



**PAYMENTS
CANADA**

CORPORATE PLAN

PAYMENTS CANADA
2017-2021

payments.ca



CORE PURPOSE, VISION AND VALUES

Payments Canada's core purpose, vision and values guide the investments and priorities of the organization in this plan.

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

VISION To be the centre of excellence for payments in Canada.

VALUE EXCELLENCE
We embrace continuous learning and improvement and hold ourselves to high standards in the best interest of Canadians and the financial system.

TRUST
We act with integrity and transparency in everything we do.

COLLABORATION
We share our expertise and work with our colleagues, financial institution participants and stakeholders to achieve optimal solutions for the Canadian payments system.



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01

EXECUTIVE SUMMARY

For more than 35 years, Payments Canada¹ and its participants have ensured that financial transactions are carried out safely and securely each day to the benefit of all Canadians and the economy.

This new five-year Corporate Plan articulates our strategy to modernize our payment systems, in support of our mandate to meet the needs of the payments ecosystem and ensure its safety, soundness and efficiency.

OUR OPERATING ENVIRONMENT

Payments Canada monitors trends in the payments ecosystem to influence and shape our five-year plan. Significant activities continue to take place in the regulatory environment that have or could potentially have considerable impact on current and future systems, as well as participating financial institutions. Examples include the designation of the Automated Clearing Settlement System (ACSS) as a Prominent Payment System² in 2016 and the continued focus on cyber security. The review of the federal financial sector legislative and regulatory framework, including our governing legislation, the Canadian Payments Act, in 2018 provides an opportunity to influence change that complements our five-year plan. The Canadian financial industry is addressing competition and demands for innovation through investment while facing a modest growth environment.

PAYMENTS CANADA'S THREE STRATEGIC OBJECTIVES AND SUPPORTING INITIATIVES

1. MODERNIZATION

Distinct from many other countries, which have sought to improve components of their payment systems, Canada has taken a holistic approach to review and improve our systems overall. Through the Modernization program, Payments Canada

will replace the core clearing and settlement systems to better meet the needs of the ecosystem and serve as an innovation platform that the industry can leverage, build on and benefit from. In 2016, Payments Canada published a Vision, Roadmap and High-Level plan for payment system modernization. The plan focuses on five key pillars to deliver on the needs identified in the Vision—implement a new core clearing and settlement system, deliver a real-time ISO 20022 payment rail, enhance batch automated funds transfer, align with global regulatory standards and modernize the rules framework. We have been working with and will continue to work closely with participants, stakeholders and regulators to execute this plan successfully over the next four to five years.

2. OPERATE AND ENHANCE

The existing payments systems must continue to serve Canadians well until we transition to the modernized system. We will enhance the legacy technology, where it makes sense, to close gaps, reduce operational risks and add resiliency. We will continue to meet the high standards of availability and responsiveness that participating financial institutions expect of the existing systems, and meet the requirements of our regulators to be safe, sound and efficient.

3. CREATE NEW OPPORTUNITIES

We must continue to foster an innovative culture and explore and develop opportunities as they arise. This new objective emphasizes opportunities that add value for our members and Canadians. This includes growing non-transactional revenue and evaluating and testing emerging technologies. During 2017, we will set the strategy and begin establishing foundational elements to identify, develop, evolve and produce new services in future years.

¹ Payments Canada is the operating brand name of the Canadian Payments Association.

² Prominent Payment Systems are subject to enhanced oversight by the Bank of Canada under the *Payment Clearing and Settlement Act*, and are required to meet specific risk management standards. <http://www.bankofcanada.ca/wp-content/uploads/2016/02/criteria-risk-management-standards.pdf>.

FINANCIAL AND RESOURCE PLANS

This Corporate Plan reflects the following key assumptions:

- Revenues from members will continue to be stable as we transition to a transactional pricing model beginning in 2017.
- The multi-year industry-wide Modernization program, led by Payments Canada, will commence implementation in 2017 and will require adding significant resource capacity to our internal teams as well as external consulting expertise. The program will be funded using debt financing, to be repaid when the system becomes operational, beginning in 2020. Program timelines and estimates will mature throughout 2017 with the onboarding of a prominent consulting firm to assist with the development of an industry-wide program management office, the completion of the core clearing and settlement system procurement activities and the decision regarding the real-time rail implementation strategy.
- Regulatory reserves (Principles for Financial Market Infrastructures) now take into account both the Large Value Transfer System (LVTS) and the Automated Clearing Settlement System (ACSS), as ACSS was designated a Prominent Payment System in 2016. The increase in reserves will be phased in over four years.

FINANCIAL FORECAST

For 2017, the Corporate Plan projects operating expenses and capital outlays of \$97 million, of which \$47 million relates to operations and \$50 million for the Modernization program.

02

ABOUT
PAYMENTS
CANADA

WHO WE ARE

The Canadian economy depends on the exchange of billions of dollars each day. Payments Canada was created through the Canadian Payments Act with a mandate to design and operate Canada's critical clearing and settlement infrastructure and establish a supporting framework of rules, standards and policies.

Our wholesale payment system—the LVTS—is the infrastructure through which financial institutions exchange high value payments, where immediate finality of payment is desired. Our retail payment system—the ACSS—is where the vast majority of day-to-day lower value, high-volume Canadian commerce is cleared. LVTS payments are used to settle our retail payment system, as well as to provide settlement for other financial market infrastructures, namely the Continuous Linked Settlement system (CLS), the Canadian Derivatives Clearing Corporation (CDCC), the Canadian Depository for Securities (CDS) and SwapClear. In 2016, we cleared and settled payment transactions totaling \$51 trillion, averaging \$201 billion each business day.

The Bank of Canada and all chartered banks are required to be members of Payments Canada, while other financial institutions are eligible for membership. Payments Canada is funded entirely by its participants, which stood at 116 at the end of 2016.

OUR MANDATE

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

- Establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;
- Facilitate the interaction of its clearing and settlement systems and related arrangements with other systems or arrangements involved in the exchange, clearing or settlement of payments; and
- Facilitate the development of new payment methods and technologies.

