



PAYMENTS
CANADA

TRANSFORMING CANADIAN PAYMENTS

PAYMENTS CANADA
ANNUAL REPORT
2016



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IN 2016, PAYMENTS CANADA:

Transactions
cleared & settled

7.4 billion

Payments totaling

\$50.8 trillion

(that's \$201.5 billion each business day
or the equivalent of \$3 million every second)



Became **Payments Canada**
and established a new brand
look and feel



Finalized the industry Vision
for the Canadian Payments
Ecosystem

ISO 20022

Launched ISO 20022 AFT message standards for use in Canada



PRJ.JASPER

Conducted experimental blockchain research with Project Jasper



Led the industry to a Roadmap and High-Level Plan for Modernization.



Strengthened disaster recovery capability



Improved
incident
management
processes



Recruited new
Board and
Council members



Published 11
research papers

45

Hired 45 new
employees

37

Facilitated 37
rule changes

56

Spoke at 56
industry
engagements

Connected the industry at the most successful conference to date:

55% increase in
registration

and

65% increase in
sponsorship
sales



1,500+

Welcomed 1,500 +
In Payments Today subscribers



Eileen Mercier
Payments Canada Chair,
Board of Directors

A MESSAGE FROM PAYMENTS CANADA BOARD OF DIRECTORS CHAIR EILEEN MERCIER

It has been a rare pleasure to chair the Payments Canada Board of Directors through 2016—a year of extensive transformation and progress on the journey to Modernization.

Not only did the Canadian Payments Association transform into Payments Canada—reflecting the critical role it plays in ensuring that the needs of all Canadians are met by our payments system—it also led the industry in creating a Vision and a Roadmap for a modern payments system. The board and I are convinced that Canadians will benefit from the comprehensive and consultative approach Payments Canada is leading to create a modern payments system in this country.

That consultation relied heavily on the tremendous contributions of both our Member Advisory Council (MAC) and our Stakeholder Advisory Council (SAC). The board spent a great deal of time reviewing the work of these committees in 2016 and benefited greatly from their wisdom in confirming a Vision and Roadmap for Modernization, as well as in transforming the role of Payments Canada itself. On behalf of the Payments Canada Board and management, I extend my heartfelt thanks to the men and women of MAC and SAC for their contributions in 2016.

Eileen Mercier
Payments Canada Chair,
Board of Directors



Critical progress toward agreement between Payments Canada and all financial institutions regarding Canada’s modernized payments system was made in 2016.

I would also like to acknowledge the wise counsel and collaborative help of the Bank of Canada and Department of Finance as we chart a path toward a new payments landscape in Canada.

In 2016, the board itself went through a significant transformation. We welcomed four new directors—each with diverse backgrounds and experience, bringing the number of independent directors to seven. The broad skills of our independent directors complement the subject matter expertise of member financial institutions and we are well positioned as we move into 2017. I would like to acknowledge the board of directors for their commitment to Payments Canada and for using their collective voice to help this organization move forward. I would also like to thank the outgoing directors for their significant contributions to Payments Canada.

None of our accomplishments in 2016 would have been possible without the strong trust and collaboration between the Payments Canada Board of Directors, the executive leadership team and staff, all of whom are dedicated to providing safe, secure and efficient payment systems to Canadians.

We are entering a period of more intensive planning now and the amount of Modernization work will grow exponentially. I trust that Payments Canada’s staff and leadership will successfully accomplish our ambitious plan. Critical progress toward agreement between Payments Canada and all financial institutions regarding Canada’s modernized payments system was made in 2016, and I know I speak for all of us on the board when I say we look forward with pride and optimism to building on that progress in 2017. ■

Gerry Gaetz
President & CEO



A MESSAGE FROM PAYMENTS CANADA PRESIDENT AND CEO GERRY GAETZ

It is no secret that it is an exciting time to be in payments and 2016 was a particularly significant year. We began to see tangible market reactions to the drivers that are steering payments around the world and those behaviours have created new possibilities that, I believe, will forever change the Canadian payments landscape. In Canada, financial technology companies entered the market, banks continued to revamp their technology, disparate organizations formed partnerships to experiment with new technologies and, as a community, we plotted the course for payments of the future.

I am particularly proud of the team here at Payments Canada who had a hand in all of these important industry developments and, at the same time, continued to operate and maintain the integrity of our payments system. Not only did we make significant progress on our mission to transform Canadian payments through our multi-year Modernization program, but we continued to process more than \$200 billion through our systems safely and securely every business day. This is no small feat and I cannot thank the Payments Canada team enough for their energy, commitment and dedication this year.

On the path to payments system Modernization, we achieved a series of milestones. Early in 2016, we published a *Vision for the Canadian Payments Ecosystem*, the culmination of months of research and industry consultation to uncover what Canadians need from a modern payments system. This foundational work will continue to serve as the industry's guide along our multi-year Modernization journey.

This work was quickly followed by a first output on the Modernization journey—the introduction of ISO 20022 messaging standard for automated funds transfers (AFT). The ISO 20022 standard allows for richer data to travel with payments. Canada's adoption puts us in line with our global trading partners and helps support the move away from paper to electronic payments.

Gerry Gaetz
President & CEO

In the meantime, the Vision, among many other important inputs such as international research, was being leveraged to define the *Industry Roadmap and High-Level Plan for Modernization*. The next milestone in Modernization, the Roadmap outlined how the industry would begin to deliver on the needs identified in the Vision, from faster to flexible, simple and secure.

While the coming pages will outline in greater detail these advancements in Modernization, it is important to recognize here the engagement and participation from Canadian financial institutions, the Department of Finance, the Bank of Canada, and the multitude of other industry stakeholders who have contributed to these achievements. This connection and collaboration has ensured that the work we have done on Modernization is relevant and reflective of the industry as a whole.

While Modernization was certainly a key focus for the year, there was a great deal achieved throughout the rest of the organization.

To name just a few of the accomplishments highlighted in the coming pages, we initiated enhancements to our operating environment in 2016 to ensure the existing systems and technology infrastructure continue to meet the highest standards of resiliency, we completed the first phase of research on distributed ledger technology (DLT) alongside industry partners, we hosted our most successful industry conference to date, we completed our governance changes and we grew our organization significantly.

Perhaps the most obvious development for Payments Canada in 2016 was our rebranding from the Canadian Payments Association. The industry was transforming and so too was our organization. The introduction of the Payments Canada name and brand look and feel was an important symbol of this change, including our growing connections and new approach to serving the Canadian economy.

I want to thank the Payments Canada team and the Executive Leadership Team (ELT) who played a leading role in these accomplishments. I would also like to recognize the contributions of two outgoing members of the team—Doug Kreviazuk and Carol Ann Northcott—whose expertise and energy will be greatly missed. I would also like to welcome Sheila Vokey as our CFO and Nora Cox as our incoming chief risk officer and newest member of ELT.

Our successes could not have been accomplished without the tremendous support and collaboration of the Member Advisory Council (MAC), Stakeholder Advisory Council (SAC) and numerous working groups.

I also want to thank the Payments Canada Board of Directors for the incredible support and guidance they provided to management throughout 2016.

I am extremely proud of the work we've done together in 2016 and look forward to the year ahead. Not only will we continue to operate a safe, secure and reliable payment system for all Canadians, but we will see tremendous progress towards building the pillars of modern payments. ■



Carolyn Burke
MAC Chair

REPORT FROM THE CHAIR OF THE MEMBER ADVISORY COUNCIL

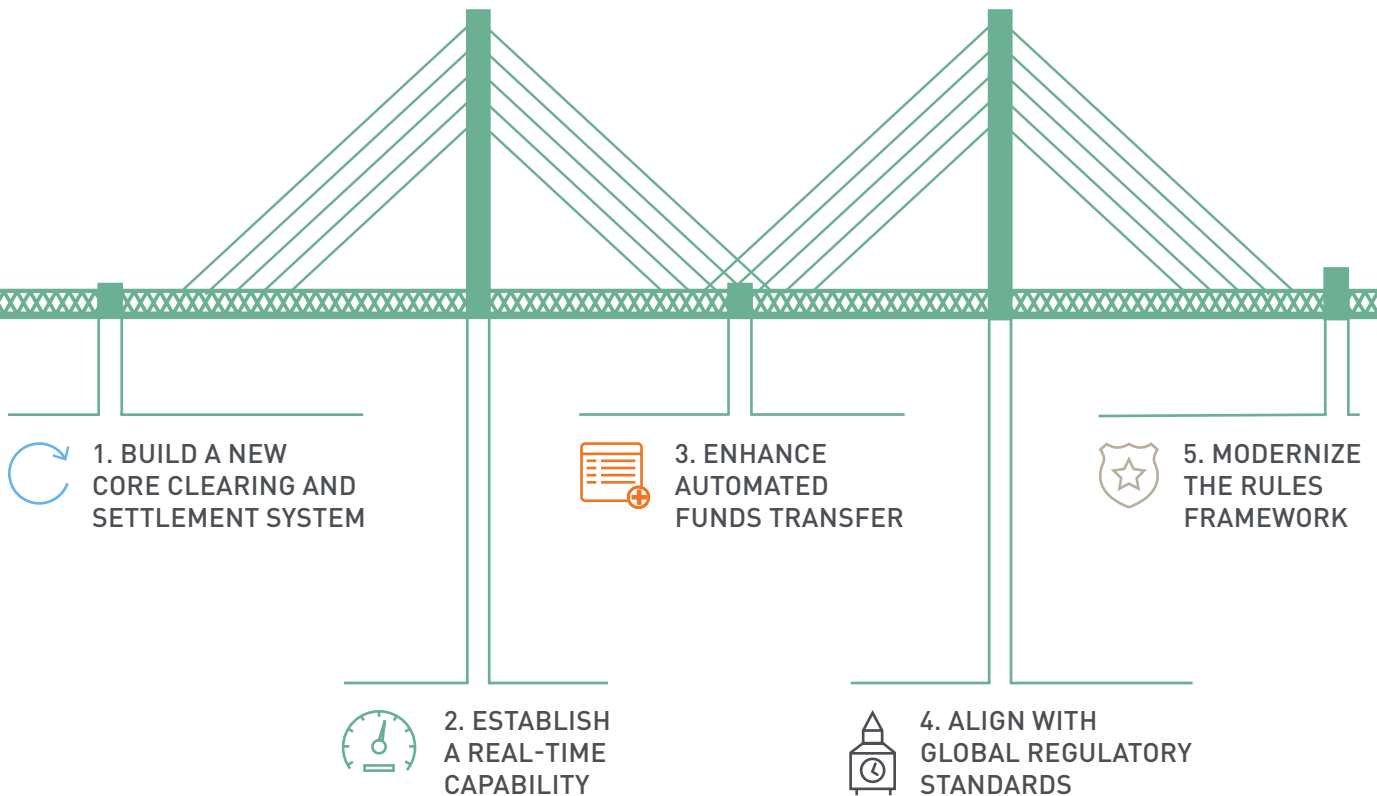
The Member Advisory Council (MAC) marked its first full year of operation in 2016, maturing from a newly formed group to a fully functional committee that leverages the deep expertise and knowledge of its members to advise the board and management of Payments Canada.

A primary focus in 2016 was the Modernization program and the evolving role of Payments Canada, which have significant implications for all participants in the payments ecosystem in Canada, particularly our members. MAC has a critical role to play in ensuring that the perspectives of the diverse Payments Canada membership—including domestic and foreign banks, centrals and cooperative credit associations—are reflected not only in the organization’s day-to-day operations but also in the industry’s plans to modernize our payments systems.

Throughout 2016, the 20-person council provided input to Payments Canada on a number of important Modernization developments, including the *Vision for the Canadian Payments Ecosystem* and the *Industry Roadmap and High-Level Plan*, which were both published in 2016. In September, the council participated in a vision workshop on the future role of Payments Canada, which highlighted a number of areas that will require significant focus for Payments Canada and MAC moving forward.

