In 2014, a new governance model was developed that will fundamentally change how decisions are made at the Canadian Payments Association. Amendments to the CPA’s governance structure are a culmination of many years of diligent work by the Board of Directors to plan the evolution of the CPA, and will ensure alignment with best practices.

The new governance model introduces a smaller Board, along with a new independent Chair and nomination process, which strikes a better balance between member and independent representation. This will better support the CPA in achieving its important public interest mandate in a rapidly evolving payments ecosystem.
My colleagues on the CPA board and I are proud of all the great work that was done in 2014 to successfully establish our new governance model, including the recruitment of Eileen Mercier as the new Chair nominee and the development of a board transition plan.

Most notably, new oversight and risk management requirements will ensure that the CPA can continue to deliver on its mandate to provide the safe, efficient and effective clearing and settlement of payments while continuing to serve the needs of members. The new board structure will provide broader and more independent representation to ensure that decisions are in line with governance best practices and that it is able to benefit from a more inclusive view of user interests.

The creation of a new Member Advisory Council, broadly representative of the diversity of the membership of the CPA, will capture the interests, needs and expertise of our member financial institutions and provide critical advice and technical expertise on the operation of CPA’s clearing and settlement systems. And of course, the Stakeholder Advisory Council will continue to provide a critical voice for payment system users, such as corporates, government and consumers, to inform the Board’s decisions and identify priorities in the larger payments landscape.

As Chair of the CPA’s Board of Directors since January 2001, I have seen the Association achieve many accomplishments that have not only supported the evolution of Canada’s payment system, but also changed the way payments are made in Canada.

- Shortly after its launch in 1999, the LVTS cleared 3.7 million items valued at $28.5 trillion in 2001. In 2014, that volume has more than doubled to 7.9 million items with a total value of $38.7 trillion.
- In 2005, the CPA introduced a new rule to facilitate the introduction of online payment services, allowing consumers to pay for internet purchases directly from their bank accounts.
- Cheques and paper items cleared through CPA systems valued at less than $50,000 have fallen from 1.3 billion in 2001 to 715 million in 2014 and that number continues to fall every year.
- In 2009, CPA implemented a new Point-of-Service Rule that allowed consumers to make purchases from their bank accounts using a PIN-less payment platform with an embedded chip.

More recently, the CPA has successfully undertaken some of the most complex projects in its history that will provide significant benefits to Canadians and their Financial Institutions as well as many other users of the payment system.

- The Image Rule Project, which concluded in 2013, set the groundwork for Image Capture technology that allows financial institution clients to deposit cheques through their smartphones today.
- In 2010, the CPA implemented a multi-year Information Technology Renewal Strategy, which included enhancements to replace the LVTS workstation application used by Financial Institutions to a secure browser-based solution in 2013.
- A new Enterprise Risk Management Policy was developed, building on the work in recent years to meet new and more rigorous international requirements in this field.
- In 2014 the CPA engaged with payment system stakeholders to develop new and significantly enhanced payment messages for electronic payments based on the emerging global ISO 20022 standard.

As you can see, payments have come a long way and will continue to evolve along with changing technology into the future.

I am happy to be passing the torch to the new board and Chair, leaving the CPA and Canada’s core clearing and settlement systems in such strong standing. I would like to thank my fellow board members, past and present, for their hard work and support, as well as the staff of our member financial institutions, who have worked closely with CPA staff to ensure successful implementation of rule and system changes throughout my time with CPA.

I would also like to thank the members of the CPA’s Executive Leadership Team for their commitment to ensuring that Canadians benefit from a world-class payments system, and to offer my appreciation to the operations staff at CPA for their dedication, vigilance, and care in ensuring the continued stellar performance of CPA systems, even in the midst of challenging circumstances.

Finally, I would like to offer my congratulations and wish the very best of luck to all of CPA, its new board, the new Member Advisory Council and the Stakeholder Advisory Council as they prepare to steer the CPA on a new course. The role of board Chair will continue to be important as a way to balance the diverse views of all stakeholders. As the CPA enters a new chapter of its evolution, I am grateful to have helped guide the organization this far along on its journey.
I look forward to working with our new Board and Chair and I am excited to see what new heights the CPA will reach.

Digitization is transforming payment choices for businesses and individuals, clearing and settlement processes are increasing in speed, and there is a convergence globally towards a standard for payment messages that can better support the evolving needs of users for richer data.

Interdependencies among financial market infrastructures and heightened attention to systemic and other risks are driving enhanced regulations and standards for risk management while public authorities the world over are continuing to examine and revise governance structures and oversight frameworks for payment systems. These trends and developments have undeniably had an impact on the Canadian Payments Association and the country’s payments ecosystem.

The challenge for the CPA is to actively prepare for its own transformation and renewal required to better accomplish its mandate in the midst of the global shifts taking place in the payments industry. And it is a challenge that we have embraced with enthusiasm and determination.

For an organization to be successful during this kind of change, a strong, focused vision for the future is crucial. This is why in 2014 our executive team and Board of Directors developed a new five-year strategic plan with an end-goal of becoming the Centre of Excellence for payments in Canada. Our strategic plan aims to achieve this by focusing on three high-level desired outcomes: The transition to a new governance structure and the transformation of the organization; the modernization of the core payment clearing and settlement systems and their supporting rules and standards, and; ensuring our existing systems and operations continue to meet global standards of safety, efficiency and effectiveness.

While we are guided by our public policy mandate to ensure the proper evolution of Canada’s payment system, we are steadfast in our commitment to our member Financial Institutions to provide exceptional value for our clearing and settlement services.

Legislative amendments to our governance structure were the outcome of thoughtful and collaborative work involving management, the CPA board and regulators aimed at designing and putting in place the most effective oversight and governance structure for the country’s core national clearing and settlement systems.

I want to thank our Chair Janet Cosier and board members for all their insightful and hard work in making this year of transition possible. Janet’s commitment to the CPA and to the stewardship of its governance have been essential to our ongoing success, ultimately leading us to where we are today – ready and prepared to set a new course.

In 2014 we started to put in place foundational elements that will ensure the success of the CPA’s new direction such as a new strategic plan and changes to the CPA’s enabling legislation and governance. Other critical initiatives included the consolidation of our employees and operations in a new location, convening payment system stakeholders to another successful biennial conference, the renewal of major business agreements with our principal technology and network partners and the first steps in our plan to modernize Canada’s payment system. I would like to thank my colleagues across the CPA for their commitment and hard work, the accomplishments highlighted in this report would not have been possible.

2015 will see the establishment of a new Board of Directors and the election of a new Chair pursuant to the new governance provisions coming into force. I look forward to working with our new Board and Chair and I am excited to see what new heights the CPA will reach with their guidance and support as we begin the first year of our new strategic direction and our journey to establish the CPA as the Centre of Excellence for payments in Canada.
With the changes to enhance the governance, overall functioning and accountability of the CPA, this has been an exciting year of change for the Canadian payments system. It has also been a particularly meaningful time for members of SAC to have the opportunity to play a role in bringing about positive change for Canada’s payment system.

SAC’s legislative role under the Canadian Payments Act is to provide advice and counsel to the CPA Board of Directors on payment, clearing, and settlement matters, contribute input on proposed initiatives, and identify issues that may be of concern to payment system users and third-party service providers.

In 2014, SAC continued its annual process of identifying and focusing on a short list of priority issues that reflects the views of SAC on the most important and strategic payments and payment-related issues facing stakeholders of the payments system. SAC’s 2014 priorities were:

1. Electronification of Payments;
2. Payments System Review; and

Under these priorities, in 2014, the Council contributed to shaping a number of CPA initiatives such as: ISO 20022, and the CPA’s Strategic Plan and governance. Members of SAC also played a key role in advancing CPA activities by participating on various CPA committees and advisory groups.

In recent years, the means in which SAC provides counsel and advice has evolved. On each of its priorities, SAC has established the practice of providing written analysis to support its advice and counsel to the Board. This has proven to be beneficial in how the views of SAC are developed and documented as well as how they are considered by the CPA Board.

In 2014, SAC also continued to have an open dialogue with the CPA Board and CPA staff. There was, for example, a joint session between the CPA Board and SAC that allowed for sharing of information and views on key payments issues. In addition, as Chair, I had the opportunity to appear before the CPA Board a number of times throughout the year. This allowed for SAC to have a direct voice and discussion with the CPA Board on the work it was conducting and to seek any feedback the Board may have. Indeed, the ongoing dialogue helped to better shape the work of SAC.

In closing, I would like to recognize and thank Council members for their work and commitment throughout the year. I would also like to highlight the importance of the collaborative relationship between SAC, the CPA Board and CPA staff. This fosters an open exchange of ideas with respect to challenges and opportunities in payments, which ultimately benefits how the payments system in Canada evolves and meets the needs of Canadians, businesses and government.
2014—Key Achievements & Metrics
2014—Key Achievements & Metrics
Key Achievements

Performance
Perform a critical service in support of the smooth running of Canada’s financial system and economy by clearing and settling 6.8 billion payments totaling $44.9 trillion ($178.1 billion on average each business day).

Service
Maintained an outstanding level of service to Canadians and their Financial Institutions by achieving availability rates of 99.99% for the Automated Clearing and Settlement System (ACSS) and 99.99% for the Large Value Transfer System (LVTS).

Vision
Set the CPA on a new course through changes to its governance oversight and legislation, the most significant amendments to the CPA in its history.

Centralisation
Successfully migrated our data centre to improve security and moved our premises to bring all employees together in one location to foster collaboration and excellence.
**Strategy**

Established a new strategic direction for achieving our vision to be a centre of excellence for payments in Canada.

**Security**

Further enhanced our risk management practices to meet new international benchmarks and requirements.

**Collaboration**

Continued to engage our member financial institutions and stakeholders to develop new payment messages based on the global standard, ISO 20022.

**Capacity Building**

Strengthened our internal capacity in order to support the transformation and success of the CPA as part of our comprehensive organizational renewal initiative.

