



**PAYMENTS  
CANADA**

# RULE D1

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## DIRECT CLEARER/GROUP CLEARER REQUIREMENTS

2022 CANADIAN PAYMENTS ASSOCIATION

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## IMPLEMENTED

January 27, 2004

## AMENDMENTS POST-NOVEMBER 2003

1. New rule approved by the Board, November 27, 2003, effective January 27, 2004.
2. Section 12(a) approved by the Board, February 26, 2004, effective April 26, 2004.
3. Addition of defined term “Representative” and notice requirements relating thereto approved by the Board February 23, 2006, effective April 24, 2006.
4. Revision to section 1 and the addition of sections 2, 21, 22 and 23 to implement an expanded clearing framework; and amendment to Section 13 to reflect minimum operational requirements required by Rule E4. Approved by the Board March 26, 2009, effective May 25, 2009.
5. Amendments to subsections 14(e), (i) and (j) to accommodate the DTN Migration Project, approved by the Board October 15, 2009, effective November 15, 2009.
6. Amendment to replace references to “General Manager” with “President”, consequential to amendments to the Canadian Payments Act (Bill C-37) that came into effect on March 1, 2010.
7. Amendments to reflect the holistic credit union review. Approved by the Board May 26, 2011, effective July 25, 2011.
8. Amendments to accommodate the ability of Group Clearers to cease to act immediately for an entity and removal of the Group Clearer and Endorsement guarantees consequential to amendments to By-law No. 3 – Payments Items and ACSS, which came into effect August 17, 2012. Approved by the Board October 3, 2013, effective December 2, 2013.
9. Consequential amendments to accommodate the use of ISO AFT Message Formats, approved by the Board February 18, 2016, effective April 18, 2016.
10. Consequential amendments to clarify obligations related to the use of Settlement Intermediaries. Approved by the Board September 23, 2016, effective October 24, 2016.
11. Amendment to subsection 23(a) to indicate that the Annual Attestation Form will now be provided by the Association, rather than attached as an appendix in Rule D2. Approved by the Board September 28, 2017, effective November 27, 2017.
12. Amendment to subsection 23(a) to revise the submission due date of the Form D2 – Annual Attestation Form. Approved by the Board November 28, 2018, effective January 2, 2019.
13. Amendment to subsection 13(a) to include Delayed Authorization Point-of-Service Payment Items in obligations related to the use of Settlement Intermediaries. Approved by the Board November 28, 2019, effective January 27, 2020.

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14. Amendments to sections 4, 5 and Appendices I and II to remove the 0.5% volume requirement and to include a restriction on participation of affiliates. Approved by the Board February 28, 2019, effective August 5, 2020.
15. Amendments to section 7 to outline the procedures applicable in the event that a Direct Clearer or a Group Clearer becomes affiliated with one or more other Direct Clearers. Approved by the Board February 28, 2019, effective August 5, 2020.
16. Amendments to Part II – Notice Requirements to add new sections 14 and 15 to establish notice requirements for Direct Clearers using ACSS Settlement Agents. Approved by the Board May 13, 2022, effective June 13, 2022.

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## RULE D1 – DIRECT CLEARER/GROUP CLEARER REQUIREMENTS

### Introduction

1. This Rule outlines the application procedures for a Member to be appointed by the Board to act as a Direct Clearer or Group Clearer, and sets out the requirements and obligations applicable to Direct Clearers and Group Clearers. In addition, this Rule outlines notice requirements relating to Representatives. Further, this Rule provides for certain clearing and settlement arrangements.

### General - References

2. Members are encouraged to reference as a best practice, the Office of the Superintendent of Financial Institutions Canada, Guideline B-10, Outsourcing of Business Activities, Functions and Processes.

### Definition

3. In this Rule, references to “Direct Clearer” do not include Group Clearers and Clearing Agents; however, references to “Representative” include both Direct Clearers and Group Clearers.

