

PAYMENTS
MEETS
PURPOSE

ANNUAL REPORT 2020

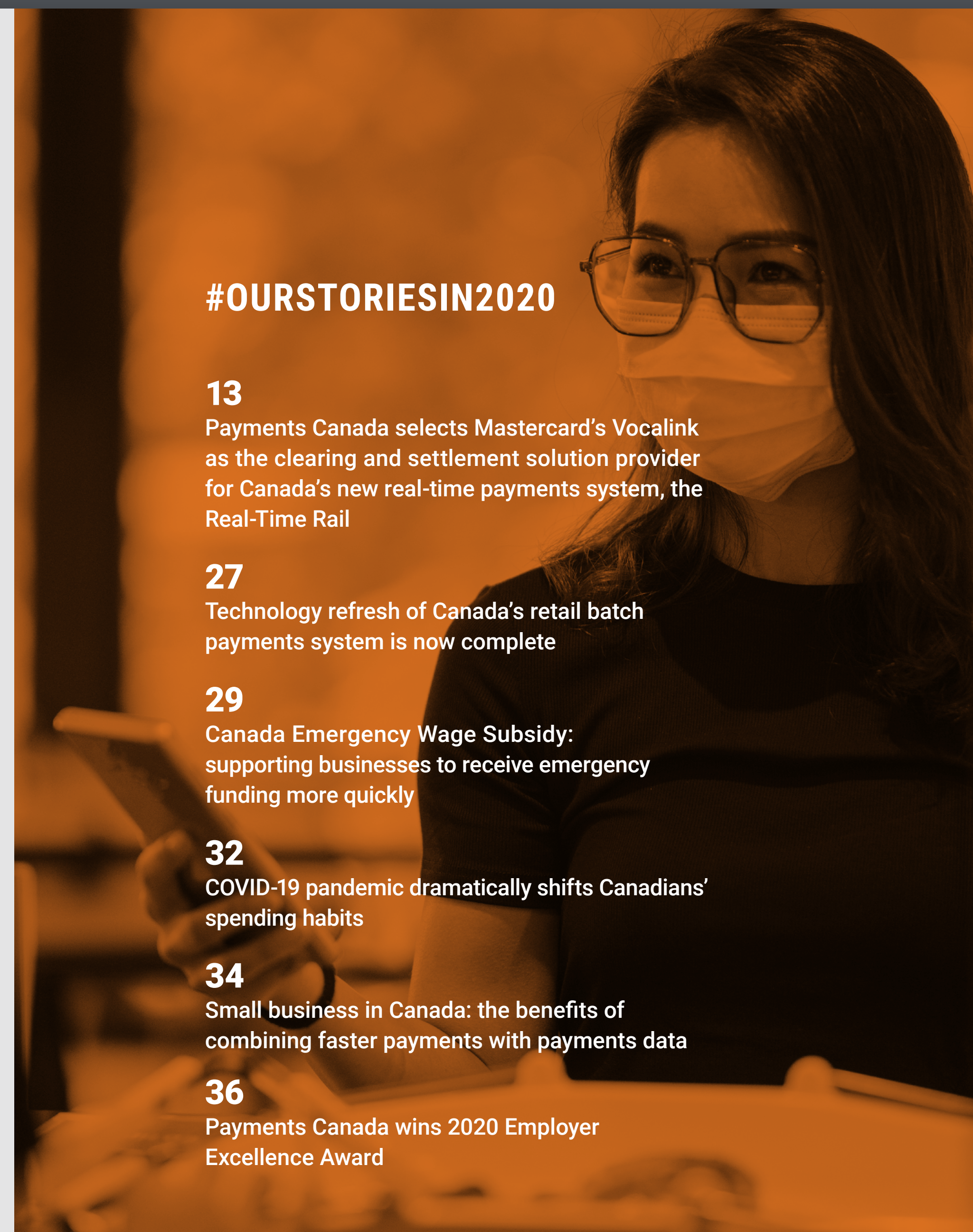


TABLE OF CONTENTS

3 About This Report	17 Our Mandate
4 Message from Payments Canada Board of Directors Chair	17 Our Strategy
6 Message from Payments Canada President and CEO	18 Governance
8 Report from the Chair of the Member Advisory Council	26 Management Discussion & Analysis
10 Report from the Chair of the Stakeholder Advisory Council	35 Our People
12 2020 Top Achievements	37 Risk Management: Program & Governance
14 Who We Are	39 2020 Performance at a Glance
15 40 Years of Payments, Building a History with Purpose	42 2021 Corporate Plan
	43 Summary of Financial Operations
	44 Auditors Report & Financial Statements

#OURSTORIESIN2020

- 13**
Payments Canada selects Mastercard’s Vocalink as the clearing and settlement solution provider for Canada’s new real-time payments system, the Real-Time Rail
- 27**
Technology refresh of Canada’s retail batch payments system is now complete
- 29**
Canada Emergency Wage Subsidy: supporting businesses to receive emergency funding more quickly
- 32**
COVID-19 pandemic dramatically shifts Canadians’ spending habits
- 34**
Small business in Canada: the benefits of combining faster payments with payments data
- 36**
Payments Canada wins 2020 Employer Excellence Award



ABOUT THIS REPORT

Welcome to Payments Canada's annual report, our public accountability publication that presents our financial and non-financial performance during the year. This report provides a view into who we are, how we work, our unique role in Canada's economy, and reflects upon our strategy, culture and business. Payments Canada also publishes a **five-year corporate plan** and numerous research documents, which can be found on our website, payments.ca.

Payments Canada is a public purpose organization that owns and operates Canada's payments systems, the Large Value Transfer System (LVTS) and the Automated Clearing and Settlement System (ACSS). Payments Canada is responsible for the physical infrastructure and the associated bylaws, rules, and standards that support these systems. We have a duty to promote the efficiency, safety, and soundness of Canada's payments systems while taking into account the interests of end users.

We hope you learn more about our organization and our successes and challenges in 2020. Explore payments.ca to understand our ongoing work, and follow us on [LinkedIn](#), [Twitter](#) and [Facebook](#). We also invite you to **subscribe** to our newsletter and event publications to keep up to date with Payments Canada throughout the year.

MESSAGE FROM PAYMENTS CANADA BOARD OF DIRECTORS CHAIR, **EILEEN MERCIER**

2020 was a year of challenges, but also a year of resilience: of our systems, our stakeholders and members, and most of all, our people.

On March 1, 2020, we welcomed Tracey Black as Payments Canada's Chief Executive Officer, a role she was more than prepared for, with her exceptional experience in the payments industry and her work on payments modernization. Almost immediately after Tracey took leadership of Payments Canada, the COVID-19 virus started to make headlines, rather quietly at first but, as we know now, that would not be the case for long. Tracey responded immediately to ensure our people were safe, and that Canada's national payments systems continued to operate normally. After shifting more than 200 people to work from home over a weekend, and ensuring the safety of those essential to the running of the payments systems, Tracey adjusted her focus to see where else Payments Canada could respond in this eventful time.



Eileen Mercier
Payments Canada Chair, Board of Directors

» **Continued | Message from Payments Canada
Board of Directors Chair, Eileen Mercier**

In partnership with the Government of Canada, the Canada Revenue Agency and our members, Payments Canada facilitated a response to provide a convenient and secure way for Canadians to receive emergency funds through direct deposit. As a result, financial support could reach Canadians and Canadian businesses impacted by the pandemic faster and safer than the traditional cheque.

And this was just one of many examples of the resilience of Payments Canada and its employees during this very challenging year. Thank you, Tracey, for your leadership throughout this pandemic, and to our people for not only ensuring Canada's national payments systems continued to operate safely and securely, but also advancing payments Modernization efforts on both our new high-value system, Lynx which will launch in 2021, and the Real-Time Rail (RTR) system which will follow in 2022. 2020 was a pivotal year for Modernization, as we prepare for new systems, new rules, and new innovation.

Our councils – both member and stakeholder – worked diligently through the year to support and advance Payments Canada's modernization efforts. Thanks to them, and to our board for their dedication and agility during this unprecedented year. A grateful farewell to board members Ramesh Siromani, François Desjardins and Doug Steiner, and a warm welcome to new members Rob Patterson, Susan Hawkins, and John Sheridan.

Despite the challenges associated with the pandemic, our Automated Clearing and Settlement System (ACSS)/United States Bulk Exchange (USBEX) system was upgraded for a significantly improved user experience. We also launched a Diversity, Inclusion and Wellness committee and saw improvements in our diversity metrics, and we enhanced our risk management by focusing on cyber-security, meeting all targets for detection and recovery.

As this will be my final annual report message, I would like to thank all those who have made the past six years such a positive and memorable experience. Starting with the legislation that created the "new" Payments Canada in 2014, the resulting public policy mandate and the challenge to create a new independent-led board, those of us who have been charged with the governance of this entity have been privileged to monitor and support as management created an innovative, efficient and risk conscious company determined to modernize the payments industry for the benefit of Canada and Canadians.

When my term is complete in June, I am confident of leaving the company and the board in the best possible hands.

**TRACEY
RESPONDED
IMMEDIATELY
TO ENSURE
OUR PEOPLE
WERE SAFE, AND
THAT CANADA'S
NATIONAL
PAYMENTS
SYSTEMS
CONTINUED
TO OPERATE
NORMALLY.**

Eileen Mercier
Chair, Board of Directors

MESSAGE FROM PAYMENTS CANADA PRESIDENT AND CEO, **TRACEY BLACK**

In a pandemic year that presented both challenges and opportunities, Payments Canada's systems operated flawlessly, we maintained momentum on the Modernization initiative, and we supported Canadians and Canadian businesses as they adopted electronic payments like never before.

In the pandemic environment of 2020, every day presented an opportunity for learning. In early March, we closed our offices and asked our staff to work from home. Thanks to effective plans and our investments in technology, we were able to shift our entire workforce to remote working literally overnight. Thanks to our Security team, we have the technology and processes in place to support a workforce that is 100 per cent remote. Thanks to our Technology and Service Desk teams, our employees have the tools and support they need to work effectively from wherever they are. Thanks to our resilient and secure payment systems and our extremely capable Operations teams, we exceeded our system availability targets in 2020, even as we processed record LVTS transaction values week after week. Thanks to our Communications team, we were able to maintain and extend our strong connections through enhancements to our digital internal community. Thanks to our People team, we were able to offer learning and development courses to support effective remote working, and to introduce enhanced processes and benefits to meet employee needs. Thanks to our Finance and Research teams, we were well-prepared to address

dramatic swings in ACSS volumes as Canada (repeatedly) locked down and opened up. Our organization has been well-challenged by this pandemic, and we have grown.