Carolyn Burke
MAC Chair

THE ROADMAP



MAC is supportive of the Roadmap's five pillars of change that outline how our industry will collaborate to achieve a modernized payments system. These are the first steps on an important journey that will deliver great value to Canadians and position us as a world leader in payments, and we look forward to working with Payments Canada to effect these changes.

In addition to this important work on Modernization, MAC continued to provide input to Payments Canada on a number of other areas, including enterprise risk management, research, corporate planning and maintaining the governance and administration of the council. Information sessions were also shared with members on technology, current risk assessment, and the funding model and pricing for 2017.

As we look toward 2017, we will continue to provide counsel and advice to the board of directors and Payments Canada management to ensure the diversity of member perspective is heard and to support the operations and future planning of the organization. ■

Brent Mizzen
SAC Chair



REPORT FROM THE CHAIR OF THE STAKEHOLDER ADVISORY COUNCIL

The work undertaken over the course of 2016 on Modernization will drive the future of payments in Canada for years to come. This has made for an exciting and busy time for those with a direct interest and role in the work of Payments Canada, such as the Stakeholder Advisory Council (SAC).

THE KEY AREAS OF FOCUS FOR SAC IN 2016 WERE:

1. Payments Canada's Modernization initiative, and
2. SAC governance

The level of engagement by Payments Canada throughout the year was excellent. In addition, SAC has been pleased to have the opportunity to engage on a number of occasions directly with the board of directors. The board has shown an interest in the views of stakeholders as it considers various issues and decides how to move forward. With the establishment of the Member Advisory Council (MAC), there has been an opportunity to begin a dialogue between the respective councils to share views on key issues. This is a positive development SAC looks forward to building upon.

Overall, SAC believes strongly that open communication is highly beneficial and will allow for the various players to share all relevant information, which will benefit the board and lead to a modernized system that will serve Canadians well into the future.

MODERNIZATION

SAC spent significant time and effort in 2016 on the Modernization of Canada's payments system. Between SAC and its working group on Modernization, there were more than 10 meetings related to Modernization, many of which were day-long. This reflects not only the importance of the initiative but also SAC's commitment to ensure stakeholders' views are represented.

Brent Mizzen
SAC Chair

SAC believes that Modernization of Canada’s payments system is needed and is a strong supporter of moving forward in a timely manner. In this regard, SAC was actively involved in assessing the options for Modernization and putting forward its views on the best path forward.

A decision has been taken by the board to prioritize the implementation of a new high-value payment system or HVPS as the first step in Modernization. SAC has been clear that the proposed timelines for the development and implementation of a new real-time rail need to be such that they deliver timely benefits to users. SAC is therefore pleased that the board has requested that Payments Canada find ways to expedite the process for the real-time rail as it is a platform for innovation. SAC will work with Payments Canada to examine options to tighten and integrate timelines in this regard.

The council has also devoted considerable time and discussion to the importance of a fair, open and competitive process (e.g. a request for proposal) for determining the provider of any new retail system. In SAC’s view, the process is important as it will support the outcome in the marketplace and lead to a best-in-class solution for Canada. Further, SAC has highlighted the importance of appropriate governance of the real-time rail and the impact it could have on Modernization.

As part of the Modernization initiative, Payments Canada is moving forward with making functional enhancements to batch AFT, including ISO 20022. SAC is supportive of implementing these changes by 2019 and views it as critical that the changes be mandatory for financial institutions, rather than optional, in order to maximize benefits from moving to ISO 20022.

With the *Industry Roadmap and High-Level Plan* now established, more detailed work has begun on how to move forward with implementation. This work will apply to the five key areas identified by Payments Canada’s Roadmap:

- Replacing the LVTS and the ACSS application with a new core clearing and settlement system;
- Enabling faster payment capability with a real-time ISO 20022 payment rail;
- Enhancing the batch AFT with ISO 20022, additional exchange windows and faster funds availability;
- Implementing changes to the ACSS to meet new regulatory requirements and align Canada with global standards; and
- Modernizing the rules framework.

Clearly, there is significant work still to be done. A key focus for SAC will be to ensure that improvements to Canada’s payments system deliver benefits to users and that they are brought to market in a timely manner. To that end, SAC looks forward to continuing to engage with Payments Canada staff and to building on the open dialogue that has been established with MAC. This approach, in SAC’s view, will lead to sound, informed counsel and advice to the board.

SAC TERMS OF REFERENCE

It is good practice for the council to review its terms of reference on a periodic basis to ensure they are relevant, appropriate and clear. In 2016, SAC brought forward updates and amendments to a number of areas such that the terms of reference are, for example, consistent with the practices of the council. Substantive issues were identified, such as the replacement of vacancies on the council. The substantive issues will be discussed further and any additional amendments will be brought forward in 2017.

CONCLUSION

This continues to be an exciting time that will drive the future of the payments system in Canada. SAC will continue to be active and constructive in providing counsel and advice to the board of Payments Canada with the objective of supporting a payments system that will serve Canadians well into the future. ■

PAYMENTS CANADA MANDATE AND STRATEGY

The Canadian economy depends on the exchange of billions of dollars each day. Payments Canada is responsible for the clearing and settlement infrastructure, processes and rules essential to those transactions.

We are responsible for supporting a vibrant economy by helping to meet the payment needs of consumers and business, and by empowering a new era of modern payments.

We provide Canada's national payments systems. Our Large Value Transfer System (LVTS) lets financial institutions and their customers send large payments securely, and our Retail System (ACSS) is where the vast majority of day-to-day Canadian commerce is cleared by financial institution participants.

In 2016, we cleared and settled transactions totaling close to \$51 trillion, averaging more than \$201 billion each business day.

OUR MANDATE

Our legislated mandate, as outlined in the Canadian Payments Act, defines the following objectives:

- A -

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

- B -

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

- C -

Facilitate the development of new payment methodologies and technologies.

In pursuing this, 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 users of the payment system.



In 2016, we cleared and settled transactions totaling close to \$51 trillion, averaging more than \$201 billion each business day.

MEMBERSHIP

The Bank of Canada and all chartered banks are required to be members of Payments Canada, while other financial institutions, such as credit unions, are eligible for membership. Payments Canada is funded by its membership, which stood at 115 at the end of 2016.

OUR STRATEGY

To deliver on our mandate, enhance the value we bring to the payments ecosystem and guide us on our journey towards a modernized payments system in Canada, Payments Canada executes on our Corporate Plan. In 2016, this included three long-term desired outcomes:

- 1 -

MODERNIZE:

Leading to a safer, more efficient and effective Canadian payments system and enhancing our ability to influence the payments system for the benefit of all Canadians.

- 2 -

OPERATE & ENHANCE:

Ensuring our current payments clearing and settlement systems and supporting rules and standards meet global standards of safety, efficiency and effectiveness.

- 3 -

TRANSITION AND RENEWAL:

Transforming our processes, culture, capacity and structure to support Modernization and excellence.

KEY ACCOMPLISHMENTS

– 1 –

MODERNIZING
CANADIAN
PAYMENTS

– 2 –

OPERATE AND
ENHANCE

– 3 –

TRANSITION AND
RENEWAL

1. MODERNIZING CANADIAN PAYMENTS

In 2016, we reached several important milestones on the journey to modernize the Canadian payments system. Alongside our participant financial institutions and key stakeholders in business and government, we finalized and published a *Vision for the Canadian Payments Ecosystem*, introduced the ISO 20022 payment message standard to the Canadian marketplace and plotted the course for the coming years with the *Industry Roadmap and High-Level Plan*. The commitment and collaboration within the entire payments ecosystem greatly contributed to these important initiatives.

THE VISION FOR THE CANADIAN PAYMENTS ECOSYSTEM

Our in-depth research and consultation with a broad range of users and stakeholders to identify the needs in the Canadian marketplace came to fruition in 2016 with *The Vision for the Canadian Payments Ecosystem*. The Vision exercise demonstrated strong alignment across the industry about the future payments system, and will continue to serve as an important guide on our journey forward.

CHARACTERISTICS OF A MODERN PAYMENTS SYSTEM



**FASTER PAYMENT
OPTIONS**



DATA-RICH PAYMENTS



**TRANSACTION
TRANSPARENCY**



EASIER PAYMENTS



**CROSS-BORDER
CONVENIENCE**



**ACTIVITY-BASED
OVERSIGHT**



**OPEN & RISK-BASED
ACCESS**



**PLATFORM FOR
INNOVATION**

INTRODUCING THE ISO 20022 PAYMENT MESSAGE STANDARD

As a first step in Modernization, 2016 also saw the introduction of the ISO 20022 payment message standard for automated funds transfer (AFT), which includes payments like direct deposits and pre-authorized debits, after nearly two years of collaborative work by Payments Canada and our participant financial institutions and key stakeholders.

ISO 20022 is a global standard for electronic payment messages that helps businesses and financial institutions facilitate the move away from paper by creating the ability to exchange more information—like invoices—with electronic payments. It also helps to streamline cross-border payments by using a common global “language” for payments data and brings Canada up-to-speed with a growing list of countries that have adopted the standard. We look forward to rolling out the ISO 20022 message standard across all future payments infrastructure as part of the Modernization initiative.

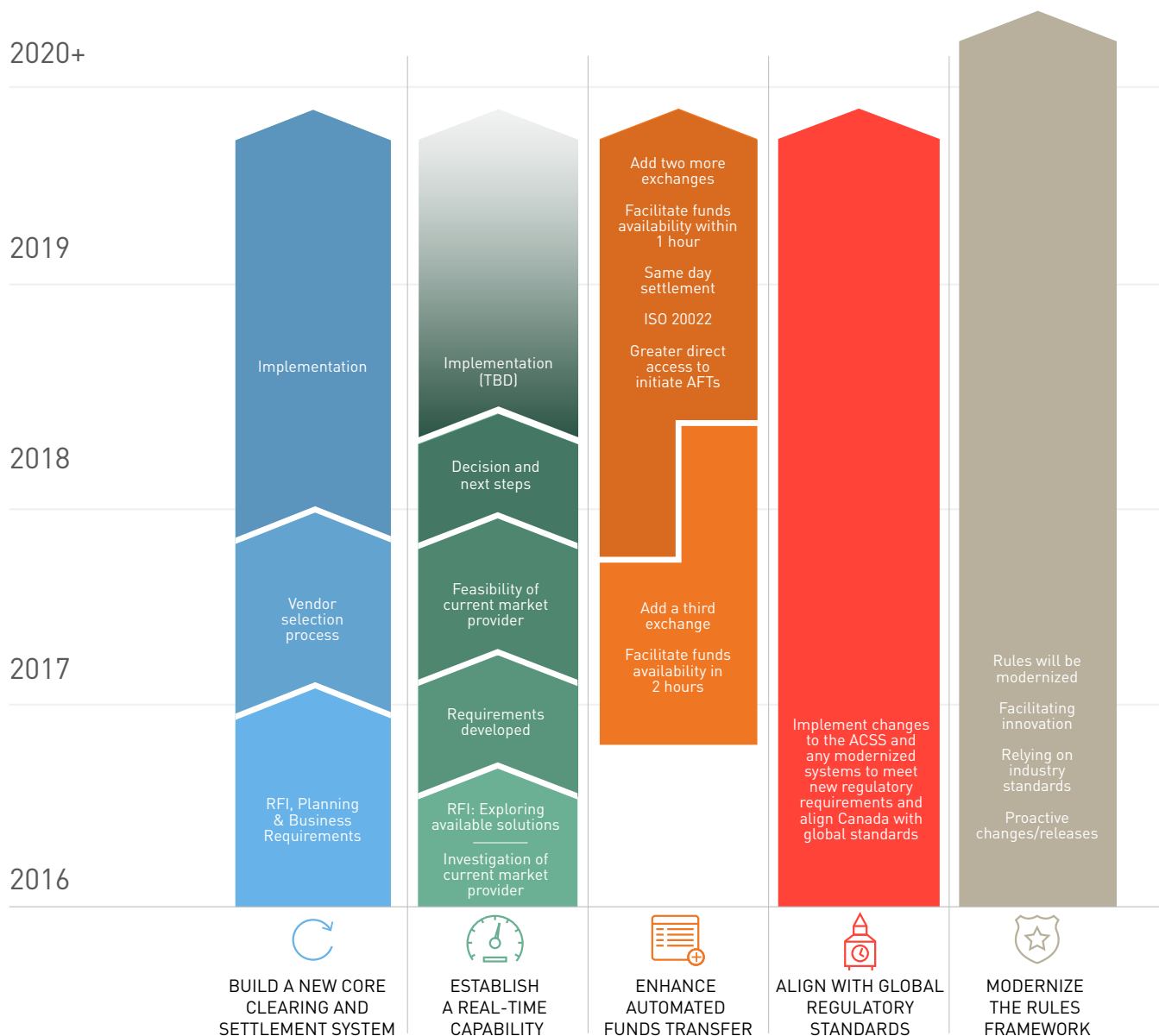
INDUSTRY ROADMAP AND HIGH-LEVEL PLAN

With the Vision as a guide, Payments Canada—in collaboration with financial institutions and industry stakeholders—developed the *Industry Roadmap and High-Level Plan* for Modernization.