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

WHAT WE DO

Payments Canada supports a vibrant economy by acting in the best interests of Canadians and participants, and continually evolving to meet the payment needs of governments, financial institutions, consumers and businesses. We fulfill our mandate through the delivery of research and policy services, clearing and settlement services, payments rules and compliance, and supporting services.

As the centre for excellence for payments in Canada, we lead the way with progressive research and policy development that informs participants, stakeholders and the Canadian public. Recent research on clearing and settlement systems around the world helped to inform discussions and decision-making on the future of payments in Canada and our modernization plans.

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

Outreach, advisory and education services, such as our annual Payments Summit conference and our dynamic website, are also important to participating financial institutions and stakeholders. They are opportunities to stay engaged and informed about industry developments and our performance.

OUR GOVERNANCE STRUCTURE

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

The Payment Clearing and Settlement Act assigns the Bank of Canada responsibility for overseeing clearing and settlement systems for the purpose of controlling systemic risk and payments system risk. The LVTS is designated as a Systemically Important Financial Market Infrastructure³. The ACSS was designated as a Prominent Payment System in May 2016, making these the only two payment systems under the oversight of the Bank of Canada.

Payments Canada's 13-member Board of Directors is comprised of a chairperson, six independent directors, five member directors and the Payments Canada president and chief executive officer. Payments Canada's board has four standing committees—the Risk, Audit and Finance Committee, the Human Resources and Compensation Committee, the Governance Nominating Committee and the Technology and Modernization Committee.

Payments Canada's Stakeholder Advisory Council (SAC) represent the views of our broad stakeholder base of payment system users and service providers. SAC's mandate is to provide counsel and advice to the board on payment and clearing and settlement matters and any other matter related to the objects of Payments Canada. The Member Advisory Council (MAC) serves as a consultative and engagement forum for participating financial institutions. MAC's mandate is similar, providing counsel and advice to the board, but on Payments Canada's operation of 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.

³ Systematically Important Financial Market Infrastructure (clearing and settlement system) has the potential to pose systemic risk to Canada's financial system. The inability of one participant to meet its obligations in the Financial Market Infrastructure could, by transmitting financial problems through the Financial Market Infrastructure, cause other participants to be unable to meet their obligations. Because the LVTS is designated as systemically important, it is expected to meet the Principles for Financial Market Infrastructures (PFMIs).

03

PAYMENTS CANADA'S FIVE-YEAR PLAN

OPERATING ENVIRONMENT

As outlined below, a number of key trends in the regulatory and financial system environment have been taken into consideration in developing this five-year plan.

REGULATORY ENVIRONMENT

Significant activities continue to take place in the regulatory environment that have or could have considerable impact on current and future systems, as well as participating financial institutions.

ACSS Prominent Payment designation: The ACSS was designated a Prominent Payment System in 2016 under the Payment Clearing and Settlement Act, and is now subject to oversight by the Bank of Canada. As a result, we will be held to new risk management standards and must align our systems with global regulatory standards. Payments Canada has worked with the Bank of Canada to assess the ACSS against the standards and develop a short term and longer term plan for addressing the gaps.

Continued focus on cyber-security risk: The Government of Canada launched a consultation to review measures to protect critical infrastructure in Canada. From that consultation, which closed in late 2016, we expect to see action regarding critical infrastructure that is under federal guidance.⁴ Payments Canada has actively participated in the Canadian Bankers Association's submission to the consultation and will continue to work with the government during the next stages, including the introduction of a new national cyber-security strategy. Payments Canada will continue to raise its defenses against the growing and changing cyber-security challenge.

Legislative reviews: The Department of Finance has launched a consultation process on the federal financial sector legislative and regulatory framework.⁵ The work has the ability to influence our own legislative review that is scheduled for 2018, as well as the financial sector framework at large. The Department of Finance is expected to release a whitepaper on a potential oversight framework for national retail payment systems in 2017. Payments Canada has been involved, through the Finance Canada Payments Consultative Committee (FinPay) and directly, in supporting and influencing the framework.

Other activities: Payments Canada has responded to the Competition Bureau's market study on technology-led innovation in the Canadian financial services sector, and in 2017, has participated in the Bureau's workshop: *Driving competition and innovation in the financial services sector*. Payments Canada is also providing input to the government as required for credit union framework changes.

FINANCIAL INDUSTRY ENVIRONMENT

Regulatory requirements continue: With the designation of Payments Canada's ACSS as a Prominent Payment System, and the requirement to fully observe the Bank of Canada's risk management standards for LVTS by end of 2017, regulatory requirements are resulting in investments by Payments Canada and participating financial institutions. There is an emphasis on managing and minimizing risk through activities, such as implementing collateralization and strengthening default testing. Increased financial institution regulation to improve stability measures is also coming from other sources, such as the Department of Finance and the Office of the Superintendent of Financial Institutions.

Upgrading technology and processes: Financial institutions are addressing aging IT systems through upgrades and streamlining of existing technologies and processes to improve operational performance. Payments Canada will continue to facilitate enhanced clearing processes, such as the electronic exchange of cheque images versus paper exchange. Improving operational performance helps financial institutions to innovate, provide better products to their customers, and address increased competition in the industry.

Competition from Financial Technology (FinTech) Companies: FinTechs are changing the way that traditional financial services, such as payments or transfers, are being made, allowing for innovation and choice in the marketplace. The FinTech sector continues to rapidly grow as new products and services are being released and new entrants enter the market.

Important investments: Financial institutions continue to show strong performance in the marketplace. However, payment system modernization will require important investments and priority setting over the next four to five years to address the current environment.

⁴ <https://www.canada.ca/en/services/defence/cybersecurity/consultation-cyber-security.html>

⁵ <https://www.fin.gc.ca/n16/16-105-eng.asp>

STRATEGIC OBJECTIVES AND KEY CORPORATE INITIATIVES

The strategic direction for the 2017 to 2021 period evolves from the 2016 plan to reflect our current operating environment and our progress to date to achieve our vision to be the centre of excellence for payments in Canada. For 2017, there are three strategic objectives for the planning period:

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

The new strategic objective—to “create new opportunities”—replaces “transition and renewal” from the 2016 plan. Transition and renewal focused heavily on the governance changes required to meet the challenges of modernization and building organization capacity to deliver on modernization. The changes are now largely complete and remaining activities are now encompassed under operate and enhance and modernize.