Despite the pandemic (and in some cases because of it), we achieved everything we set out to accomplish in 2020, and more. We maintained our momentum on Modernization by accommodating our members and leveraging our capabilities. Our Modernization teams created flexible work plans and delivered. And delivered. We will launch Lynx, our new high value payment system, in 2021. We have reverted to a two-phased launch, with support for ISO 20022 messaging now to be delivered in 2022 as per the shift in SWIFT guidelines.



Tracey Black

Payments Canada President & CEO

» **Continued | Message from Payments Canada
President and CEO, Tracey Black**

We have also made significant progress on the Real-Time Rail. The program team managed two separate procurements, 100 per cent remotely from their home offices, to identify and select our partners. I'd like to acknowledge and thank our Risk, Policy and Legal teams who were instrumental in partner selection activities. The design and build of Canada's real-time payment system will commence in early 2021 to support launch in 2022.

In 2020 we also refreshed our retail system, the Automated Clearing Settlement System (ACSS). This was a large initiative that, as is the case with all of our large system initiatives, required member participation and support. My thanks to the Payments Canada teams and our participant members who worked together so effectively. The new application dramatically improves the user experience for our members, delivers operating efficiencies and supports more robust reporting.

In early March, we made the decision to cancel The SUMMIT, our annual conference. Although discouraging, we made the most of this situation, and launched a series of webinars. We were encouraged by the interest in the series, and astonished by the reach and impact of these digital events. We will offer a fully digital The SUMMIT conference in 2021, leveraging all that we learned in 2020.

The pandemic has been frequently referred to as a 'digital accelerator', and this is especially true for payments. The pandemic is creating opportunities for Payments Canada, our members, and our regulators. The Government of Canada is the largest issuer of cheques

in Canada. The Department of Finance was very clear that Canadians should be able to receive pandemic-related benefit payments electronically. Payments Canada facilitated an initiative to ensure Canadians could register for the direct deposit of government benefits through their online banking application. As a result of this initiative, over 90 per cent of beneficiaries received relief payments more quickly and securely than if the payment had been made by cheque.

We saw heightened interest in digital currencies in 2020, with a focus on Central Bank Digital Currency. Payments Canada has published [research covering this topic](#), and we remain in close contact with the Bank of Canada and their activities in this space. In November, the Department of Finance launched a second phase of consultation on Open Banking with an objective to design an approach that will allow Canadians to permit the sharing of their banking data in a secure and efficient manner. Payments Canada participated in the consultation as an observer, and we look forward to the report from the consultation to be published in 2021.

In our annual research publication, [Canadian Payment Methods and Trends](#), Payments Canada documented the shift from paper based payments (cash and cheque) to electronic payments. This trend accelerated in 2020, as demonstrated in our research published in May and November. Canadians have embraced electronic payments (especially contactless payments at point of sale) and electronic P2P transfers, and say that they will maintain these preferences going forward.

This demonstrated end-user preference for electronic payments is exciting as we imagine the innovation in payment products, services, and experiences that will be possible with modernized payment systems.

I would like to acknowledge and thank our Board of Directors, our Member Advisory Council (MAC) and our Stakeholder Advisory Council (SAC) for their guidance and support. Thank you to all outgoing and incoming members. I would also like to thank all of our committee and working group members for their dedication and commitment to Payments Canada. Without ecosystem support and collaboration, we would be challenged to progress as we have. My gratitude extends to everyone in the payments ecosystem, both in Canada and abroad. It is an incredible time to be involved in such a rapidly evolving sector, and the future is bright.

I extend my sincerest thanks to Payments Canada employees. Thank you for really showing up. Thank you for supporting each other, your teams, and our organization. This was a year of learning, adapting and reacting to a situation nobody expected. We demonstrated that our commitment to our purpose is strong. It is because of our employees – their dedication and integrity – that we achieved not only what we set out to accomplish at the beginning of the year, but more.

REPORT FROM THE CHAIR OF THE MEMBER ADVISORY COUNCIL, CHRISTINE HUNTER

The Member Advisory Council (MAC) is a 20-person council codified in the Canadian Payments Act. MAC serves as a consultative and engagement forum for system participants who are also members of Payments Canada. The members are highly engaged and participation represents significant commitments from their respective organizations to support Payments Canada and its board through extensive resourcing and thought leadership.

In 2020, the COVID-19 pandemic had profound impacts on daily life while governments around the world fought to balance overall health and economic implications. In Canada, government and financial institutions worked together to support Canadians through a coordinated response, including **efficient receipt of government subsidy payments**. While financial institutions ensured end-to-end stability and enhanced digitization of payment processing, Payments Canada played a key role in managing the resiliency of our payments systems, including LVTS and ACSS, and proactively facilitated additional activities with members in response to the pandemic, including increased coordination with government entities. With resiliency top of mind, Modernization activities continued with modest delays primarily due to the pandemic. The importance of the Modernization agenda persists, and the productivity of a primarily remote workforce has been incredibly high.

Over the past year, MAC continued with shorter virtual meetings to discuss operations, financials, risk management, modernization, emerging policies and access, the role of Payments Canada and adjacent matters such as central bank digital currency. MAC is supported by many maturing and collaborative forums that have been created to govern Modernization; these forums are operating with dedicated, skilled teams from the ecosystem inclusive of significant commitments from the member institutions. The current focus of Modernization is importantly on the safe and flawless migration from LVTS to Lynx in 2021 and the integrated plan for the development and implementation of a Real-Time Rail (RTR) for Canada as a priority to drive innovation and ISO 20022 adoption domestically.



Christine Hunter

Payments Canada Chair, Member Advisory Council

» **Continued | Report from the Chair of the Member Advisory Council, Christine Hunter**

Lynx will modernize our high-value clearing and settlement system (LVTS) with a new risk model consistent with PFMI standards, which are critically important to maintaining safety and soundness for the Canadian economy. In addition, Lynx will support ISO 20022 messages in alignment with SWIFT's global rollout of ISO 20022. A coordinated effort with full transparency is paramount and, with development well underway, focus is now on end-to-end testing, the integrated execution plan with appropriate contingencies. In parallel, members have worked collaboratively with Payments Canada on RTR policies, while Payments Canada has spent much of 2020 finalizing agreements with vendors that currently operate in this space, [Vocalink](#) and [Interac](#).

While managing execution of the Modernization program consumes much of the dialogue, members recognize and appreciate the impactful and sometimes challenging role Payments Canada plays in ensuring multiple stakeholders' needs are met in a timely manner. These stakeholders include regulators; small, large and global financial institutions; vendors and suppliers; payments networks; and end-users from consumers to large corporates. Members have appreciated increased engagement with the Stakeholder Advisory Council (SAC) with specific members and regulators attending primary member forums to ensure transparency into progress and input into critical decisions along the journey. Members are also looking ahead and are fully supportive of the elaboration of the RTR, including enabling

broader, risk-based access through the Retail Payments Oversight Framework (RPOF) legislation that is currently under review with the Department of Finance.

In closing, as we continue to support Payments Canada in its initiatives that support the Canadian financial system and economy, we look forward to another year of providing counsel and advice while executing on our significant commitments to make Canada stronger. This is an unprecedented time of change and a notably exciting era for payments professionals across the ecosystem and around the globe. Canada is well-positioned, has a lot to be proud of and must remain globally competitive. Significant positive momentum was achieved in 2020, with our biggest Modernization milestones coming in 2021. While the pandemic is still looming, and there is caution in our outlook, a very solid foundation is in place to remain focused and execute on the path ahead!

PAYMENTS CANADA PLAYED A KEY ROLE IN MANAGING THE RESILIENCY OF OUR PAYMENTS SYSTEMS...

and proactively facilitated additional activities with members in response to the pandemic, including increased coordination with government entities.

Christine Hunter
Chair, Member Advisory Council

REPORT FROM THE CHAIR OF THE STAKEHOLDER ADVISORY COUNCIL, DAVID CHANCE

The Stakeholder Advisory Council (SAC) provides advice to Payments Canada’s Board of Directors on payment, clearing, and settlement matters. SAC members contribute input on proposed initiatives, including by-laws, policy statements and rules that affect third parties. They also identify issues that might concern payments system users and service providers, and suggest how they could be addressed.

Before SAC provides an overview of its activity in 2020 and looks forward to 2021, SAC would like to thank Payments Canada, all of its employees, along with its member organizations, for their commitment to ensure our payments systems functioned without disruption throughout the pandemic, adapting to the rapidly changing needs of payments users and highlighting how important our payments systems are to our way of life.

2020 could easily have been a hiatus year in the modernization of Canada’s payments systems while we dealt with the pandemic but, despite COVID-19, SAC has succeeded in sustaining and increasing its participation in the Modernization project process. We worked closely with Payments Canada and its Member Advisory Council (MAC), and SAC members actively participated in various Real-Time Rail (RTR) working groups, management committees and Modernization teams to help define and drive Modernization forward.

The close working relationship between SAC and Payments Canada has continued to grow through the introduction of small focus groups, working together on areas such as policy, rules, and standards to help foster a competitive, innovative, cohesive and safer payments ecosystem.

SAC has evolved its engagement model with the creation of SAC working groups designed to identify trends and problems in the payments industry, enable discussion and identify the impact these trends and problems might have on the stakeholder ecosystem. These working groups permit SAC to come to a harmonized view, and enable dialogue with the wider payments ecosystem.



David Chance
Payments Canada Chair, Stakeholder Advisory Council

» **Continued | Report from the Chair of the Stakeholder Advisory Council, David Chance**

The first of these working groups focused on how to broaden access to all payments systems in Canada without creating additional risk to the payments ecosystem. Throughout the year, this team met with various Payments Canada teams, members, the Bank of Canada and the Department of Finance to foster discussion and refine the approach. The group identified that a number of centralized services would be required, such as an alias directory and fraud protection, to ensure risk mitigation and a competitive environment. SAC is pleased that a centralized fraud capability for RTR is now being discussed.

Though not the remit of Payments Canada, SAC is disappointed in the delay of the introduction of the Retail Payments Oversight Framework (RPOF). We are, however, hopeful that RPOF is prioritized at the government level in 2021 and advancements are made, as it will establish a level playing field for payment service providers, strengthen safety and soundness, enhance consumer protection, and be a key enabler for broader payment system access, competition and innovation.