Where the Vision tells us what needs exist in the marketplace, the Roadmap focuses on how Payments Canada and the industry—key stakeholders in governments, financial services and users of payments systems—can begin to deliver on those needs. Published in November, the Roadmap outlines five major initiatives over the coming years, all of which will be designed to meet global standards for risk management.

1. Modernizing Canadian Payments

The Roadmap Timeline



LOOKING AHEAD

With a focus on research, planning and conceptual design, 2016 was a foundational year on the Modernization journey. Alongside our industry partners, we now move into more granular requirements definition and vendor selection. With the support of our Working Groups—made up of members and stakeholders from across the industry—there is much to look forward to as we create a system that serves as a platform for innovation and enables new and exciting ways for Canadians to pay for goods and services, transfer money and exchange data about their payments. Supporting innovation at the customer level will be a faster, more flexible and secure payments infrastructure that puts Canada at the leading edge of payments. ■

2. OPERATE AND ENHANCE

In addition to advancing Modernization, in 2016 Payments Canada ensured that our systems remained stable and carried out financial transactions safely and reliably each day. The existing payments systems must continue to serve Canadians well over the coming years until Modernization is complete. Until that time, Payments Canada will enhance our current systems to close gaps, reduce operational risks and add resiliency.

DISASTER RECOVERY ENHANCEMENTS

As part of our commitment to risk management at Payments Canada, we launched the Disaster Recovery Enhancements (DRE) project in 2016. This work, which will conclude in 2017, brings us closer to best-in-class resiliency by enhancing our ability to seamlessly recover operations in the event of a disaster.

DISTRIBUTED LEDGER TECHNOLOGY RESEARCH

In 2016, we also participated in an experimental research project to investigate how distributed ledger technology (DLT)—a shared database that can be used to facilitate payments in a faster, more transparent and flexible way—may transform the future of payments in Canada. In partnership with the Bank of Canada, innovation firm R3 and six financial institutions, “Project Jasper” made headlines for exchanging central bank-issued receipts for deposited currency. Our work on Project Jasper continues and a new platform is expected to be launched in the spring of 2017.

DUPLICATE DETECTION GUIDELINES

Building on work done in 2015 on duplicate detection, Payments Canada assembled a guide to help financial institutions prevent and deal with duplicate image items, which began to arise as more financial institutions offered remote deposit capture—cheque imaging—to their clients. The guide provides processes, policies and tools to help minimize the number of duplicate items that enter the clearing system and practices for more efficiently handling those that do.

ENABLING TOKENIZED MOBILE PAYMENTS

Payments Canada also successfully executed the first phase of e-rules amendments to enable tokenized mobile payments at physical point-of-service (POS). The first phase of the e-rule amendments, which were approved by the board in September 2016, demonstrated Payments Canada’s effectiveness at responding to user needs and technological developments within the industry.

NEW AUDITOR PARTNER

In 2016, Payments Canada selected a new firm—PwC—to conduct the annual Large Value Transfer System (LVTS) audit, which provides confirmation to the Bank of Canada and LVTS participants that Payments Canada operates and manages the system according to documented practices and procedures. Bringing on a new auditor provides a fresh set of eyes and a new perspective to such an important aspect of the operations of our clearing and settlement systems. ■

3. TRANSITION AND RENEWAL

For Payments Canada to be successful in the ongoing operation, planning and implementation of Modernization and to effectively operate well into the future, it was essential we had the appropriate governance and internal capability and capacity. In 2016, we made significant strides in this area, building a foundation for the future.

GOVERNANCE STRUCTURE, COMMITTEES & COUNCILS

The Payments Canada Board welcomed four new directors in 2016, bringing the number of independent directors to seven. Governance changes were also made in 2016, including the revision of several board policies and the completion of memorandum of understanding negotiations with the Bank of Canada and Department of Finance.

Payments Canada also planned and implemented enhancements to its operational committee structure in 2016. These improvements are designed to better align the operational committees with Payments Canada's governance structure, enhance administrative efficiency and more effectively support Payments Canada's long-term objectives. The committees have been staffed with participant financial institution nominees.

In 2016, the Member Advisory Council (MAC) completed its first full year in operation and, alongside the Stakeholder Advisory Council (SAC), provided counsel and advice to Payments Canada management and board of directors throughout the year.

ORGANIZATIONAL RENEWAL

In 2016, the Canadian Payments Association became Payments Canada. The new name and brand identity symbolized the organization's transformation – including new governance, the recruitment of new leaders and a focus on building internal capacity - in a rapidly changing marketplace.

In 2016, the development of the Industry Roadmap and High-Level Plan for Modernization gave Payments Canada a better view of its resourcing needs. Seven new employees were hired to support the Modernization project with more expected to join in 2017. Overall, the organization hired 45 new employees in 2016, all of whom helped to fulfill operational needs and ensure secure, safe and reliable operations. With this expansion in 2016, Payments Canada enhanced its onboarding process, equipping new employees with core payments knowledge and provided networking opportunities across departments.

While Payments Canada itself transformed, so did its offices at Constitution Square. Human resources led an experiment in “untethered” workspace, which allows for a productive and collaborative work environment. Feedback from the employees who were untethered—choosing where they work instead of having a dedicated office or cubicle—was positive. Payments Canada also made significant progress towards an increased physical presence in our Toronto office. ■

ENTERPRISE RISK MANAGEMENT

Payments Canada has a robust Enterprise Risk Management (ERM) program to identify and manage key risks that could prevent the organization from achieving its objectives and mandate.

The program is overseen by the board of directors, implemented by management and executed throughout the organization. The board-approved ERM policy sets the overall intent and expectations for risk management at Payments Canada. The board-approved risk appetite statement sets out how Payments Canada manages risks in alignment with this organization's strategic plan. To do this, Payments Canada develops strategies to mitigate risk and maximize the positive effects of strategic opportunities.

RISK REPORTING

Payments Canada risk reports provide decision-makers with a comprehensive and integrated view of Payments Canada risks and the degree to which they align with the Risk Appetite. A rigorous bottom-up and top-down process is used to identify and communicate corporate risks to the organization. Potential causes and impacts of the risks, as well as an assessment of the effectiveness of risk response strategies is performed. These strategies can be preventative in nature, to reduce the likelihood of a risk event occurring, as well as mitigative in nature, designed to reduce the impact should a risk event occur. The risks are updated quarterly by management and are reported to the Risk, Audit and Finance Committee and the board.

Payments Canada's risks fall into four main categories: strategic, operational, financial and settlement. As part of ERM, Payments Canada has identified the top risks faced by the organization that were monitored and managed in 2016:

- A major Large Value Transfer System (LVTS) incident causes serious impact to the Canadian financial system and damage to Payments Canada's reputation and credibility as system operator.
- The loss of a key third-party vendor, which could impact other initiatives.
- A cyber-attack results in a major payments system slowdown, outage or breach.
- The Modernization project fails to deliver a payments clearing and settlement system that meets the needs of Canadians.
- Loss of member support as Payments Canada moved forward with implementing its strategic plan.
- Payments Canada is no longer relevant or influential in the Canadian and global payments ecosystem.
- Transformational risk: the magnitude and complexity of change leads to failure to meet all corporate objectives.

ENHANCEMENTS TO OPERATIONAL RISK MANAGEMENT

Payments Canada has a multi-year plan to enhance its risk management framework and position Payments Canada among the most resilient globally within the financial industry. This plan sets us up well to meet the needs identified in the Resiliency and Security Strategy. In 2016, we:

- Refined our ERM policy and developed a supporting framework, which provides guidance on how to adhere to the policy.
- Developed an operational risk management policy to provide a formal structure to identify, monitor and manage operational risk. By ensuring alignment with the ERM policy and Risk Appetite, Payments Canada has taken a holistic approach to establishing its operational risk-management framework.
- Developed a business continuity/disaster recovery testing plan in the context of the ERM policy. The objectives of this plan are to improve our readiness to manage operational disruptions to normal operations in an efficient and effective manner and to guide the integration of business continuity and disaster recovery testing into comprehensive plans that are executed according to scope, objectives and timelines in alignment with our strategic objectives.

MEETING BANK OF CANADA OVERSIGHT STANDARDS

As a systemically important financial market infrastructure, the Large Value Transfer System (LVTS) is held to global standards. Payments Canada observes or broadly observes the majority of standards and is working toward implementing all standards by the end of 2017.

The Automated Clearing Settlement System (ACSS) was designated by the Bank as Prominent in May 2016 after their oversight responsibilities were expanded to include Prominent Payment Systems in 2014. The designation as a Prominent Payment System brings the ACSS under the formal oversight of the Bank, which requires compliance with Risk-Management Standards for Prominent Payment Systems.¹ The standards are based on the CPMI-IOSCO² Principles for Financial Market Infrastructures,³ which were amended to reflect the different risks posed by Prominent Payment Systems, compared to systems designated as systemically important.

Payments Canada performed its initial self-assessment of the ACSS against the Bank of Canada standards for Prominent Payment Systems. The self-assessment applies the standards to the ACSS model, taking into account the characteristics and design of the ACSS application and Payments Canada as an organization, including the statutory framework in which it operates. Following the self-assessment, a high-level plan to address the gaps was developed. While some of the gaps will need to be addressed prior to Modernization, others will be addressed as part of that project. ■

¹ Available at: <http://www.bankofcanada.ca/wp-content/uploads/2016/02/criteria-risk-management-standards.pdf>

² CPMI-IOSCO: Committee on Payment and Settlement Systems - International Organization of Securities Commissions

³ Available at: <http://www.bis.org/cpmi/publ/d101a.pdf>

CLEARING & SETTLEMENT SYSTEM STATISTICS

ACSS 2016 statistics

Total volume: **7.42 billion items** Total value: **\$6.6 trillion**

Daily average volume: **29.46 million** Daily average value: **\$26.2 billion**

CLEARING AND SETTLEMENT SYSTEM STATISTICS

Payments Canada operates two national systems for the clearing and settlement of payments: the Automated Clearing Settlement System (ACSS) and the Large Value Transfer System (LVTS), which is Canada's wire transfer system. The LVTS is used to fund settlement for ACSS clearing balances at the Bank of Canada and also facilitates settlement for Canada's other financial market infrastructures and payment systems. Virtually all interbank Canadian dollar financial market transactions are ultimately settled via LVTS payments.

In 2016, Payments Canada systems cleared approximately 7.4 billion payments (an average of 29.5 million payments per business day) worth a total value of \$50.8 trillion (or \$201.5 billion on average per business day).

