



**PAYMENTS
CANADA**

CONSULTATION

ENHANCING PAYMENTS CANADA POS FRAMEWORK – ENABLING DELAYED AUTHORIZATION

MAY 2019

payments.ca

INTRODUCTION

The retail card payment space has seen a tremendous increase in innovation in recent years with the rise of contactless transactions, especially on mobile devices. While Canada is a global leader in debit card use, Canadian consumers are currently limited in the amount of debit enabled payment options that are available in the marketplace.

Recognizing these limitations in the debit card marketplace, Payments Canada, which has a mandate that includes facilitating the development of new payment methods and technologies (while ensuring the safety, soundness and efficiency of its clearing and settlement systems), is developing a new rule, as part of its Point-of-Service (“POS”) payment rules framework, to enable a broader range of POS debit card acceptance. The proposed rule, *Rule E5 Exchange of Point-of-Service Delayed Authorization Debit Payment Items for the Purpose of Clearing and Settlement*, allows for Delayed Authorization POS payment items to be cleared and settled via Payments Canada’s systems. The rule was developed in consultation with a cross-section of Payments Canada’s members, stakeholders and the service provider. This consultation paper seeks feedback on the proposed introduction of Rule E5. All questions and comments should be submitted to consultation@payments.ca and are welcomed by June 23, 2019. Payments Canada requests that respondents consolidate feedback from within their organization into one submission.

BACKGROUND

Delayed Authorization

“**Delayed Authorization**” means the possibility of providing service before authorization of the transaction. This rule proposes an enhanced POS framework that will facilitate a Delayed Authorization payment function, providing consumers and merchants with a more innovative, convenient and efficient option for making and accepting payments at the point-of-sale, while prudently managing risks. The rule accommodates debit card payments via both contactless and chip-and-PIN processes. Services that are not able to provide a consistent on-line connectivity will now have the opportunity to offer a debit card payment option, should the merchant and its financial institution (“FI”) opt to offer this under Rule E5. The merchant is not required to offer, and the consumer is not required to use, Delayed Authorization POS payments.

While a key driver behind the creation of this rule is to accommodate the use of POS debit payments for transit, the rule is designed to enable other use cases as well. Enabling Delayed authorization POS payments may provide opportunities, which are generally low-value and largely rely on cash or credit cards, such as:

- Payment at parking meters
- Payment for on-board purchases (airline/train/ferry)
- Payment for vending machine purchases

Market Adoption of Delayed Authorization

Many jurisdictions around the world have adopted Delayed Authorization POS payments. Market adoption of this type of POS transaction has been driven largely by public transit operators whose business models require speed of throughput in order to avoid schedule delays. One of the most prominent examples of successful adoption of Delayed Authorization POS payments has been Transport for London (“TfL”), the public transit operator for metropolitan London, England. In 2013, TfL introduced contactless card payments on its bus network as an alternative to their proprietary closed-loop payment scheme, the Oyster card, which is similar to Ontario’s Presto card scheme. TfL has since expanded this initiative to their underground (subway), light railway and rail network.

Based on the success of the TfL adoption, the Australian Payments Network launched its pilot for Contactless Payments in 2017 and has since successfully implemented its payment solution across multiple cities. In Canada, Vancouver’s public transit operator, Translink, launched “Tap to Pay” in 2018, to allow customers to pay their fare by tapping their contactless credit card, or mobile wallet at fare gates and buses.

GUIDING PRINCIPLES

In pursuing its statutory objects, Payments Canada has a duty to promote the efficiency, safety and soundness of its clearing and settlement systems and take into account the interests of users (i.e., users of payment services other than Payments Canada’s members).

Guiding the drafting of Payments Canada’s proposed Rule E5 to accommodate new point-of-service use cases, the following principles were considered:

- **Transparency:** Ensure Payments Canada’s rules are clear and transparent so that all participants understand the risks, roles and responsibilities.
- **Innovation:** Provide an innovative and forward-looking framework that facilitates evolving market developments and meets the needs of its users without unnecessary barriers.
- **Safety and Soundness:** Maintain the safety and soundness of the clearing and settlement system by incorporating proper risk-management provisions, including the Good Funds Model whereby once a transaction is authorized and the payor FI agrees to honour the POS payment item.
- **Shared Responsibility:** Develop rules that uphold the POS debit Shared Responsibility Model.