As in previous years, SAC continues to be concerned at the pace and lack of progress to date in the wider payments modernization as Canada continues to fall further behind other countries. SAC looks forward to working closely with Payments Canada, its members and other payments stakeholders to support the availability of ISO 20022 alongside a consistent recourse policy across all payment methods.

In 2021, SAC will continue to advocate for the needs of payments users in Canada, specifically in areas such as access to the payments systems (including non-banks), the availability of centralized non-competitive overlay services, such as an alias directory, enriched and enhanced data streams between users, focused on overlay services such as request to pay, and lobby for a centrally defined and monitored recourse policy across all payments systems.

While a closer working relationship within the Payments Canada framework has been beneficial, SAC would like to stress the importance of the Department of Finance, the Bank of Canada and the government to not only support Canadian payments, but also to be seen as influencers of payments modernization. As such, SAC will be extending its relationships with these parties in the coming year.

SAC will continue to provide counsel, advice and direction for the public policy elements of the rollout of payments modernization.

SAC is the voice of the stakeholders, acting as the representatives of all of Canada's payments users, whether traditionally banked users or those currently excluded from electronically based payments, ensuring innovation and competition are placed at the heart of discussions. As such, SAC is planning to introduce additional working groups to focus on open banking, bill payments, and the roll out of RTR and supporting overlay services.

Finally, I would again like to thank SAC members, Payments Canada and its members for the commitment during this difficult year to drive modernization forward and ensure that Canada has a world leading payments environment that includes all, provides competition and fosters innovation.

**SAC WOULD LIKE TO
THANK PAYMENTS
CANADA FOR THEIR
COMMITMENT
TO ENSURE OUR
PAYMENTS SYSTEMS
FUNCTIONED WITHOUT
DISRUPTION.**

David Chance
Chair, Stakeholder Advisory Council

2020 TOP ACHIEVEMENTS

In 2020, Payments Canada’s systems cleared and settled over \$107 trillion—more than \$420 billion every business day.

DELIVERED on Modernization progress, specifically surrounding **Lynx**, where we published **ISO 20022 messages** and advanced industry-wide testing, secured a **clearing and settlement provider** for the Real-Time Rail (RTR), and introduced **public consultation**, completed a system upgrade on our **retail batch payments system**, and officially launched an **API developer portal** to address evolving market needs.

FACILITATED an enhanced and collaborative member and stakeholder engagement experience through support for the **CRA Direct Deposit initiative** to deliver financial aid quickly to those in need. We introduced **The SUMMIT Series webinars**, and continued discussions through our podcast, the **PayPod**. We embarked on new partnerships including the **Financial Data Exchange Canada** and **Beedie School of Business**, and we assessed payments trends and conducted timely pulse checks on COVID-19’s impact on spending habits through **research studies**.

ENHANCED our sound financial management and **risk measures** to ensure our payments systems continued to **operate safely and securely**. We transitioned our employees to remote work to ensure their safety and we remained constantly engaged with our staff throughout the pandemic and introduced several measures to support employee wellbeing.



SYSTEMS AVAILABILITY RATE:

 **99.98%**

ACSS AVAILABILITY RATE

 **99.99%**

LVTS AVAILABILITY RATE

 **100%**

CSN AVAILABILITY RATE

#OURSTORIESIN2020

PAYMENTS CANADA SELECTS MASTERCARD'S VOCALINK AS THE CLEARING AND SETTLEMENT SOLUTION PROVIDER FOR CANADA'S NEW REAL-TIME PAYMENTS SYSTEM, THE REAL-TIME RAIL

Published: November 12, 2020

“We’re proud to partner with Payments Canada to support a best-in-class, data-rich real-time payments infrastructure that provides a platform for innovation to enhance Canada’s economy.”

Payments Canada today announced the selection of Mastercard’s Vocalink as the clearing and settlement solution provider for the country’s new real-time payments system, the **Real-Time Rail (RTR)**. This announcement follows an extensive procurement process that included the Bank of Canada and the Department of Finance.

The partnership will draw on Mastercard’s expertise, and its next-generation real-time payments technology to provide the infrastructure and services to support the clearing and settlement for the RTR. The clearing and settlement solution will meet all Payments Canada requirements, including support for the ISO 20022 messaging standard, and will comply with the Bank of Canada’s risk management standards for prominent payment systems.

[read more](#)

WHO WE ARE

Payments Canada is a public purpose organization that owns and operates Canada's payments systems, the Large Value Transfer System (LVTS) and the Automated Clearing and Settlement System (ACSS).

Payments Canada is responsible for the physical infrastructure and the associated bylaws, rules, and standards that support these systems. It also has a duty to promote the efficiency, safety, and soundness of Canada's payments systems while taking into account the interests of end users.

We are responsible for **bringing together** key stakeholders in the payments ecosystem to serve Canadians and for empowering a new era of **modern payments** where a robust and vibrant economy thrives.

Payments Canada is working closely with the payments ecosystem to modernize Canada's payments systems to ensure Canada and Canadian businesses remain globally competitive. Payments Canada will launch a new high-value payments system, Lynx, in 2021 and a real-time payments system, the Real-Time Rail (RTR), in 2022.

Payments Canada is fully funded by **our members**. We have approximately 240 full time staff. Our head office is located in Ottawa, and we have a growing presence in Toronto.

OUR COMMITMENT TO OUR PURPOSE IS STRONG.

2020 was a year of learning, adapting and reacting to a situation nobody expected. It is because of our people — their dedication and integrity — that Payments Canada achieved what we set out to accomplish at the beginning of the year and more.

Tracey Black
Payments Canada President & CEO

40 YEARS OF PAYMENTS, BUILDING A HISTORY WITH PURPOSE

In 2020, Payments Canada turned 40 years old. It's a milestone worth celebrating, as we have grown tremendously, both as Canada's payment systems provider and as an organization.

We have made substantial human and financial resource investments across all parts of the company (e.g. technology, risk, security, research and policy), accelerating our evolution from a humble association to a dynamic organization that will support Canada's ability to be globally competitive within the digital payments ecosystem.

"At the onset, the main objectives of the Canadian Payments Association were to establish and operate a national clearing and settlement system and plan the evolution of the national payment system. That mandate was taken seriously and since then we have not looked back. Today, as Payments Canada, we can be proud in acknowledging that this is where payments meets purpose, for Canadians and our people." – Tracey Black, President & CEO, Payments Canada

Such strategic changes have enabled us to become well positioned to lead an industry movement that will put Canada at the forefront of modern payments.

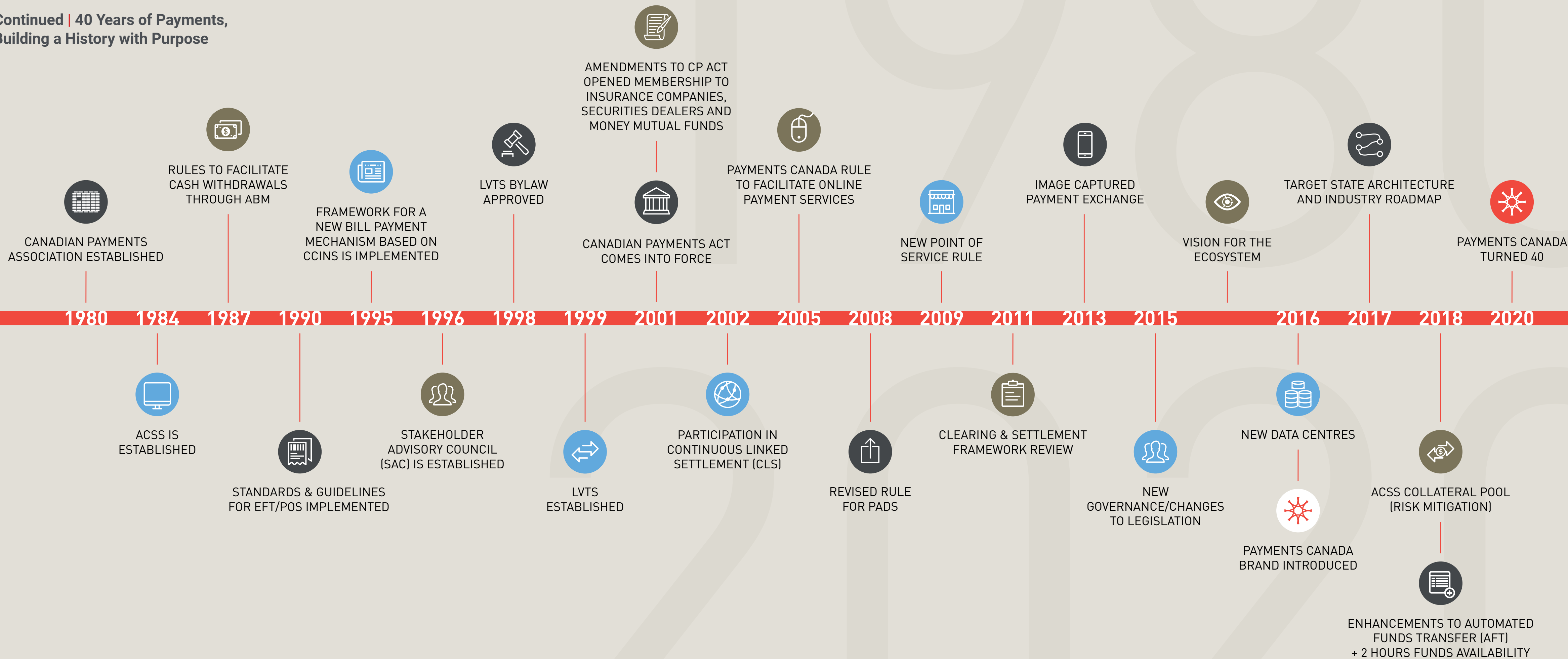
In 1980, the Canadian Payments Association (CPA) was established and formalized by the Canadian Payments Act, marking the beginning of our history. To meet the needs of Canada's evolving payments environment, including supporting Canada's competitiveness on the global stage, a **new vision** for the future of payments was undertaken in 2014, including introducing our new name: **Payments Canada**. This vision brought changes to **how we govern**, how we better engage with our ecosystem, and launched the journey of the **payments Modernization initiative**.

Payments Canada – Where Payments Meets Purpose

Find your purpose at Payments Canada. Explore our **employee handbook** to understand why we do what we do, and what you can expect from our culture and workplace.

40 YEARS OF DELIVERING SAFE, SOUND AND SECURE PAYMENTS.

» Continued | 40 Years of Payments, Building a History with Purpose



OUR MANDATE

Our legislated mandate, as set out in the Canadian Payments Act, includes 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 methods and technologies.