## PART I – APPLICATION PROCEDURES

### Direct Clearer Application and Required Documentation

4. A Member other than a Member referred to in section 32 of By-law No. 3 – Payment Items and ACSS may apply to the Board to become a Direct Clearer, by completing and submitting the application form attached as Appendix I and providing the documentation below. A Member that is affiliated with (i.e., related through any type of control or ownership) an existing Direct Clearer or Group Clearer shall not be permitted to become a Direct Clearer.
  - a. confirmation from the Bank of Canada that the applicant has a settlement account at the Bank of Canada;
  - b. confirmation from the Bank of Canada that the applicant has a loan facility with the Bank of Canada;
  - c. confirmation that the applicant is not affiliated with an existing Direct Clearer or Group Clearer;
  - d. evidence that the applicant meets the technical requirements set out in the Rules and ACSS/USBE User Guide; and
  - e. any other documentation that may be required by the Association.

### Group Clearer Application and Required Documentation

5. A Member other than a Member referred to in section 32 of By-law No. 3 – Payment Items and ACSS may apply to the Board to become a Group Clearer, by completing and submitting the application form attached as Appendix II and providing the documentation

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below. A Member that is affiliated with (i.e., related through any type of control or ownership) an existing Direct Clearer or Group Clearer shall not be permitted to become a Group Clearer.

- a. confirmation from the Bank of Canada that the applicant has a settlement account at the Bank of Canada;
- b. confirmation from the Bank of Canada that the applicant has a loan facility with the Bank of Canada;
- c. a list of the entities that will belong to the group and, subject to subsection 28(2) of By-law No. 3 – Payment Items and ACSS, a copy of the resolutions from the Board of Directors of those entities, appointing the applicant as their Group Clearer;
- d. confirmation that the applicant is not affiliated with an existing Group Clearer or Direct Clearer;
- e. evidence that the applicant meets the technical requirements set out in the Rules and ACSS/USBE User Guide;
- f. in the case of a group referred to in paragraph 28(1)(b) of By-law No. 3 – Payment Items and ACSS, evidence that the applicant has entered into contractual commitments with each of the entities belonging to the group that are necessary to ensure the ability of the applicant to satisfy its liability as Group Clearer; and
- g. any other documentation that may be required by the Association.

### **Revocation of Direct Clearer or Group Clearer Status and Notice by GM**

6.
  - a. The Board may revoke the Direct Clearer or Group Clearer status of a Member if that Member no longer meets the requirements for Direct Clearer or Group Clearer status, as the case may be.
  - b. If the Direct Clearer or Group Clearer status of a Member is revoked, the President shall, as soon as practicable, notify all other Members in writing, stating the date upon which the revocation will take effect.

## **PART II – NOTICE REQUIREMENTS**

### **Direct Clearer or Group Clearer Ceasing to Act**

7.
  - a. A Direct Clearer or Group Clearer may cease to act as such and become an Indirect Clearer by giving at least 30 days notice to the President and by providing evidence that it has met all requirements applicable to Indirect Clearers.
  - b. In the event that a Direct Clearer or a Group Clearer becomes affiliated with one or more other Direct Clearers or Group Clearers,

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- i. Each affiliated Direct Clearer or Group Clearer shall give written notice to the President within thirty (30) days of the date on which the affiliation becomes effective;
  - ii. only one of the affiliated Direct Clearers or Group Clearers may continue to participate in the ACSS as a Direct Clearer or Group Clearer, as applicable;
  - iii. within one year of the effective date of affiliation, the other affiliated Direct Clearer(s) or Group Clearer(s) shall withdraw from participation in the ACSS as a Direct Clearer or Group Clearer. Notice shall be provided to the President at least thirty (30) days prior to withdrawal as a Direct Clearer or Group Clearer; and
  - iv. during the one-year transition period or any extension as provided for in subsection (c), the President, in consultation with the Bank of Canada and the Senior Operational Committee, may require that the affiliated Direct Clearer(s) or Group Clearer(s) be subject to additional risk controls.
- c. Further to subsection (b), where more than a one-year transition period is required, the other affiliated Direct Clearer(s) or Group Clearer(s) may request an extension by filling a written request with the President at least thirty (30) days prior to the expiration of the one-year transition period. The request shall specify the reason for the extension and the length of time requested. If the request is granted, the President shall, as soon as practicable, notify all other Members.
  - d. Upon receiving the notice referred to in subsections (a) and (b), the President shall, as soon as practicable, notify all other Members in writing of each affected Member's change of status.