**Efficiency**

Renegotiated core technology and network service agreements to enhance flexibility and reduce costs supporting our ongoing outstanding services to members.
### Key Metrics

<table>
<thead>
<tr>
<th>Metric</th>
<th>Details</th>
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<tbody>
<tr>
<td>318 payment system infrastructure and application enhancements</td>
<td>(302 in 2013)</td>
</tr>
<tr>
<td>21 rule enhancements</td>
<td>(52 in 2013)</td>
</tr>
<tr>
<td>12 internal secondments and transfers</td>
<td>(n/a in 2013)</td>
</tr>
<tr>
<td>7 external hires</td>
<td>(2 in 2013)</td>
</tr>
<tr>
<td>2 research papers authored</td>
<td>(1 paper authored in 2013)</td>
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1 incident reported for the ACSS (2 in 2013) and 5 incidents reported for the LVTS (16 in 2013)

28 external speaking engagements (23 in 2013)

14,606 plays on the CPA Learning Exchange video series (5,680 in 2013)

3 research papers peer reviewed (0 on 2013)

2 research papers sponsored (0 in 2013)
CPA Mandate & Strategy
As a public-purpose organization, we act in the best interests of the Canadian payments system.
Mandate

The CPA underpins the Canadian financial system and economy by providing safe, efficient and effective clearing and settlement of payments. We establish and operate the core national infrastructure that allows member financial institutions to clear and settle payments made between their customers. Along with operating the systems, the CPA develops, implements, and updates the rules and standards that govern the clearing and settlement of payments between its members.

As a public-purpose organization, we act in the best interests of the Canadian payments system. We promote the efficiency, safety and soundness of our clearing and settlement systems while balancing the drive toward modernization and best practices to meet the needs of members, corporates and all stakeholders who use our core payments infrastructure every business day. In order to achieve this, dialogue, consultation, research, policy development and outreach are imperative to our stewardship of the payments ecosystem in Canada.

All chartered banks operating in Canada, as well as the Bank of Canada, are required by law to be members of the CPA. Trust and loan companies, credit union centrals, and other deposit-taking institutions have been eligible for membership since the CPA's inception in 1980. Life insurance companies, securities dealers, and qualified corporations on behalf of money market mutual funds have been eligible since 2001.

In 2014, the CPA's membership stood at 115.

Strategy

The CPA recognized the need to develop a new strategic plan early in 2014. Changes in the payments ecosystem have increasingly brought into focus the ability of national payment systems to effectively consider a broader set of user interests. In Canada, the federal government provided clear direction for change following its review of the payments industry, including the CPA's governance structure.

To drive a new direction for the CPA in times of transformation, mitigate risk in an environment of constant change and lay the foundation for the way forward, the CPA developed a new five-year strategic plan approved by our Board of Directors in December 2014. It sets out a clear vision for the CPA: to be a Centre of Excellence for payments in Canada (see page 20).

Focusing the CPA’s key priorities and activities through long-term desired outcomes will guide our activities in order to achieve our vision (see page 21).
1 Payment initiation: Millions of times each day, Canadians make or receive payments through their bank accounts that result in one financial institution owing money to another.

2 Exchange: Following CPA rules and standards, and using the CPA Services Network, financial institutions exchange electronic payment messages and paper payment items (such as cheques) to make these payments happen.

3 Clearing (ACSS): High volume, lower-value payments between financial institutions are tracked and reconciled, and amounts owing to or by each financial institution as a result of daily customer activity (clearing balances) are calculated.

4 Settlement (LVTS): Low volume, high-value wire transfer payments are made between financial institutions and the Bank of Canada to settle the ACSS clearing balances with guaranteed finality. LVTS also facilitates settlement for Canada’s other systemically important payment systems (e.g. securities and foreign exchange), and is used by financial institutions to offer wire transfer services to their customers.
CENTRE OF EXCELLENCE for payments in Canada

Safe, efficient, effective SYSTEMS OPERATOR

TRUSTED COLLABORATOR adding value to the payments ecosystem

RESPECTED SOURCE for payments knowledge

STRONG VOICE for payments in Canada
Strategy

Core Purpose
To underpin the Canadian financial system and economy by providing safe, efficient, and effective clearing and settlement of payments.

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

Core Values
Excellence  Trust  Collaboration

Long-term Desired Outcomes
1. Transition & Renewal
The transition to a new governance structure is fully implemented. A renewed organization has strengthened its internal capacity, policies, processes, culture and structure.

2. Modernize
The Canadian payments system is safer, more efficient and effective due to the modernization of the payments clearing and settlement systems.

3. Operate & Enhance
Payments clearing and settlement systems and supporting rules and standards meet global standards of safety, efficiency and effectiveness.

Strategic Priorities
- Implement new governance structure.
- Enhance organization capacity and culture to support future needs.
- Build collaboration and research capability to support modernization of the payments system.
- Develop and maintain a Payments Industry Outlook for the Canadian payments ecosystem.
- Develop and implement a process that delivers innovation to the payments industry within the collaborative space (eg. ISO 20022).
- Develop strategy and plan for the modernization of the national payments clearing and settlement framework and infrastructure.
- Ensure systems are current (from a technology & business perspective) including the rules framework.
- Strengthen security and resiliency of systems and mature ERM framework.
- Develop & deliver a first class communication program and strengthen CPA brand.
Operating environment

Global Payment Trends
As payments technologies continue to advance, there is a growing focus on domestic and international regulatory requirements and supervisory demands for enhanced risk management. Countries around the globe are bringing about reforms to their payment systems in response to these market and regulatory forces, including strong guidance from public authorities that payment, clearing and settlement systems should serve the public interest. In 2014, globalization, technological advancements and new industry participants, as well as risk management, efficiency and user interest considerations shaped global payment trends.

State of Payments in Canada
In 2014, the Canadian payments ecosystem experienced forces similar to those observed globally. In order to ensure proper governance of the core national payments system and its ability to prosper, Bank of Canada and the Department of Finance advanced amendments to the Payments Clearing and Settlement Act (PCSA) and the Canadian Payments Act. Amendments to the PCSA increase the oversight authority of the central bank. The Bank of Canada has signaled its expectation that as a result of the amendments, our Automated Clearing Settlement System (ACSS), which clears retail payments, will be designated as a prominent system and therefore subject to increased oversight requirements. The central bank has also indicated that our core national payments clearing and settlement systems should be upgraded to better meet the needs of consumers and businesses.

Amendments to the Canadian Payments Act are bringing significant changes to our governance structure to achieve a balance between member and non-member representation, and enhance our ability to consider user interests, in line with similar developments in other jurisdictions.

These changes reflect our organization’s unique status as a public-purpose organization, and the federal government’s objective of strengthening the governance of Canada’s payments sector as it continues to transform.

Bill C-43, introduced Oct. 23, 2014
Implements measures announced in 2014 federal budget

Amendments to the Canadian Payments Act
Amendments to the Payments Clearing & Settlement Act
Regulations & by-laws
Key accomplishments

While continuing to operate critical national infrastructure, the CPA must evolve to meet the challenges of this shifting Canadian and global payments landscape both in Canada and abroad. Over the course of 2014, we undertook several key initiatives geared to support a successful transition to a renewed CPA. While enhancing our current systems and related standards, we also began preliminary research into a next generation clearing and settlement system for Canada. These initiations will enhance our services and value to our members, strengthen our resiliency and brand, renew internal capacity and culture and ultimately enhance our contribution to the Canadian financial system and economy.

1 “2014 Environmental Scan: Global Trends, Challenges and Impacts on Canada”, Canadian Payments Association, March 2014.
2 “A dual vision for the Canadian Payments System.” Presented by Schembri, Lawrence, Deputy Governor of the Bank of Canada at Payments Panorama 2014 conference, June 27, 2014 in Charlottetown, PEI. Available at bankofcanada.ca/2014/06/dual-vision-canadian-payments-system/
3 For more information, please see The Governance Review section in Key Accomplishments on page 26.
**Transition and Renewal**

The most important and far-reaching changes at the CPA in 2014 were legislative amendments to the Canadian Payments Act and Payments Clearing and Settlement Act (PCSA), which will modify our oversight, governance and accountability structures. The amendments contained within Bill C-43 received Royal Assent December 2014 and will come into force in July 2015.

**Oversight**

Under the PCSA, the Governor of the Bank of Canada has the authority to designate payment systems of “systemic importance” for oversight by the Bank, such as the CPA’s Large Value Transfer System (LVTS). Amendments to the PCSA enhanced the Bank of Canada’s powers to oversee payment systems that pose payments system risk and expanded the definition of system risk to include “any adverse effect on the stability of integrity of the Canadian financial system.” Amendments also expanded the Governor’s authority to review, prohibit and place conditions on an authorized foreign bank’s participation in a clearing and settlement system and clarified legal ambiguities with respect to the Bank of Canada’s authority to impose annual fees for the administration of the Act, among other changes.

**Governance Review**

Throughout the year, CPA management and our Board worked closely with the Department of Finance and the Bank of Canada to determine the best approach to modernizing the Canadian Payments Act for the good of the Canadian payments system. We also recruited a new Board Chair Nominee and developed key components of a new funding model.

Under the new legislation, the CPA will have a smaller, more balanced Board of Directors—one where financial institutions do not have a majority, but continue to have a strong voice, and where the Bank of Canada no longer has a role.

With this new Board structure, the creation of a dedicated forum to secure member expertise and advice on payments clearing and settlement was imperative. A new Member Advisory Council has been established in the legislation to capture the interests, needs and expertise of our member financial institutions. The legislation places the new Member Advisory Council on the same legal footing as the CPA’s Stakeholder Advisory Council, which will continue to provide stakeholder perspective, advice and counsel to our Board.

**Funding Model**

The legislative changes and the development of a new strategic plan highlighted a need to review the approach to funding the organization. The current funding model, implemented in 2003, allocates fees based on volumes cleared through the ACSS or LVTS. The model is inflexible and does not align cost with value received in the current environment: It is not forward-looking or able to accommodate alternative means of funding large multi-year capital investments.

A new funding model is in the design stage based on a set of guiding principles that will result in an equitable distribution of costs and will accommodate future needs. It is expected that the revised model will be implemented in 2017.

**Charting a New Strategic Direction for the Future**

In 2014, the CPA developed a new strategic plan supported by a five-year roadmap for achieving our vision. The plan drives a new direction for the CPA in times of change, seeks to mitigate risk in an environment of uncertainty and lays the foundation for the way forward to support the next Board.