SHARED RESPONSIBILITY MODEL

In today's environment, Payments Canada's POS rules form one aspect of the shared responsibility model for debit card payments in Canada. Other important aspects of the shared responsibility model include the roles and responsibilities set out in government codes, scheme operator rules and financial institution contractual agreements.

Government:

The government establishes codes and regulations to address public policy objectives. For example, the Canadian Code of Practice for Consumer Debit Card Services, Code of Conduct for the Credit and Debit Card Industry in Canada, Payment Card Network Act.

Scheme Operator:

The Scheme Operator sets out a common set of procedural rules that govern the origination, validation and potentially the exchange of POS payments between Issuers and Acquirers over Scheme Operator Networks(s).

Financial Institutions:

Through account and other contractual agreements with customers, merchants and other parties, financial institutions establish the framework of voluntary arrangements that define and promote individual responsibilities with respect to payment products/services (e.g. overdraft and credit limits, fees etc.)

OVERVIEW OF DELAYED AUTHORIZATION POINT-OF-SERVICE

Non-Real Time

In the proposed Rule E5, a Delayed Authorization Point-of-Service (POS) transaction will operate in a manner similar to a regular POS transaction with a fundamental difference in that it will not be required to be submitted and authorized in real-time. In an environment where on-line connectivity is not reliably available, or where real-time authorization is not feasible due to an overarching business need, the payor may receive a good or service prior to the transaction being Authorized (“service before authorization”), and as a result, the merchant incurs the risk that they may not receive payment for the goods or services provided. Merchants will be motivated to submit the transaction for authorization as soon as possible, as the risk of non-receipt of payment may increase over time. The existing POS rules framework, which explicitly requires authorization be conducted in real-time, prevents merchants from providing the same convenience offered by other card-based payment products (i.e. credit cards) in environments where real-time authorization is not consistently feasible. The proposed Rule E5 will add POS debit as a payment option in these environments, benefitting merchants and consumers alike.

Multiple Submissions

Allowing multiple submissions in a Delayed Authorization environment helps merchants manage their risk in providing goods/services before authorization. Multiple submissions are similar to how a consumer can have multiple attempts to submit a transaction in a store today. For example, a consumer may attempt to purchase a sweater in a store and have the payment message come back as declined. That consumer may attempt to initiate another payment transaction for the sweater. In a Delayed Authorization environment, a similar process will be available with a key difference: the customer will not need to be physically present to initiate subsequent submissions as the subsequent submission will be done by the merchant at the merchant’s discretion (subject to the parameters in the proposed rule with respect to the amount of submissions and timeframe). An example of a Delayed Authorization POS payment flow can be found in Appendix I.

What does this mean from a consumer perspective?

Allowing transactions whereby authorization is delayed and moving away from the requirement for authorization to be conducted in real-time, may feel different to the way consumers are used to experiencing POS transactions. However, a Delayed Authorization POS payment acts the same way that a regular POS payment item does today with the main difference being that the time it takes from when a cardholder taps (or inserts) their card to when the cardholder’s bank Authorizes (or approves) that card may be delayed. In both a Delayed Authorization environment and a regular POS environment, there is no payment obligation on behalf of the payor until a transaction is Authorized by the Payor FI (i.e. the Good Funds Model).

The Good Funds Model

The Good Funds Model is a foundational and important element of Payments Canada's existing POS rules framework. The Good Funds Model provides assurance to the merchant that once a payment has been authorized by the payor FI, there is an obligation on the payor FI to honour that payment item.

In a Delayed Authorization environment, this same assurance is still upheld; however, due to the possible delay in the payor FI receiving the payment message to make a decision to authorize (approve) or decline the transaction, the merchant takes on a risk of providing the good or service before payment is guaranteed.

Errors and Refunds

The proposed rule E5 permits returns without payment application (i.e. card) being present. If a payment item needs to be refunded to the payor, (e.g., if the payor was accidentally overcharged) the return/refund transaction can be submitted by the merchant without the payor being present. This offers convenience that is mutually beneficial to both the cardholder and the merchant. In the current POS framework, a consumer would have to travel to the merchant's location to request the refund and physically tap or insert their card to complete the transaction. The ability to complete the refund without the consumer and payment application present is convenient and beneficial to both the consumer and the merchant. The merchant reduces costs in operated locations and cash handling, and the consumer saves time and money in not having to travel to a location to request the refund. This rule also contains procedures with respect to payor complaints or inquiries (e.g. related to fraud or theft).