I. MODERNIZE THE CANADIAN PAYMENT SYSTEMS

2017-2021 EXPECTED OUTCOMES

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

New foundational
core clearing and
settlement system

Real-time
payments
capability

Enhanced batch
automated funds
transfer (AFT)

ACSS Prominent
payment
designation

Rules and
policy
modernization

The five-year outcome

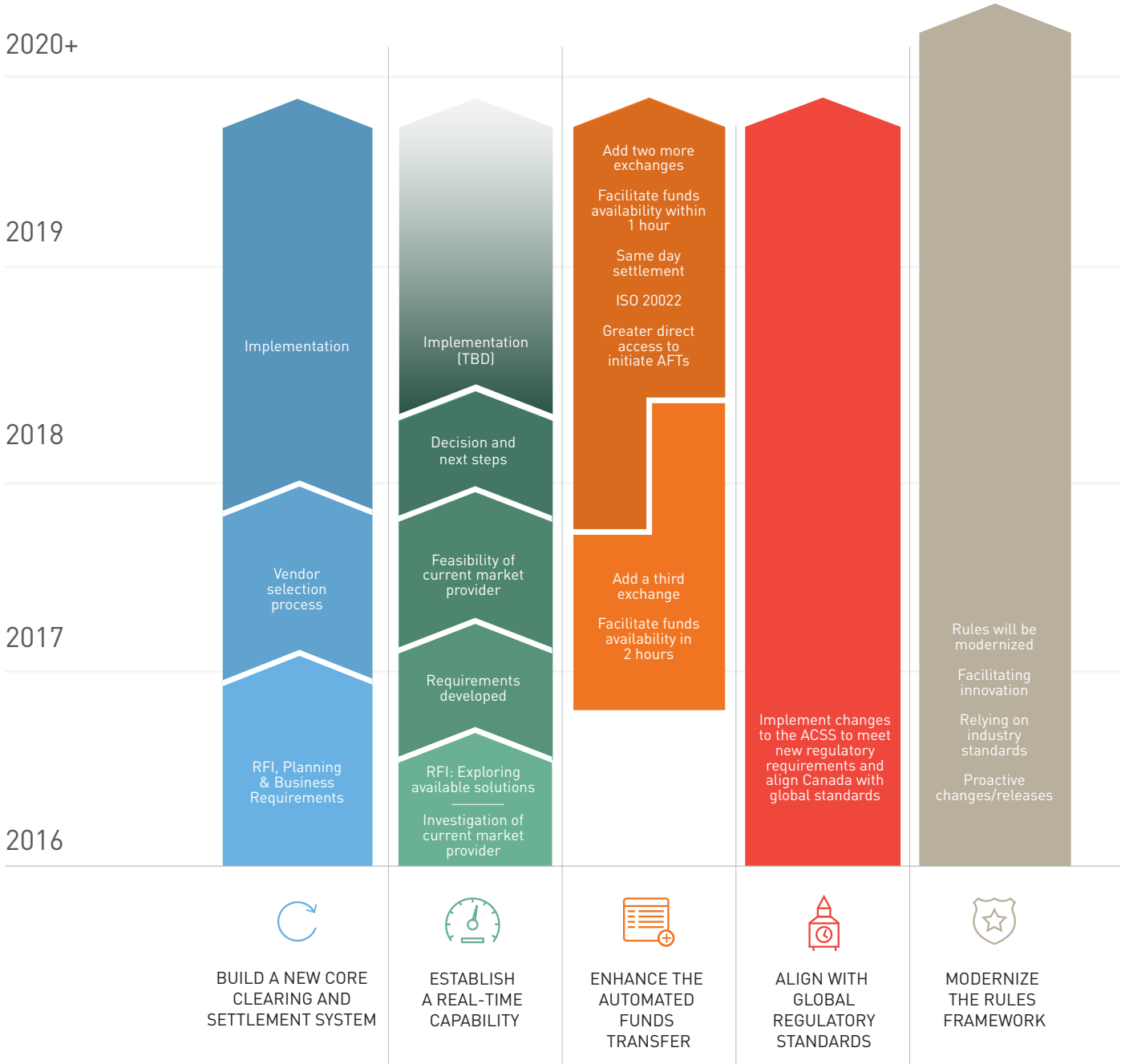
The five-year outcome of the “Modernize” objective will be the replacement of the current LVTS and ACSS systems with a new core clearing and settlement system meeting the needs of participating financial institutions, stakeholders, regulators and Canadians. It will result in faster and enhanced payments capabilities with rich ISO 20022 remittance information, including additional exchange windows and other functional enhancements for Automated Funds Transfer batch payments (including ISO 20022). The Prominent system requirements specified by the Bank of Canada will be met through near-term changes in the ACSS and will be fully addressed with the implementation of the new core clearing and settlement system. The rules and overall policy framework will be made more relevant to a modernized ecosystem. They will support the changes outlined in the planning period and result in improved innovative capabilities.

2016 saw the delivery of [Modernizing Canadian Payments: A Vision for the Canadian Payments Ecosystem](#). The Vision identified key features required of a modern payments ecosystem, which will enable Payments Canada and the financial industry to address what Canadians expect and need from payments. From there, an [Industry Roadmap and High Level Plan](#) was developed—in consultation with Payments Canada participant financial institutions and stakeholders—to

identify how the industry could deliver on the Vision. In addition to our immediate stakeholders, the plan has been socialized with the general public for comments and feedback.

The modernization of Canada’s payments systems is a multi-year initiative that is expected to run through 2021 with systems becoming operational at different times as per the figure shown on the next page.