In addition to clarifying our core purpose, the plan focuses on successfully achieving the transformation of our governance structure and internal organization, modernizing payments in Canada, while strengthening and enhancing our operations. It also outlines capacity changes and financial needs required in the long and short term to achieve our renewal as an organization4. Our three core values: excellence, trust and collaboration, are essential to achieving our vision of being Canada’s centre of excellence for payments.

**Strengthening Organizational Capacity**

The Organizational Renewal initiative was launched in this period of transformation to enable the CPA to successfully deliver on all of its strategic priorities now and into the future. An analysis of resources (existing skills and numbers) indicated a need to enhance capacity and initiate continuous improvement in a number of areas. As a result, the CPA has committed to building capacity to establish and implement a strong leadership development program. The organization also re-structured in 2014 to better align core functions, gain efficiencies and support information sharing across services and functions.

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4 For more information, please see the section on our Strategic Plan on page 21.
Amendments to the Canadian Payments Act

CHANGES TO THE CPA BOARD OF DIRECTORS

- Independent Chair; CEO is a Board member
- Domestic systemically important banks (DSIBs): at least 2, maximum 3 directors
- Board directors elected from pool of candidates proposed by Board nominating committee
- One vote per CPA member
- Annual operating and capital budgets: consultation with members; approved by Board

LEGISLATIVE CHANGES TO ACCOUNTABILITY AND REPORTING

- 5-year Corporate Plan updated and approved annually by Minister of Finance
- Enhanced Ministerial oversight and power of directive
- Annual Report, including financial statements, publicly released
Modernizing Payments

*Payments Messages for the Future*
Throughout the year, the CPA continued to make progress on our initiative to bring ISO 20022 to Canada. ISO 20022 is an international standard designed to simplify global business communication. The standard enables efficient payments clearing and settlement among financial institutions globally through the use of a common set of messages and language that the institutions agree to use in a consistent way. It allows participants and systems across different financial markets (e.g. payments, securities, foreign exchange, cards) to communicate using consistent terminology or syntax, which supports interoperability and more remittance information. It is an open standard that anyone can use, and to which anyone can contribute. In 2014, we developed draft ISO 20022 payment messages for the following CPA payment streams: Automated Funds Transfers (AFT), Electronic Data Interchange (EDI) and LVTS.

To support this effort, the CPA established a Standards Advisory Group and ISO 20022 Payments Working Groups to gather member and stakeholder input to map existing messages to the new standard. As part of our outreach and communication with respect to ISO 20022 and the Canadian payments community, we continued our partnership with the Society for Worldwide Interbank Financial Telecommunication (SWIFT), the global banking technology cooperative and leading expert in the ISO 20022 standard, by featuring a special SWIFT Standards Forum event. The event continued our promotion and education activities with members and stakeholders on this important initiative.
Enhancing Operations

Enhancing the functionality of Canada’s retail payments clearing system
In early 2014, the CPA consulted with direct clearers⁵ and the Bank of Canada to learn how we can enhance the ACSS to best meet their needs. More than 117 requirements were consolidated, assessed and prioritized. Nine of these requirements are being planned for implementation in 2015 along with upgrades of other critical elements of the system’s technical infrastructure. The remaining requirements will be re-assessed for the future.

IT Infrastructure Services Contract Renewal
The CPA enhanced operations through the renewal of its IT infrastructure services contract with Conseillers en Gestion et Informatique (CGI Inc.). Under the new five-year agreement with a two-year extension option, CGI will continue to deliver comprehensive infrastructure services to us, with a specific focus on supporting our mission-critical applications⁶.

Moving Headquarters and Upgrading Technology
Building on the Organizational Renewal process, the CPA also consolidated our two locations to a new single site in 2014. This move was executed to enhance communication and collaboration and to gain efficiencies in regards to employee productivity and space.

In support of the relocation, CPA core business systems (our non-payments systems), were moved from an alternate site to a commercial data centre, improving capacity, security and resiliency of our corporate information technology. Additional improvements were also made to the underlying infrastructure of our core business systems to ensure a more efficient and flexible environment for future systems enhancements.

Communications Outreach and Engagement

Cheque Imaging
Thanks to the framework established during the CPA’s Image Rule project, Remote Deposit Capture (RDC) services such as cheque deposit by smartphone are a reality in Canada, and image-captured payment exchange is permitted between Canadian financial institutions as a result of CPA Rule A10 (August 2013)⁷. This creates tremendous efficiencies for financial institutions and their customers. Throughout 2014, as members began to adapt their back offices to prepare for the full implementation of image exchange, the CPA continued to support its members, financial institutions and stakeholders by sharing our expertise and consolidating our international experiences.

Payments Panorama 2014
Every two years, the CPA hosts Payments Panorama, Canada’s most important payments conference, providing an opportunity for payments professionals to engage in dialogue and debate on current and emerging payments issues. Held June 25-27 in Charlottetown, P.E.I., the theme of Payments Panorama 2014 was Competition, Collaboration, Innovation. This year’s 355 delegates benefited from the insights of keynote speakers Larry Schembri, Deputy Governor of the Bank of Canada, Gottfried Leibbrandt, CEO of SWIFT, John Pecman, Commissioner of Competition at the Competition Bureau of Canada and Chris Hadfield, astronaut and the first Canadian commander of the International Space Station. Session and panel topics ranged from ISO 20022, mobile payments and image-captured payments to the changing Canadian and global regulatory landscape.

⁵“Direct Clearer” is a Member, other than the Bank of Canada that, on its own behalf, exchanges items and makes entries into the ACSS. “Canadian Payments Association’s Introduction CPA Rules Manual,” CPA, October 2013. www.cdnpay.ca/imis15/pdf/pdfs_rules/acss_intro.pdf


Our People

Having the right people with the right skills is the only way for the organization to achieve excellence when implementing the fundamental changes that are now taking place at the CPA. The strengthening and transformation of our people strategy will be key to achieving our Strategic Plan and to ensuring that employees have the right tools to be successful.

In recognition of the importance of employee development, approximately $200,000 was spent on professional development for employees in 2014. Almost 19% of our employees participated in internal secondment assignments, promotions or lateral transfers to enhance their professional growth.

Looking Forward to 2015

In 2015, we will recruit and onboard new staff as identified in the capacity plan. Our internal performance management program has been reviewed and aligned with the strategic plan and will be implemented early in 2015. Talent management reviews will also take place across all divisions to support the implementation of talent management and leadership development programs.

Also, a more simplified review process will be implemented to encourage a culture of continuous feedback and coaching conversations and to ensure smart goals are in alignment with corporate objectives.

Finally, an employee engagement survey will be conducted in late 2015 to support an evaluation of Human Resources program enhancements, and efforts to support and encourage employee engagement and development in the context of a changing and growing CPA.

Human Resource Statistics

By the end of 2014, the organization employed 90 full-time employees with an additional five vacancies for a total approved capacity of 95. Voluntary turnover remained low again in 2014 at 4.2%, compared to the Canadian average of 7%8. The average tenure of a CPA employee is 8.1 years, and the average age of our workforce is 43 years, which lines up with the Canadian average of 44 years9.

The following snapshot shows the organization’s employee distribution by division at the end of December, 2014 (see Figure 1).

This initiative began with the identification of capacity-building needs in three broad categories:

i) risk management, regulatory and governance;

ii) payments expertise, technology and constituent relationships; and

iii) supporting corporate services and processes.

In total, 20 new permanent resources, representing 20% growth, have been identified with additional contract expertise to support short-term needs. This growth will take place over the next 18 months.

During 2014, the CPA recruited seven new employees to fill new and vacant position. We also implemented 12 internal secondments and transfers for employee development and knowledge transfer initiatives.

In recognition of the importance of employee development, approximately $200,000 was spent on professional development for employees in 2014.

Almost 19% of our employees participated in internal secondment assignments, promotions or lateral transfers to enhance their professional growth.
FIGURE 1
EMPLOYEE DISTRIBUTION BY DIVISION

- Corporate Services: 41%
- CEO Office: 11%
- Information Technology: 21%
- Risk, Security and Research: 3%
- Payments & Industry Relations: 8%
- Next Gen: 2%
- Legal: 14%

*Conference Board of Canada, Compensation Planning Outlook 2014

*Conference Board of Canada, HR Trends and Metrics, 3rd edition
Enterprise Risk Management

The CPA has a formal risk management process based on an internationally recognized standard (ISO 31000 Risk Management—Principles and Guidelines) that is overseen by the Board, implemented by management, and executed by all in the CPA. The ultimate objective of risk management is to support decision-making to achieve our core purpose, vision and strategic plan by managing key risks across our organization in a comprehensive and integrated way.

We manage risks in accordance with a risk appetite approved by the Board, and our approach is articulated in the CPA Enterprise Risk Management Policy. Risks are grouped under four broad categories (see Figure 2).
Meeting Oversight Standards

The LVTS is Canada’s national system for sending wire payments and is a critical component of the Canadian financial system. It is designated under the Payment Clearing and Settlement Act as a systemically important system, and is overseen by the Bank of Canada.

The Bank of Canada has set standards for systemically important financial market infrastructures that are consistent with the Committee on Payment and Market Infrastructures and the International Organization of Securities Commissions (CPMI-IOSCO) Principles for Financial Market Infrastructures (PFMI). These Principles are significantly more rigorous than previous standards that the CPA has followed. We “observe” or “broadly observe” the majority of the standards and are working toward observing all standards.

The most important area of improvement is around comprehensive risk management. The new FMI Principles provide more explicit expectations from overseers on comprehensive risk management. We made significant enhancements in maturing our program in 2014:

• The Board of Directors established the Governance and Risk Committee with a mandate to oversee the performance of risk management and make recommendations to the Board.
• The CPA undertook a comprehensive self-assessment of the current risk management process and identified several opportunities for improvement and an implementation plan, which has commenced.
• A new Enterprise Risk Management Policy was developed.

Strategic Risk

“Strategic risk” is the risk that affects, or is created by, CPA’s business strategies and strategic objectives. In 2014, we took important steps to integrate risk management with the strategic planning and annual planning processes. In particular, a structured assessment was conducted on risks to achieving the new strategic plan. The identified risks are:

• Inadequate human resources to execute the plan
• Magnitude and velocity of change
• Failure to gain support and adoption of modernization priorities
• Loss of member engagement

Mitigation plans have been developed and are being monitored.