### **Ceasing to Act Immediately**

8. Despite section 7, a Group Clearer may immediately cease to act for an entity belonging to the Group for the reasons set out in subsection 43.1 (1) of By-law No.3 – Payments and ACSS.

### **Notification**

9. a. Upon ceasing to act in accordance with section 7, the Group Clearer shall immediately:
  - i. give written notice to the entity of its decision to immediately cease to act for that entity, prior to 9:30 am EST to take effect at the end of that ACSS cycle;
  - ii. give notice of its decision to the President, prior to 9:30 am EST to take effect at the end of that ACSS cycle;



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- iii. give notice of its decision to the other entities belonging to the Group for which it is a Group Clearer or to every Indirect Clearer for which it acts as Clearing Agent, as the case may be; and
  - iv. attempt to give notice of its decision to the Direct Clearers and other Group Clearers.
- b. Upon receiving the notice referred to in paragraph (d)(ii), the President shall, as soon as practicable, notify the Direct Clearers and other Group Clearers of the Group Clearer's decision to immediately cease to act for the entity.
  - c. Upon receiving the earlier of the notices referred to in paragraph (a)(iv) or subsection (b), the Direct Clearers and other Group Clearers shall immediately notify every Indirect Clearer for which they act as a Clearing Agent or every entity belonging to the Group for which they act as a Group Clearer of that decision.

### Notice of Representation

- 10. a. A Direct Clearer or Group Clearer that acts as Representatives for another Direct Clearer or Group Clearer at any one of the various Regional Exchange Points shall notify the President in writing of its intent to act for another Direct Clearer and any change in representation at least 30 days before the date this representation is to become effective. This notice shall contain the following information:
  - i. the Direct Clearer or Group Clearer for whom the Representative is Exchanging Items and the effective date that the representation is to become effective;
  - ii. the Regional Exchange Point(s) where the Representative will be Exchanging Items on behalf of the Direct Clearer or Group Clearer; and
  - iii. the type of Payment Item(s) the Representative will be Exchanging.

### Effect of Representation

- 11. Notwithstanding the designation of a Representative by a Direct Clearer or Group Clearer, that Direct Clearer or Group Clearer remains responsible for its Items in accordance with CPA By-laws and Rules.

### Termination of Representation

- 12. Representatives intending to terminate their representation shall notify the President of this intention in writing at least 30 days prior to the effective date of termination.

### Notice of Settlement Intermediary

- 13. a. A Direct Clearer that acts as Settlement Intermediary for the Settlement of Point-of-Service Payment Items or PIN-less Point-of-Service Payment Items, in accordance

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with Rules E1, E4 and E5, shall notify the President in writing at least 30 days before it intends to act as Settlement Intermediary.

- b. A Settlement Intermediary intending to cease acting in such capacity shall notify the President in writing at least 30 days prior to the intended effective date

### Notice of Agency Arrangement for Settlement

14. Each Direct Clearer that enters into an arrangement with an ACSS Settlement Agent for the provision of Settlement shall:
  - a. provide written notice to the President of such arrangement, identifying the Member that will act as its ACSS Settlement Agent, at least thirty (30) days before such ACSS Settlement Agent starts providing Settlement for the Direct Clearer; and
  - b. when replacing its previous ACSS Settlement Agent with a new ACSS Settlement Agent, provide written notice to the President of the new arrangement, identifying the Member that will act as its new ACSS Settlement Agent, thirty (30) days before the new ACSS Settlement Agent starts providing Settlement for the Direct Clearer or as soon as reasonably practicable.