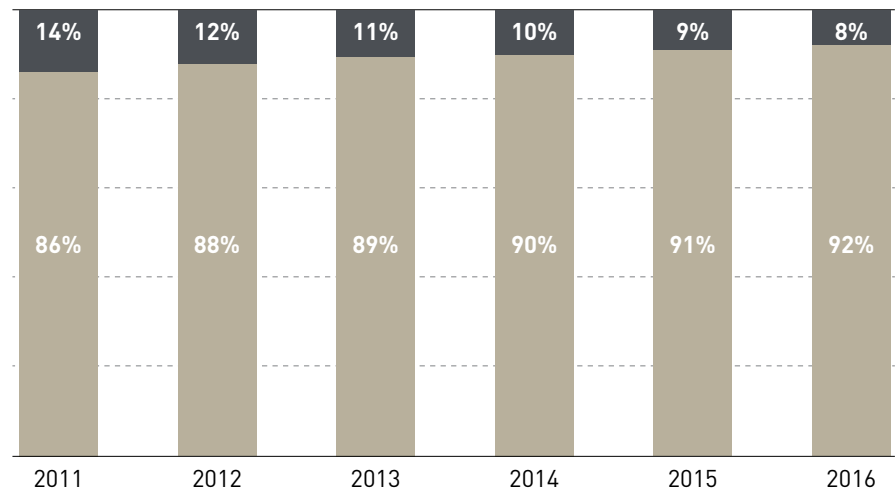
The ACSS is the system through which the vast majority of payment items (both paper-based and electronic) are cleared, through various payment “streams.” These are mainly low-value, high-volume retail payments. The ACSS uses the aggregate volume and value data of payment exchanges to calculate amounts owing between pairs of financial institutions, as well as the net position of each financial institution overall.

Several payments trends identified in our systems throughout the year are highlighted in the following charts and graphs.

In 2016, electronic payments continued to increase in volume and remain stable in value.

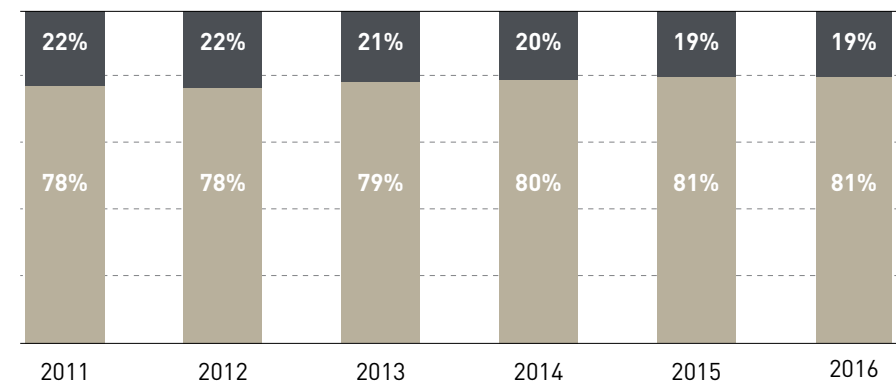
Electronic vs. Paper Payment Items including ACSS and LVTS (MT 103 stream, or customer-initiated payments only⁴)

ACSS and LVTS Electronic and Paper Volumes



■ Electronic
■ Paper

ACSS and LVTS Electronic and Paper Value

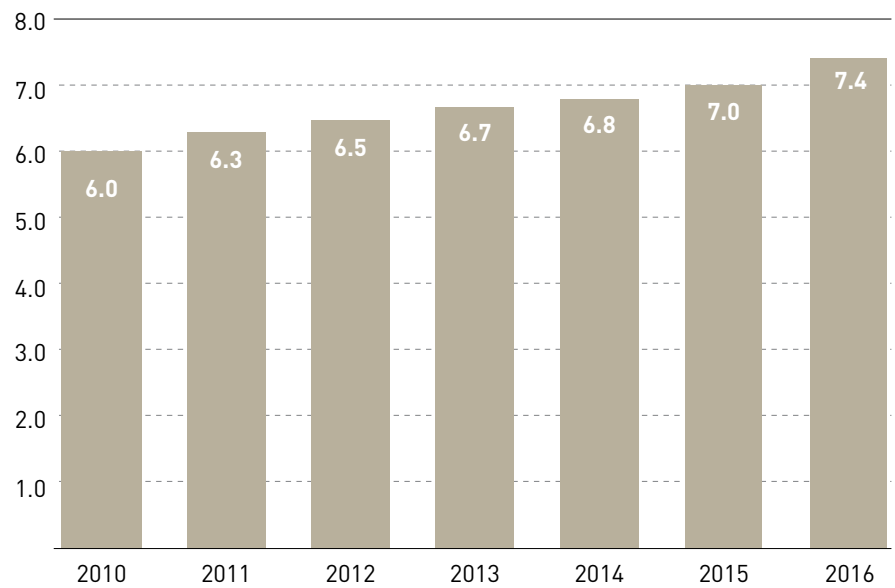


⁴The LVTS has two payments types: MT 103 and MT 205. In 2016, 66 per cent of transactions by volume were MT 103 (as designated by the 103 message code) which include customer-initiated payments only (business and wire payments). 34 per cent were MT 205 transactions, which are used for settlement purposes between FIs, including settlement for credit card transactions, securities settlement, and payment transfers between FIs to settle ACSS positions.

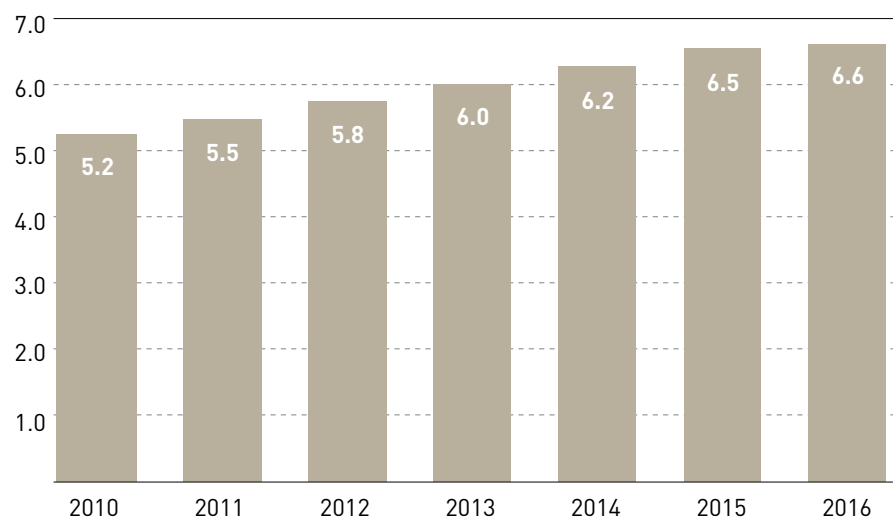
ACSS VOLUME AND VALUE

ACSS volume and value continued to trend upward in 2016. Volume increased by six per cent, and value by two per cent over 2015.

ACSS Volume (\$Billions)

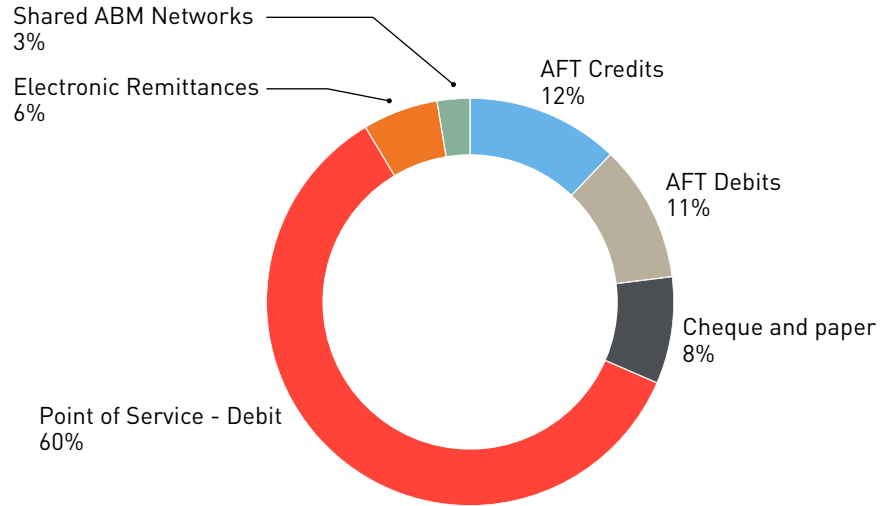


ACSS Value (\$Trillions)

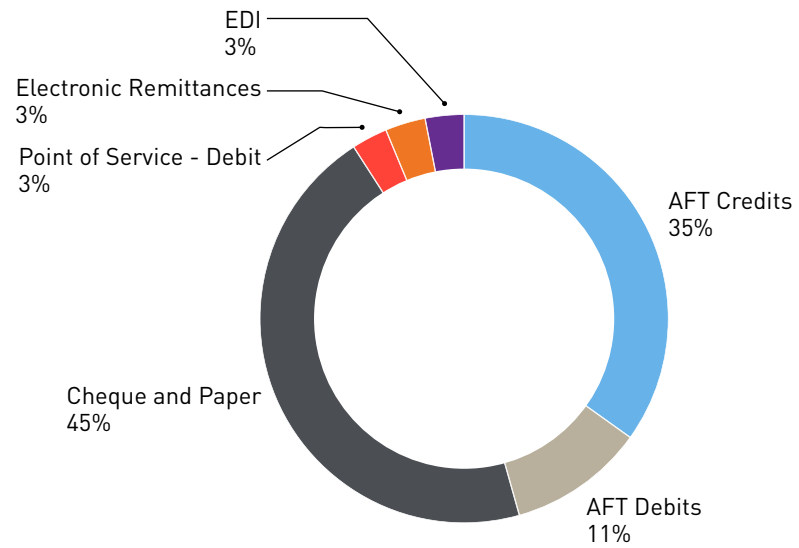


ACSS STREAM BREAKDOWNS

Share of ACSS Volume



Share of ACSS Value

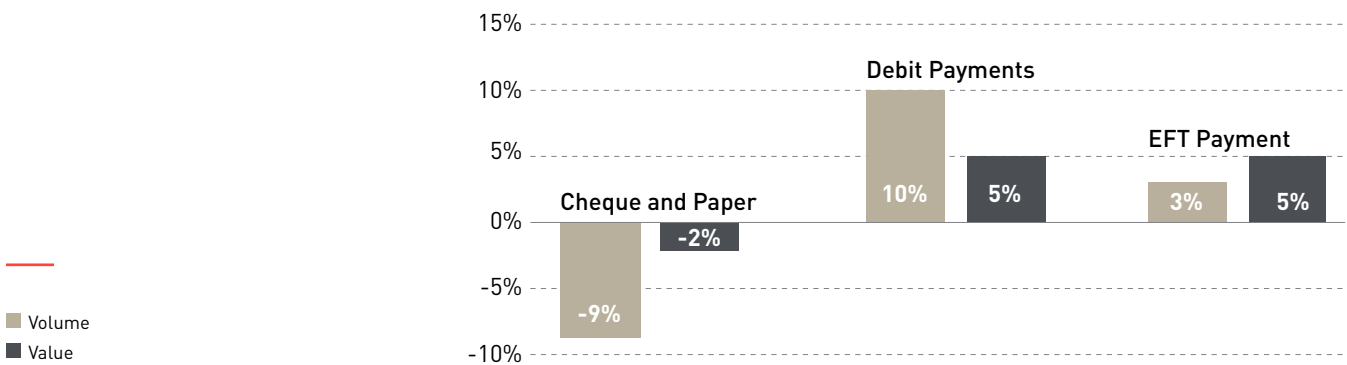


- Point of Service - Debit
- AFT Credits
- Electronic Remittances
- AFT Debits
- Shared ABM Networks
- EDI
- Cheque and paper

Point-of-Service (POS) debit transactions account for the majority of payments in the ACSS (60 per cent), followed by AFT credits (also known as direct deposits), which represent 12 per cent of system volume.

One of the major milestones in 2016 was the fact that AFT payments (pre-authorized debits and direct deposits) were the largest value stream (46 per cent), surpassing cheques for the first time (cheques accounted for 45 per cent of the ACSS value).

ACSS General Payment Types Year-Over-Year Change (2016)



While cheques and paper payment items decreased in volume in 2016—down nine per cent year-over-year—they still accounted for 45 per cent of the total value processed by the ACSS and eight per cent of its volume.