Operational Risk

Operational risk is the risk resulting from inadequate or failed processes, systems and IT, people or policies, or from external events. We consider internal and external sources of operational risk such as system availability, cyber security and settlement risk.

10 The FMI observes or broadly observes the principle. “Observed” means that any gaps or shortcomings are not issues of concern and can be considered in the course of normal business. “Broadly observed” means that one or more issues of concern have been identified which the system operator is encouraged to address in order to better manage risk or improve operations. These should be pursued on a defined timeline. “Principles for FMI,” Committee on Payments and Market Infrastructures—International Organization of Securities Commissions.
**System Availability**
Managing operational risk events related to systems and IT is critical to meeting the CPA’s core purpose. We review all incidents and overall trends and monitor incidents and trends for the ACSS, LVTS, CSN and USBE.

The CPA made amendments to its rules in 2014 to enhance our ability to review and manage operational risk stemming from participant incidents that have spill-over effects on the operation of CPA systems. Overall, the number of LVTS and ACSS participant incidents in 2014 were below the five-year trend\(^\text{11}\).

Overall, CPA system incidents were below trend in 2014; the LVTS and ACSS/USBE exceeded their target availability of 99.5% in every quarter.

In addition to the ACSS and LVTS, the CPA operates the CPA Services Network (CSN), which manages the exchange of electronic retail payment files between financial institutions as well as handling LVTS Direct Network traffic (queries and commands from financial institutions to the LVTS central system). The CSN did not meet its availability target of 99.5% in Q1, achieving only 99.32%. To mitigate the risk of reoccurrence, we have strengthened our pre-implementation testing procedures for CSN changes.

**Cyber Security**
Cyber security is essential to ensuring the safety and soundness of the CPA’s core national clearing and settlement systems and is an increasing area of focus for FMIs the world over. We collaborated with LVTS participants and critical service providers to ensure appropriate remediation.

The CPA actively participates in a range of cyber intelligence and operational resiliency engagements, including:

- The Executive Committee and Technical Working Group of the Canadian Bankers Association CFI-CIRT (Canadian Financial Institutions – Computer Incident Response Team)
- Joint Operational Resilience Management (JORM)\(^\text{12}\)
- Public Safety Canada’s National Cross Sector Forum (NCSF) and Multi Sector Network\(^\text{13}\)
- Financial Services—Information Sharing and Analysis Center
- Bilateral information sharing with the RCMP and the Canadian Cyber Incident Response Centre
- High Value Payments System Operational Resiliency Industry Group (HORIG)\(^\text{14}\)

**Settlement Risk**
Settlement risk is the risk that settlement in CPA operated payments systems will not take place as expected and may result in credit and/or liquidity risk contagion for CPA members.

As a systemically important system, the LVTS is held to the Bank of Canada’s standards, which are consistent with the CPMI-IOSCO Principles for Financial Market Infrastructures. The following summarizes the current stance of LVTS relative to Bank of Canada standards:

- The LVTS observes the standards related to credit risk.
- The LVTS observes the standards related to collateral. LVTS participants pledged to the Bank of Canada according to its collateral policy to support their payments. The Bank revised this policy in 2013 to address gaps against the PFMI, and there was a transition period over 2014 for participants to adapt. Given this, it is expected the LVTS will observe the collateral principle.
- The LVTS broadly observes the standards related to liquidity risk. To observe the standard, the CPA is considering how it could improve participants’ ability to monitor and manage their intraday liquidity risk.

\(^\text{11}\)“Participant incidents” are when a participant (member) is unable to send or receive payments, the participant’s ability to send and receive payments is significantly impaired for more than two hours, the participant’s ability to settle CLS, ACSS, CDSX or LVTS positions is impaired, or the participant problem has an impact on other participants or the system as a whole. In a “system incident” the CPA system experiences an incident or outage not caused by a participant (e.g. a power outage and failure of backup power supply).

\(^\text{12}\)Joint Operational Resilience Management (JORM)

\(^\text{13}\)Public Safety Canada’s National Cross Sector Forum (NCSF) and Multi Sector Network

\(^\text{14}\)High Value Payments System Operational Resiliency Industry Group (HORIG)
12 JORM is chaired by the Bank of Canada and includes the operators of domestic infrastructures designated as systemically important by the Bank of Canada, and ten financial institutions. JORM participants contribute to joint threat risk assessments and collaborate to improve resilience of the financial system.

13 The NCSF is working to advance more coherent and complementary actions among federal, provincial and territorial initiatives and among critical infrastructure sectors.

14 HORIG is chaired by the Bank of England and is made up of members who operate large value payments systems. The CPA is chairing a workstream on interdependencies among stakeholders, with deliverables in 2015.
The CPA operates two national systems for the clearing and settlement of payments: the Automated Clearing Settlement System (ACSS), which clears retail payments, and the Large Value Transfer System (LVTS), which is Canada’s wire transfer system, and is used to fund settlement for ACSS clearing balances at the Bank of Canada. The LVTS also facilitates settlement for Canada’s other financial market infrastructures and payment systems. Virtually all interbank Canadian dollar financial market transactions are ultimately settled via LVTS payments.

In 2014, CPA systems cleared approximately 6.8 billion payments (an average of 27 million payments per business day) worth a total value of $44.9 trillion (or $178.1 billion on average per business day).
FIGURE 5
ACSS STATS

<table>
<thead>
<tr>
<th>Total Volume</th>
<th>Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.8 B</td>
<td>$6.2 T</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Daily Average Volume</th>
<th>Daily Average Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>26.8 M</td>
<td>$24.7 B</td>
</tr>
</tbody>
</table>
**ACSS**

The ACSS is the system through which the vast majority of CPA payment items (both paper-based and electronic) are cleared, through various payment “streams.” These are mainly low-value, high-volume retail payments. The ACSS uses the aggregate volume and value data of payment exchanges to calculate amounts owing between pairs of financial institutions, as well as the net position of each financial institution overall. Several payments trends were identified in our systems throughout the year. In 2014, electronic payments continued to increase in both volume and value.

**FIGURE 6 & 7**

**ELECTRONIC VS. PAPER PAYMENT ITEMS**

(including ACSS and LVTS (MT 103 stream, or customer-initiated payments only)\(^{15}\)

\(^{15}\)The LVTS has two payments types: MT 103 and MT 205. In 2014, 66% of transactions by volume were MT 103 (as designated by the 103 message code) which include customer-initiated payments only (business and wire payments), as opposed to 33% being MT 205 transactions, which are used for settlement purposes between FIs, including settlement for credit card transactions, securities settlement, and payment transfers between FIs to settle ACSS positions.)
ACSS Volume and Value

ACSS volume and value continued to trend upward in 2014. Volume increased by 0.6%, and value by 4.2% over 2013.

Point-of-Service (POS) debit transactions account for the majority of payments in the ACSS (57%), followed by Automated Funds Transfers (AFT) credits (also known as direct deposits), which represent 12% of system volume.

Cheques were the largest value stream in the ACSS in 2014 (48%), with AFT payments (pre-authorized debits and direct deposits) accounting for 43%.
16 Streams under .5% of total are not shown.
17 In calculating the estimate number of cheques in Canada, assumptions were made for items not cleared through CPA systems such as “on us” items, leading to a different total than is shown in other sections about items cleared through the ACSS. On-us items are payments between customers of the same financial institution, which are handled as book entries by financial institutions.

**FIGURE 10**

**SHARE OF ACSS VOLUME**

- Electronic Remittance
- Point of Service
- Cheque and Paper
- AFT Debits
- AFT Credits
- Shared ABM Networks

**FIGURE 11**

**SHARE OF ACSS VALUE**

- Electronic Remittance
- Point of Service
- Cheque and Paper
- AFT Debits
- AFT Credits
- EDI

While cheques and paper payment items decreased in volume in 2014—down 7% year-over-year (see Figure 12)—they still accounted for 48% of the total value processed by the ACSS and 11% of its volume.

Out of the estimated 858 million cheques processed in Canada in 2014\(^7\) (worth an estimated $3.6 trillion), 35% were written from individuals. These represented only about 5% of total value of cheques in Canada ($114 billion).

The majority of cheques in Canada (an estimated 65%) were issued by businesses—small-to-medium size enterprises in particular. In 2014, business cheques in Canada had an estimated value of nearly $3.5 trillion —about 95% of the value of all cheques in Canada\(^8\). A key reason why businesses still use cheques is a lack of sufficient remittance data in electronic payments\(^9\).

Increasing the capacity for remittance data to travel with a payment, through the implementation of ISO 20022-compliant payment messaging for example, is crucial to enabling business migration to e-payments, and is therefore a particular focus of the CPA strategy.
Total: 7.9 M
Total Value: $38.7 T
Daily Average Volume: 31,415
Daily Average Value: $153.3 B
**LVTS**

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

**FIGURE 14 & 15**

**LVTS VOLUME AND VALUE**

**LVTS VOLUME (MILLIONS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
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</thead>
<tbody>
<tr>
<td>2010</td>
<td>6.0</td>
</tr>
<tr>
<td>2011</td>
<td>6.6</td>
</tr>
<tr>
<td>2012</td>
<td>7.0</td>
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<tr>
<td>2013</td>
<td>7.6</td>
</tr>
<tr>
<td>2014</td>
<td>7.9</td>
</tr>
</tbody>
</table>

**LVTS VALUE ($TRILLIONS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
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<tr>
<td>2011</td>
<td>39.6</td>
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<tr>
<td>2012</td>
<td>38.2</td>
</tr>
<tr>
<td>2013</td>
<td>37.6</td>
</tr>
<tr>
<td>2014</td>
<td>38.7</td>
</tr>
</tbody>
</table>
LVTS payment volume continued to increase in 2014 (a 4.5% increase when compared with 2013). The value of LVTS payments also increased by approximately 2.8% in 2014. Payments with a value between $750,000 and $5 million showed the strongest growth in volume (8.3%), followed by payments between $50,000 and $750,000 (6.5%). This being said, approximately 61% of LVTS payments made were for values under $50,000 and only 7% of LVTS payments were for amounts greater than $5 million.