FIGURE 1: Modernization roadmap timeline



The five pillars of work will have a significant impact on the industry as we collaborate to realize benefits to the ecosystem. The program office itself is focused on planning, resourcing and member involvement in early 2017, to lay the foundation for success. This includes the implementation of an industry-wide program management office (PMO). This industry-wide PMO will be an integral part of the governance structure and engagement

model. It will provide a program management framework, support the coordination and integration of industry program plans, and improve reporting; escalating as required. In addition, there are a number of Modernization working groups set up to ensure appropriate levels of consultation, communication and member readiness.

THE FIVE PILLARS OF MODERNIZATION



1. NEW CORE CLEARING AND SETTLEMENT SYSTEM

A new core clearing and settlement system will be acquired as a replacement to the LVTS and ACSS. The new system will meet international standards for managing risk in both high value and retail payments and will have modern technical and risk management architecture. The 2017 activities are focused on defining the requirements for the new system and selecting the vendor by late fall.



2. REAL-TIME PAYMENTS RAIL

A “real-time rail” payments capability will be delivered, with Payments Canada as the operator. It will provide for near real-time clearing, rich remittance information through ISO 20022, and enhanced functionality to support overlay services that serve consumers and small and medium sized businesses. 2017 is focused on defining the requirements and assessing a range of options including the feasibility of enhancing the existing market offering.



3. ENHANCED BATCH AUTOMATED FUNDS TRANSFER

Batch AFT will be enhanced to include additional exchange windows and faster funds availability aimed for mid-2018. A second phase will include a strategy for mandating rich ISO 20022 payment message standard in coordination with the development activities of participants. The 2017 activities are focused on determining the requirements of the additional exchange windows and developing the associated rules.



4. REGULATORY CHANGES TO ALIGN CANADA WITH GLOBAL STANDARDS

The Prominent Payment System designation requires changes be made to the ACSS. 2017 activities center on developing a new credit risk model to collateralize the ACSS and preparing it to be operationally ready. Additional activities focus on risk monitoring, and enhanced recovery plans and testing. Further changes will be introduced as outcomes of Modernization become operational.



5. RULES MODERNIZATION

Modernize Payments Canada’s rules and policy framework so that they remain relevant and reflect current market practices. In 2017, we will focus on developing a rules framework that will foster competition and innovation, in addition to delivering prioritized rules and amendments that support the changes planned for 2017.

II. OPERATE AND ENHANCE CURRENT PAYMENTS CANADA SYSTEMS

2017-2021 EXPECTED OUTCOMES

Strengthen operational management and performance in the areas of:

Payment systems
resiliency

Regulatory requirements
for LVTS

Operational
excellence

The five-year outcome

The five-year outcome of the “operate and enhance” objective will be the continued stability and availability of our current systems, and the continued confidence of our members and stakeholders as we build and operationalize new modernized payment systems throughout the period. This will be achieved by making improvements to our security and resiliency practices through disaster recovery and cyber security enhancements, and fully observing the regulatory requirements for LVTS.

Payment system resiliency: Payments Canada continues to implement its previous commitments to our resiliency and security strategy roadmaps with a few modifications. The Disaster Recovery Enhancements (DRE) project started in 2016 is intended to move us to near-continuous operations, to strengthen disaster recovery capabilities, to improve overall resiliency, and to automate the LVTS disaster recovery processes. The timeline for the project was extended from 2016 to 2017 to improve the transition strategy and allow for enhanced testing. Future resiliency enhancements will now be incorporated into Modernization and delivered by the new core system.

Our two-year cyber-security project to enhance our ability to withstand and respond to cyber incidents will be completed by the end of 2017. The focus for the year will be on building capacity to reduce time between awareness and mitigation of threats and reducing the insider threat risk through increasing employee awareness of good cyber-security practices.

Fully-observe regulatory requirements for LVTS: Payments Canada has been working since 2012 to raise the maturity level of our enterprise risk management practices, and compliance frameworks and to build the required financial reserves to meet Bank of Canada standards for systemically important systems. The LVTS observes the majority of standards and is working toward implementing all standards by the end of 2017. The focus for the year will be on implementing quarterly reporting

of intra-day liquidity monitoring, bi-annual reporting of tiered participation in our systems, and ensuring that we meet our operational reserve target.

Operational excellence: The solid performance of our payments systems is the cornerstone of our operations. We are committed to achieving and exceeding the operational availability targets that our participants and regulators demand of our payment systems.

The continued confidence and engagement of our participants and stakeholders in our existing and future payment systems is paramount as we collectively navigate this period of change. In 2017, we will continue to improve coordination of communications with the ecosystem on our plans for current and future payment systems. The annual conference, the newly restructured operational committees and the various Modernization working groups will assist in that effort.

Payments Canada’s continued success comes from the efforts of its team to make a difference. As outlined in our human resource strategy, we will be adding a number of permanent and temporary staff and consultants to our team to deliver the Corporate Plan. The year will focus on integrating the skills, education and experience of new team members into our environment while continuing to strengthen our desired culture.

III. CREATE NEW OPPORTUNITIES TO LEVERAGE OUR UNIQUE POSITION IN THE PAYMENTS SYSTEM

2017-2021 EXPECTED OUTCOMES

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

Foster an
innovative culture

Grow non-transactional
revenue

Identify and evaluate
emerging technologies

The five-year outcome

The five-year outcome of this objective is the innovation and delivery of new services (beyond Modernization) that provide new sources of non-transactional revenue. This will start with an expanded conference and other services are expected to follow.

Foster an innovative culture: Innovation beyond the Modernization program is a key factor in ensuring the long-term success of the organization. This first year will focus on foundational elements: developing the strategy for the organization and augmenting our team. Execution will follow, resulting in a business development office in later years to sustain innovation and offer contributions that add value.

Grow non-transactional revenue: Beginning in 2017, Payments Canada will offer an expanded annual conference with larger attendance and broader content. The conference will be paid for by sponsorships and registration fees, with the aim of revenues exceeding direct conference costs. Other areas will also be evaluated for potential revenue sources that meet our criteria in 2017 and beyond.