In fulfilling its mandate, Payments Canada has the public policy objective of promoting the efficiency, safety and soundness of its clearing and settlement systems and taking into account the interests of users.



OUR STRATEGY

We are well on our way to realizing our **Vision of a thoroughly modernized payments infrastructure** that will benefit all Canadians. To fulfill our vision and deliver on our mandate, Payments Canada follows and implements a **five-year corporate plan**.

In 2020, our corporate plan focused on three activities:

Modernize:

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

Operate & Enhance:

Strengthen management and overall performance in the key areas of payments systems **resilience** and operational excellence.

Facilitate:

Actively engage with domestic and global payment system participants to identify, monitor, inform and leverage **ecosystem initiatives**.

How We Work Together

We work with our member financial institutions, the Department of Finance, the Bank of Canada, domestic stakeholders and international counterparts through formalized processes and regular and ad hoc interactions.

Membership

Members at Payments Canada include the Bank of Canada, domestic banks, authorized foreign banks, other deposit-taking institutions (credit union centrals, trust and loan companies, and provincial savings offices) life insurance companies, securities dealers, and money market mutual funds, among others. Payments Canada members are able to participate in our payments systems. Payments Canada 111 members at the end of 2020.

GOVERNANCE

PAYMENTS CANADA BOARD OF DIRECTORS

Under the leadership of the Chair, Eileen Mercier, the 13-director board¹ is charged with directing and managing the affairs of the organization with a focus on strategic and policy matters. The board receives advice and counsel from the Payments Canada Stakeholder Advisory Council and the Member Advisory Council.

In 2020, the board thanked and said goodbye to three directors: member director Ramesh Siromani, RBC Royal Bank; member director François Desjardins, Laurentian Bank; and independent director Doug Steiner. We welcomed three new directors with a diverse range of expertise: member director Robert Paterson, CS Alterna Bank; member director Susan Hawkins, TD Bank; and independent director John Sheridan.

¹ The nominating committee (which is charged with the responsibility of confirming the independence of the independent directors) has confirmed the independence of those directors.



Board of Directors (left to right): Eileen Mercier (Chair), Malcolm Knight (Deputy Chair), David Barnard, Tracey Black (President and CEO), Susan Doniz, Garry Foster, Lib Gibson, Susan Hawkins, Mike Henry, John Landry, Robert Paterson, Kevin Patterson and John Sheridan.

» **Continued | Governance**
Payments Canada Board of Directors



Elected Until Annual Meeting of Members 2021

Eileen Mercier (Chair)
Independent Director

Malcolm Knight (Deputy Chair)
Independent Director

Lib Gibson
Independent Director

Mike Henry
Executive Vice President,
Enterprise Risk Governance,
Scotiabank



Elected Until Annual Meeting of Members 2022

David Barnard
Independent Director

Susan Doniz
Independent Director

John Landry
Canada Country Head
Treasury and Trade Solutions,
Citibank Canada

Kevin Patterson
SEVP and Group Head,
Technology and Operations,
CIBC



Elected Until Annual Meeting of Members 2023

Garry Foster
Independent Director

John Sheridan
Independent Director

Susan Hawkins
Senior Vice President, Enterprise
Payments, North America and Executive
Vice President, U.S. Payments at TD
Bank Group

Robert Paterson
President and Chief Executive Officer
of Alterna Savings and Alterna Bank

» **Continued | Governance**
Executive Leadership Team

Board Committees

The Board of Directors is charged to direct and manage the affairs of the organization with a focus on strategic and policy matters.

There are **four board subcommittees** that assist the Board of Directors in fulfilling their responsibilities:

- 1** Audit and Finance Committee (AFC)
- 2** Governance and Nominating Committee (GNC)
- 3** Human Resources and Compensation Committee (HRCC)
- 4** Risk Committee

Board and Committee Attendance

January to June 2020 (before annual meeting of members)

Member	Member since	Board	AFC	GNC	HRCC	TMC	Risk
Number of meetings		3	2	3	2	3	3
Director attendance							
E. Mercier – Chair	2015-07	3	2	3	2	3	3
M. Knight – Deputy Chair	2015-07	3	2	3	n/a	n/a	3
D. Barnard	2016-05	3	n/a	2	n/a	2	3
T. Black	2020-03	2	n/a	n/a	n/a	n/a	2
F. Desjardins	2017-06	1	n/a	0	n/a	3	1
S. Doniz	2016-05	3	n/a	n/a	2	2	3
G. Foster	2017-06	3	2	3	n/a	n/a	3
G. Gaetz	2015-07	1	n/a	n/a	n/a	n/a	1
L. Gibson	2015-07	3	n/a	n/a	2	2	3
M. Henry	2018-06	3	n/a	n/a	2	3	3
J. Landry	2019-06	3	2	n/a	n/a	3	3
K. Patterson	2019-06	3	n/a	n/a	2	3	3
R. Siromani	2018-10	3	n/a	3	n/a	3	2
D. Steiner	2015-07	2	2	n/a	n/a	3	2

Note: since board committees meet at least one day before the board meetings, the attendance is for meetings up to and including the June meetings.

June to December 2020 (after annual meeting of members)

Member	Member Since	Board	AFC	GNC	HRCC	Risk committee
Number of meetings		4	2	2	2	2
Director attendance						
E. Mercier – Chair	2015-07	4	2	2	2	2
M. Knight – Deputy Chair	2015-07	4	2	n/a	n/a	2
D. Barnard	2016-05	4	n/a	2	n/a	n/a
T. Black	2020-03	4	n/a	n/a	n/a	n/a
S. Doniz	2016-05	4	n/a	n/a	2	n/a
G. Foster	2017-06	4	2	2	n/a	n/a
L. Gibson	2015-07	4	n/a	n/a	2	n/a
S. Hawkins	2020-06	3	2	n/a	n/a	2
M. Henry	2018-06	4	n/a	n/a	2	n/a
J. Landry	2019-06	4	2	n/a	n/a	n/a
R. Paterson	2020-06	4	n/a	2	n/a	2
K. Patterson	2019-06	4	n/a	2	2	n/a
J. Sheridan	2020-06	4	n/a	2	n/a	2

Note: since board committees meet at least one day before the board meetings, the attendance above is for meetings after June.

» Continued | Governance
Executive Leadership Team

EXECUTIVE LEADERSHIP TEAM²

Our **Executive Leadership Team** provides strategic direction, leadership and oversight to Payments Canada. Learn more about our Executive Team by visiting payments.ca

Tracey Black

President and Chief Executive Officer

Anne Butler

Chief Legal Officer and Head of Policy and Research

Peter Dodic

Chief Risk Officer

Andrew McCormack*

Chief Information Officer

Andrew Holyome

Senior Director, Payment Products

Andrew McFarlane

Executive Director, Modernization

Pamela Steer

Chief Financial and Corporate Strategy Officer



* Andrew McCormack left the role in March 2020;
Andrew Holyome supported the role starting in April, 2020

² On December 17, 2020, John Cowan was **announced** as Payments Canada's Chief Technology and Operations Officer, effective January 11, 2021

THIS IS AN UNPRECEDENTED TIME OF CHANGE AND A NOTABLY EXCITING ERA FOR PAYMENTS PROFESSIONALS ACROSS THE ECOSYSTEM AND AROUND THE GLOBE.

Christine Hunter
Chair, Member Advisory Council

MEMBER ADVISORY COUNCIL

Our 20-person **Member Advisory Council** (MAC) is mandated in the Canadian Payments Act as a consultative and engagement forum for our members who are system participants. MAC provides advice to the board on our clearing and settlement systems; the way they interact with other systems in the exchange, clearing or settlement of payments; and in the development of new payment technologies.

Appointed until July 2021

- Ryan Rabin**
Alberta Treasury Bank
- Carol Brigham**
Bank of Canada
- Vlad Ahmad**
Canadian Western Bank
- Jennifer Ogdon**
HSBC
- Patrice Dagenais**
La fédération des caisses Desjardins du Québec
- Patrice Roy**
National Bank of Canada
- Lisa Lansdowne-Higgins**
Royal Bank of Canada

Appointed until July 2022

- John Davis**
Citibank
- Nancy McNeill**
Coast Capital
- Dan Dickinson**
Equitable Bank
- Dougal Middleton**
Scotiabank
- Christine Hunter**
TD Bank Group
- Sean Goldrick**
Wells Fargo

Appointed until July 2023

- Derek Vernon**
Bank of Montreal
- John Cowan**
Canadian Imperial Bank of Commerce
- Megan Jones**
Canadian Tire Bank
- Sue Whitney**
Central 1
- Matthew Parker-Jones**
JPMorgan Chase, National Association
- John Pals**
Peoples Trust Company
- Eileen Dignen**
PNC Bank

» **Continued | Governance**
Member Advisory Council

2020 MAC Meeting Attendance

Council members are appointed through a process involving a Nominating Committee and approved by the Board. While named representatives are expected to attend all council meetings, if a named representative is unable to attend a meeting, alternates may be permitted on an exception basis but for not more than one third of council meetings.

Member	Meetings attended (or delegate)	Named representative
Alberta Treasury Bank	6/6	Ryan Rabin
Bank of Canada	6/6	Carol Brigham
Bank of Montreal	5/6	Derek Vernon *Sharon Haward-Laird
Canadian Imperial Bank of Commerce	6/6	John Cowan
Canadian Tire Bank	2/3	Megan Jones
Canadian Western Bank	6/6	Vlad Ahmad
Central 1	6/6	Sue Whitney
Citibank Canada	6/6	John Davis
Coast Capital	6/6	Nancy McNeill
Equitable Bank	6/6	Dan Dickinson
HSBC	6/6	Jennifer Ogdon
JPMorgan Chase, National	4/6	Matthew Parker-Jones
La fédération des caisses Desjardins du Québec	6/6	Patrice Dagenais
National Bank of Canada	6/6	Patrice Roy
Peoples Trust Company	6/6	John Pals
PNC Bank	3/3	Eileen Dignen
Royal Bank of Canada	6/6	Lisa Lansdowne-Higgins
The Bank of Nova Scotia	5/6	Dougal Middleton
The Toronto Dominion Bank	6/6	Christine Hunter
Wells Fargo	6/6	Sean Goldrick

2020 PAST MEMBERS

Member	Meetings attended (or delegate)	Named representative
Credit Union of Central Alberta	3/3	Michael Devlin
Exchange Bank of Canada	2/3	Stephen Fitzpatrick

*indicates the previously named representative that changed during the year.