The total value of payments in LVTS increased by over $1 trillion in 2014. This can be attributed mostly to an increase in the number of settlement transactions (MT 205s), which grew by about $700 billion. The value of customer-initiated wire payments (MT 103s) also rose by approximately $345 billion in 2014 when compared with 2013.
Summary of Financial Operations

The CPA’s core operational expenditures include the requirements to support the core clearing and settlement systems. In 2014, these core operating costs totalled $29.1 million, an increase of 15% over 2013. This increase reflects a growth in staff, enhancements to infrastructure and fees for settlement services. It also reflects the accomplishment of many large initiatives which were undertaken concurrently.

FIGURE 17
2014 ACTUAL EXPENSES BY CATEGORY

- Continuing Operations: 75%
- Strategic Projects: 8%
- Capital Investments: 9%
- Reserve Fund Development: 7%
SUMMARY OF 2014 FINANCIAL RESULTS

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Investments</td>
<td>7.4</td>
<td>11.4</td>
<td>12.6</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>3.7</td>
<td>4.1</td>
<td>7.6</td>
</tr>
<tr>
<td>Liabilities</td>
<td>3.1</td>
<td>3.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Net Assets</td>
<td>8.6</td>
<td>12.5</td>
<td>16.1</td>
</tr>
<tr>
<td>Membership Dues and Other Revenues</td>
<td>26.8</td>
<td>29.2</td>
<td>32.7</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>24.3</td>
<td>25.4</td>
<td>29.1</td>
</tr>
<tr>
<td>Excess of Revenue over Expense</td>
<td>2.5</td>
<td>3.8</td>
<td>3.6</td>
</tr>
<tr>
<td>Capital Outlays</td>
<td>2.3</td>
<td>1.6</td>
<td>4.7</td>
</tr>
<tr>
<td>No. active members</td>
<td>121</td>
<td>120</td>
<td>115</td>
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</table>

The audit opinion for 2014 is unqualified and no areas of concern were identified. The complete financial statements are included as part of this report in Appendix I.

Significant investments were incurred to support the following: work on the governance and legislative review process and initiation of related changes; initiation of the Enterprise Risk Management function; the continuation of work on the ISO 20022 initiative; and setting the groundwork for enhancements to the ACSS. Capital investments were incurred to consolidate the organization’s two offices and relocate the corporate data centre.

The table above summarizes the final financial results for 2014 and the previous two years.

**Reserve Funds**

In 2011, a restricted reserve fund was established to hold funds for specific projects. This reserve fund was subsequently expanded to include funds required to be held in accordance with the Principles for Financial Market Infrastructures (PFMIs). This component of the restricted reserve fund is being built over a 4-5 year period and is expected to total approximately $10 million when fully funded. The organization also holds unrestricted reserve funds which are available to finance planned or unplanned outlays at the discretion of the Board. All reserve funds are invested in accordance with the CPA’s Investment Policy.
Corporate Planning
Corporate Planning 2015

After a year of unprecedented change spanning all aspects of our organization, the CPA will continue transforming itself well into 2015 and beyond. In order to achieve this, we will be guided by the three long-term desired outcomes of our five-year Strategic Plan: Transition & Renewal, Modernize and Operate & Enhance. This section outlines our plan to work toward these outcomes throughout 2015.

**Transition and Renewal**

When amendments to our governing legislation take effect in July 2015, we will transition to a new governance model and Board. To ensure this successful transition, we must continue to evolve our processes, culture, and capacity.

In 2015, we will undertake the following significant initiatives critical to the future success of the CPA:

- Establish and implement a new Board and align legislative amendments, by-laws, board governance policies and committee structure (including the establishment of the Member Advisory Committee) to support the governance changes.
- Enhance our internal capacity by recruiting and onboarding new resources and establishing the foundation for implementing talent management and leadership development programs.
- Build a collaborative research function that develops high-quality research and drives change by establishing an agenda to support our payments system modernization program and ensuring necessary models, data and resources are acquired to support it.

**Modernize**

We have already started planning for the next generation of our core payment clearing and settlement framework and infrastructure. The modernization of the payments clearing and settlement systems will lead to a safer, more efficient and effective Canadian payments system and will enhance our ability to influence the payments system for the benefit of all Canadians.

To support this long-term desired outcome, we will pursue the following goals in 2015:

- Develop, through research and with the payments industry, a shared vision of the future Canadian payments ecosystem and determine how the CPA can best support it.
- Prepare for the Q1 2016 completion of Phase 1 of the ISO 20022 initiative, publishing ISO 20022-based payment messaging standards for AFT, LVTS and EDI as well as a recommended adoption strategy. At the end of this phase the new messaging standard will be supported by a policy and rules framework.

**Operate and Enhance**

In 2015, we will continue work to ensure our payments clearing and settlement systems and supporting rules and standards meet global standards of safety, efficiency and effectiveness:

- Technology upgrades and enhancements of corporate and payments systems including ACSS and CSN, in addition to meeting system availability targets.
- Address financial market infrastructure gaps through completion of an Enterprise Risk Management policy and develop a CPA resiliency and security strategy.
- Make progress on fully observing the new oversight standards of the Bank of Canada and international best practices.

We will also establish a new and comprehensive multi-year communications strategy to support the transition and renewal of the CPA.
While we are guided by our public policy mandate to ensure the proper evolution of Canada’s payment system, we are steadfast in our commitment to our member Financial Institutions to provide exceptional value for our clearing and settlement services.
Under the Canadian Payments Act prior to the legislative changes set to take place in 2015, the Minister of Finance appoints three individuals to the CPA’s Board of Directors, and the Bank of Canada appoints the Chair. CPA members elect the remaining 12 directors. In addition, a 20-person Stakeholder Advisory Council provides advice and counsel to the Board of Directors and represents the diverse interests of users of the payment system.

A detailed description of the CPA’s new Board governance framework can be found in the Key Accomplishments on page 25.

**Board Committees**

The CPA's Board is comprised of four committees: Finance and Audit Committee; Governance and Risk Committee; Human Resources and Compensation Committee; and the Executive Committee. Individually and collectively, these committees support the overall Board and, by extension, the CPA in undertaking its mandate.
Finance and Audit Committee
The Finance and Audit Committee assists the Board in fulfilling its responsibilities in relation to several crucial functions: financial monitoring (i.e., oversight of procedures and controls, income and expenses, preparation of financial statements and external audits); financial planning, including oversight of budget development; and premises. This committee may also oversee projects as may be delegated by the Board.

In 2014, the Committee oversaw the CPA Premises Project which involved a move to bring all employees into one location. It also provided significant input in relation to the way the CPA is funded by its members. The Committee supported the development of a plan for an internal audit program at the CPA and provided input on modernizing the Technology Support Agreement. It also reviewed the financial plan ensuring it appropriately reflects the key financial requirements to achieve the financial plan.

Governance and Risk Committee
The Governance and Risk Committee assists the Board in fulfilling its responsibilities in relation to the following activities: risk management oversight, including oversight over the CPA’s Enterprise Risk Management (ERM) Framework and risk appetite statement; the Board’s approach to governance (i.e., oversight of Board performance effectiveness, governance policies and guidelines and compliance); code of conduct and standards of behaviour for Board and management; director nomination and qualification; Board succession planning; Board orientation and continuing education; and evaluation of Board committees as a whole.

In 2014, the Governance and Risk Committee supported management with proposals and submissions to the Department of Finance regarding the Payments System Governance Review and a legislative drafting package. The Committee provided input on the development of an ERM Framework and revising the ERM policy. Finally, it oversaw the development of criteria for a new independent Board Chair and the recruitment of a new Board Chair nominee.
**Human Resources and Compensation Committee**

The Human Resources and Compensation Committee assists the Board in fulfilling its responsibilities in a number of areas. These include: evaluation and compensation of the President and CEO; evaluation of officers; employee benefits and human resources policies; management succession planning; and pension and supplemental employee retirement plans.

In 2014, the Human Resources and Compensation Committee also assisted management with aligning the CPA corporate scorecard with the new strategic plan and ensuring the CPA’s strategic priorities are supported by a clear Human Resources plan to support and nurture the CPA’s growth as an organization.

**Executive Committee**

The Executive Committee assists the Board during intervals between Board meetings to address urgent matters when it is not possible to convene a special meeting of the Board. In addition, the Executive Committee assists the Board in recruiting and selecting the President and CEO, as well as any other matters the Board may delegate, except for the powers reserved to the Board in the Canadian Payments Act or By-laws.

In 2014 the Executive Committee supported the ongoing work on the ISO 20022 standards project and the Payments System Governance Review.

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**2014 MEMBERSHIP**

**Stephanie Zee, Citibank** — Chair

**Peter Burn, Ministerial Appointee** — member

**Charles Milne, Central 1 Credit Union** — member

**Derek Vernon, Bank of Montreal** — member

**Nathalie Généreux, Laurentian Bank** — member

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**2014 MEMBERSHIP**

**Janet Cosier, Bank of Canada** — Chair

**Eric Wolfe, Bank of Canada** — Deputy Chair

**Brenda Clark, Canadian Imperial Bank of Commerce** — member

**Jason Conant, Peace Hills Trust** — member

**Ricki Golick, Canadian Western Bank** — member

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22 Ibid.

23 Ibid.
# BOARD AND COMMITTEE MEETINGS AND ATTENDANCE IN 2014

**NUMBER OF MEETINGS**

<table>
<thead>
<tr>
<th>BOARD</th>
<th>EXECUTIVE COMMITTEE</th>
<th>FINANCE &amp; AUDIT COMMITTEE</th>
<th>GOVERNANCE &amp; NOMINATING COMMITTEE</th>
<th>HUMAN RESOURCES &amp; COMPENSATION COMMITTEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>7&lt;sup&gt;24&lt;/sup&gt;</td>
<td>2&lt;sup&gt;25&lt;/sup&gt;</td>
<td>5&lt;sup&gt;28&lt;/sup&gt;</td>
<td>12&lt;sup&gt;27&lt;/sup&gt;</td>
<td>4&lt;sup&gt;28&lt;/sup&gt;</td>
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**DIRECTOR ATTENDANCE**

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<th>J. Cosier – Chair</th>
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<td>P. Burn</td>
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<td>P. Dagenais&lt;sup&gt;29&lt;/sup&gt;</td>
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<td>C. Kohli&lt;sup&gt;30&lt;/sup&gt;</td>
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<td>J.G. Lavoie&lt;sup&gt;31&lt;/sup&gt;</td>
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</tr>
</tbody>
</table>

<sup>24</sup>February 13, March 19, May 8, June 25, October 9, December 3 & 4.