Evaluate emerging technologies: We will continue work on Project Jasper Phase II in 2017. Project Jasper is a Payments Canada and Bank of Canada-led investigation, working with six financial institutions, to explore distributed ledger technology (DLT). The goal is to further understand the business, technical, operational and regulatory policy implications of DLT as it relates to clearing and settlement. Future areas will be explored beyond 2017.

ENTERPRISE RISKS

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

Payments Canada's policy is to manage risk in accordance with its approved risk appetite. To do this, Payments Canada develops strategies to mitigate risk and maximizes the positive effects of strategic opportunities.

Payments Canada has a rigorous risk identification process that follows best practices to identify corporate risks to the organization. Through a bottom-up and top-down approach, the organization identifies the biggest risks and articulates the causes, impacts and effectiveness of mitigations and plans for additional mitigation where warranted. The risks are updated quarterly by management and are reported to the Risk, Audit and Finance Committee and the board.

The types of risks Payments Canada faces fall into four categories: operational, strategic, financial and settlement.

- **Operational risk** results from inadequate or failed processes, systems and IT, people or policies and from external events. Payments Canada considers operational risk from all sources, both internal and external.

- **Strategic risk** affects, or is created by, Payments Canada's business strategy and strategic objectives.
- **Financial risk** relates to financial reporting, market, liquidity and credit risks.
- **Settlement risk** is the danger that settlement in Payments Canada-operated systems will not take place as expected, which could impact the credit and/or liquidity risk for members.

All risks are also evaluated in terms of the potential impact on Payments Canada's reputation as it effects our credibility to deliver our plan and mandate.

In addition to this, risk management programs have been augmented for our largest initiatives—the Modernization program and the DRE project—to ensure that we are continuously and proactively identifying, managing, mitigating and reporting our risks to management and the board.

SUMMARY OF SIGNIFICANT RISKS FOR 2017

The corporate risk profile is developed annually to highlight the highest risks to the organization, after all mitigations are considered. Based on our most recent self-assessment, the top five risks are as follows:

OPERATIONAL RISKS

1. **Cyber incident:** A serious cyber incident brings into question Payments Canada's ability to safely operate its clearing and settlement systems. It could lead to a major payments outage affecting financial market infrastructure settlement, which could be perceived to be the result of a lack of preparation on Payments Canada's part to protect its systems resulting in reputational damage. Payments Canada is improving its cyber security practices through its security and resiliency strategy, which includes the cyber enhancement project and the DRE project.
2. **Disaster Recovery Enhancement Project setbacks:** DRE is a key initiative to strengthen the resiliency of our systems and reduce operational risk. This specific risk identifies the potential for significant project delays or other problems associated with the DRE Project, such as incidents in production, to impact stakeholder confidence in the ability of Payments Canada to operate and modernize its clearing and settlement systems. Payments Canada has been addressing this risk through the setup of an enhanced risk function on the project, greater member communication and extended testing before go-live.

STRATEGIC RISKS

3. **Modernization Project objectives not met:** Failure to meet project objectives could shake stakeholder confidence in Payments Canada's ability to modernize its payment systems in an acceptable manner. It is recognized that the program

is ambitious and that extensive member, stakeholder and regulator involvement will be required along with significant member investment in their own systems. A comprehensive plan to engage and monitor continued involvement has been put in place. The plan includes a strong governance structure with an industry program management office, and a stakeholder relationship plan that includes multiple working groups at different levels. Ensuring appropriate resourcing for Modernization is also of high importance and is being addressed through the human resource plan outlined later in this document.

4. **Deterioration of core service offerings:** Failure to effectively balance operational priorities with Modernization priorities could result in payment systems not meeting the objectives of safety, soundness and efficiency, or the needs of users. Payments Canada is putting increased emphasis on prioritization and workload management for 2017 activities. Enhanced reporting to management for key programs has been implemented to help monitor progress. Resourcing strategies are in place to ensure core operations are protected while the organization hires and integrates new resources into the Modernization program.

SETTLEMENT RISK

5. **Major payment system outage:** A major LVTS or ACSS incident, or accumulation of incidents, results in failure to meet availability service level agreements and seriously damages Payments Canada's reputation and credibility as a system operator. Payments Canada is mitigating the risk with its security and resiliency strategy, which includes the cyber enhancement project and the DRE project.

04

RESOURCE AND FINANCIAL PLANS

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

HUMAN RESOURCE PLAN

The human resource strategy addresses our operational and Modernization needs. Our plan is to make certain we have capacity in our operational and unique skilled positions and to use temporary positions as appropriate to support short-term requirements. Payments Canada is targeting 135 established positions to meet its core payment operation needs. A resource capacity build which commenced last year is continuing over 2017 and is expected to be in place by 2018.

For the strategic objectives “operate and enhance” and “create new opportunities”, we intend to protect our core business and promote secure, safe and reliable operations. Our plans include strengthening the core organization through enhanced skillsets, and retention, particularly as it relates to these objectives. We will also use temporary skills and consulting relationships to support and backfill the core business when our staff are deployed on Modernization priorities.

For Modernization, it is recognized that there will be significant resource needs to deliver the program. A core team of highly skilled resources has been established to create the resource foundation and ensure knowledge gained is preserved beyond the initiative and the transition back to regular operations. A top tier industry consulting partner has been hired to establish an industry-wide program management office (PMO) and to provide for growth and additional capacity as required. We also have a strategic relationship with a recruiting firm for niche and time sensitive skills. These plans provide the capacity and flexibility required to deliver the program. Given the dependency on member investment and resourcing for the program's success, we are actively engaging and monitoring member involvement through an industry relationship and outreach plan. The plan includes involvement in governance, working groups, and the industry-wide program management office.

Maintaining key capabilities through knowledge transfer, enhanced skillsets and retention will be vital through the period as modernized systems are built and transferred to the core business.

FINANCIAL PLAN 2017 TO 2021

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

REVENUES

Payments Canada is entirely funded by its members. The revenue for Payments Canada is protected and assured as financial institutions, which are mandatory members, are required to fund our operations. In 2017, billing moves to a transactional pricing model for ACSS and LVTS services which more accurately reflects Payments Canada's payment utility function.⁶ The Modernization program will be funded through debt financing.