**THANK YOU
FOR YOUR
COMMITMENT
TO ENSURE
OUR PAYMENTS
SYSTEMS
FUNCTIONED
WITHOUT
DISRUPTION
THROUGHOUT
THE PANDEMIC.**

David Chance
Chair, Stakeholder Advisory Council

STAKEHOLDER ADVISORY COUNCIL

The Stakeholder Advisory Council (SAC) provides advice to our Board of Directors on payment, clearing, and settlement matters. SAC members contribute input on proposed initiatives, including by-laws, policy statements, and rules that affect third parties. They also identify issues that might concern payment system users and service providers, and suggest how they could be addressed.

Payments Canada Board of Directors Representatives

John Sheridan

Department of Finance Canada Observer

Julie Trépanier

Appointed until March 31, 2021

Wayne Ralph

Canadian Depository for Securities Ltd.

Brent Mizzen

Canadian Life and Health Insurance Association

David Chance

Fiserv

Michel Lechasseur

Hydro Québec

Alexandre Plourde

Option Consommateurs

Jean-Pierre Blais

Receiver General for Canada, PSPC

Donna Kinoshita

Symcor

Appointed until March 31, 2022

Don Mercer

Consumer Council of Canada

Sue Britton

Fintech Growth Syndicate

Erika Peterson

Google Payments

Ilinca Vetra

Intact Financial Corporation

Wayne Pommen

Paybright

Josh Rowat

Transferwise

Appointed until March 31, 2023

Shemina Jiwani

AscendantFX Capital

Jasmin Guénette

Canadian Federation of Independent Business

Elena Litani

KOHO

Tracy Lagasse

Microsoft

Jean Hope

Ministry of Finance, Government of BC

Katja Lehr

PayPal Canada

» **Continued | Governance**
Stakeholder Advisory Council

2020 SAC Meeting Attendance

Council members are appointed through a process involving a **Nominating Committee** and approved by the board in consultation with the Minister of Finance. While named representatives are expected to attend all council meetings, if a named representative is unable to attend a meeting, alternates may be permitted on an exception basis but for not more than one third of council meetings.

Stakeholder	Meetings attended (or delegate)	Named representative
AscendantFX	3/3	Shemina Jiwani
Canadian Depository for Securities Ltd.	3/4	Wayne Ralph
Canadian Federation of Independent Business	3/4	Jasmin Guénette
Canadian Life and Health Insurance Association	4/4	Brent Mizzen
Consumer Council of Canada	4/4	Don Mercer
Fintech Growth Syndicate	3/4	Sue Britton
Fiserv	4/4	David Chance
Google Payments	2/4	Erika Peterson
Hydro Quebec	3/4	Michel Lechasseur
KOHO	3/3	Elena Litani
Microsoft	3/3	Tracy Lagasse
Ministry of Finance, Government of BC	4/4	Jean Hope
Option Consommateurs	2/4	Alexandre Plourde
Paybright	4/4	Wayne Pommen
PayPal Canada	4/4	Katja Lehr
Receiver General, PSPC	4/4	Jean-Pierre Blais *Celine Chartier
Symcor	3/4	Donna Kinoshita
Transferwise	3/4	Josh Rowat *Andrew Boyajian
Payments Canada Board Member	3/4	John Sheridan *Ramesh Siromani

2020 PAST STAKEHOLDERS

Stakeholder	Meetings attended (or delegate)	Named representative
ADP Canada	0/1	Bill Piggot

* indicates the previously named representative that changed during the year.

MANAGEMENT DISCUSSION & ANALYSIS

MODERNIZE

Moving forward together

Payments Canada is leading an industry-wide program to **modernize our national payments systems**. Despite a year of challenges due to COVID-19, strong industry alignment and a readiness for implementation have combined to deliver the strongest year of Modernization progress to date.

Modern payments are an accelerator for the Canadian economy. Our **Modernization Vision** is for a fast, flexible and secure payments system that promotes innovation – by being more open and accessible – and strengthens Canada’s competitive position. To support transparency and industry alignment, we publish an annual summary of progress that reflects revised timelines and milestones reached. The most recent is our **2020 Modernization Roadmap Update** and we encourage you to dive deeper to gain a clearer understanding of the scale and complexity of our program.

Readying for Lynx, Canada’s new high-value payments system

The 2021 launch of Lynx will be the first new payments system in Canada in 40 years. In 2020 we worked closely with our members and the Bank of Canada to finalize our Lynx testing and implementation approach, as well as formulating the by-laws, rules, policies and procedures required to govern participation in the new system. We continue to prepare

for the requirements of the **SWIFT ISO 20022** message format which will enable rich data to travel with payments. For further details on Lynx progress, please consult our **2020 Modernization Roadmap Update**.

Real-Time Rail progress

The **Real-Time Rail (RTR)** will enable Canadian consumers and businesses to send and receive payments immediately and securely 24/7/365. This new system will act as a platform for innovation allowing ecosystem players, including financial institutions and payment service providers, to develop enhanced and new ways for Canadians to pay for goods and services, and transfer money.

As we prepare to introduce Canada’s new real-time payments system in 2022, Payments Canada sought feedback on policy proposals as outlined in **Canada’s New Real-Time Payments System Policy Framework** consultation paper. In 2020 we worked diligently with members, stakeholders and the Bank of Canada to socialize the benefits that the RTR will have on their organizations.

Following an extensive vendor evaluation process, Payments Canada selected **Mastercard’s Vocalink** in November of 2020 to provide the clearing and settlement component of the RTR and **Interac** as the exchange solution provider for the RTR. From the outset, the RTR will incorporate the ISO 20022 global message standard to support datarich payments. For

further details on RTR progress, please consult the **2020 Modernization Roadmap Update**.

Retail payments enhancements

The retail system, **Automated Clearing and Settlement System (ACSS)**, processes millions of transactions each business day.

In 2020 Payments Canada completed a **series of system enhancements** to improve user experience and efficiencies. Payments Canada also implemented a by-law amendment stipulating the removal of the 0.5 per cent minimum volume requirement to support broader system access. Payments Canada is now collaborating with the Bank of Canada on a multi-year plan for the future state of retail batch payments. To understand the benefits Modernization can bring to Canadian businesses and consumers, explore our **case studies**.

#OURSTORIESIN2020

TECHNOLOGY REFRESH OF CANADA'S RETAIL BATCH PAYMENTS SYSTEM IS NOW COMPLETE

Published: November 30, 2020

“The upgrades to the ACSS and USBE applications ensure the retail system continues to remain safe, sound and efficient while delivering to our members a more streamlined and simplified user experience. This work is in addition to Payments Canada’s implementation of our multi-system payments Modernization initiative aimed at transforming Canada’s payments ecosystem.”

[read more](#)



OPERATE & ENHANCE

In 2020 we continued to focus on ensuring the safety and reliability of current systems, while building capabilities required for new, modern payments systems.

Sound financial management

At the onset of the COVID-19 pandemic, Payments Canada paused non-essential programs and implemented budgetary constraints as safeguards against uncertainty. A new procurement system, planned pre-pandemic, was implemented, which enabled more accurate tracking, reduced financial risk and improved efficiency through the reduction of back-office time dedicated to manual documentation.

API developer portal official launch

In February 2020 Payments Canada announced the **API developer portal**, supporting our efforts to modernize products and services in tandem with industry developments and evolving market needs. APIs provide access to data and payment system functionality, enabling innovation and connecting the

payments ecosystem through the introduction of a new delivery mechanism for the Financial Institutions File (FIF) and Corporate Creditor Identification Number (CCIN) services. Lynx and RTR API sandboxes were introduced in 2020, to allow members and end users to explore how modern payments systems in Canada will look and function.

Payments systems resilience

Ensuring that Canada's payments systems operate seamlessly is our commitment to our members, regulators and Canadians. Our current systems – the **Large Value Transfer System (LVTS)** and the **Automated Clearing Settlement System (ACSS)** – continue to be supported and upgraded in parallel with the Modernization program.

In 2020, we **refreshed our retail batch system (ACSS) application**. We introduced enhancements

to reduce system risk, addressed regulatory requirements and strengthened alignment with global risk management practices. The refreshed ACSS supports existing functionalities and business processes and introduces new and efficient capabilities.

In August 2020, amendments proposed by Payments Canada to **By-law No. 3** – Payment Items and Automated Clearing Settlement System – came into effect, which supports broader member access to the ACSS. These By-law amendments will increase competition and reduce tiering, which will benefit members and Canadians alike.



#OURSTORIESIN2020

CANADA EMERGENCY WAGE SUBSIDY: SUPPORTING BUSINESSES TO RECEIVE EMERGENCY FUNDING MORE QUICKLY

Published: April 27, 2020

“As the government prepares to send out millions of dollars of payments in the next few months, direct deposit is a faster, safer and more secure way for Canadians to receive these government payments, we are pleased to play a facilitation role for regulators and our member financial institutions to support this new initiative that will ensure Canadian business employers receive emergency benefits quickly and securely.”

[read more](#) 

CLEARING & SETTLEMENT SYSTEM STATISTICS

In 2020, Payments Canada’s systems cleared and settled over \$107 trillion – more than \$420 billion every business day. Transactions that pass through our systems include debit card payments, pre-authorized debits, direct deposits, bill payments, wire payments and cheques initiated and received by Canadians and Canadian businesses.

Automated Clearing Settlement System

The **ACSS**, referred to as the retail system, is the system through which the vast majority of Payments Canada payment items (both paper-based and electronic) are cleared.

ACSS 2020 statistics

The **pandemic caused a dramatic change in consumer behaviour**, including a decline in paper and cash use and a corresponding increase in electronic transactions.

To learn more about ACSS volumes and values, please visit the **ACSS statistics** section on payments.ca.

ACSS 2020 STATISTICS

Total Volume



7.8 billion

Daily Average Volume



31.1 million

Total Value



\$7.2 trillion

Daily Average Value



\$28.6 billion

» Continued | Clearing and Settlement System Statistics

Large Value Transfer System

The **LVTS** is an electronic wire system that facilitates the irrevocable transfer of payments. In 2020, we saw **record values** pass through the LVTS system. These higher values are due primarily by market operations of the Bank of Canada to support the economy and the financial system in weathering the impacts of COVID-19.

LVTS 2020 statistics

To learn more about LVTS volumes and values, please visit the **LVTS statistics** section on payments.ca.

LVTS 2020 STATISTICS

Total Volume



Daily Average Volume



Total Value



Daily Average Value



#OURSTORIESIN2020

COVID-19 PANDEMIC DRAMATICALLY SHIFTS CANADIANS' SPENDING HABITS

Published: May 13, 2020

75 per cent of Canadians spending less than pre-pandemic; 62 per cent using less cash; 42 per cent avoid shopping at places that don't accept contactless payments.