According to the 2016 report,⁵ out of the estimated 875.5 million cheques processed in Canada in 2015,⁶ (worth an estimated \$3.9 trillion), 29 per cent were written by individuals. These represented only about three per cent of total value of cheques in Canada (\$106 billion). The majority of cheques in Canada (an estimated 71 per cent) were issued by businesses—small-to-medium size enterprises, in particular. In 2015, business cheques and paper items in Canada had an estimated value of nearly \$3.88 trillion—about 97 per cent of the value of all cheques in Canada.⁷ A key reason why businesses still use cheques and paper payment items is a lack of sufficient remittance data in electronic payments.⁸ Increasing the capacity for remittance data to travel with a payment, through the implementation of ISO 20022 payment messaging, for example, is crucial to enabling business migration to e-payments, and is therefore a particular focus of the Payments Canada strategy.

⁵ *Canadian Payment Methods and Trends*, Payments Canada, November 2016.

⁶ In calculating the estimated number of cheques in Canada, assumptions were made for items not cleared through Payments Canada systems such as “on-us” items, leading to a different total than is shown in other sections about items cleared through the ACSS. On-us items are payments between customers of the same financial institution, which are handled as book entries by financial institutions.

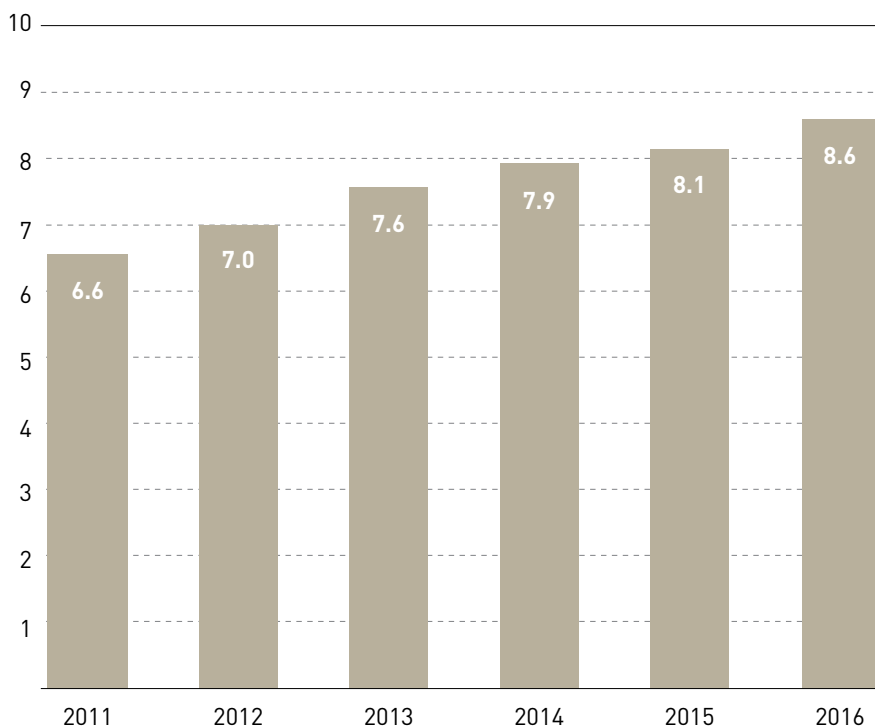
⁷ Adapted from *Canadian Payments Forecast 2014*, Technology Strategies International, May 2014.

⁸ *The Role of Automated Funds Transfer Payments in Canada’s Declining Use of Cheques*, Payments Canada, June 2015.

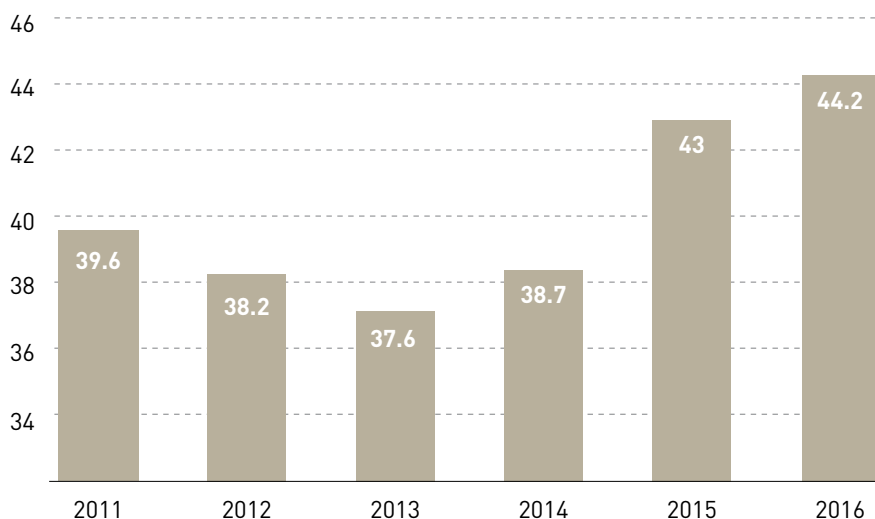
The LVTS is an electronic wire system that facilitates the transfer of irrevocable payments in Canadian dollars across the country. Through the LVTS, funds can be transferred between participating financial institutions virtually instantaneously in a fully collateralized environment. The LVTS plays a critical role in the Canadian financial system, and has been designated as systemically important under the *Payment Clearing and Settlement Act*.

LVTS VOLUME AND VALUE

LVTS Volume (\$Millions)



LVTS Value (\$Trillions)



LVTS 2016 statistics

Total volume:
8.6 million

Total value:
\$44.2 trillion

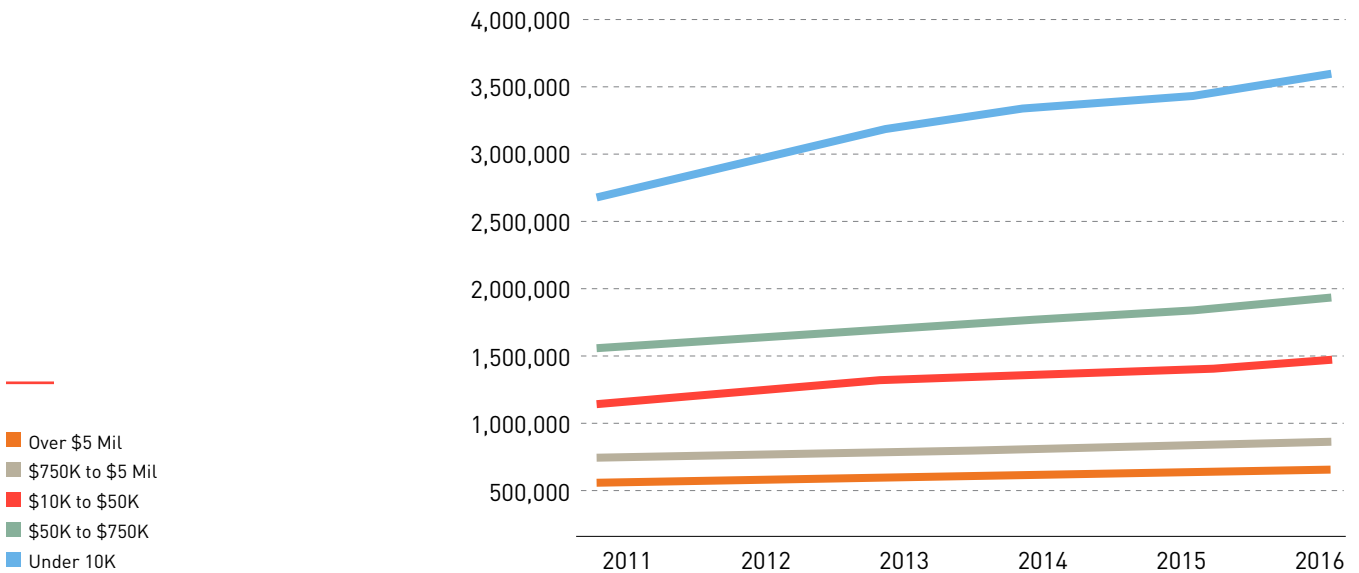
Daily average volume:
34,035

Daily average value:
\$175.2 billion

LVTS VOLUME GROUPED BY TRANSACTION SIZE

The total value of LVTS payments increased by \$1.2 trillion in 2016. This can be attributed mostly to an increase in the number of settlement transactions, which grew by about \$997 billion. The value of customer-initiated wire payments (MT 103s) also rose by approximately \$138 billion in 2016 compared to 2015.

LVTS Volume Grouped by Transaction Size





We began to see tangible market reactions to the drivers that are steering payments around the world and those behaviours have created new possibilities that, I believe, will forever change the Canadian payments landscape.

PAYMENTS CANADA'S 2016 SCORECARD

Key targets and supporting initiatives were identified to support the 2016 scorecard. As detailed in the 2016 priorities, progress against almost all of the corporate strategies and initiatives proceeded as planned, with the exception of the following:

- Availability targets were not met for the second quarter for LVTS.
- The Disaster Recovery Enhancements (DRE) Project team chose to investigate an aggressive timeline, but after careful assessment they decided a new implementation approach was needed to minimize risk and the timeline was extended into Q3 2017.

The 2016 priorities and status include additional information on the stage of these and other key corporate targets and initiatives.

- 1 -

MODERNIZE

- 2 -

**OPERATE AND
ENHANCE**

- 3 -

**TRANSITION
AND RENEWAL**

2016 PRIORITIES AND STATUS

1. MODERNIZE

EXPECTED OUTCOMES:

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

INITIATIVES	STATUS	UPDATE
Vision is supported by critical industry participants and stakeholders.	▲	Unanimous support for the Vision document by participants, stakeholders and regulators.
Conceptual design developed with industry input.	▲	Conceptual design work completed, including a system vendor RFI, international and national research, current payments systems analysis, the industry creation and support of the <i>Industry Roadmap and High-Level Plan</i> .
Program governance model evolved.	▲	An agreed-upon program governance model that will evolve through the stages.
Viable funding approach developed.	▲	Agreement on a funding approach with our participants, including how to handle upfront investments, allocation and pricing strategy.
ISO 20022 messages for AFT published.	▲	Publication of ISO 20022 messages and rules framework for AFT for use by industry. ISO 20022 EDI and LVTS messages and standards published for reference only.
A bylaw and rules analytical framework is developed.	▲	Developed a taxonomy and populated a repository to store content on rules: rules affecting Modernization were given priority.
Payments Canada brand is refreshed.	▲	The successful rebranding of the Canadian Payments Association to Payments Canada at the conference to reflect our new direction, our changed governance and vision.

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

EXPECTED OUTCOMES:

Observe Bank of Canada Financial Market Infrastructure standards.	Align our resiliency and risk practices with Payments Canada's risk appetite and best practices.	Enhance our services and collaboration with participants and stakeholders.
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INITIATIVES	STATUS	UPDATE
Payments systems exceed service availability targets.	▼	Payments systems exceeded service availability targets, except for LVTS in the second quarter. Corrective actions have been taken.
Board approved new risk appetite.	▲	Risk appetite approved by Board in December.
Compliance framework developed.	▲	Gaps and recommendation for member compliance have been identified this year as planned, with implementation work starting in 2017.
Resiliency enhancements: secondary data centre improvements.	▼	Resiliency improvements in progress for DRE Project, however scope and timeline have been extended to Q3 2017 from the original target of December 2016 to reduce overall program risk.
Resiliency enhancements: cyber event handling improvements.	▲	Cyber focused on increases in capacity and expertise, enhanced detection exercises and tests, process improvements and cyber reporting improvements within its supply chain management.
Research produces regular, influential publications and engagements.	▲	Research contributed significantly to Modernization and Project Jasper. Research conference was a great success in building substantial contacts.
Implement a participant and stakeholder engagement program.	▲	The relationship management focus has been on the Modernization initiative, which has greatly contributed to the alignment of the industry around the <i>Industry Roadmap and High-Level Plan</i> .
Deliver a high quality, influential Payments Panorama conference.	▲	Payments Panorama conference exceeded delegate and sponsorship targets and received high survey results from delegates.

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



In 2016, we made significant strides in this area, building a foundation for the future.