### Notice of Termination of ACSS Settlement Agent

15. Where an ACSS Settlement Agent ceases to act for a Direct Clearer, the Direct Clearer shall provide written notice of this change to the President as soon as reasonably practicable prior to the ACSS Settlement Agent ceasing to provide Settlement.

## PART III – TECHNICAL AND OPERATIONAL REQUIREMENTS

### Technical Requirements

16. Each Direct Clearer and Group Clearer shall provide and maintain system terminals that meet the following technical requirements:
  - a. with respect to the ACSS, the minimum specifications for hardware and software outlined in Rule B1 and the ACSS/USBE User Guide;
  - b. with respect to the USBE, the minimum specifications for hardware and software outlined in Rule K4 and the ACSS/USBE User Guide; and
  - c. any other requirements set out in the Rules or the ACSS/USBE User Guide

### Back-up Facilities

17. Each Direct Clearer and Group Clearer shall have back-up arrangements in place to accommodate contingency situations, in accordance with Rules B1 and K4

### Operational Requirements

18. Each Direct Clearer and Group Clearer shall meet the following operational requirements:

- a. have the ability to MICR encode Payment Items as to amount and to microfilm or image them prior to delivery;
- b. have the ability to endorse Items in accordance with Rule A3;
- c. maintain tracing facilities in accordance with Rule B10;
- d. with respect to Point of Service Payment Items, provide an environment that adheres to the minimum operational requirements outlined in Rule E1;
- e. have the ability to receive EDI Payment Items via data transmission in accordance with Rule E3;
- f. have controls in place to protect the integrity of EDI Payment Items, in accordance with Rule E3;
- g. maintain tracing facilities with respect to EDI Payment Items, in accordance with Rule E3;
- h. with respect to PIN-less Point-of-Service Payment items, provide an environment that adheres to the minimum operational requirement outlined in Rule E4;
- i. have the ability to receive and deliver AFT Files by electronic media in accordance with the Rule F1;
- j. have the ability to receive USD AFT Files by electronic media in accordance with Rules F1 and K8; and
- k. have the ability to receive Notice of Change Files, in accordance with the Rule F1.

## PART IV – GENERAL REQUIREMENTS AND OBLIGATIONS

### Receipt of Payment Items

19. Each Direct Clearer and Group Clearer shall receive Payment Items, either directly or through a Representative, at every Regional Exchange Point.

### Compliance with By-Laws and Rules

20. Every Direct Clearer and Group Clearer shall Exchange Payment Items in accordance with the By-laws and Rules, and ensure that its Payment Items comply with the provisions of the By-laws and Rules.

### Acceptance of Returned Items

21. Every Direct Clearer and Group Clearer shall accept Payment Items returned to it in accordance with the Rules.

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### Obligation of Group Clearer - Locals

22. a. Every Group Clearer that Exchanges Payment Items on behalf of a Local shall ensure that the Local complies with the By-laws and the Rules as if it were a Member
- b. No Member shall effect Clearing and Settlement or make entries into the ACSS on behalf of an entity unless that Member has been designated as the Group Clearer for the Group to which that entity belongs.

### Clearing Agent Relationships

23. a. Further to the requirements set out in By-Law No. 3, for Automated Funds Transfer and Electronic Data Interchange Payment Items, to establish a Clearing Agent relationship with an Indirect Clearer, a Direct Clearer or Group Clearer shall ensure that the Institution Number of the Indirect Clearer appears on those Payment Items that the Clearing Agent intends to exchange, clear and settle for the Indirect Clearer.
- b. Rule L2 - Procedures Pertaining to the Default of an Indirect Clearer, shall only apply when a Direct Clearer or Group Clearer has established a Clearing Agent relationship with an Indirect Clearer pursuant to By-Law No. 3.