<sup>25</sup>June 10, August 14.

<sup>26</sup>February 12, May 7, June 24, October 8, December 3.

<sup>27</sup>February 12, March 19, April 2, May 7, June 6, June 24, September 8, October 8, November 6, 14,20,21, December 2.

<sup>28</sup>February 12, June 24, October 8, December 3.

<sup>29</sup>Joined the Board as of November 25, joined the FAC as of December 4.

<sup>30</sup>Joined the Board as of March 19, joined the FAC as of March 19.

<sup>31</sup>Resigned from the Board in October.

<sup>32</sup>Joined the Board as of March 19, joined the HRCC as of March 19.
Stakeholder Advisory Council

The CPA's Stakeholder Advisory Council is a 20-person council, including two Board members, that is codified in the Canadian Payments Act. Members are drawn from, and represent the views of, the CPA’s broad base of stakeholders, including consumer associations, businesses, retailers, governments and service providers. Under the Act, the Council’s mandate is to “provide counsel and advice to the Board on payment and clearing and settlement matters and any other matter relating to the objects of the Association.” Eligibility requirements for Council membership and the yearly nomination process are set out in the Association’s General By-law.
### 2014 Membership

<table>
<thead>
<tr>
<th>Council Member or Substitute</th>
<th>Organisation Represented</th>
<th>Meetings Attended (or Substitute)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reg Bawa³³</td>
<td>Province of British Columbia</td>
<td>2/2</td>
</tr>
<tr>
<td>Doug Bruce³³</td>
<td>Canadian Federation of Independent Business</td>
<td>2/2</td>
</tr>
<tr>
<td>Pat Daley</td>
<td>Deloitte</td>
<td>3/3</td>
</tr>
<tr>
<td>Robert Hollis</td>
<td>PRESTO</td>
<td>2/3</td>
</tr>
<tr>
<td>Caroline Hubberstey</td>
<td>Interac Association</td>
<td>2/3</td>
</tr>
<tr>
<td>Ritu Khanna³³</td>
<td>PayPal Canada</td>
<td>2/2</td>
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<tr>
<td>Steve Lacelle²⁴</td>
<td>Government of Canada (Receiver General)</td>
<td>3/3</td>
</tr>
<tr>
<td>Luc Lalonde</td>
<td>Canada Post Corporation</td>
<td>3/3</td>
</tr>
<tr>
<td>Jean-Guy Lavoie (CPA Board)</td>
<td>La Caisse centrale Desjardins du Québec</td>
<td>2/3</td>
</tr>
<tr>
<td>Don Mercer³³</td>
<td>Consumers Council of Canada</td>
<td>2/2</td>
</tr>
<tr>
<td>Brent Mizzen (Chair)</td>
<td>Canadian Life and Health Insurance Association</td>
<td>3/3</td>
</tr>
<tr>
<td>Tom Morrison³³</td>
<td>Association for Financial Professionals of Canada (Suncor Energy)</td>
<td>1/2</td>
</tr>
<tr>
<td>Steve Nogalo</td>
<td>NCR Corporation (Suncor Energy)</td>
<td>2/3</td>
</tr>
<tr>
<td>Bill Piggot³³ (Vice-Chair)</td>
<td>ADP Canada</td>
<td>2/2</td>
</tr>
<tr>
<td>Angela Richardson</td>
<td>Canadian Gas Association (Union Gas Limited)</td>
<td>3/3</td>
</tr>
<tr>
<td>Jacques St Amant</td>
<td>Public Interest Advocacy Centre</td>
<td>3/3</td>
</tr>
<tr>
<td>Peter Thom</td>
<td>Bell Canada</td>
<td>3/3</td>
</tr>
<tr>
<td>David Wilkes</td>
<td>Retail Council of Canada</td>
<td>1/3</td>
</tr>
<tr>
<td>Jeff van Duynhoven (CPA Board)</td>
<td>TD Merchant Services</td>
<td>3/3</td>
</tr>
<tr>
<td>Kurt Eby</td>
<td>Canadian Wireless Telecommunications Association</td>
<td>1/1</td>
</tr>
<tr>
<td>Bill Huzar</td>
<td>Consumers Council of Canada</td>
<td>1/1</td>
</tr>
<tr>
<td>Ron Matthews</td>
<td>Association for Financial Professionals of Canada</td>
<td>1/1</td>
</tr>
<tr>
<td>Ingrid Vincent</td>
<td>Ontario Financing Authority (Provincial Government)</td>
<td>0/1</td>
</tr>
<tr>
<td>Vacant³⁵</td>
<td>Visa</td>
<td>0/3</td>
</tr>
</tbody>
</table>

³³ New member as of April 2014.
²⁴ Midterm vacancy, replaced by Mimi Lepage.
³⁵ James Allhusen resigned from the council and a replacement was not named.
CPA Board of Directors

Left to right
Peter Burn (Ministerial appointee)
Jeff van Duynhoven (TD)
Stephanie Zee (Citibank)
Ed White (HSBC)
Stewart MacKinnon (Ministerial appointee)
Patrice Dagenais (Desjardins)
Brenda Clark (CIBC)
Jean Guy Lavoie (Desjardins)
Janet Cosier (Bank of Canada)

Eric Wolfe (Bank of Canada)
Gerry Gaetz
Kelly Scott (The Bank of Nova Scotia)
Ricki Golick (Canadian Western Bank)
Chitwant Kohli (Royal Bank of Canada)
Penny-Lynn McPherson (CPA Vice-President, General Counsel and Corporate Secretary)
Curtis Stange (Alberta Treasury Branches)
Jason Conant (Peace Hills Trust Company)

Stephen Lacelle (National Bank of Canada)
Ron Matthews (Independent Director)

Missing
Derek Vernon (Bank of Montreal) / Charles Milne (Central 1 Credit Union) / Nathalie Généreux (Laurentian Bank of Canada) / Warren Law (ICICI Bank) / Graham Wetter (Credit Union Central Alberta Limited)
The CPA’s Executive Leadership Team is composed of the President & CEO, supported by six Vice-Presidents. This team provides strategic direction, leadership and oversight to the organization. As part of organizational renewal, and to support the CPA’s Modernization initiative, several new Executive Leadership positions were created: Vice-President, Information Technology & CIO, Vice President, Payments and Industry Relations, and Vice-President, Next Generation Clearing & Settlement.

Left to right:
Jeff Moran (Vice President, Payments and Industry Relations)
Jenny Paterson (Vice President, Corporate Services & CFO)
Gerry Gaetz (President and CEO)
Doug Kreviazuk (Vice President, Next Generation Clearing & Settlement)
Penny-Lynn McPherson (Vice President, Legal Services, General Counsel & Corporate Secretary)
Carol Ann Northcott (Vice-President, Risk, Security and Research and Chief Risk Officer)

Missing: Jan Pilbauer (Vice President, Information Technology & CIO)
Payment Operations and Industry Relations

In 2014, Payment Operations, Payments Innovation, Policy, Industry Relations, Public Affairs and Education were all consolidated within one division. Its mandate is to contribute to the modernization of the Canadian payments system and position the CPA as Canada’s centre of excellence for payments through the provision of sound policy, innovation, solid core operations, collaborative industry engagement and creative communications and public affairs.

The Payment Operations section provides business expertise, both internally and externally, to ensure the operational excellence of Canada’s clearing and settlement infrastructure; interfaces with member institutions to develop, maintain and improve the business processes (including Rules and Standards) supporting operation of the national clearing and settlement systems; manages and coordinates response to payment system emergency incidents, including follow up reporting; and mitigates systemic and operational risk.

The Payments Innovation function is to engage members and stakeholders through a formal relationship management program, and to identify and develop new and innovative payment services for the CPA in the collaborative space. It also leads the development of the CPA’s ISO 20022 strategy.

The Policy and Industry Relations unit develops sound payments policy to support attainment of the public policy objectives for the Canadian payments system: safety, efficiency and taking into account the needs of users. It also creates the conditions for industry engagement and collaboration (including managing the Member and Stakeholder Advisory Councils) to support effective decision-making toward the achievement of CPA desired outcomes and priorities.

The Public Affairs and Education group provides strategic communications advice to ensure recognition of the CPA as Canada’s centre of excellence for payments; executes the CPA’s annual corporate communications strategy, content strategy, government relations and marketing initiatives; and develops multimedia tools and resources to facilitate knowledge sharing and education for members and stakeholders, including the CPA website, Learning Exchange, and social media campaigns. This group also organizes the CPA’s payments conference, Payments Panorama.

Next Generation Clearing and Settlement

Next Generation Clearing and Settlement is a new division at the CPA and a critical component to delivering on our strategic plan to proactively shape the modernization of the national payment landscape for the benefit of all Canadians. To illustrate the CPA’s commitment to this work, this new unit was created with dedicated resources to ensure the success of this priority initiative. The group has been charged with developing the strategy and plan for modernizing the national payments clearing and settlement framework and infrastructure.

In support of this initiative the group will: undertake research exploring global developments, key potential attributes and trade-offs; engage international counterparts to gather lessons learned and advice on payment system transformations; open a national conversation with members and key stakeholders to better understand their needs, and develop a shared vision for Canada’s next generation clearing and settlement system.
In 2014 we started to put in place foundational elements that will ensure the success of the CPA’s new direction.

Risk, Security and Research
In 2014, the Risk and Security division added the Research function to the group. This division provides leadership and expertise in the assessment and management of risk as well as the protection of CPA’s systems, assets and services from security events. The group promotes risk and security awareness, develops, tests and implements business continuity plans, conducts risk assessments, develops security and risk policies as well as procedures and relevant metrics.

The research function of the division strives to deliver high-quality research and analysis to support the organization’s strategic objectives, often in collaboration with other CPA divisions. Key areas of research include: end-user needs, payments innovation and the evolving payments landscape; payments modernization; risk management and payments system operation; industry organization of the payments industry, including regulation and oversight and links between payments and real economic activity.