3. TRANSITION AND RENEWAL

EXPECTED OUTCOMES:

- Finalize our governance changes
- Improve our internal business processes
- Optimize organizational performance

INITIATIVES	STATUS	UPDATE
Implement the remaining governance changes.	▲	We completed our governance changes, including revising a number of board policies, completing MOU negotiations with Bank of Canada and Department of Finance, restructuring the senior operational committee, completing amendments to the administration and are on track for the Department of Finance bylaw changes to be implemented in 2017.
Approval of the first Corporate Plan by the minister of finance.	▲	Approved
Complete the organizational renewal program.	▲	The organizational renewal program was substantially completed with a large amount of work concluded on succession plans, leadership development programs, service profiles and addressing internal audit improvements.

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



Not only will we will continue to operate a safe, secure and reliable payment system for all Canadians, but we will see tremendous progress towards building the pillars of modern payments.

CORPORATE PLAN FOR 2017

Payments Canada is guided by three long-term desired outcomes. A new outcome, create new opportunities, replaces the completed transition and renewal outcome from 2016. Below are our strategies and key initiatives for 2017.

- 1 -

MODERNIZE 2017-2021 Strategy

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

- 2 -

OPERATE & ENHANCE 2017-2021 Strategy

Strengthen our management and overall performance in the key areas of payments systems resiliency, addressing regulatory requirements and operational excellence.

- 3 -

CREATE NEW OPPORTUNITIES 2017-2021 Strategy

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

MODERNIZE

Key 2017 Initiatives

1. **New core clearing and settlement system.** Acquire a new core clearing and settlement system that will replace both the LVTS and ACSS applications. The new system should be implemented over the next few years.
2. **Real-time capability.** Develop and advance the strategy for an ISO 20022-enabled real-time capability in Canada. The first half of 2017 is focused on defining the requirements and assessing the feasibility of the current market provider. The decision will determine the next steps and the implementation approach that will be developed in the latter half.
3. **AFT batch enhancements.** Progress with the functional enhancements to the AFT batch payments with additional exchange windows for mid-2018 and late 2019. An implementation strategy for mandating ISO 20022 will also be developed in 2017.
4. **Regulatory changes for ACSS.** Make changes to the ACSS to meet the Bank of Canada standards for prominent payment systems. The changes focus on a new risk model to collateralize the ACSS to cover credit risk exposure in addition to activities related to credit risk monitoring, manual balancing tiered participation and recovery plans.
5. **Rules framework.** Modernize our rules framework while prioritizing rules and amendments that support 2017 changes.
6. **Industry program management office.** Establish an industry-wide program management office to support the industry and the changes being undertaken in 2017.

OPERATE AND ENHANCE

Key 2017 Initiatives

1. **Operational performance.** Achieve operational performance targets for quarterly availability of payments systems and demonstrate prudent financial management.
2. **Resiliency enhancements.** Improve our core payments systems' resilience, including enhancements to disaster recovery and our approaches to cyber incidents.
3. **Relationships.** Continue to build the confidence of our stakeholders and our breadth of influence within the ecosystem.
4. **Regulatory requirements.** Complete regulatory FMI requirements for LVTS, focusing on intra-day liquidity monitoring and tiered participation monitoring.
5. **Strengthen culture.** Continue strengthening the culture while integrating new resources required as a result of Modernization.

CREATE NEW OPPORTUNITIES

Key 2017 Initiatives

1. **Innovation.** Put the foundational elements in place to foster an innovative culture through the development of a strategy and the dedication of staff to the activity.
2. **Non-transactional revenue.** Grow non-transactional revenue in the areas of the conference, as well as other opportunities, as appropriate.
3. **Emerging technologies.** Identify and evaluate emerging technologies and business offerings that provide value to our members, stakeholders and users through the completion of Project Jasper Phase II. ■

THE BOARD OF DIRECTORS

Under the leadership of Eileen Mercier, the board chair, and Payments Canada President and CEO Gerry Gaetz, the 12-director board is charged with directing and managing the affairs of the organization with a focus on strategic and policy matters.

With the addition of four new directors with a diverse range of expertise in 2016, the board now has seven independent directors. The board welcomed Dan Dickinson, vice-president of digital banking for Equitable Bank, Marie Lynne Desrochers, a senior vice-president of commercial and international solutions for the National Bank of Canada, David T. Barnard, president and vice-chancellor at the University of Manitoba and Susan Doniz, named one of Canada's most powerful women by the Women's Executive Network.

The board receives advice and counsel from the Payments Canada Stakeholder Advisory Council and the Member Advisory Council. ■



CPA Board of Directors: Sean Lesy, Lib Gibson, David Barnard, Susan Doniz, Chuck Hounsell, Gerry Gaetz, Dan Dickinson, Eileen Mercier, Malcolm Knight, Brenda Clark, Stuart MacKinnon, Doug Steiner, Marie Lynne Desrochers

PAYMENTS CANADA BOARD OF DIRECTORS

ELECTED UNTIL ANNUAL MEETING OF MEMBERS 2019

David Barnard
Independent Director

Susan Doniz
Independent Director

Dan Dickinson
Vice President, Digital Banking,
Equitable Bank

ELECTED UNTIL ANNUAL MEETING OF MEMBERS 2018

Eileen Mercier (Chair)
Independent Director

Malcolm Knight (Deputy Chair)
Independent Director

Lib Gibson
Independent Director

Chuck Hounsell
Senior Vice President, Payments,
The Toronto-Dominion Bank

ELECTED UNTIL ANNUAL MEETING OF MEMBERS 2017

Stewart MacKinnon
Independent Director

Brenda Clark
Vice President, Payment Innovation
and Integration Enterprise Innovation,
Canadian Imperial Bank of Commerce

Doug Steiner
Independent Director

Sean Lesy
Chief Investment Officer, Credit Union
Central Alberta Limited

BOARD COMMITTEES

There are four board committees with mandates to carry out specific functions to support the Payments Canada Board of Directors.

2016 MEMBERSHIP⁹

Malcolm Knight – Chair
Sean Lesy
Doug Steiner
Marie Lynne Desrochers
Eileen Mercier (ex officio)

RISK, AUDIT AND FINANCE COMMITTEE (RAFC)

The Risk, Audit and Finance Committee assists the board in fulfilling its responsibilities in relation to several crucial functions: risk management oversight, including oversight over Payments Canada’s Enterprise Risk Management (ERM) Policy and risk appetite statement; financial monitoring and audits (i.e., oversight of procedures and controls, income and expenses, preparation of financial statements and external audits); and financial planning, including oversight of budget development. This committee may also oversee projects as delegated by the board.

2016 MEMBERSHIP¹⁰

Stewart MacKinnon – Chair
Brenda Clark
Lib Gibson
David Barnard
Malcolm Knight
Sean Lesy
Eileen Mercier (ex officio)

GOVERNANCE AND NOMINATING COMMITTEE (GNC)

The Governance and Nominating Committee assists the board in fulfilling its responsibilities in relation to governance (i.e., oversight of board performance effectiveness, governance policies and guidelines, and compliance); code of conduct and standards of behaviour for board and management; director nomination and qualification; board succession planning; board orientation and continuing education; and evaluation of board committees as a whole.

⁹ As at December 31, 2016.

¹⁰ As at December 31, 2016.



The broad skills of our independent directors complement the subject matter expertise of member financial institutions and we are well positioned as we move into 2017.

2016 MEMBERSHIP¹¹

Chuck Hounsell – Chair
Susan Doniz
Dan Dickinson
Stewart MacKinnon
Eileen Mercier (ex officio)

2016 MEMBERSHIP¹²

Brenda Clark– Chair
Lib Gibson
Chuck Hounsell
Doug Steiner
David Barnard
Susan Doniz
Dan Dickinson
Eileen Mercier (ex officio)

HUMAN RESOURCES AND COMPENSATION COMMITTEE (HRCC)

The Human Resources and Compensation Committee assists the board in fulfilling its responsibilities in the evaluation and compensation of the president and CEO; review of the CEO’s evaluation of senior management; employee benefits and pension plans; human resources policies; and management succession planning.

TECHNOLOGY AND MODERNIZATION COMMITTEE (TMC)

The Technology and Modernization Committee assists the board in fulfilling its responsibilities in: reviewing strategies for technology and Modernization and related areas, including resilience and cyber security; monitoring the performance of technology throughout Payments Canada and its contribution towards Payments Canada’s business and strategic objectives; identifying, monitoring and evaluating existing and emerging technology issues and trends that may affect Payments Canada’s strategic plan; and monitoring technology-related risks and Payments Canada’s plans and efforts to manage those risks.

¹¹ As at December 31, 2016.

¹² As at December 31, 2016.

BOARD AND COMMITTEE ATTENDANCE

MEMBER	MEMBER SINCE	BOARD	RAFC	GNC	HRCC	TMC
NUMBER OF MEETINGS		6	4	5	4	5
DIRECTOR ATTENDANCE						
E. Mercier – Chair	July 2015	6	4	5	4	4
M. Knight – Deputy Chair	July 2015	5	4	2	n/a	n/a
B. Clark	March 2010	6	n/a	5	n/a	5
L. Gibson	July 2015	6	n/a	5	n/a	5
C. Hounsell	July 2015	6	n/a	n/a	3	3
S. Lesy	July 2015	5	3	1	n/a	n/a
S. MacKinnon	March 2011	6	n/a	5	2	n/a
R. Matthews	August 2002	3	2	n/a	2	n/a
D. Palozzi	April 2015	2	n/a	2	2	n/a
C. Stange	March 2012	2	1	2	n/a	n/a
D. Barnard	May 2016	3	n/a	2	n/a	2
S. Doniz	May 2016	3	n/a	n/a	2	2
D. Dickinson	May 2016	2	n/a	n/a	2	2
D. Steiner	July 2015	6	4	n/a	n/a	5
M.L. Desrochers	May 2016	3	2	n/a	n/a	n/a
S. Zee	March 2013	2	n/a	n/a	2	n/a
G. Gaetz	July 2015	6	n/a	n/a	n/a	n/a

PAYMENTS CANADA EXECUTIVE LEADERSHIP TEAM

The Payments Canada Executive Leadership Team (ELT) provides strategic direction, leadership and oversight to the organization. In 2016, the team's composition changed as several members took on new challenges and as new members stepped in.

Gerry Gaetz

President and Chief Executive Officer

Justin Ferrabee

Chief Operating Officer

Sheila Vokey

Chief Financial Officer

Jan Pilbauer

Executive Director, Modernization
and Chief Information Officer

Anne Butler

Vice President Policy, Research,
Legal and General Counsel

Nora Cox

Chief Risk Officer



Executive Leadership Team: Jan Pilbauer, Nora Cox, Anne Butler, Gerry Gaetz, Carol Ann Northcott, Sheila Vokey, Justin Ferrabee

MEMBER ADVISORY COUNCIL

MAC provides 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.

The 20-person Member Advisory Council (MAC) is codified in the Canadian Payments Act. MAC serves as a consultative and engagement forum for system participants who are members of Payments Canada.