### Other Clearing Arrangements

24. a. For Automated Funds Transfer and Electronic Data Interchange Payment Items, where an Indirect Clearer's Institution Number does not appear on a Payment Item that is exchanged, cleared and settled by a Direct Clearer or Group Clearer, the Direct Clearer or Group Clearer shall be responsible and liable for that Payment Item as its own.
- b. For added emphasis, where a Clearing Agent relationship has not been established with an Indirect Clearer pursuant to By-Law No. 3, the Direct Clearer or Group Clearer shall be responsible and liable for those Payment Item exchanged, cleared and settled.
- c. For greater certainty, subject to approval from its Central, a Local is not precluded from using the services of a non-member payment service provider to process and exchange its customers' payment transactions. In these instances, the Direct Clearer or Group Clearer whose Institution Number appears on the Payment Item shall be responsible and liable for that Payment Item as its own.

### Annual Attestation Requirements

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25.
  - a. Every Direct Clearer shall attest that it is in compliance with the requirements outlined in this Rule relating to those Payment Items exchanged, cleared and settled on behalf of Members outside of a Clearing Agent/Indirect Clearer relationship, by April 15<sup>th</sup> of every year by completing and submitting to the CPA Form D2 “Annual Attestation Form –”. The attestation form will be provided by the Association.
  - b. The requirement in subsection (a) above is in addition to the Attestation requirements set out in Rule D2 – Clearing Agent Requirements, but is captured within Form D2 – Annual Attestation Form which is made available by the Association.

**APPENDIX I – APPLICATION FOR DIRECT CLEARER STATUS**

1. Name of Institution :

\_\_\_\_\_

2. CPA institution number:

\_\_\_\_\_

3. Name, title, address (including e-mail), telephone and facsimile numbers of a contact person for matters relating to the application:

Name:

\_\_\_\_\_

Address:

\_\_\_\_\_

Tel: \_\_\_\_\_ Fax: \_\_\_\_\_

Email:

\_\_\_\_\_

4. Expected effective date of appointment:

\_\_\_\_\_

Please return to the CPA (c/o Legal Department), with the following documentation:

1. Letter of confirmation from an authorized representative of the Bank of Canada to the effect that the applicant has a settlement account and a loan facility with the Bank of Canada;
2. Certification that the applicant meets the technical and operational requirements listed in CPA Rule D1; and
3. Confirmation that the applicant is not affiliated with an existing Direct Clearer or Group Clearer.

We/I agree to provide any other information that may be required by the Association in connection with the application for direct clearer status.

Signature of authorized representative:

\_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**APPENDIX II – APPLICATION FOR GROUP CLEARER STATUS**

1. Name of Institution :

\_\_\_\_\_

2. CPA institution number:

\_\_\_\_\_

3. Name, title, address (including e-mail), telephone and facsimile numbers of a contact person for matters relating to the application:

Name:

\_\_\_\_\_

Address:

\_\_\_\_\_

Tel: \_\_\_\_\_ Fax: \_\_\_\_\_

Email:

\_\_\_\_\_

4. List of entities that will belong to the group (attach if insufficient space):

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

5. Expected effective date of appointment:

\_\_\_\_\_

## APPLICATION FOR GROUP CLEARER STATUS

Please return to the CPA (c/o Legal Department), with the following documentation:

1. Letter of confirmation from an authorized representative of the Bank of Canada to the effect that the applicant has a settlement account and a loan facility with the Bank of Canada;
2. Certification that the applicant meets the technical and operational requirements listed in CPA Rule D1;
3. Confirmation that the applicant is not affiliated with an existing Group Clearer or Direct Clearer;
4. Certified copies of resolutions from the Board of Directors of the entities that would belong to the group, appointing the applicant as their group clearer; and
5. In the case of a group comprised of banks, authorized foreign banks, trust companies, loan companies, securities dealers or other members within the meaning of paragraph 9(3)(g) of the *Canadian Payments Act*, certified copies of the agreements entered into with the entities belonging to the group, relating to the ability of the applicant to satisfy its liability as group clearer.

Signature of authorized representative:

\_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_