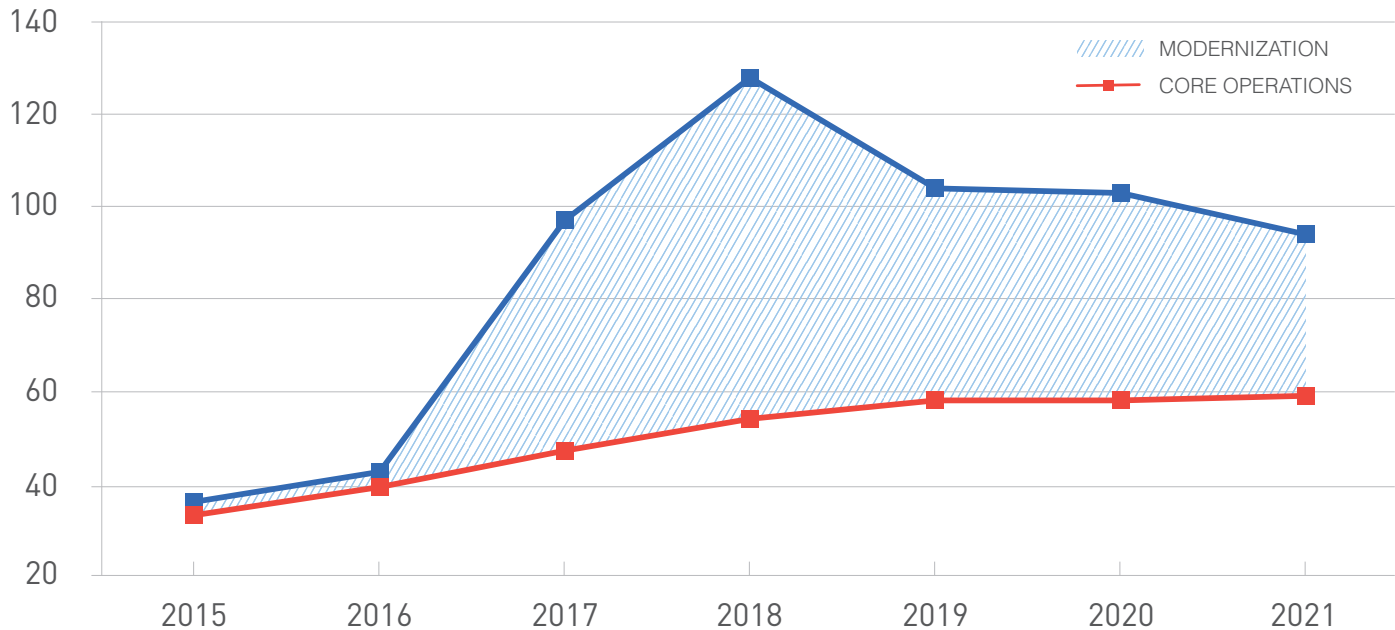
EXPENDITURES

Payments Canada's financial position is expected to change significantly in 2017 as it starts to build the new core clearing and settlement system and implement several Modernization pillars. As the Modernization program is executed over the next three years, the assets under development will grow. The financial profile for the total operating and capital expenditures of Payments Canada during the planning period is depicted in the following chart. The profile includes both the ongoing costs of core operations and the costs associated with the Modernization initiative.

It is important to note that the projected costs associated with Modernization are still preliminary estimates based on the industry roadmap and high level work plan. Further program estimate refinements will occur throughout this year supported by the onboarding in March of a prominent consulting firm for program management services, and the completion of key program decision points.

⁶ Prior to 2017, ACSS and LVTS services were charged to financial institutions based on the previous year's volume versus actual use within the current year.

FIGURE 2: Total Operating and Capital Expenditures for the years 2015 to 2021



Core operations: The financial plan outlines a moderate increase in operational costs in the initial years, in line with required additional capacity and necessary improvements in our technology environment. Looking out two to three years, core operating costs are expected to be relatively stable. This reflects the desire to be operationally efficient as the new core clearing and settlement system and other outcomes of Modernization are operationalized and transitioned to regular operations. To meet the Bank of Canada requirements for PFMI, Payments Canada is required to hold designated reserve funds. With the recent designation of Payments Canada’s ACSS system as a Prominent Payment System, reserves will be required for both ACSS and LVTS. The establishment of this resultant reserve is included in the plan and is phased in over four years.

Modernization: The development of a modernized core clearing and settlement infrastructure is expected to be a substantial undertaking involving significant resources and financial investment over a number of years for Payments Canada as well as across the payments industry. The current planning estimate

for Payments Canada’s costs is in the range of \$150 to \$250 million for delivery of the five program pillars over the period. For planning purposes, \$250 million has been used as the estimate for the overall program costs from 2017 to 2021. Modernization costs are projected to be the greatest in the next three years (2017-2019) before beginning to level out and decrease.

The program timelines and estimates are preliminary, and will mature as we progress through 2017 and complete the following activities:

- Prominent consulting firm support to review and solidify the program;
- The completion of the procurement activities for the new core clearing settlement system; and
- The real time rail decision regarding the feasibility of enhancing the existing market offering for real time rail.

Program updates will be made to the program’s forecasts as these milestones are met in 2017⁷.

⁷ Note - Member investment in their respective financial and human resources is a fundamental element to the program success and is not shown in Payments Canada’s financial plan. The industry costs are expected to be significantly higher than Payments Canada’s costs.

A summary of the operating budget for the planning period is shown below.

TABLE 1: Operating budget for the years 2015 to 2021

<i>(in millions)</i>	ACTUALS		PLAN				
	2015	2016	2017	2018	2019	2020	2021
Staff Costs	15	16	19	24	25	25	24
Technology & Professional Services	11	13	16	18	21	22	23
General & Administrative	4	5	6	7	7	7	7
Regulatory Reserve Funds	2	2	3	3	3	3	3
Modernization	3	3	18	26	16	16	12
Total Operating Budget	35	39	62	78	72	73	69

- For planning purposes, operating expenses have an assumed annual growth of 2% starting in 2018. For 2018 to 2021, actual budgets may differ materially from those presented above.
- Expenses above are presented on a modified accrual basis (i.e. exclude depreciation). Expenses in the income statement differ due to adjustment for depreciation.