APPOINTED UNTIL JULY 2019

Rizwan Khalfan

Senior Vice President and Chief Digital Officer, The Toronto-Dominion Bank

Rania Llewellyn

SVP, Cash Management & Payment Services, The Bank of Nova Scotia

Maureen Jarvis

Managing Director, Head of Global Transaction Services Canada, Bank of America, National Association

Brian Guillemin

EVP, Corporate Services, Concentra Financial Services Association

Min (David) Zhang

EVP and Head of IT Department, Industrial and Commercial Bank of China (Canada)

John Landry

Managing Director, Head of Treasury and Trade Solutions, Citibank Canada



Member Advisory Council: Min Zhang, Maureen Jarvis, Stephen Lacelle, John Landry, David Losier, Carolyn Burke, Gerry Gaetz, Rizwan Khalfan, Amy Altersohn, Grahame Johnson, Ernie Johannson, Todd Roberts

APPOINTED UNTIL JULY 2018

Carolyn Burke

Head, Regulatory, Compliance and International Digital, Payments and Cards, Royal Bank of Canada

Stephen Lacelle

Vice President, Operations, National Bank of Canada

Ed White

Senior Vice President and Head of Canada Operations, HSBC Operations, Services & Technology, HSBC Bank Canada

Diane Davies

VP, Operations, Canadian Western Bank

Patrice Dagenais

Vice President, Payment Services & Business Partnership, La Fédération des caisses Desjardins du Québec

John Tarnowski

SVP and Head of Customer Experience, Alberta Treasury Branches

Grahame Johnson

SVP and Head of Customer Experience, Bank of Canada

APPOINTED UNTIL JULY 2017

Erminia (Ernie) Johannson

Head, Canadian Personal Banking, Personal & Commercial Banking, Bank of Montreal

Todd Roberts

Senior Vice President, Canadian Imperial Bank of Commerce

David O'Neill

SVP, Technology, B2B Bank (representing Laurentian Bank of Canada)

Vacant

Vacant, Tangerine Bank

Amy Altersohn

Executive Director, JPMorgan Chase, National Association

Oscar van der Meer

Chief Digital & Payment Services Officer, Central 1 Credit Union

David Losier

Vice President and CFO, La Fédération des caisses populaires Acadiennes

2016 MAC MEMBERSHIP AND MEETING ATTENDANCE

COUNCIL MEMBER	ORGANIZATION REPRESENTED	MEMBER SINCE	MEETINGS ATTENDED (OR DELEGATE)
CURRENT MEMBERS			
Carolyn Burke – Chair	Royal Bank of Canada	July 2015	5/5
Patrice Dagenais - Vice Chair	La Fédération des caisses Desjardins du Québec	July 2015	5/5
John Landry	Citibank Canada	July 2016	1/2
Amy Altersohn	JPMorgan Chase Bank, National Association	July 2015	5/5
Diane Davies	Canadian Western Bank	July 2015	4/5
David O’Neill	B2B Bank (representing Laurentian Bank of Canada)	July 2016	2/2
Brian Guillemin	Concentra Financial Services Association	July 2015	3/5
Maureen Jarvis	Bank of America, National Association	July 2015	5/5
Erminia (Ernie) Johannson	Bank of Montreal	July 2015	5/5
Grahame Johnson	Bank of Canada	July 2015	4/5
Rizwan Khalfan	The Toronto-Dominion Bank	July 2015	5/5
Stephen Lacelle	National Bank of Canada	July 2015	5/5
Rania Llewellyn	The Bank of Nova Scotia	July 2015	5/5
David Losier	La Fédération des caisses populaires Acadiennes Limitée	July 2015	3/5
Todd Roberts	Canadian Imperial Bank of Commerce	July 2015	5/5
Oscar van der Meer	Central 1 Credit Union	July 2015	5/5
Ed White	HSBC Bank Canada	July 2015	4/5
Min (David) Zhang	Industrial and Commercial Bank of China (Canada)	July 2016	2/2
John Tarnowski	Alberta Treasury Branches	December 2016	1/1
PAST MEMBERS			
Charles Alexander	Citibank Canada	July 2015	3/3
Nathalie Généreux	Laurentian Bank of Canada	July 2015	1/1
Charaka Kithulegoda	Tangerine Bank	July 2015	3/3
Mingxuan (William) Zhu	Industrial and Commercial Bank of China (Canada)	July 2015	3/3
Curtis Stange	Alberta Treasury Branches	July 2016	1/1

STAKEHOLDER ADVISORY COUNCIL

Payments Canada’s 20-person Stakeholder Advisory Council (SAC) was established in 1996 and was formalized in the Canadian Payments Act in 2001. SAC provides advice to the Payments Canada Board of Directors on payment, clearing and settlement matters and provides input on proposed initiatives. The council also identifies issues that might concern payments system users and service providers and suggests how they could be addressed.

APPOINTED UNTIL MARCH 31, 2019

Donna Kinoshita

Senior Vice President, Global Products and Solutions, MasterCard Canada, User / SP

Karl Littler

Vice President, Public Affairs, Retail Council of Canada, User (Retail)

Laurence Cooke

Founder & CEO, nanoPay Corporation, User / SP

Brent Mizzen

Director, Policy Development, Canadian Life and Health Insurance Association, User

Brenda Gibson

Vice President, British Columbia Region, Wawanesa Insurance, User



Stakeholder Advisory Council: Bill Piggot, Hugues Vaillancourt, Laurence Cooke, Don Mercer, Donna Kinoshita, Jacques St Amant, Jean Hope, Karl Littler, Brent Mizzen, Doug Bruce, Gerry Gaetz, Peter Thom

APPOINTED UNTIL MARCH 31, 2018

Jacques St Amant

Consultant, Public Interest Advocacy Centre, User (Consumers)

Céline Chartier

Director General, Banking and Cash Management, Receiver General for Canada, PSPC, User (Gov't)

John McKenzie

Chief Operating Officer & Chief Financial Officer, Canadian Depository for Securities Ltd., User

Peter Thom

Director, Treasury Operations & Assistant Treasurer, Bell Canada, User (Treasury)

Caroline Hubberstey

Head, External Affairs, Interac Association, User / SP

Sue Hutchison

Senior Vice President, Payments, D+H Canada, SP

APPOINTED UNTIL MARCH 31, 2017

Doug Bruce

Vice President, Research, Canadian Federation of Independent Business, User (Retail)

Jean Hope

Director, Financial & Banking Relations, Banking & Cash Management Branch, Ministry of Finance, Province of British Columbia, User (Gov't)

Don Mercer

President & Financial Services Issues Committee Chair, Consumers Council of Canada, User (Consumers)

Tom Morrison

Director, Treasury Operations, Suncor Energy, Association for Financial Professionals of Canada, User (Treasury)

Ritu Khanna

Head, Global Core Payments, PayPal Canada, User / SP

Bill Piggot

Vice President, International Money Movement, ADP Canada, User / SP

PAYMENTS CANADA BOARD OF DIRECTORS REPRESENTATIVES

Susan Doniz

Chief Information Officer, Payments Canada Board of Directors, n/a

Marie Lynne Desrochers

Senior Vice President, Commercial and International Solutions, National Bank of Canada

FINANCE CANADA OBSERVER

Hugues Vaillancourt

Chief, Financial Sector Policy Branch, Finance Canada, n/a

2016 SAC MEMBERSHIP AND MEETING ATTENDANCE

COUNCIL MEMBER	ORGANIZATION REPRESENTED	MEMBER SINCE	MEETINGS ATTENDED (OR DELEGATE)
CURRENT MEMBERS			
Brent Mizzen (Chair)	Canadian Life and Health Insurance Association	November 2012	4/4
Bill Piggot (Vice Chair)	ADP Canada	April 2014	4/4
Doug Bruce	Canadian Federation of Independent Business	April 2014	4/4
Brenda Gibson	Wawanesa Insurance	April 2015	3/4
Jean Hope	Province of British Columbia	April 2014	4/4
Caroline Hubberstey	Interac Association	April 2012	2/2
Sue Hutchison	D+H Canada	April 2015	0/2
Ritu Khanna	PayPal Canada	April 2014	3/4
Laurence Cooke	nanoPay Corporation	April 2016	3/3
Donna Kinoshita	MasterCard Canada	December 2016	0/0
Céline Chartier	Receiver General (Federal Government)	September 2016	1/1
Susan Doniz (Payments Canada Board)	Qantas Airlines	May 2016	2/2
John McKenzie	Canadian Depository for Securities Ltd.	April 2015	4/4
Don Mercer	Consumers Council of Canada	April 2014	4/4
Tom Morrison	Association for Financial Professionals of Canada (Suncor Energy)	April 2014	4/4
Jacques St Amant	Public Interest Advocacy Centre	April 2011	4/4
Peter Thom	Bell Canada	October 2004	4/4
Karl Littler	Retail Council of Canada	April 2016	3/3
Marie Lynne Desrochers (Payments Canada Board)	National Bank of Canada	May 2016	1/2
PAST MEMBERS			
Pat Daley	Deloitte	April 2013	1/1
Luc Lalonde	Canada Post Corporation	November 2011	0/1
Mimi Lepage	PWGSC (Federal Government)	October 2014	3/3
Sean Lesy (Payments Canada Board)	Credit Union Central Alberta Limited	July 2015	2/2
Angela Richardson	Canadian Gas Association (Union Gas Limited)	February 2014	1/1
Glenn Martin	Brookfield Asset Management	April 2016	2/2
David Wilkes	Retail Council of Canada	April 1, 2013	1/1
Stephanie Zee (Payments Canada Board)	Citibank Canada	July 2015	2/2
Wendy Braithwaite	MasterCard Canada	April 2016	2/2

FINANCIAL SUMMARY

SELECTED STATEMENT OF OPERATIONS ITEMS

	2015	2016
REVENUES		
Fees	34	48
Other revenues	2	2
Total revenues	36	50
EXPENSES		
Core operations	29	32
Projects	2	3
Modernization	3	4
TOTAL EXPENSES	34	39
EXCESS OF REVENUES OVER EXPENSES	2	11

Fees from members were \$48 million in 2016, representing an increase of \$14 million from the previous year. Higher revenues result from the collection of additional Modernization funds as well as higher planned project expenditures associated with the resiliency of our payment systems.

Payment Canada's core operating costs include the expenditures required for the day-to-day operating activities of the clearing and settlement systems and consists of items such as resources, technology infrastructure, facilities as well as general administrative costs.

In 2016, core operating costs (including small projects) totaled \$35 million, an increase of 13 per cent over 2015. This increase reflects the intentional build in resources, and higher costs associated with continued enhancements to our technology infrastructure as well as higher depreciation expenses as a result of a larger capital asset base. With respect to people, we have expanded our internal expertise, predominately in the areas of information technology, policy, risk management and payments; while our technology investments have focused on enhancing and strengthening the resiliency, redundancy, security and functionality of our core payment systems.

The Modernization program made a significant step forward in 2016, publishing the Modernization *Industry Roadmap and High Level Plan*, which brings to life the vision for Canada's future payments infrastructure.

The 2016 surplus of \$11 million is predominately due to the continued build-up of the regulatory Principles of Financial Market Infrastructure (PFMI) reserve; and the carry-over of funds received in 2016 related to two significant programs—Modernization and Disaster Recovery—as a result of adjusting each project's respective roadmap.

SELECTED ELEMENTS FROM THE STATEMENT OF FINANCIAL POSITION ITEMS

	2015	2016
Cash & investments	16	27
Capital assets	7	8
Liabilities	7	8
Net assets	18	29

Payments Canada continues to have a strong financial position characterized by a solid cash and investment balance required to support both the PFMI reserve as well as day-to-day operations. The year-over-year increase in cash and investments is the result of the 2016 surplus mentioned above.

Capital assets and liabilities have remained static over the last few years, which is indicative of the stable conditions under which Payments Canada operates. The increase in net assets reflects growth in reserve balances, most specifically the restricted reserves. The restricted reserves at \$16 million include the continued build of the PFMI reserve along with funds set aside for the Modernization program and the Disaster Recovery project. ■



APPENDIX
(INDEPENDENT AUDITOR'S REPORT)

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BDO Canada LLP
1730 St-Laurent Boulevard
Suite 100
Ottawa ON K1G 5L1 Canada

Independent Auditor's Report

To the members of Payments Canada

We have audited the accompanying financial statements of Payments Canada, which comprise the statement of financial position as at December 31, 2016, and the statements of operations, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Payments Canada as at December 31, 2016, and the results of its operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matter

The financial statements of Payments Canada for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on February 16, 2016.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

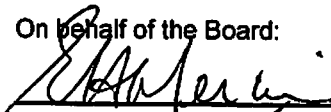
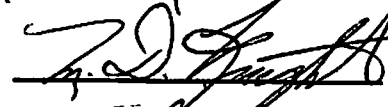
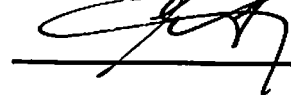
Ottawa, Ontario
February 23, 2017

Payments Canada
Statement of Financial Position
(in thousands of dollars)

December 31	2016	2015
Assets		
Current		
Cash and cash equivalents	\$ 27,441	\$ 16,495
Accounts receivable	556	842
Prepaid expenses	1,582	1,001
	<u>29,579</u>	<u>18,338</u>
Capital and intangible assets (Note 3)	<u>7,604</u>	<u>6,526</u>
	<u>\$ 37,183</u>	<u>\$ 24,864</u>
Liabilities and Net Assets		
Current		
Accounts payable and accrued liabilities	\$ 5,105	\$ 3,610
Deferred revenue	337	1,000
	<u>5,442</u>	<u>4,610</u>
Tenant inducement (Note 4)	<u>1,683</u>	<u>1,747</u>
Accrued benefit liability (Note 5)	<u>747</u>	<u>683</u>
	<u>7,872</u>	<u>7,040</u>
Net Assets		
Invested in capital and intangible assets	7,604	6,526
Internally restricted (Note 6)	16,624	7,354
Unrestricted	5,083	3,944
	<u>29,311</u>	<u>17,824</u>
Commitments (Note 7)	<u>29,311</u>	<u>17,824</u>
	<u>\$ 37,183</u>	<u>\$ 24,864</u>

See accompanying notes to the financial statements.