More information on benefits and risks to the cardholder and the merchant can be found in Appendix II.

SIGNIFICANT POLICY CHANGES FROM THE CURRENT POS FRAMEWORK

Fundamental aspects of Rule E4 (which governs the clearing and settlement of PIN-less POS debit payment items) were used as a basis for the development of Rule E5. For example, provisions reflecting the Good Funds Model, as well as requirements for security measures and compliance with EMV specifications have been retained in the proposed new rule.

In order to ensure the innovative and forward-looking objective in creating this new rule, there are a few areas where Rule E4 and Rule E5 will differ, as follows:

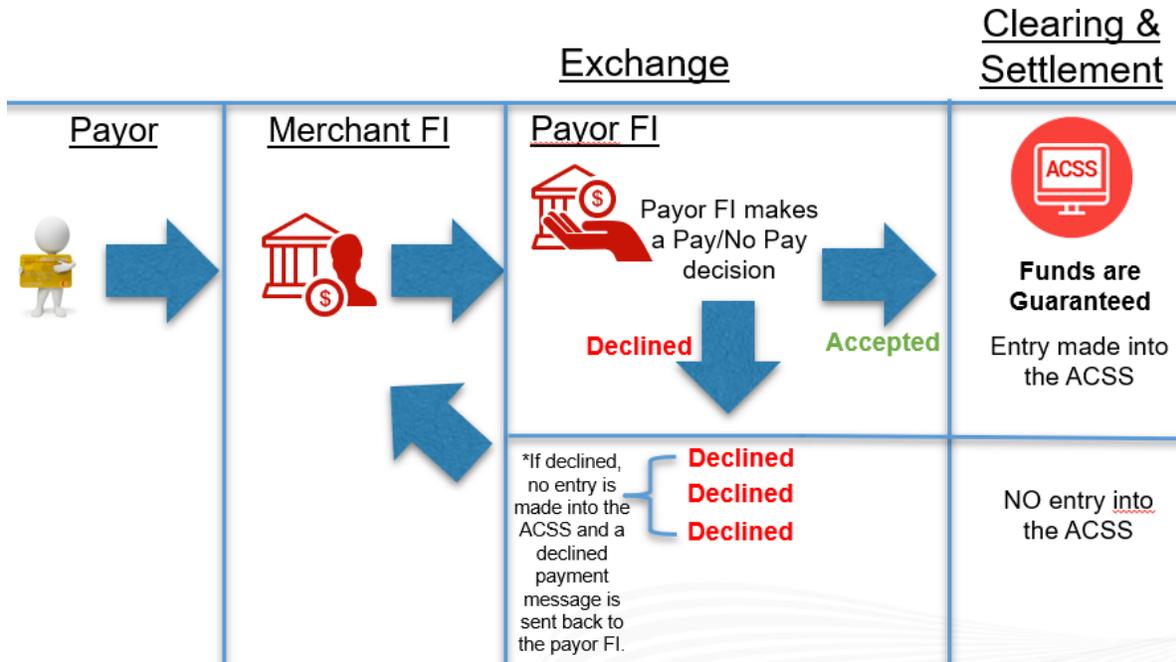
Rule E4	Rule E5
Applies to PIN-less Point-of-Service Debit Payment Items	Enables both PINed and PIN-less Point-of-Service Debit Payment Items
Requires that authorization of each transaction must be performed in real-time .	All mentions of real-time removed from this rule.
The total amount of the transaction must be displayed to the payor prior to the transaction being authorized.	The amount of the transaction will be accessible to the payor , but may take various forms such as signage posted at the merchant location, or price schedule listed on the merchant’s website.
The payor must be advised of the disposition of the transaction immediately following real-time authorization occurs (or is attempted). This means that the payor will be able to see if the transaction was authorized or declined.	Real-time or near real-time notification of disposition cannot be required in this rule as it may not be possible for the payor to know, in real-time, whether or not their transaction was authorized or declined.
Multiple submissions may be sent by the merchant for authorization but only when initiated by the Payor (i.e. a new transaction must be initiated by the Payor for each submission).	A Delayed Authorization transaction can only be submitted by the merchant for the purposes of authorization up to a maximum of four times within eight days following Validation without the Payor present. These submissions can be initiated by the merchant without the Payor. A Delayed Authorization POS Transaction that has been Authorized may not be submitted again.