Information Technology
The primary mandate of the Information Technology division (ITD) is to deliver excellent services to the CPA’s members through reliable operations of the core payment exchange, clearing and settlement systems. This includes both continuous business and technical enhancements to the existing systems, as well as providing technical guidance for the next generation.

In addition, as an internal technology provider, the ITD delivers value-added service to the CPA through its modernized internal business systems, including redundant and geographically dispersed network and storage services, an enhanced telecommunication system, and other critical corporate infrastructure. The ITD continuously adopts best industry practices ensuring high-quality results through the complete technology lifecycle.

Legal, Corporate Secretariat and Compliance
The legal division is the primary legal resource and advisor to the President and CEO, Chair, Board of Directors, and management. It provides client-focused, legal services to support the Association’s day-to-day activities and strategic initiatives, to facilitate informed and legally sound decision making. It also provides corporate secretariat services for effective Board and committee governance and operates programs to address member compliance and to fulfill CPA regulatory/corporate compliance obligations.

Corporate Services
Corporate Services provides client-focused services, leadership and expertise in the areas of finance, human resources, corporate planning, project management and general administration. It supports the strategic planning process and the development of corresponding financial plans, the development of the annual corporate scorecard to align with strategic priorities and the Association’s performance management program. It coordinates the development of annual budgets, prepares financial reports and analysis and invests funds in accordance with the CPA’s investment policy.
Independent Auditors’ Report

To the Members of the Canadian Payments Association

We have audited the accompanying financial statements of the Canadian Payments Association, which comprise the statement of financial position as at December 31, 2014, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Payments Association as at December 31, 2014 and its results of operations, changes in net assets and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants,
Licensed Public Accountants
February 17, 2015
Ottawa, Canada
Statement of Financial Position
(in thousands of dollars)

December 31, 2014, with comparative information for 2013

<table>
<thead>
<tr>
<th>Assets</th>
<th>2014</th>
<th>2013 (note 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$ 12,619</td>
<td>$ 11,356</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,418</td>
<td>199</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>625</td>
<td>621</td>
</tr>
<tr>
<td>Total</td>
<td>15,662</td>
<td>12,176</td>
</tr>
<tr>
<td>Capital and intangible assets (note 3)</td>
<td>7,567</td>
<td>4,124</td>
</tr>
<tr>
<td>Total</td>
<td>$ 23,229</td>
<td>$ 16,300</td>
</tr>
</tbody>
</table>
### Liabilities and Net Assets

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account payable and accrued liabilities (note 4)</td>
<td>$3,677</td>
<td>$2,475</td>
</tr>
<tr>
<td>Deffered revenue</td>
<td>781</td>
<td>770</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,458</td>
<td>3,245</td>
</tr>
<tr>
<td>Tenant inducement (note 5)</td>
<td>2,119</td>
<td>28</td>
</tr>
<tr>
<td>Accrued benefit liability (note 6)</td>
<td>590</td>
<td>494</td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invested in capital assets</td>
<td>7,567</td>
<td>4,124</td>
</tr>
<tr>
<td>Internally restricted (note 7)</td>
<td>4,990</td>
<td>4,047</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>3,505</td>
<td>4,362</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$16,062</td>
<td>$12,533</td>
</tr>
<tr>
<td>Commitments (note 8)</td>
<td>590</td>
<td>494</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$23,229</td>
<td>$16,300</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
Statement of Operations  
(in thousands of dollars)  
Year ended December 31, 2014, with comparative information for 2013

<table>
<thead>
<tr>
<th></th>
<th>Direct ACSS Operations</th>
<th>Direct LVTS Operations</th>
<th>Indirect Operation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dues</td>
<td>$ 4,780</td>
<td>$ 4,225</td>
<td>$ 12,380</td>
<td>$10,363</td>
</tr>
<tr>
<td>Corporate services network</td>
<td>489</td>
<td>503</td>
<td>824</td>
<td>873</td>
</tr>
<tr>
<td>Fees and subscriptions</td>
<td>463</td>
<td>447</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Frame relay</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>216</td>
</tr>
<tr>
<td>Interest</td>
<td>-</td>
<td>-</td>
<td>18</td>
<td>9</td>
</tr>
<tr>
<td>IT Infrastructure-chargebacks</td>
<td>29</td>
<td>28</td>
<td>37</td>
<td>29</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>15</td>
<td>11</td>
<td>65</td>
<td>51</td>
</tr>
<tr>
<td>CDN</td>
<td>25</td>
<td>25</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Conference</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>473</td>
</tr>
<tr>
<td>Total</td>
<td>5,801</td>
<td>5,239</td>
<td>13,324</td>
<td>11,541</td>
</tr>
</tbody>
</table>

Expenses:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and benefits</td>
<td>3,150</td>
<td>2,655</td>
<td>3,489</td>
<td>3,178</td>
<td>5,639</td>
<td>5,393</td>
<td>12,691</td>
<td>11,226</td>
</tr>
<tr>
<td>IT Infrastructure</td>
<td>772</td>
<td>709</td>
<td>4,007</td>
<td>3,739</td>
<td>722</td>
<td>357</td>
<td>5,501</td>
<td>4,805</td>
</tr>
<tr>
<td>General administration</td>
<td>413</td>
<td>461</td>
<td>878</td>
<td>828</td>
<td>3,121</td>
<td>2,805</td>
<td>4,412</td>
<td>4,094</td>
</tr>
<tr>
<td>Infrastructure/telecom-chargebacks</td>
<td>520</td>
<td>534</td>
<td>863</td>
<td>1,157</td>
<td>-</td>
<td>-</td>
<td>1,383</td>
<td>1,691</td>
</tr>
<tr>
<td>Development projects</td>
<td>7</td>
<td>12</td>
<td>56</td>
<td>40</td>
<td>2,692</td>
<td>1408</td>
<td>2,755</td>
<td>1,460</td>
</tr>
<tr>
<td>Premises</td>
<td>332</td>
<td>322</td>
<td>485</td>
<td>470</td>
<td>564</td>
<td>482</td>
<td>1,381</td>
<td>1,274</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>391</td>
<td>372</td>
<td>244</td>
<td>474</td>
<td>57</td>
<td>16</td>
<td>692</td>
<td>862</td>
</tr>
<tr>
<td>Conference</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>429</td>
<td>-</td>
<td>429</td>
<td>-</td>
</tr>
<tr>
<td>Account management fee</td>
<td>-</td>
<td>-</td>
<td>300</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>300</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>5,585</td>
<td>5,065</td>
<td>10,322</td>
<td>9,886</td>
<td>13,224</td>
<td>10,461</td>
<td>29,131</td>
<td>25,412</td>
</tr>
</tbody>
</table>

Excess of revenues over expenses  

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>216</td>
<td>174</td>
<td>3,002</td>
<td>1,655</td>
<td>342</td>
<td>2000</td>
<td>3,560</td>
<td>3,829</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
### Statement of Changes in Net Assets
(in thousands of dollars)
Year ended December 31, 2014, with comparative information for 2013

<table>
<thead>
<tr>
<th></th>
<th>Invested in capital assets</th>
<th>Internally restricted</th>
<th>Unrestricted</th>
<th>Total 2014</th>
<th>Total 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets, beginning of year</td>
<td>$ 4,124</td>
<td>$ 4,047</td>
<td>$ 4,286</td>
<td>$ 12,457</td>
<td>$ 8,626</td>
</tr>
<tr>
<td>Adjustment per note 2</td>
<td>-</td>
<td>-</td>
<td>76</td>
<td>76</td>
<td>66</td>
</tr>
<tr>
<td>Net assets, beginning of year, as restated</td>
<td>4,124</td>
<td>4,047</td>
<td>4,362</td>
<td>12,533</td>
<td>8,692</td>
</tr>
<tr>
<td>Excess of revenue over expenses:</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct ACSS operations</td>
<td>-</td>
<td>-</td>
<td>216</td>
<td>216</td>
<td>174</td>
</tr>
<tr>
<td>Direct LVTS operations</td>
<td>-</td>
<td>-</td>
<td>3,002</td>
<td>3,002</td>
<td>1,655</td>
</tr>
<tr>
<td>Indirect operations</td>
<td>-</td>
<td>-</td>
<td>342</td>
<td>342</td>
<td>2,000</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>-</td>
<td>3,560</td>
<td>3,560</td>
<td>3,829</td>
</tr>
<tr>
<td>Employee future benefit remeasurements and other items:</td>
<td>-</td>
<td>-</td>
<td>(31)</td>
<td>(31)</td>
<td>12</td>
</tr>
<tr>
<td>Transfer to internally restricted net assets (note 7)</td>
<td>-</td>
<td>2,839</td>
<td>(2,839)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Transfer to unrestricted net assets (note 7)</td>
<td>-</td>
<td>(1,896)</td>
<td>1,896</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisitions of capital and intangible assets</td>
<td>4,660</td>
<td>-</td>
<td>(4,660)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Amortization of capital and intangible assets</td>
<td>(1,217)</td>
<td>-</td>
<td>1,217</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net asset, end of year</td>
<td>$ 7,567</td>
<td>$ 4,990</td>
<td>$ 3,505</td>
<td>$ 16,062</td>
<td>$ 12,533</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements.
**Statement of Cash Flows**

*(in thousands of dollars)*

Year ended December 31, 2014, with comparative information for 2013

<table>
<thead>
<tr>
<th>Cash Provided by (used in):</th>
<th>2014</th>
<th>2013 (note 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess of revenue over expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct ACSS operations</td>
<td>$ 216</td>
<td>$ 174</td>
</tr>
<tr>
<td>Direct LVTS operations</td>
<td>3,002</td>
<td>1,655</td>
</tr>
<tr>
<td>Indirect operations</td>
<td>342</td>
<td>2,000</td>
</tr>
<tr>
<td>Add non-cash items:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of capital and intangible assets</td>
<td>1,217</td>
<td>1,177</td>
</tr>
<tr>
<td>Employee future benefit remeasurements and other items</td>
<td>(31)</td>
<td>12</td>
</tr>
<tr>
<td>Increase (decrease) in tenant inducement</td>
<td>2,091</td>
<td>(25)</td>
</tr>
<tr>
<td>Change in employee future benefit liability</td>
<td>96</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total change</strong></td>
<td>6,933</td>
<td>5,033</td>
</tr>
</tbody>
</table>

| Change in non-cash operating working capital: |      |               |
| Decrease (increase) in accounts receivable | (2,219) | 297         |
| Decrease (increase) in prepaid expenses | (4) | 34           |
| Increase in accounts payable and accrued liabilities | 1,202 | 237         |
| Increase (decrease) in deferred revenue | 11 | (25)         |
| **Total change** | (1,010) | 543         |

| Investing activities: |      |               |
| Acquisitions of capital and intangible assets | (4,660) | (1,598)       |
| Increase in cash | 1,263 | 3,978         |
| Cash, beginning of the year | 11,356 | 7,378         |
| Cash, end of the year | $ 12,619 | $ 11,356     |

See accompanying notes to financial statements.
Statement of Cash Flows  
Year ended December 31, 2014 (in thousands of dollars)

The Canadian Payments Association (the “Association”) was incorporated by an Act of Parliament of Canada.