Payments Canada's capital budget over the planning period is summarized below.

TABLE 2: Capital budget for the years 2015 to 2021

<i>(in millions)</i>	ACTUALS		PLAN				
	2015	2016	2017	2018	2019	2020	2021
Core Operations	1	3	3	2	2	2	2
Modernization	-	-	32	48	30	29	23
Total Capital Spending	1	3	35	50	32	31	25

The 2017 capital budget reflects the development of the new Modernization system along with the costs that will be incurred to enhance resilience and disaster recovery within core operations. Beyond 2017, capital investments reflect the continued development of new payments infrastructure along with small upgrades to ongoing corporate systems.

BORROWING PLAN

A bank loan facility has been arranged in 2017 to fund the costs of Modernization. This debt financing for the Modernization program is being pursued with the objective of managing the cost impact for members. Repayment of the debt is planned to commence in three years' time when the new core payment and settlement system and other outcomes of Modernization become operational.

PROJECTED FINANCIAL STATEMENTS AND PAST RESULTS

The tables that follow present Payments Canada's expected performance from 2017 to 2021, as well as the actual results for 2015 and 2016.

As the Modernization program is executed over the next three years, the capital assets under development will grow and are reflected within capital assets. The related financing for this program commences in 2017.

TABLE 3: Summary statement financial position for the years 2015 to 2021

<i>(in millions)</i>	ACTUALS		PLAN				
	2015	2016	2017	2018	2019	2020	2021
ASSETS							
Cash and Investments	16	27	40	41	54	70	78
Other Current Assets	2	2	3	3	3	2	3
Capital Assets	7	8	40	87	116	129	130
TOTAL ASSETS	25	37	83	131	173	201	211
LIABILITIES							
Trade and Other payables	4	5	5	7	6	6	6
Debt Financing	-	-	52	124	181	197	195
Tenant Inducement	2	2	2	1	1	1	1
Other Liabilities	1	-	1	1	2	2	2
TOTAL LIABILITIES	7	7	60	133	190	206	204
TOTAL NET ASSETS	18	30	23	(2)	(17)	(5)	7
TOTAL LIABILITIES AND NET ASSETS	25	37	83	131	173	201	211

TABLE 4: Summary statement of operations for the years 2015 to 2021

<i>(in millions)</i>	ACTUALS		PLAN				
	2015	2016	2017	2018	2019	2020	2021
REVENUES							
Fees	34	48	51	49	53	53	54
Other Revenues	2	3	4	4	4	4	4
Loan Repayment Charge	-	-	-	-	-	43	43
Total Revenues	36	51	55	53	57	100	101
EXPENSES							
Core Operations	29	33	41	49	53	54	54
Modernization	3	4	18	26	16	16	12
Depreciation	2	2	3	3	3	18	23
Total Expenses	34	39	62	78	72	88	89
Surplus / (Deficit)	2	12	(7)	(25)	(15)	12	12

Payments Canada's core operations are expected to remain relatively stable as the organization prepares for the implementation of a new core clearing and settlement system. Investments are focused on stabilizing internal capacity and improving system resiliency, as well as a more robust approach to cyber security.

The Modernization program will result in large expenditures being incurred between 2017 and 2021 as new payment infrastructure for the Canadian economy is developed and implemented. A significant portion of these costs will be capitalized while the remaining non-capitalized costs will be expensed through the statement of operations.

- During the first three years of the plan, an operations deficit will result as there is no revenue being collected from members to offset the operating expenses associated with the Modernization program.
- Beginning in 2020, transaction fees with a loan repayment charge will be applied to members once the system is operational, which will provide funds to repay the loan liability outstanding.
- During this period, amortization of the Payments Canada's new capital infrastructure asset will also commence, upon the new system being operational.

TABLE 5: Summary statement of net assets for the period 2015 to 2021

<i>(in millions)</i>	ACTUALS		PLAN				
	2015	2016	2017	2018	2019	2020	2021
Net Assets							
Beginning of year	16	18	30	23	(2)	(17)	(5)
Surplus/(Deficit)	2	12	(7)	(25)	(15)	12	12
End of year	18	30	23	(2)	(17)	(5)	7
Investment in Capital Assets	7	8	40	87	116	129	130
Internally Restricted	7	17	22	24	27	43	51
Unrestricted	4	5	(39)	(113)	(160)	(177)	(174)

TABLE 6: Summary statement of cash flows for the period 2015 to 2021

<i>(in millions)</i>	ACTUALS		PLAN				
	2015	2016	2017	2018	2019	2020	2021
OPERATING ACTIVITIES							
Surplus/(Deficit)	2	12	(7)	(25)	(15)	12	12
Add (deduct) items not involving cash	1	2	3	2	3	18	23
Change in non-cash working capital	1	-	-	2	-	1	-
Net cash generated by/ (used in) operating activities	4	14	(4)	(21)	(12)	31	35
INVESTING ACTIVITIES							
Net cash generated by/ (used in) investing activities	(1)	(3)	(35)	(50)	(32)	(31)	(25)
FINANCING ACTIVITIES							
Net cash generated by/(used in) financing activities	-	-	52	72	57	16	(2)
Net change in cash	3	11	13	1	13	16	8
Cash, beginning of year	13	16	27	40	41	54	70
Cash, end of year	16	27	40	41	54	70	78

2016 ACTUAL TO PLAN

STATEMENT OF FINANCIAL POSITION

TOTAL ASSETS

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. Total assets were \$37 million, against a planned amount of \$30 million. The variance was primarily the result of 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.

TOTAL LIABILITIES AND NET ASSETS

Liabilities have remained static year-over-year, which is indicative of the current stable conditions under which Payments Canada operates. The increase in net assets reflects growth in reserve balances, which is directly related to the increase in the PFMI reserve, as well as the funds set aside for the Modernization program and the Disaster Recovery project.

