



To:

21 November 2017

Competition Promotion Branch
Competition Bureau
50 Victoria Street
Gatineau, Quebec
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Payments Canada welcomes the opportunity to comment on the Competition Bureau's market study into technology-led innovation and emerging services in the Canadian financial services sector (the "FinTech Study").¹ The growth of FinTech is a global phenomenon that has big implications for the financial sector, and payments more specifically. In Canada, "Paytech" firms as we call them² have emerged as both a cooperative and competitive force relative to established players. Incumbent financial institutions and payment networks are also driving new Paytech innovations at a sometimes surprising rate. The Bureau's report therefore comes at an interesting time in the evolution of the FinTech phenomenon.

As a network industry, innovation in payments is often a product of both competition and cooperation. Payments Canada and its members and stakeholders are presently engaged in one of the world's most ambitious efforts to modernize a national payments clearing and settlement infrastructure. While our Modernization program is in some ways in response to the evolution of technology in the sector in Canada and globally, it is focused more on driving future innovation in the Canadian payments system, which is core to our public policy mandate.

We are encouraged to find ourselves in general agreement with the Competition Bureau's views on our clearing and settlement systems, and the legislation, by-laws, and rules that underpin them. In this response, we focus on two key messages, informed by our mandate and public policy objectives:

1. In addition to other actions to open access and modernize our payment clearing and settlement systems, Payments Canada is establishing a real-time core system for retail payments (the "Real-Time Rail Utility" or "RTR Utility") as a platform for innovation; and
2. Delivering a modern payments system in Canada that provides more open, risk-based access is a key goal for Payments Canada, but one that will require amendments to our

¹ For the Competition Bureau's market study, see <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04315.html>.

² A paytech is defined as "an organization that uses technology to enable the electronic transfer of value." We encourage you to visit <http://www.payments.ca/industry-info/paytech-canada> for a deeper discussion of paytech, and the benefits of defining the sector through a functional lens.

enabling legislation and the introduction of the federal government's Retail Payments Oversight Framework.

I. Payments Canada Mandate

As detailed in the *Canadian Payments Act*, Payments Canada's mandate is to:

1. Establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;
2. 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,
3. Facilitate the development of new payment methods and technologies.

In pursuing these objectives, Payments Canada has a duty to pursue the public policy objectives of efficiency, the safety and soundness of its systems, and consideration of the interests of users. In light of these, Payments Canada has been seeking ways to realize more open, risk-based access as we modernize our payment systems.

II. Modernization Initiative and Retail Payments Oversight

Payments Canada's Modernization initiative began in 2015. We have now reached the third stage of the four-stage journey, which consists of building a vision for the Canadian payments ecosystem, creating a roadmap and high-level plan for modern systems, compiling requirements for the target end-state and moving to implementation. Our end state vision is a fast, flexible and secure payment system that is efficient, convenient and interoperable—one that will promote innovation and strengthen Canada's competitive position.

Payments Canada will soon be publishing a Modernization Target State document that provides greater detail on the systems that will be in operation at the end of the Modernization program. It will also provide details on Payments Canada's working assumption on what open, risk-based access to these systems will look like, including in the future for payment service providers that at present do not qualify to be a member of Payments Canada and access the systems.

A key element of the modernization of the Canadian payments ecosystem is establishing a real-time ISO 20022 enabled payment rail, the RTR Utility, to be operated by Payments Canada. This is a new capability that will create opportunities for existing and new industry players to introduce payment services, enabling payors and payees (including consumers, businesses and governments) to send and receive payments instantly, 24/7/365, without needing to know the payee's account details. In

seeking to foster innovation in retail payments and fulfill our mandate, Payments Canada views success as fostering a vibrant ecosystem of services being offered on top of the RTR Utility by Payment Service Providers.

As the Competition Bureau is aware, the Government of Canada has consulted on its intent to legislate a federal retail payments oversight framework. This initiative represents the first steps in Canada to define the retail payments ecosystem and its players through a functional approach to regulation. To the degree that the oversight framework will help measure and manage risks introduced to the payments ecosystem, it will serve to facilitate broader, risk-based access to national payment systems and innovations in payment services to better meets end-user needs.

At the same time, Payments Canada is focusing on setting the rules and policies for our new modernized systems, including the new RTR. Payments Canada is working collaboratively with the Department of Finance, the Bank of Canada, our members and stakeholders to develop open, risk-based access criteria for our national payments systems, which will be particularly critical to establishing the RTR as a platform for innovation in payments in Canada.

III. Delivering on the RTR and Open, Risk-based Access

A key component of the Modernization Target State is the RTR Utility, a number of elements of which will support competition in the payments ecosystem, including:

- **Open, risk-based access:** The RTR Utility is expected to have the greatest degree of openness of all of Payments Canada's systems, while maintaining robust risk management commensurate with the risk that participants bring to the system (e.g., operational risk, security, and compliance with privacy legislation). To that end, Payments Canada is examining an access framework that unpacks the functions performed by payment service providers across the payment chain (initiation, authorization, sending, exchange and settlement) and identifies access opportunities within each of the functions, including those for non-traditional players to the exchange function. This approach could broaden access to entities beyond financial institutions, including non-FI payment service providers.
- **System design:** The RTR Utility design will follow a layered approach with functionality in the core layer based on the ISO 20022 messaging standard; a shared services layer which includes a proxy database for convenient addressing of payments; and a service layer which envisions multiple overlay services delivering payment products and services to end users. The functionality included in the core and shared services layer will be available to participants for whom developing such capability on their own may be prohibitive (e.g., request to pay messages, proxy database). As well, Payments Canada is considering



multiple connectivity options, such as direct technical access points, and the use of APIs within the requirements of the RTR as a means to enable easier connectivity by new entrants.

- **Settlement:** The settlement model for the RTR is currently under development. A number of models have been examined with the explicit objective of enabling broader access while managing the associated risks that could be introduced by new, non-traditional payment service providers.
- **Payments Canada control over the RTR Utility:** As the operator of the RTR Utility, and subject to public interest oversight by the Government of Canada, Payments Canada will set the legal and rule framework, set access criteria, determine pricing to participants and establish the future roadmap for development.

Delivering a modern payments system in Canada that provides more open, risk-based access is a key goal for Payments Canada. However, our membership (and therefore the scope of eligible system participants) is determined by the Canadian Payments Act. Payments Canada is also not a regulatory body equipped to actively monitor its members for public interest risks, such as to prudential soundness or market conduct. While we are considering ways to enable limited participation on the RTR in the interim, the federal government has a critical role to play in facilitating access and competition in the national payments clearing and settlement systems by amending the Payment Canada Act to broaden membership, and also by implementing its retail payments oversight framework to provide for sufficient regulation of registered Payment Service Providers.

Payments Canada is grateful for the opportunity to comment on the Fintech Study. We hope our comments have been helpful. Should you wish to further discuss any of the content in our letter, we would be happy to engage further at your convenience.

Sincerely,

Anne Butler
Vice President, Policy, Research, Legal and General Counsel