New data from a Payments Canada study on payment trends during COVID-19 reveals some dramatic shifts in Canadians' payment preferences since the pandemic took affect in Canada. The study compared spending behaviours pre-COVID-19 and at week five

of the pandemic, uncovering higher use of contactless payments, electronic payments, e-commerce, online/mobile banking, and lower demand for cash.

Overall, 75 per cent of Canadians reported they were spending less than pre-COVID-19. On average, Canadians left home to go grocery shopping once a week, with 93 per cent indicating they stopped going out completely except for necessities.

[read more](#)

“While we have seen a continued shift towards digital payments over a number of years in Canada, there's no doubt that the prevailing pandemic has accelerated this shift — and will likely act as a catalyst in transforming the Canadian payment landscape forever.”

» **Continued | Clearing and Settlement System Statistics**
Facilitate

FACILITATE

Payments Canada's mandate includes facilitating the development of new payment methods and technologies. We convene stakeholders to share and discuss the latest advances and thinking in payments.

The SUMMIT

At the onset of COVID-19, we made the difficult but necessary **decision to cancel** our annual conference, **The Payments Canada SUMMIT**. We immediately launched **The SUMMIT Series**, six webinars designed to keep the payments ecosystem connected, engaged and informed. The SUMMIT Series brought industry experts together on three person panels to discuss Small business innovation in the face of COVID-19 and beyond, the innovation opportunities that Paytechs in Canada bring to our industry, and a deep look at mounting cyber threats and financial crime on The dark side of payments. Other topics included Managing through change and Consumer-directed finance. The SUMMIT series ended with a panel that discussed 2020 in review, 2021 opportunities, focusing on opportunities resulting from rapid pandemic-driven changes in payments.

Advancing Payments Research & Policy

Despite the implications of COVID-19, Payments Canada published **Payments Perspectives**, a series of articles authored by Payments Canada staff members and guest contributors that cover a range of payments-related topics and issues, and the **Canadian Payment Methods and Trends report**, our annual publication that covers key payments trends in Canada, drivers, emerging issues and relevant domestic and international developments. In May, we released our first **COVID-19 payments trends pulse check**, followed by a second report in **November**. In August, in partnership with CorbinPartners Inc, we released **The Bitcoin Sentiment Tracker-Merchant Study**. We launched a series of educational papers on **Central Bank Digital Currencies** (CBDC) to provide a perspective on a topic of global importance, including design considerations for the implementation of a retail CBDC in the Canadian payments environment. We also published a number of in-depth **Discussion Papers** on topics of relevance to the Canadian and international payments ecosystem participants.

**KNOWING THAT
WHAT I'M DOING
IS ADDING
VALUE, AND THAT
CANADIANS ARE
BENEFITTING...
THAT DRIVES ME.
THAT IS WHY WE
WEAR THE PIN.**

[Find your purpose](#)

#OURSTORIESIN2020

SMALL BUSINESS IN CANADA: THE BENEFITS OF COMBINING FASTER PAYMENTS WITH PAYMENTS DATA

Published: October 23, 2020

“ I’d predict, given the length of the pandemic, a possible positive coming out of this will be businesses creating new habits. ”



Dan Kelly
President & CEO
Canadian Federation of Independent Business

Payments Canada recently connected with Dan Kelly, President and Chief Executive Officer of Canadian Federation of Independent Business (CFIB), to learn about the impact of COVID-19 on Canadian small businesses, the rapid acceleration of digital payments, and the benefits of combining faster payments with payments data.

[read more](#)

OUR PEOPLE

We are a 240-person organization responsible for the operation of resilient and secure national payments systems. As we modernize payments in Canada, balancing interests, sharing knowledge and finding common ground is more important than ever. Our people and their skills are the most important factors in maintaining this balance.

Payments Meets Purpose: Building Our People

In 2020 we furthered our goals of **attracting talent** that aligns with Payments Canada's needs. We completed a compensation review which confirmed our competitiveness within employee target industries such as high tech, finance and insurance across Canada. We continued to develop recognized leaders and high performers, and made key hires in security, risk, payment operations, project management and research. We officially launched a Diversity, Inclusion and Wellness Committee. We hired 12 co-op students, six of whom were onboarded virtually due to the COVID-19 pandemic. Employee retention improved by approximately 5.5 per cent over 2019 and we continue to work towards even greater retention by rewarding high performance and focusing on overall career satisfaction.

Wellness, resilience and connection, remotely

Our primary focus is our people: they are the foundation for our success. Their resilience, positivity and dedication demonstrates Payments Meets Purpose, and our people are what make Payments Canada the success that it is.

At the onset of the COVID-19 outbreak, we successfully shifted our entire workforce in both Ottawa and Toronto to remote work. We enhanced our online community, The Wire, to allow employees to connect virtually in new ways and for different reasons. We encouraged employees to contribute to various internal initiatives and to share personal stories; we added mental and physical health initiatives such as bi-weekly meditation and yoga sessions; and we organized non-work activities like trivia and bingo sessions to keep our people connected. We introduced weekly company-wide video meetings to support information sharing and discussion, and increased our mental health benefits coverage. We introduced learning and development programs to assist employees at all levels in working together effectively in a remote environment.

We invested heavily in returning to work to provide options for our employees. Our offices meet all health authority guidelines, and whenever permitted by provincial and municipal authorities, our offices were open for employees who wished to work from the office.

**THIS IS A
VERY CARING
ORGANIZATION.
THINGS HAPPEN
OUTSIDE OF
WORK AND
PAYMENTS
CANADA HAS
ALWAYS BEEN
THERE.**

[Find your purpose](#)

#OURSTORIESIN2020

PAYMENTS CANADA WINS 2020 EMPLOYER EXCELLENCE AWARD

Published March 11, 2020

“Employees with diverse backgrounds and experiences strengthen our organization, enrich our culture and enhance our future.”

Payments Canada has won the Employer’s Excellence Award for diversity in talent acquisition, from Hire Immigrants Ottawa. The award recognizes employers for their innovative workplace policies and practices around the recruitment and integration of skilled immigrant employees into their organization.

[read more](#)



The Employer Excellence Award was accepted on behalf of all of Payments Canada by Sally Wissa, Michaela McBean & Julia Haynes from our Talent Acquisition team.

RISK MANAGEMENT: PROGRAM & GOVERNANCE

At the core of our operations is risk management, to ensure our systems are operating safely and securely. Payments Canada maintains a strong enterprise risk management program to identify and mitigate any risks which could prevent us from achieving our strategic objectives and legislative mandate.



Payments Canada uses the three lines of defence model for risk management. We take risks to achieve our legislative mandate and strategic objectives if those risks:

- 1 **Promote the good of the Canadian ecosystem overall, recognizing that members are significant in the ecosystem**
- 2 **Fit our strategy and can be understood and managed**
- 3 **Position Payments Canada and its systems to be among the most resilient globally within the financial industry**

Payments Canada conducts regular internal and external environment scans to identify and manage top and emerging organizational risks. We report all risks to the Internal Risk Committee and the Board of Directors' Risk Committee to provide a comprehensive and integrated view of organizational risks and how they align with our risk appetite.

Payment Canada continues to evolve the maturity of our risk management practices as our organization delivers modernized payments systems and as the broader payments ecosystem transforms.

2020 MAJOR ENHANCEMENTS

- ✓ Led COVID-19 emergency response and recovery, evolving crisis management tools and processes including the COVID playbook, recovery framework and plan. We elevated our performance in risk identification and decision making in a crisis situation
- ✓ Matured risk management tools and processes: risk taxonomy, vendor risk framework, updated risk appetite and metrics
- ✓ Evolved elements of risk culture across the organization including risk training at employee onboarding, enhanced risk communication for risk initiatives/evolution elements, and increased adoption of tools for risk identification and assessments
- ✓ Developed target-state risk assessments for Lynx and RTR; facilitated risk ID sessions
- ✓ Released Final Lynx and Interim RTR Financial Risk Frameworks
- ✓ Developed the Financial Market Risk Monitoring Framework
- ✓ Developed and implemented the 'Multiplier' for the ACSS Interim Credit Risk model

» Continued | Risk Management: Program & Governance
2020 Significant Risks

2020 SIGNIFICANT RISKS

Payments Canada proactively identifies and assesses the likelihood and impact of possible risks. After all mitigations were considered, the top residual risks to Payments Canada in 2020 were as follows:



1 Cyber incident(s) affecting payment and/or corporate systems.

Key Mitigations: Maintain and continually improve cyber protection, detection, governance, testing, response, recovery and resilience capabilities.

2 The impacts of the COVID-19 pandemic to our organization, employee health and wellbeing, ability to operate payment systems, and the delivery of the Modernization program.

Key Mitigations: Evolve crisis management tools and processes; developed COVID-19 pandemic playbook, recovery framework and plan. Invoked work-from-home protocol; reopened offices with appropriate health and safety protocols. Enhanced ongoing employee engagement, communications, flexible work schedules and benefits to support

employee needs. Increased resilience capabilities for essential staff to work from home. Maintained momentum on Modernization by prioritizing Payments Canada-specific activities and reduced member and regulatory involvement where appropriate to allow flexibility for the ecosystem to meet their immediate needs.

3 Modernization program's scale, scope, cost and timeline challenging the payments ecosystem's ability to execute against Modernization Roadmap.

Key Mitigations: Recalibrated Modernization roadmap with consideration for dependencies within the ecosystem. Completed target, vendor and delivery risk assessments; enhanced program risk appetite metrics.

4 Challenges in achieving alignment of financial institutions', regulators' and other stakeholders' interests within our current authority constraints delays Modernization implementation.

Key Mitigations: Modernization governance structure is well integrated. Refined strategies to engage and build relationships with regulators in order to influence key interests. Ongoing engagement with all stakeholders.




5 A major and prolonged payment system outage

Key Mitigations: Enhanced system testing. Implemented improvements to network architecture. Business continuity planning and contingency options in place and tested regularly.

2020 PERFORMANCE AT A GLANCE

Progress made against our corporate strategies and initiatives are detailed in the following tables.



Legend for Status

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

MODERNIZE THE CANADIAN PAYMENT SYSTEM

Expected Outcomes

Advancement of the Modernization program in support of the vision that leads to a fast, flexible and secure payments systems that promotes innovation and strengthens Canada’s competitive position.