STATEMENT OF COMPREHENSIVE INCOME

Total revenue during the year was \$51 million, aligned with the plan.

Net operating expenses for the year totaled \$39 million, \$9 million less than planned expenses. This was mainly due to adjusted timing associated with the two projects mentioned above.

05

PERFORMANCE AGAINST PAST PLANS

PERFORMANCE AGAINST PAST PLANS

Key targets and supporting initiatives were identified to support the above outcomes. 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 due to operational events which have been rectified.

- For Disaster Recovery Enhancements, management chose to modify the planned implementation to reduce risk for Payments Canada and its participants.

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

2016 PRIORITIES AND STATUS

1. MODERNIZE

ON TRACK

EXPECTED OUTCOMES:

- | To Modernize the core payments systems, including the policies, rules, standards and technology infrastructure

KEY INITIATIVES	STATUS	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 payment systems analysis, the industry creation and support of the Modernization Roadmap and High-Level Plan.
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, prioritizing rules that impact modernization.
Payments Canada brand is refreshed.	▲	The successful rebranding of the Canadian Payments Association to Payments Canada 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

ON TRACK

EXPECTED OUTCOMES:

Align our resiliency and risk practices with Payments Canada's risk appetite and best practices

Observe Bank of Canada Financial Market Infrastructure standards

Enhance our services and collaboration with participants and stakeholders

KEY INITIATIVES	STATUS	UPDATE
Payment systems exceed service availability targets.	▼	Payment 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 the Board.
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 industry around the Industry Roadmap and High-Level Plan.
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

3. TRANSITION AND RENEWAL

✓ COMPLETE

EXPECTED OUTCOMES:

Finalize our
governance changes

Improve our internal
business processes

Optimize organizational
performance

KEY INITIATIVES	STATUS	UPDATE
Implement the remaining governance changes.	▲	We substantially completed our governance changes, including revising a number of board policies, completing MOU negotiations with Bank of Canada and Finance, restructuring the senior operational committee, completing amendments to the administration and general bylaw, 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 organization renewal program was substantially completed with a large amount of work completed 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

GLOSSARY

ACSS

Automated Clearing Settlement System—a batch total entry system used to enter aggregate volume and value of transactions exchanged by Payments Canada member direct clearers. The ACSS calculates multilateral net positions to determine the balances due to and from participants; includes rules and standards that prescribe how payments should be made between direct clearers.

AFT

Automated Funds Transfer payments, which permit direct debits that flow from a bank account to a merchant (e.g. recurring bill payments) or direct credits from a merchant to bank account (e.g. payroll and government disbursements).

CCIN

The Corporate Creditor Identification Number—a non-transferable identification number assigned by Payments Canada to businesses, governments and other billers to facilitate the routing of bill payments.

CSN

The CPA Services Network provides for secured network infrastructure services for the transfer of payment files. Examples include the exchange of AFT files and cheque images.

CLEARING

Reconciliation of payment items that were exchanged and the calculation of balances.

CLEARING AND SETTLEMENT SYSTEMS

The mechanisms and procedures that allow financial institutions to calculate how much is owed to each other as a result of their customers' transactions and to effect the discharge of those obligations.

CORE PAYMENT SYSTEM OR INFRASTRUCTURE

The fundamental technology, rules and processes needed by any payment system. A core payment system is defined as one that (i) includes at least clearing and settlement, where settlement occurs in central bank funds, and (ii) is central to the efficiency and stability of the financial system and economy.

DRE

Disaster Recovery Enhancements Project.

END-USER

Those who use, or are likely to use, services provided by payment systems (e.g. consumers, businesses, government).

ERM

Enterprise risk management.

EXCHANGE

Delivery and receipt of payment instructions/items.

FIF

Financial Institutions File—an electronic directory to facilitate the routing of payments to the appropriate branches of Payments Canada members, as well as other deposit-taking institutions.

FMI

Financial Market Infrastructure.

ISO 20022

International standard designed to simplify business communication of payments. Using the standard allows for enhanced remittance data, support for global interoperability, efficiencies in managing and supporting multiple payment standards and a reduction in the use of paper-based options.

LVTS

Large Value Transfer System—an electronic wire system that facilitates the transfer of funds between participating financial institutions in real time with finality of payment and certainty of settlement

MAC

Member Advisory Council

OPERATOR

Setting rules and legal framework for a payment product, defining roadmap as part of product development. An Operator selects and manages Service Providers and controls pricing.

PARTICIPANTS

Our participants are comprised of mandatory members (a duty required by the Canadian Payments Act) and non-mandatory or eligible members.

PAYMENTS

Canadian dollar-denominated transfer of value and data between parties.

PAYMENT SYSTEM

Combination of the legal framework (rules) and underlying technology, including settlement risk model, processes and network.

PAYMENTS ECOSYSTEM

All payment structures within a country.

PFMI

Principles for Financial Market Infrastructures—the global risk standards established by the CPSS/CPMI and IOSCO for regulating payment and security clearing and settlement systems.

PROMINENT PAYMENT SYSTEMS

Prominent Payment Systems are subject to enhanced oversight by the Bank of Canada under the *Payment Clearing and Settlement Act*, and are required to meet specific risk management standards. <http://www.bankofcanada.ca/wp-content/uploads/2016/02/criteria-risk-management-standards.pdf>.

SAC

Stakeholder Advisory Council

SERVICE PROVIDER

Runs a system and underlying technology. This includes Applications (including Business Applications), Infrastructure (including Data Centre) and Network (Connectivity) (including SWIFT & CSN).

SYSTEMICALLY IMPORTANT FINANCIAL MARKET INFRASTRUCTURE

A Systematically Important Financial Market Infrastructure (clearing and settlement system) has the potential to pose systemic risk to Canada's financial system. The inability of one participant to meet its obligations in the Financial Market Infrastructure could, by transmitting financial problems through the Financial Market Infrastructure, cause other participants to be unable to meet their obligations. Because the LVTS is designated as systemically important, it is expected to meet the Principles for Financial Market Infrastructures (PFMIs).

USBE

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

APPENDIX

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