The objects of the Association are to:

(a) establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;  
(b) facilitate the interaction of its clearing and settlement systems and related arrangements with other systems or arrangements involved in the exchange, clearing or settlement of payments; and  
(c) facilitate the development of new payment methods and technologies.

The costs associated with the central automated facilities and telecommunications facilities of the national clearing and settlement systems are the responsibility of the Association. 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.

In accordance with its financial by-law, the Association is required to establish an Indirect Operations budget, a Direct Large Value Transfer System (LVTS) budget, and a Direct Automated Clearing Settlement System (ACSS) budget. The statement of operations includes the revenues and expenses for each of these activities. The Association is a non-profit organization, under paragraph 149(1)(l) of the Income Tax Act and, as such, is not subject to income taxes.

1. Significant accounting policies:
The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Basis of presentation:
The Association uses the deferral method of accounting for contributions for not-for-profit organizations.

(b) Revenue recognition:
Dues are recognized as revenue on a fiscal year basis. Dues received in advance of the related fiscal year are recorded as deferred revenue. Conference revenue is recognized in the year that the conference is held. All other revenues are recognized in the year in which the related service is performed.

(c) Employee future benefits:
The Association maintains a defined contribution pension plan for all employees who satisfy certain eligibility conditions. The Association also provides non-pension defined benefits consisting of a post-employment life and health insurance plan to its employees.

The Association accurses its obligations and related costs for funded employee future benefit plans as the employees render the service necessary to earn the pension and other retirement benefits, based on the latest going concern funding valuation. The actuarial determination of the accrued benefit obligations for pensions and other employee future benefits uses the projected method on service (which incorporates management’s assumptions used for funding purposes, other cost escalation, retirement ages of employees and other actuarial factors). The actuarial valuation is performed at least every three years. In the years between valuations, pension plan results are prepared based on extrapolations of the latest available funding valuation results. Assets of the employee future benefit plans are valued using fair values at the date of the financial statements.

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

The Association’s contributions to the defined contribution plan are expensed in the year of contribution.

(d) Capital and intangible assets:
Capital and intangible assets are recorded at cost less accumulated amortization.

When a capital or intangible asset no longer contributes to the Association’s ability to provide services, its carrying amount is written down to its residual value.

The Technology Strategy program aims to enhance the current systems by renewing and modernizing the technology infrastructure. Costs directly attributable to the Technology Strategy and having future economic benefits are capitalized as incurred and amortization will commence in the period that the asset becomes operational.
Amortization is provided on the straight-line basis over the following terms:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold improvements</td>
<td>Term of the lease</td>
</tr>
<tr>
<td>Office furniture</td>
<td>Five years</td>
</tr>
<tr>
<td>Technology Strategy</td>
<td>Five years</td>
</tr>
</tbody>
</table>

(e) Expenses:
In the statement of operations, the Association presents its expenses by function except for salaries and benefits, which are presented by object. Expenses are recorded to the applicable function to which they are directly related. The Association does not allocate expenses between functions after initial recognition.

(f) Internally restricted net assets:
The Association restricts the use of portions of its net assets for specific future purposes. When incurred, expenses are charged to operations and the balance of internally restricted assets is reduced accordingly.

(g) Financial instruments:
Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Association has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Association determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Association expects to realize by exercising its right to any collateral.

If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.
(h) Use of estimates:
The preparation of the financial statements 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 amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include assets and obligations related to employee future benefits. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the year in which they become known.

2. Adoption of Section 3463 Reporting Employee Future Benefits by Not-for-profit Organizations:
Effective January 1, 2014, the Association adopted new CPA Canada Handbook Accounting Part III Section 3463, Reporting Employee Future Benefits by Not-for-Profit Organizations which incorporates Section 3462, Employee Future Benefits, as issued.

Under the new accounting standard, the actuarial gains and losses and past service costs are no longer deferred and amortized over future periods. The full actuarial liability net of assets is recorded in the Statement of Financial Position, the annual benefit cost is recorded in the Statement of Operations and the change in unamortized gains and losses is recognized in the Statement of Changes in Net Assets. In addition, interest cost and expected rate of return on plan assets are replaced with a net interest amount that is calculated by applying the discount rate used to calculate the net defined benefit obligation.

For defined benefit plans for which an actuarial valuation for funding purposes exists, an accounting policy choice between using the funding valuation or an accounting valuation is available. The Association has elected to use a valuation for funding purposes.

The Association implemented the new standard retrospectively. The impact is as follows:

<table>
<thead>
<tr>
<th>Statement of Financial Position, as at December 31, 2013</th>
<th>As previously presented</th>
<th>Restatements</th>
<th>As restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee future benefit liability</td>
<td>$</td>
<td>570 $</td>
<td>(76) $</td>
</tr>
<tr>
<td>Excess of revenue over expenses</td>
<td>$</td>
<td>3,831 $</td>
<td>(2) $</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statement of Changes in Net Assets, year ended December 31, 2013</th>
<th>As previously presented</th>
<th>Restatements</th>
<th>As restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets, beginning of year</td>
<td>$</td>
<td>8,626 $</td>
<td>66 $</td>
</tr>
<tr>
<td>Net assets, end of year</td>
<td>$</td>
<td>12,457 $</td>
<td>76 $</td>
</tr>
</tbody>
</table>
### 3. Capital and intangible assets:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>Accumulated Amortization</th>
<th>2014 Net Book Value</th>
<th>2013 Net Book Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office furniture</td>
<td>$929</td>
<td>$30</td>
<td>$899</td>
<td>$51</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>3,951</td>
<td>1,407</td>
<td>2,544</td>
<td>206</td>
</tr>
<tr>
<td>Technology</td>
<td>6,286</td>
<td>2,162</td>
<td>4,124</td>
<td>3,867</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$11,166</td>
<td>$4,124</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$3,599</td>
<td>$4,124</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$5,567</td>
<td>$4,124</td>
</tr>
</tbody>
</table>

Cost and accumulated amortization at December 31, 2013 amounted to $6,506 and $2,382, respectively.

### 4. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $26 (2013—$33), which includes amounts payable for harmonized sales tax and payroll-related taxes.

### 5. Tenant inducement:

In 2014 the Association entered into a 10-year lease agreement for new office space. As part of the lease, the Association will receive lease inducements totaling $2,116. These inducements are comprised of a leasehold improvement allowance of $1,636 and free rent totaling $480. The new tenant inducement will be amortized over the lease term plus the rent-free period.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold improvement allowance</td>
<td>$1,639</td>
<td>$28</td>
</tr>
<tr>
<td>Free rent</td>
<td>480</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>$2,119</td>
<td>28</td>
</tr>
</tbody>
</table>
6. **Employee future benefits:**

<table>
<thead>
<tr>
<th></th>
<th>Other benefit plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2014</td>
</tr>
<tr>
<td>Accrued benefit obligation/deficit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Employee future benefit liability</td>
<td>590</td>
</tr>
</tbody>
</table>

7. **Net assets**

The Association's objectives with respect to its net assets is to (i) fund capital assets and future operations, (ii) provide flexibility in the determination of dues by balancing dues in years where there may otherwise be a significant one-time increase, and (iii) provide funds for cash flow purposes at the beginning of a fiscal year in the event required to fund operations.

The Association manages its net assets through the use of internally restricted net assets. The Association is not subject to externally imposed capital requirements and its approach to capital management remains unchanged from the prior year.

The Association's internally restricted net assets represent amounts restricted by the Board. In the year $2,839 (2013 - $3,047) was restricted, $1,896 (2013 - $103) was transferred to unrestricted net assets, of which $1,653 (2013 - $53) was expended for development projects and $194 (2013 - $50) was not required for the purpose originally intended.

At December 31, 2014, a total of $4,990 (2013 - $4,047) is held in internally restricted net assets.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Projects</td>
<td>$</td>
<td>439</td>
</tr>
<tr>
<td>Special Reserve Fund - FMI</td>
<td>3,600</td>
<td>1,200</td>
</tr>
<tr>
<td>FMI Principles—Closing Gaps</td>
<td>951</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>$</td>
<td>4,990</td>
</tr>
</tbody>
</table>
8. Commitments:
The Association is committed under long-term operating leases for the rental of premises, infrastructure services and office equipment. Minimum annual payments are approximately:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$4,108</td>
</tr>
<tr>
<td>2016</td>
<td>4,411</td>
</tr>
<tr>
<td>2017</td>
<td>4,338</td>
</tr>
<tr>
<td>2018</td>
<td>4,198</td>
</tr>
<tr>
<td>2019</td>
<td>4,182</td>
</tr>
<tr>
<td>2016 and thereafter</td>
<td>4,406</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$25,643</strong></td>
</tr>
</tbody>
</table>

9. Financial risks:
The Association is not involved in any hedging relationships through its operations and does not hold or use any derivative financial instruments for trading purposes. The Association believes that it is not exposed to significant interest, currency, or credit risk arising from its financial instruments.

10. Operating line of credit:
The Association has credit available of $150 through a demand loan. The loan is unsecured and bears interest at the rate of prime. The loan has been authorized by the bank and is available to the Association for use at any time.

11. Comparative information:
Certain 2013 comparative information has been reclassified to conform to the financial statement presentation adopted for 2014.