On behalf of the Board:

 Director
 Director
 Director

Payments Canada
Statement of Operations
(in thousands of dollars)

For the year ended December 31	2016	2015
Revenues		
Fees	\$ 47,730	\$ 34,000
Costs recovered from members	1,579	1,451
Conference	855	-
Fees and other revenues	679	972
	50,843	36,423
Expenses		
Salaries and benefits	15,280	14,664
Technology and telecommunications	7,076	6,152
Projects	6,519	4,771
General administration	6,112	4,780
Professional Services	1,898	1,986
Costs incurred for members	1,595	1,696
Bank of Canada Settlement Services Fee	900	600
	39,380	34,649
Excess of revenues over expenses	\$ 11,463	\$ 1,774

Refer to Schedule 1 for Supplemental Information by Type of Operations.

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

For the year ended December 31	Invested in capital and intangible assets		Internally restricted		Unrestricted		2015	
	2016	2015	2016	2015	2016	2015	2016	
Balance, beginning of the year	\$ 6,526	\$ 6,526	\$ 7,354	\$ 7,354	\$ 3,944	\$ 3,944	\$ 17,824	\$ 16,062
Excess (deficiency) of revenues over expenses	(2,018)	(2,018)	(593)	(593)	14,074	14,074	11,463	1,774
Employee future benefit remeasurements	-	-	-	-	24	24	24	(12)
Transfer to internally restricted net assets (Note 6)	-	-	9,969	9,969	(9,969)	(9,969)	-	-
Transfer to unrestricted net assets (Note 6)	-	-	(106)	(106)	106	106	-	-
Acquisition of capital and intangible assets	3,096	3,096	-	-	(3,096)	(3,096)	-	-
Balance, end of the year	\$ 7,604	\$ 7,604	\$ 16,624	\$ 16,624	\$ 5,083	\$ 5,083	\$ 29,311	\$ 17,824

The notes are an integral part of these financial statements.

Payments Canada Statement of Cash Flows

(in thousands of dollars)

For the year ended December 31	2016	2015
Cash flows from operating activities		
Excess of revenues over expenses	\$ 11,463	\$ 1,774
Items not affecting cash:		
Amortization of capital and intangible assets	2,018	1,790
Employee future benefit remeasurements	24	(12)
Amortization of tenant inducement	(185)	(372)
Change in accrued benefit liability	64	93
	13,384	3,273
Changes in non-cash working capital:		
Accounts receivable	286	1,576
Prepaid expenses	(581)	(376)
Accounts payable and accrued liabilities	1,495	(67)
Deferred revenue	(663)	219
Tenant inducement	121	-
	14,042	4,625
Cash flows from investing activities		
Acquisition of capital and intangible assets	(3,096)	(749)
Net increase in cash and cash equivalent	10,946	3,876
Cash and cash equivalent, beginning of the year	16,495	12,619
Cash and cash equivalent, end of the year	\$ 27,441	\$ 16,495
Represented by:		
Cash	\$ 13,599	\$ 5,097
Term deposits	13,842	11,398
	\$ 27,441	\$ 16,495

The notes are an integral part of these financial statements.

Payments Canada

Notes to Financial Statements

(in thousands of dollars)

December 31, 2016

General Information

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

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

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

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

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

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

1. Basis of preparation

a) Basis of Accounting

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

b) Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the year covered. The main estimates relate to useful lives of capital and intangible assets and accrued benefit liability associated with post-employment life and health insurance plan.

Payments Canada

Notes to Financial Statements

(in thousands of dollars)

December 31, 2016

2. Significant Accounting Policies

a) Revenue Recognition

Fees are recognized as revenue proportionately over the year to which they relate. Fees received in advance of the related fiscal year are recorded as deferred revenue.

Costs recovered from members are recognized as revenue in the year in which the related service is performed.

Revenues from conferences are recognized in the year that the conference takes place.

b) Cash and Cash Equivalents

Cash and cash equivalents includes bank balances and short-term deposits, which are highly liquid investments with a maturity period of twelve months or less from the date of acquisition.

c) Financial Instruments

Initial and subsequent measurement

The Company initially measures its financial assets and liabilities at fair value. The Company subsequently measures all its financial assets and liabilities at amortized cost.

The financial instruments measured at amortized cost are cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

Impairment

Financial assets measured at amortized cost are tested for impairment when there are indicators of impairment.

Transaction costs

Transaction costs related to financial instruments subsequently measured at amortized cost are recognized in the statement of operations over the life of the instrument.

Payments Canada

Notes to Financial Statements

(in thousands of dollars)

December 31, 2016

2. Significant Accounting Policies (Continued)

d) Capital and Intangible Assets

Capital and intangible assets are stated at cost less accumulated amortization. Amortization is provided on the basis of their useful lives using the straight-line method over the following durations:

Leasehold improvements	over the term of the lease
Office furniture	5 years
Technology	5 years

e) Impairment of Capital and Intangible Assets

Capital and intangible assets subject to amortization are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposition. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value.

f) Employee Future Benefits

The Company provides non-pension defined benefits consisting of a post-employment life and health insurance plan to its employees.

The Company accrues its obligations and related costs for employee future benefits as the employees render the service necessary to earn retirement benefits. The actuarial determination of the accrued benefit obligations employee future benefits uses the projected benefit method pro rated on service which incorporates management's assumptions used for cost escalation, average ages of employees and other actuarial factors. The actuarial valuation is performed at least every three years. In the years between valuations, plan results are prepared based on extrapolations of the latest available funding valuation results.

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

Payments Canada
Notes to Financial Statements
(in thousands of dollars)

December 31, 2016

3. Capital and Intangible Assets

	2016			2015
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold improvements	\$ 2,613	\$ 461	\$ 2,152	\$ 2,195
Office furniture	1,120	454	666	802
Technology	9,861	5,075	4,786	3,529
	\$ 13,594	\$ 5,990	\$ 7,604	\$ 6,526

4. Tenant Inducement

In 2014, the Company entered into a 10 year lease agreement for new office space. As part of the lease, the Company received lease inducements totaling \$1,931. These inducements are comprised of a leasehold improvement allowance of \$1,451 and free rent totaling \$480. In 2016, the Company entered into a 9 year lease agreement for additional office space. The Company received lease inducement totaling \$121. The tenant inducement is amortized over the lease term plus the rent-free period and is included in the general administration expense in the statement of operations.

	2016		2015
Leasehold improvement allowance			
Balance, beginning of the year	\$ 1,312	\$	1,639
Additions during the year	121		-
Adjustments during the year	-		(188)
Amortization	(140)		(139)
Balance, end of the year	\$ 1,293	\$	1,312
Free rent			
Balance, beginning of the year	\$ 435	\$	480
Amortization	(45)		(45)
Balance, end of the year	\$ 390	\$	435
	\$ 1,683	\$	1,747

Payments Canada

Notes to Financial Statements

(in thousands of dollars)

December 31, 2016

5. Accrued Benefit Liability and Employee Future Benefits

Description of the benefit plan

The Company extends post-employment life and health insurance plan to its employees subsequent to their retirement. The Company recognizes these benefits as they are earned during the employees' tenure of service. The related benefit liability was determined using the projected benefit method prorated on service and was based on employee data from the last valuation date of October 31, 2014.

	<u>2016</u>	<u>2015</u>
<u>Accrued benefit liability</u>	\$ 747	\$ 683
<u>Significant assumptions</u>		
Discount rate	4.20 %	4.30 %
Health care cost trend rates		
Hospital, dental, other medical	4.50 %	4.50 %
Drugs, grading down to 4.50% per annum in and after 2029	9.00 %	9.00 %

6. Internally Restricted Net Assets

The Company's internally restricted net assets represent amounts restricted by the Board of Directors. During the year, \$9,969 (2015 - \$3,021) was restricted and \$106 (2015 - \$132) was returned to unrestricted net assets as the funds were not required to complete the intended projects.

At December 31, 2016, the internally restricted net assets are comprised of the following:

	<u>2016</u>	<u>2015</u>
Special Reserve Fund - Principles of Financial Market		
Infrastructure	\$ 8,497	\$ 6,062
Projects	8,127	1,292
	<u>\$ 16,624</u>	<u>\$ 7,354</u>

Payments Canada

Notes to Financial Statements

(in thousands of dollars)

December 31, 2016

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	<u>\$ 16,624</u>	<u>\$ 7,354</u>

Payments Canada

Notes to Financial Statements

(in thousands of dollars)

December 31, 2016

7. Commitments

The Company is committed under long-term operating leases for the rental of premises, infrastructure services and office equipment. Future minimum lease payments total \$33,376 and include the following payments over the next five years:

2017	\$	6,740
2018	\$	7,174
2019	\$	7,158
2020	\$	2,304
2021	\$	2,317

8. Financial Instruments

Credit risk

The Company is exposed to credit risk with respect to accounts receivable. The Company provides credit to its members in the normal course of its operations.

Interest rate risk

The Company is exposed to interest rate risk on its fixed interest rate financial instruments. Fixed interest instruments subject the Company to a fair value risk, since fair value fluctuates inversely to changes in market interest rates.

9. Line of Credit

The Company has an authorized operating line of credit of \$150 that is due on demand and bears interest at the bank's prime rate plus 1%. At December 31, 2016, the Company had undrawn credit capacity under this facility of \$150.

10. Comparative Figures

Certain figures for the previous year have been reclassified to conform to the presentation adopted in the current year.

**Payments Canada
Schedule 1
Supplemental Information by Type of Operations**
(in thousands of dollars)

	Direct ACSS Operations		Direct LVTS Operations		Indirect Operations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Revenues								
Fees	\$ 7,800	\$ 6,200	\$ 16,600	\$ 12,300	\$ 23,330	\$ 15,500	\$ 47,730	\$ 34,000
Costs recovered from members	628	530	951	921	-	-	1,579	1,451
Conference	-	-	-	-	855	-	855	-
Fees and other revenues	504	702	41	138	134	132	679	972
	8,932	7,432	17,592	13,359	24,319	15,632	50,843	36,423
Expenses								
Salaries and benefits	3,137	3,279	4,789	4,101	7,354	7,284	15,280	14,664
Technology and telecommunications	1,568	1,244	4,671	4,105	837	803	7,076	6,152
Projects	97	219	277	258	6,145	4,294	6,519	4,771
General administration	604	459	728	498	4,780	3,823	6,112	4,780
Professional Services	293	330	459	670	1,146	986	1,898	1,986
Costs incurred for members	647	683	948	1,013	-	-	1,595	1,696
Bank of Canada Settlement Services Fee	-	-	900	600	-	-	900	600
	6,346	6,214	12,772	11,245	20,262	17,190	39,380	34,649
Excess (deficiency) of revenues over expenses	\$ 2,586	\$ 1,218	\$ 4,820	\$ 2,114	\$ 4,057	\$ (1,558)	\$ 11,463	\$ 1,774