CONCLUDING REMARKS

In an evolving payments market, Payments Canada strives to facilitate innovation while promoting the safety, soundness and efficiency of its clearing and settlement systems and taking into account the interests of end users. This proposed new rule enables flexibility in the POS framework that supports evolving market needs. Delayed Authorization promotes the efficiency and speed of the transaction experience for consumers, merchants and acquirers alike.

Payments Canada invites comments on the proposed new Rule E5 for Delayed Authorization Debit Payment Items found in Appendix III. All questions and comments should be submitted to consultation@payments.ca by June 23, 2019. Payments Canada requests that respondents consolidate feedback from within their organization into one submission.

Delayed Authorization Point-of-Service Payment Flow



Payor Risks and Benefits

- The total amount of the good or service may not be known until the cardholder is charged and the transaction has been Authorized.
 - For example, some transit models may require a cardholder to tap on and tap off to be able to support multiple trips in one day. The total amount charged to the cardholder may be determined at the end of the day in calculating all trips incurred.
 - Not knowing the total cost of the transaction prior to receiving the good or service can be seen as a risk, it also **benefits** the payor is able to receive a total amount without paying at multiple intervals for multiple trips.
- There is a risk the payor may be charged for a service he/she did not receive. In this case it may not be known to the cardholder up to a maximum of eight days.
 - In a transit example, a cardholder may forget to tap off and then be charged the daily maximum. A second example could be he/she tapped their debit card and changed their mind.
 - In these cases, the proposed Rule E5 **mitigates** this risk by allowing a merchant to provide a card not present refund. This allows the cardholder to receive a refund for the good or service without physically being present. Another **mitigating tool** resides under the *Canadian Code of Practice for Consumer Debit Card Services* that states for PINed transactions cardholders are not liable for losses resulting from circumstances beyond their control, including an unauthorized use of a POS device.
- The cardholder may be unaware of the exact time or day that they will be charged for a Delayed Authorization POS payment item.
 - In a use case such as in-flight purchases, the merchant may not be able to connect to submit that transactions until many hours later, especially for longer flights. In this case the consumer may be charged the following day for the initial transaction. This may also cause a consumer to not have enough funds in their account for a subsequent purchase if the charge for the transaction is delayed more than expected.
 - This **benefits** consumers by giving them the ability to pay for a good or service using their debit card in situations of no connectivity.

Delayed Authorization POS transactions will increase speed and convenience for consumers creating less friction when consumers try to pay. Additional benefits to cardholders: no additional cost for this service, shorter lines and wait time, and usability with more ways to pay (card, mobile wallet, wearables).

Merchant Risks and Benefits

- The merchant may provide goods or services before receiving funds, which may result in the merchant not receiving payment for that good or service. Delayed Authorization is an **option** for merchants.
 - In a transit use case, in order to increase the speed of customer throughput, a cardholder may receive the good or service prior to providing payment to the merchant.
 - If the cardholder's transaction is declined, the merchant may **mitigate** this risk by submitting the transaction three more times within eight days in an attempt to recuperate the funds and only for the same amount of the original transaction.
- Initially, there may be an added cost to the merchant to implement delayed authorization POS. Infrastructure costs may be incurred as well as customer support (e.g., call centre) costs as consumers are adapting.
 - As there may be upfront costs to implement delayed authorization, it may **benefit** the merchant by increasing revenue and the amount of users. It may also decrease operational costs in reducing the amount of cash handling and single use ticket printing in a transit use case.

Further benefits for merchants may include a reduction in intentional and unintentional fare evasion as consumers are not reliant on a smart card or only one way to pay for the service. Allowing merchants to be able to receive payment when connectivity is not possible may increase patronage and revenue.