Key Initiative	Status	2020 Update
Implement Lynx, compatible with global risk and operating standards to ensure interoperability.		The approved metrics associated with Lynx were achieved in 2020. Completed deliverables include: <ul style="list-style-type: none"> i. Lynx Financial Risk Framework, reviewed by members and the Bank of Canada. ii. Lynx solution build, along with the final R1 release. iii. Industry test strategy, training and test readiness. iv. Internal testing and first iteration of the Lynx operating model along with the required capacity plan.
Deliver real-time, data-rich payment capability to Canada that meets the needs of the ecosystem domestically and abroad.		RTR work moved forward during the year. Notable achievements include: <ul style="list-style-type: none"> i. Launched RTR RFP process, selected two vendors to source the RTR Clearing & Settlement and RTR Exchange. ii. Contract executed with RTR Clearing & Settlement vendor later than originally planned. Deliverable met but not within the original timeline. iii. Due to RFP process extension, the contract with the Exchange vendor was not finalized before year-end. Negotiations continue with the Exchange services provider. Deliverable will be met but not within the original timeline. iv. Initiated the impact assessment with member financial institutions and the Bank of Canada, conducted public policy consultation and completed participant requirement documents.

» Continued | 2020 Performance at a Glance

OPERATE AND ENHANCE CURRENT SYSTEMS

Expected Outcomes

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

Key Initiative	Status	2020 Update
Ensure continued operational excellence and system reliability.	✓	<ul style="list-style-type: none"> i. System availability targets for ACSS, LVTS and CSN were achieved each quarter. ii. 50 per cent of all corporate systems migrated by end-of-year. iii. All planned corporate dashboards were delivered during the year. iv. Planned metrics for the API product adoption were achieved. v. APIs were successfully delivered, including test version APIs for both Lynx and RTR.
Enhance risk management, with a focus on cyber security.	✓	<ul style="list-style-type: none"> i. All Payments Canada security metrics were achieved by year-end. ii. Risk management metrics were exceeded as a result of i) improved scores under the risk strategy and appetite, risk governance, and risk reporting; ii) robust change management for evolved risk tools (e.g. risk taxonomy, appetite, assessments); iii) operating in a long-term crisis situation due to the pandemic situation; iv) strengthening external risk reporting; and v) conducting risk training to staff above and beyond planned training. iii. All major audit findings were completed and validated by year-end.

Key Initiative	Status	2020 Update
Attract, retain and develop top talent.	✓	<ul style="list-style-type: none"> i. All metrics within the people section were met by end-of-year. ii. Employees continued to be engaged as demonstrated by strong employee engagement scores. iii. The Diversity, Inclusion and Wellness Committee was successfully created and was active during the year. iv. A succession plan for executive and critical roles was in place by end-of-year.
Manage financial resources prudently and transparently.	✓	<ul style="list-style-type: none"> i. Achieved the financial metric with regard to prudently managing the core operations budget. ii. As transaction revenues declined as a direct result of COVID-19, we applied cost containment measures and identified cost efficiencies across the organization. iii. Quarterly financial results were distributed to members in a timely manner with no requests for additional information. iv. No significant deficiencies and material weaknesses related to ICFR were identified.

Legend for Status

- ✓ Planned progress on schedule and within budget.
- ⏸ Delays in terms of time to completion, budget and/or target variances.
- ✗ Deferred or cancelled.

» Continued | 2020 Performance at a Glance

FACILITATE INTEROPERABILITY AND INNOVATION IN THE PAYMENTS ECOSYSTEM




Expected Outcomes

Engaging the financial and business ecosystem to influence progress in payments for the benefit of all Canadians.

Key Initiative	Status	Update
Be the Canadian source of expert knowledge in payments, connecting the ecosystem through education, research and thought leadership.	II	<p>Completed deliverables associated with this objective include:</p> <ul style="list-style-type: none"> i. Launched of Certified International Payments Professional website in collaboration with NACHA. ii. Significant work was accomplished on the development and collection of the content for the global payments body of knowledge. However, due to the impact of COVID-19, the associated metric was not fully achieved as the actual collected content was lower than planned. iii. The global certification exam and prep course were delayed past 2020 as a direct result of COVID-19. iv. Launched the internal Canadian Payments Fundamental program with initial four learning modules for employees. v. Research findings on various topics (e.g. data-rich payments, membership access, cross-border payments, ISO 20022 and open banking) were presented through a variety of digital channels, such as website, podcast, online conferences, media interviews.

Key Initiative	Status	Update
Support members and stakeholders on the change journey, drive demand for modern payments systems and build/maintain confidence in Payments Canada's ability to execute.	II	<ul style="list-style-type: none"> i. We continued to build and maintain the confidence of members and stakeholders, meeting the established survey targets. ii. Some targets were directly impacted by COVID-19. Despite our best efforts to showcase the Payment File Validation Service (PFVS) product, we were not in the position to onboard new financial institutions by the end-of -the-year as members shifted their priorities. iii. The engagement of a large Canadian government agency in a case study or proof of concept on modern payments implementation (ISO 20022 use case) was delayed due to the limited availability of external partners.

Legend for Status

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

2021 CORPORATE PLAN

The strategic direction for Payments Canada’s 2021 – 2025 period evolves from the 2020 corporate plan and in doing so will lead us to attain our vision, address payment trends and manage our risk. We encourage you to explore the full details of our [2021 – 2025 corporate plan](#).

The below captures our three long-term strategic objectives with some key initiatives in 2021:

1 Deliver Projects That Modernize the Canadian Payments Systems

Modernize the core payments systems, including policies, rules, standards and technological infrastructure. Key initiatives include Lynx, Canada’s new high-value payments system, and the Real-Time Rail.

2 Operate and Enhance Current Payments Systems

As we prepare to deliver new payment systems in 2021 and 2022, we will continue to operate current payments systems in accordance with global standards for safety, efficiency and effectiveness.

3 Facilitate the Payments Ecosystem

Actively engage with payments system players to understand, inform and leverage market forces. Key initiatives include open and broader membership, engaging with members, stakeholders and the ecosystem, and providing new services offerings and emerging technologies.



We encourage you to explore the full details of our [2021 – 2025 corporate plan](#).

SUMMARY OF FINANCIAL OPERATIONS

(in millions of Canadian dollars)

Summarized Statement of Operations

Revenues	2020	2019
Fees	60	62
Other Revenues	1	5
Total Revenues	61	67
Expenses	2020	2019
Core Operations	49	53
Projects	2	5
Modernization	29	24
Total Expenses	80	82
(Deficit)	(20)	(15)

As Payments Canada operates on a cost-recovery basis, revenues from members' fees are closely correlated with our cost base. In 2020, our revenues were significantly and adversely impacted by the COVID-19 pandemic as provincial governments throughout Canada responded to the pandemic by enacting strong public health measures that required people to stay at home and all non-essential business to shutter. These actions reduced consumer and business spending and had a downstream impact as Payments Canada experienced a concomitant drop in transaction volumes, which resulted in lower transaction fee revenue. This drop in revenue was greatest in the second quarter of the year and early into the third quarter. It was only late into the third quarter of 2020 that the first signs of recovery began to appear and gained momentum throughout the fourth quarter.

Our full year revenues totalled \$60.9 million, which was \$4.3 million (seven per cent below plan). The lower revenue amount relative to plan

was due to the cancellation of the Payments Canada SUMMIT annual in-person conference and lower ACSS transaction fee revenues as a result of reduced volumes. In response to the drop in revenue, Payments Canada undertook cost containment measures and, in doing so, was able to offset the decline in our revenues with savings in non-strategic expenses, such as travel, in-person professional development and the cancellation of The SUMMIT. Total 2020 expenses were \$80.4 million with no significant changes compared to the total amount spent in the previous year.

In 2020, as the Modernization program focused more directly on Lynx, the forthcoming new high-value system, expenses totalled \$29 million for the entire Modernization program, with an additional \$44 million of Modernization-related costs reflected on our balance sheet in the form of capital assets. These costs reflect the inclusion of Lynx MX in the program's scope and the Real-Time Rail program costs associated with the vendor selection for the new system.

While day-to-day operating costs for the current systems are primarily covered by the common service fee and system transaction fees, the costs associated with the Modernization program are being funded through debt financing. This method of financing will continue for the duration of the program. Accordingly, an annual deficit is expected each year while the national payments infrastructure is being modernized. As a result, the deficit is temporary in nature and will diminish once modernized systems become operational and members are subsequently billed for their use.

Selected Items from the Statement of Financial Position

	2020	2019
Cash & short term Investments	59	42
Accounts receivable	15	16
Capital assets & Intangible assets	118	72
Accounts payable & accrued liabilities	23	18
Demand loans	205	132

Payments Canada's statement of financial position continues to grow. Cash and cash equivalent balances increased by \$17 million primarily as a result of investing additional funds that support the reserves required under the Principles for Financial Market Infrastructures and the Fee Stabilization reserves, while accounts receivable balances decreased year-over-year to coincide with the decrease in transaction volumes, as a direct result of COVID-19. The growth in capital assets relates to the development of our modernized payments systems, specifically Lynx. The deficit in Modernization has put us into a net liability position, as planned.

Liabilities grew during the year, reflecting an increased draw on the demand loan facility and an increase in accounts payable, both attributable to the Modernization program. Debt financing of the Modernization program resulted in a demand loan of \$205 million at the end of the year.

INDEPENDENT AUDITOR'S REPORT

To the Members of Payments Canada

OUR OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Payments Canada (the Company) as at December 31, 2020 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2020;
- the statement of operations for the year then ended;
- the statement of changes in net assets (liabilities) for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

BASIS FOR OPINION

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

» **Continued** | Independent Auditor's Report

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

» **Continued** | Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP

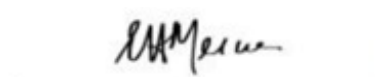
Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 26, 2021

STATEMENT OF FINANCIAL POSITION

As at December 31, 2020
(in thousands of dollars)

Approved by the Board of Directors

 Director

 Director

 Director

	2020 \$	2019 \$
Assets		
Current assets		
Cash	13,415	6,168
Short term investments (note 4)	45,531	35,809
Accounts receivable	15,335	16,006
Prepaid expenses	5,146	8,301
	79,427	66,284
Capital Assets (note 5)	6,910	9,045
Intangible Assets (note 6)	110,639	62,694
	196,976	138,023
Liabilities and Net Assets (Liabilities)		
Current Liabilities		
Accounts payable and accrued liabilities	23,226	18,375
Demand loans (note 8)	205,000	132,000
Deferred revenue	1,825	1,262
	230,051	151,637
Tenant Inducement	924	1,112
Employee Future Benefits (note 7)	1,843	1,852
	232,818	154,601
Net Assets (Liabilities)		
Unrestricted – Core	21,171	18,303
Unrestricted – Modernization	(98,033)	(69,311)
Internally restricted	41,020	34,430
	(35,842)	(16,578)
	196,976	138,023

The accompanying notes are an integral part of these financial statements.

