, and direct participants in the forthcoming RTR. Payments Canada owns and operates these systems, but final settlement of payment obligations occurs through settlement accounts on the books of the Bank of Canada.²¹

To be eligible for a settlement account, the applicant must be a member of, or be eligible to become a member of, Payments Canada. Applicants must also meet Payments Canada's operational, technical, and security requirements for direct participation in Payments Canada's systems.

Bank of Canada's [Lynx and the ACSS Settlement Account Policy](#)

Requirements that must be met for the Bank of Canada to consider granting a settlement account for Lynx and the ACSS are as follows:

1. **Regulatory requirement:** Applicants must be subject to comprehensive and risk-based Canadian prudential regulation. This may be conducted at (1) the federal level, by OSFI; or (2) the provincial level if regulators have adopted regulatory standards broadly equivalent to those implemented by OSFI.²²
2. **Applicant information requirement:** Applicants must provide basic due diligence information, information detailing the directors and beneficial ownership, and confirmation that they have in place financial crimes risk management controls.
3. **Business requirement:** Applicants must clearly explain their business need for a settlement account for the given system and confirm that the account will be used solely for the settlement of payment activity for that system.
4. **Financial requirement:** Applicants credit ratings must be deemed by the bank to be generally equivalent to investment-grade (BBB- or better), using its internal credit rating framework.
5. **Cyber security requirement:** Applicants must attest to meeting the Bank's cyber security requirements, specifically controls to mitigate the risk of providing external access to the High Availability Banking System (HABS).

²¹ See the [Bank of Canada's settlement account policies overview](#) for more information.

²² Due to the different nature of their regulation and supervision, securities dealers, money market mutual funds and insurance companies (including those regulated by OSFI) are excluded from this definition and thus not eligible for settlement accounts for these systems.

6. **Operational requirements:** Applicants must meet requirements that minimize operational risks associated with managing settlement accounts. This includes requirements for connectivity, user management, training, testing, contingency operations, and collateral management.
7. **Collateral requirement:** Applicants must provide information to demonstrate they will have sufficient collateral to meet their obligations for the given system.
8. **Legal requirement:** Successful applicants must enter into the Bank's Settlement Account Agreement, setting out the rights and duties of both the Bank and the account holder with respect to maintaining a settlement account. This may include additional ancillary legal agreements.

Bank of Canada's [RTR Settlement Account Policy](#)

Requirements that must be met for the Bank of Canada to consider granting a settlement account for the RTR are as follows:

1. **Account type:** Applicants must indicate whether they are applying for a settlement account that is unrestricted or restricted. Applicants of an unrestricted settlement account will face stricter requirements
 - a. An unrestricted settlement account permits the account holder to settle on behalf of itself and act as a settlement agent for indirect participants in the RTR.
 - b. A restricted settlement account permits the account holder to settle on its own behalf.
2. **Regulatory requirement:** Applicants must be a financial institution that is federally or provincially regulated, or a payment service provider that is supervised by the Bank in accordance with the RPAA.²³
3. **Applicant information requirement:** Applicants must provide basic due diligence information, information detailing the directors and beneficial ownership, and confirmation that they have in place financial crimes risk management controls.
4. **Business requirement:** Applicants must clearly explain their business need for an RTR settlement account and confirm that the account will be used solely for settlement of RTR payment activity.
5. **Financial health requirement:** Applicants must provide information to support a high-level assessment of their financial viability, using its internal credit assessment framework. A questionnaire will be sent to obtain information to support this assessment, with

²³ Due to the different nature of their regulation and supervision, the Bank will consider granting access to securities dealers, money market mutual funds and insurance companies (including those regulated by OSFI) on a case-by-case basis based on expression of interest.

requested information varying depending on the type of institution. Stricter viability assessments will be conducted for applicants seeking unrestricted settlement accounts.

6. **Payment capacity management requirement:** Applicants must demonstrate that they will always have sufficient payment capacity to settle their RTR payments. Additional requirements must be met for applicants seeking an unrestricted settlement account.
7. **Operational requirement:** Applicants must have arrangements in place to fund and defund their RTR accounts by Lynx payments prior to the settlement account becoming operational.
8. **Legal requirement:** Successful applicants must enter into the Bank's Settlement Account Agreement, setting out the rights and duties of both the Bank and the account holder with respect to maintaining and operating an RTR settlement account.

APPENDIX II - Clearing houses and designated clearing and settlement systems

Clearing house	Clearing and settlement system	Description
Systemically important FMI's		
Payments Canada	Lynx	RTGS system that clears and settles high-value, time critical payments.
Continuous Linked Settlement Group	Continuous Linked Settlement Bank	Special purpose bank designed to settle FX transactions through CLS service.
Clearing & Depository Services Inc.	CDSX	Clearing and settlement system for debt and equity securities in Canada.
Canadian Derivatives Clearing Corp.	Canadian Derivatives Clearing Service	Central counterparty for all equity, index and interest rate derivatives on the Montreal Exchange.
London Clearing House Clearnet Ltd.	SwapClear	Global system for the central clearing of interest rate swaps and OTC interest rate derivatives.
Prominent payment systems		
Payments Canada	ACSS	Retail batch system providing exchange, clearing, and settlement of payment items.
Interac Corp.	Inter-Member Network (IMN)	Network on which FIs can connect to provide Interac debit and ABM withdrawal services.
	Interac E-Transfer	System that receives payments initiated by customers through online banking, allocated funds in near real-time.
Visa Inc.	VisaNet	Electronic network providing the online connectivity for online payments, payment data processing and authorization and settlement of payments.
Mastercard International Inc.	Global Clearing Management System (GCMS)	Centralized clearing facilities for processing and routing of card transactions.
	Single Message System (SMS)	System for message exchange for authorization, clearing and settlement of payments.