**PAYMENTS
CANADA**

RULE E5

EXCHANGE OF POINT-OF-SERVICE DELAYED AUTHORIZATION DEBIT PAYMENT ITEMS FOR THE PURPOSE OF CLEARING AND SETTLEMENT

2019 CANADIAN PAYMENTS ASSOCIATION

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IMPLEMENTED

[EFFECTIVE DATE]

AMENDMENTS

1. New Rule approved by the BOARD [DATE], effective [DATE].

Introduction

1. This Rule sets out requirements for the Exchange, Clearing and Settlement of Delayed Authorization Point-of-Service Debit Payment Items pursuant to the *Canadian Payments Act* and the Canadian Payments Association By-law No. 3 – *Payment Items and Automated Clearing and Settlement System*.

Inter-member Exchanges may take place throughout the day via a series of interactive Electronic messages.

While this Rule makes functional distinctions, it is recognized that one entity may play several roles in the context of a single Delayed Authorization POS Transaction. For example, the Acquirer and Acquirer FI may be one and the same. Further, this Rule does not preclude either the establishment of agency relationships for the performance of particular functions under this Rule or Members from performing functions on behalf of non-members, provided such agents or non-members are required to comply by agreement with the applicable provisions of this Rule and all other applicable Rules and/or Standards.

Scope

2. This Rule addresses Payment Items arising from individual Delayed Authorization POS Transactions initiated by a Payor using a Payment Application that resides on a device (such as a debit card, key fob, or cellular phone) at a Delayed Authorization POS Gateway which result in debits to a Payor's Account for the purpose of making payments for goods or services, or credits to the Payor's account, in the case of refunds or returns. Payment Applications must conform to the EMV™ Chip Specifications or equivalent technology or standards. Note that pre-funded Delayed Authorization POS programs are also governed by this Rule.

Unlike CPA Rule E1 – Exchange of Shared Electronic Point-of-Service Payment Items for the Purpose of Clearing and Settlement, this Rule neither requires nor prohibits the use of a PIN or other identifier to verify the identity of the Payor. These Payment Items involve Validation of the Payment Application and Delayed Authorization of the transaction, which will be performed on-line, and which, when authorized, results in an obligation on the part of the Payor's Financial Institution (FI) to settle for that Payment Item (thereby making all duly authorized Payment Items not subject to subsequent repudiation by the Payor or dishonour by the Payor FI).

This rule recognizes that an Acceptor may provide goods or services to a Payor prior to the transaction being Authorized and as a result, the Acceptor incurs the risk that it may not receive payment for the goods or services.

(Note: For transactions resulting in a credit to the Payor's Account, such as a return/refund, the functions described in this Rule will operate in the reverse manner

and may be initiated by the Acceptor and completed without the need for the Payment Application to be present.)

References

3. a. This Rule shall be read in conjunction with the following:
 - i. CPA Rules Manual - Introduction
 - ii. CPA Rule A1 - General Rules Pertaining to Items Acceptable for Exchange, for the purpose of Clearing and Settlement
 - iii. CPA Rule B1 - Inter-Member Exchange and Clearing at Regional Exchange Points
 - iv. CPA Rule B2 - Manual Preparation of Clearing Logs
 - v. CPA Rule D1 - Direct Clearer/Group Clearer Requirements
 - vi. CPA Rule D4 - Institution Numbers and Clearing Agency Arrangements
 - vii. CPA Rule L1 - Procedures Pertaining to the Default of a Direct Clearer
 - viii. CPA Rule L2 - Procedures Pertaining to the Default of an Indirect Clearer
- b. Additional guidelines pertaining to other aspects of the Canadian PIN-less POS environment are contained in the following:
 - i. *Electronic Authentication Principles* (Industry Canada, November 2003 Rev); and
 - ii. *Principles Applicable to Shared Electronic Point-of-Service Environments* (Canadian Payments Association, June 15, 1997).