Commitments (note 9)

STATEMENT OF OPERATIONS

For the year ended December 31, 2020
(in thousands of dollars)

	2020 \$	2019 \$
Revenues		
Fees	59,909	61,948
Conference	-	2,550
Other	979	2,131
	60,888	66,628
Expenses		
Modernization program	28,722	23,844
Salaries and benefits	27,837	26,602
Technology and telecommunications	10,178	10,196
Projects	2,243	5,429
General administration	3,793	6,248
Amortization of capital assets	3,508	2,750
Professional services	4,475	6,018
Bank of Canada Settlement Services Fee	900	900
Costs incurred for (recovered from) members	(1,217)	72
	80,438	82,060
Net expense for the year	(19,550)	(15,431)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS (LIABILITIES)

For the year ended December 31, 2020
(in thousands of dollars)

	Balance— Beginning of year \$	Net Revenue (expense) for the year \$	Employee future benefits reimbursements \$	Transfers \$	Balance— End of year \$
Unrestricted					
Core operations	18,303	9,171	286	(6,590)	21,171
Modernization program	(69,311)	(28,722)			(98,033)
	(51,008)	(19,550)	286	(6,590)	(76,862)
Internally restricted					
Principles of Financial Market Infrastructure	16,665	-	-	3,893	20,558
Modernization program	10,573	-	-	-	10,573
Stabilization	7,192	-	-	2,697	9,889
	34,430	-	-	6,590	41,020
	(16,578)	(19,550)	286	-	(35,842)

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2020
(in thousands of dollars)

	2020 \$	2019 \$
Cash provided by (used in)		
Operating activities		
Net expense for the period	(19,550)	(15,431)
Items not affecting cash		
Amortization of tenant inducement	(188)	(180)
Amortization of capital assets	3,508	2,750
Employee future benefits expense	300	250
Cash paid for employee future benefits	(23)	(23)
Net change in non-cash working capital items		
Accounts receivable	671	(2,355)
Prepaid expenses	3,155	(4,612)
Accounts payable and accrued liabilities	4,851	2,877
Deferred revenue	563	855
	(6,713)	(15,869)
Investing activities		
Purchases of short-term investments	(52,262)	(35,809)
Proceeds on sale of short-term investments	42,540	31,886
Purchases of capital assets	(1,373)	(4,148)
Purchases of intangible assets	(47,945)	(39,228)
	(59,040)	(47,299)
Financing activities		
Repayment of demand loans	(132,000)	(70,500)
Proceeds from demand loans	205,000	132,000
	73,000	61,500
Net change in cash for the year	7,247	(1,668)
Cash – Beginning of year	6,168	7,836
Cash – End of year	13,415	6,168

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020
(in thousands of dollars)

1. General information

Canadian Payments Association, doing business as Payments Canada (“the Company”), was incorporated in 1980 by an Act of Parliament of Canada. The objectives of the Company are to:

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

The costs associated with Canada’s 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 is funding the Modernization Program by way of bank financing as opposed to annual dues and fees from members. As a result, the Company is expected to operate in a deficit position over the period of time in which national payments infrastructure is being modernized. The Canadian Payments Act (“the Act”) and

Finance By-Law made under the Act provide the Company with the authority to require its members to pay dues and fees.

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.

2. Summary of significant accounting policies

Basis of accounting

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

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expense during the year. Actual results could differ from these estimates.

Short term investments

Government of Canada treasury bills are measured at fair value, which approximates cost due to their short-term nature. Changes in fair value are recorded in the statement of operations.

Capital and intangible assets

Capital and intangible assets comprise both tangible and intangible assets and are initially recorded at cost. 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
Payment and corporate systems	3 – 5 years

Modernization systems under development will not be amortized until substantially available for use.

Impairment of long-lived assets

Long-lived assets are tested for impairment 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 (or asset group) exceeds the sum of the undiscounted cash flows resulting from its use and eventual disposal. The impairment loss is measured as the amount by which the carrying amount of the long-lived asset exceeds its fair value. Impairments of long-lived assets are not reversed.

» **Continued** | Notes to the Financial Statements

Tenant inducement

Tenant inducements are amortized on a straight-line basis over the terms of the leases and are included in general administration expense in the statement of operations.

Employee future benefits

The Company provides a life and health insurance plan to its employees subsequent to their retirement.

The Company accrues its obligations and related costs for employee future benefits as the employees render the service necessary to earn retirement benefits. As these benefits are unfunded, the obligation is measured using an actuarial valuation prepared for accounting purposes, 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 actuarial valuation results.

The benefit plan expense for the year consists of the current service and interest costs. Remeasurements and other items are recognized directly in the statement of changes in net assets (liabilities).

Revenue recognition

Fees are recognized as revenue as transactions are processed.

Common service 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.

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

3. Financial risks

The carrying values of financial assets and liabilities are carried at amortized cost, which approximates their fair values.

The Company initially measures its financial assets and financial liabilities at fair value and subsequently measures its financial assets and financial liabilities at amortized cost, except for short-term investments measured at fair value. Financial assets and liabilities measured at amortized cost include cash, accounts receivable, accounts payable and accrued liabilities and demand loans.

Financial assets are tested for impairment at the end of each reporting period when there are indications that the assets may be impaired. If the Company determines there has been a significant adverse change in the expected amount or timing of future cash flows, the carrying amount of the asset is reduced to the higher of the expected cash flows expected to be generated by holding the asset, discounted using a current market rate of interest, and the amount that could be realized by selling the asset at the balance sheet date.

The impairment allowance as at December 31, 2020 is \$nil (2019 – \$nil).

The Company has exposure to the following financial risks associated with its financial instruments.

Credit risk

Credit risk represents the extent of credit related losses the Company may be subject to on amounts to be received from financial assets. The Company's exposure to credit risk is as indicated by the carrying values of its current assets of approximately \$79 million (2019 – \$66 million). Any cash held by the Company is on deposit with a Schedule 1 financial institution. Excess cash, as presented in short-term investments, is placed in treasury bills with Canadian financial institutions.

The Company's exposure to credit risk resulting from uncollectible accounts is influenced by the individual characteristics of its customers, many of which are banks and financial institutions. The Company invoices its customers on a regular basis and monitors overdue receivables. There is no concentration of credit risk arising from trade receivables from a single customer. In addition, customers that fail to maintain their account in good standing risk loss of access to the national clearance and settlement systems, and other services which would be detrimental to their business operations.

» **Continued** | Notes to the Financial Statements

Market risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. The Company is exposed to interest rate risk.

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company’s holdings in treasury bills are exposed to interest rate risk. However, given the short-term duration of these instruments, and the stable interest rate environment, the Company does not consider the risk to be significant.

The Company’s demand loans are subject to variable interest rates, therefore, fluctuations in market rates could have an impact on the Company’s interest rate expense. However, given the short-term duration and anticipated stable interest rate environment, the Company does not consider the risk to be significant.

The Company is subject to re-pricing risk, the timing differences in the maturity and re-pricing of the Company’s assets and liabilities which could lead to changes in net interest expense. This risk is not considered significant given both the Company’s assets and liabilities have maturities of 1 year or less.

Liquidity risk

Liquidity risk is the risk the Company may be unable to meet short-term, financial demands. This can arise when liquid assets are insufficient to meet the Company’s current obligations.

The Company needs liquidity primarily for operating expenses and capital expenditures. The Company manages liquidity risk closely and borrows from a syndicate of members, as there is a mutual interest for both the Company and the member banks in doing so. Loan repayments will begin as the modernized systems go live. The Company has created and manages cash reserves to ensure stability in

its member fees and allows it to have sufficient liquidity to meet its account payable and accrued liabilities. Demand loans are arranged with member banks to ensure capital investments are made to upgrade clearance and settlement systems and support the sustainability of an efficient infrastructure for its members.

4. Short term investments

Guaranteed investment certificates bear interest at fixed rates ranging from 0.080% to 1.600% (2019 – 1.203% to 1.620%), and mature in 2021 (2019 – in 2020).

5. Capital assets

			2020	2019
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Leasehold improvements	4,415	2,130	2,285	2,916
Office furniture	2,310	1,557	753	1,007
Payment and corporate systems	16,900	13,028	3,872	5,122
	23,625	16,715	6,910	9,045

Cost and accumulated amortization amounted to \$22,252 and \$13,207, respectively as at December 31, 2019.

» Continued | Notes to the Financial Statements

6. Intangible assets

			2020	2019
	Cost	Accumulated	Net	Net
	\$	amortization	\$	\$
		\$		
Payment system (ACSS)	4,810	-	4,810	586
Modernization systems under development	105,829	-	105,829	62,108
	110,639	-	110,639	62,694

7. Employee future benefits

The most recent valuation date was October 31, 2020. Extrapolations of the actuarial valuation indicated an accrued benefit liability of \$1,843 (2019 – \$1,852).

As the plan is unfunded, this amount is recorded as an employee future benefits liability in the statement of financial position.

Significant assumptions:

	2020	2019
	%	%
Discount rate	2.90	3.20
Health care cost trend rates: Hospital, dental, other medical	4.00	4.00
Drugs, grading down to 4.00% per annum in 2040	6.16	6.50

8. Demand loans

The Company has an authorized credit facility, secured up to \$250 million, which is being drawn down by way of bankers' acceptance notes with minimum terms of 90 days as follows:

	2020	2019
	\$	\$
0.49%, maturing on January 13, 2021	99,000	
0.49%, maturing on March 15, 2021	106,000	
1.98%, maturing on January 17, 2020	-	63,000
2.02%, maturing on March 18, 2020	-	69,000
	205,000	132,000

9. Commitments

The Company is committed to minimum payments under long-term operating leases for the rental of premises, infrastructure services and office equipment as follows:

Years ending December 31	\$
2021	12,233
2022	16,427
2023	15,121
2024	14,309
2025	13,671
Thereafter	7,454

OTTAWA OFFICE

Payments Canada
Constitution Square, Tower II
350 Albert Street, Suite 800
Ottawa, Ontario K1R 1A4

TORONTO OFFICE

Payments Canada
145 King Street West, Suite 1005
Toronto, Ontario M5H 1J8

613-238-4173

info@payments.ca

payments.ca