Definitions

4. In this Rule,
 - a) "Acceptor" means the owner or operator of the Delayed Authorization POS Gateway who accepts the Payment Application and, if it is not also the Acquirer, presents transaction data to an Acquirer, and who provides goods or services to the Payor;

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- b) "Acquirer" means a person who captures transaction data from the Acceptor for transmittal to the Acquirer FI to reconcile the payment instruction sent by the Payor's FI to the Acquirer FI;
 - c) "Acquirer FI" means the Member that holds the Acquirer's account and receives the payment information from the Acquirer and the payment instruction from the Payor's FI, for the benefit of the Acceptor;
 - d) "Authorization, Authorizes" means the on-line, techniques, procedures and processes used by the Payor FI to approve the Delayed Authorization POS Transaction;
 - e) "Clearing Agent" means a Direct Clearer that delivers and/or receives Delayed Authorization POS Payment Items on behalf of an Indirect Clearer or another Direct Clearer;
 - f) "Connection Service Provider – Delayed Authorization POS" (or "Connection Service Provider") means an entity that connects directly to a Delayed Authorization POS Payments Service network on behalf of another entity;
 - g) "CPA member" (or "Member") means any of those persons who are Members of the Canadian Payments Association pursuant to section 4 of the *Canadian Payments Act*;
 - h) "Delayed Authorization" means the goods or services provision before Authorization of the associated Delayed Authorization POS Transaction;
 - i) "Delayed Authorization POS Gateway" means a Payment Application-activated user interface approved by the Service to facilitate Delayed Authorization Transactions (e.g. payment terminal, merchant application, or merchant website payment form) and used by a Payor to initiate a Delayed Authorization POS Transaction;
 - j) "Delayed Authorization Point-of-Service Payment Item" (or "Delayed Authorization POS Payment Item") means a Payment Item arising from a Delayed Authorization POS Transaction, consisting of a payment order by a Payor, Validation of the Payment Application and Authorization of the transaction by the Payor FI, which results in a debit to the Payor's Account;
 - k) "Delayed Authorization POS Service" (or "Service") means the network that facilitates Delayed Authorization POS Transactions;
 - l) "Delayed Authorization Point-of-Service Transaction" (or "Delayed Authorization POS Transaction") means an electronic payment transaction, initiated by a Payor using his or her Payment Application, and which, if Authorized, gives rise to a Delayed Authorization POS Payment Item;
 - m) "Delivering Direct Clearer" means a Direct Clearer that delivers Delayed Authorization POS Payment Items to another Direct Clearer for the purpose of Clearing and Settlement;

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- n) "Europay MasterCard Visa Chip Specifications" (or "EMV™ Chip Specifications") means the internationally accepted series of procedures and specifications established to ensure interoperability and acceptance of chip-based payment applications on a worldwide basis ("EMV" is a trademark owned by EMVCo LLC);
 - o) "Europay MasterCard Visa Payment Tokenisation Specifications" (or "EMV™ Payment Tokenisation Specifications") means the internationally accepted series of procedures and specifications for token-based payment applications on a worldwide basis ("EMV" is a trademark owned by EMVCo LLC);
 - p) "Payment Application" means software issued by the Payor FI that resides on a device and facilitates the identification of the Payor's Account and the Payor FI and is used to originate the messages that constitute a Delayed Authorization POS Payment Item. For further certainty, a message includes a payment token where the transaction involves the services of a TSP;
 - q) "Payor" means an end-user customer who authorizes the Payor FI to issue a Delayed Authorization POS Payment Item and whose account, or account to which he or she has access, is to be, or has been, debited with the amount of the Delayed Authorization POS Payment Item;
 - r) "Payor's Account" means an account, held by the Payor FI, to which the Payor has access by means of using a Payment Application;
 - s) "Payor FI" means the Member that holds the account to which the Payor has access (the "Payor's Account"), controls the issuance of the Payment Application that is used to access that account, and Authorizes the individual POS Payment Item;
 - t) "PIN" means personal identification number;
 - u) "POS Agreement" means a written statement of terms and conditions relating to the use of a Delayed Authorization POS Payment Application;
 - v) "Point-of-Service Identifier" means the first four characters in a four- to six-character alphanumeric code that is used by an electronic point-of-service network or a network service provider to identify a Connection Service Provider;
 - w) "Receiving Direct Clearer" means a Direct Clearer that receives Delayed Authorization POS Payment Items from another Direct Clearer for Settlement;
 - x) "Settlement Intermediary" means a Direct Clearer that facilitates Settlement between a Delivering and Receiving Direct Clearer;
 - y) "Token Service Provider" or "TSP" means an entity that, on behalf of a Payor FI, securely generates, manages, issues, or provisions payment tokens to the Payor FI or the Payor FI's Payor; and
 - z) "Validation" means the techniques, procedures and processes used by the Service to prove the integrity of the Payment Application.

A) ROLES, RESPONSIBILITIES AND RELATIONSHIPS FOR DELAYED AUTHORIZATION POS PAYMENTS

Part A) of this Rule contains general rules pertaining to the roles, responsibilities and relationships applicable to the parties involved in the Exchange, Clearing and Settlement of Delayed Authorization POS Payment Items.

General

5.

- a) In all matters relating to the Exchange, Clearing and Settlement of Delayed Authorization POS Payment Items for the purpose of Clearing and Settlement, each Member shall respect the privacy and confidentiality of Payor, and Acceptor personal and financial information in accordance with applicable Canadian provincial and federal legislation governing the treatment of personal and financial information. In particular, only that information or data that is necessary to effect the processing of the Delayed Authorization POS Payment Item is to be made available to the Acquirer, and/or the Acceptor during the session. For greater clarity, the Payor's personal banking information, such as but not limited to, the account balance, shall not be made available at any time to the Acquirer and/or the Acceptor during the Delayed Authorization POS Transaction.
- b) Where an Acquirer FI Exchanges Delayed Authorization POS Payment Items for the purpose of Clearing and Settlement on behalf of a non-CPA Member Acquirer, that Member shall obtain a written undertaking from each such non-CPA Member for which it acts to be bound by, adhere to and comply with the requirements of this Rule.
- c) Subject to subsection 8(g), each Acquirer FI shall be responsible and liable for every Delayed Authorization POS Payment Item, and every item purporting to be a Delayed Authorization POS Payment Item, that it delivers and shall indemnify the Association and its Members for any direct loss, costs or damages incurred by virtue of the Exchange of that Item for the purpose of Clearing and Settlement.
- d) Compliance with this Rule does not absolve a Member from complying with any other required legislation or Rule. Such legislation may include the *Personal Information Protection and Electronic Documents Act* (2000, c. 5) ("PIPEDA") or the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (2000, c. 17) ("PCMLTFA").

Acquirer FI Responsibilities

6. Each Member that functions as an Acquirer FI in a Service is responsible for the following:
- a) registering with the Service;
 - b) ensuring each Acquirer for which it acts is registered with the Service;
 - c) entering into an agreement with each Acquirer whereby the Acquirer agrees, in all respects, to comply with the following:
 - i. all CPA By-laws and Rules, including in particular this Rule, and any CPA Standards that may be applicable;
 - ii. to ensure that the Service has adequate information about each Acceptor for which it acts;
 - iii. to enter into an agreement with each Acceptor for which it acts whereby the Acceptor agrees, in all respects, to:
 - A. comply with all applicable CPA By-laws and Rules, including in particular this Rule, and any CPA Standards that may be applicable;
 - B. make available to Payors its policies regarding security, privacy, returns and reimbursements;
 - C. employ security measures and controls for the Delayed Authorization POS Gateways that are consistent with modern industry standards to protect the privacy and confidentiality of the Delayed Authorization POS Transaction and any information provided by the Payor; and
 - iv. to immediately begin an investigation to determine what action should be taken to remedy a situation where the Acquirer becomes aware that there is reasonable evidence or suspicion that the Acceptor is not complying with this Rule. Such action may require the Acceptor to amend its operating practices or a suspension of the clearing services for the Acceptor;
 - d) acquiring, Exchanging, Clearing and Settling Delayed Authorization POS Payment Items for the Acquirer and its Acceptors;
 - e) where the Acquirer FI is not the Acceptor's financial institution, holding the funds in a segregated account such that the funds are legally protected for the benefit of and subsequent payment to the Acceptor; and
 - f) where in any instance, the Acquirer FI becomes aware that there is reasonable evidence that the Acceptor is not complying with this Rule, the Acquirer FI shall immediately begin an investigation to determine what action should be taken to remedy the situation. Such action may require the Acceptor to amend its operating practices or, if required, a suspension of the clearing services for the Acceptor.

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7.
 - a) Where an Acquirer FI also functions as an Acquirer, or the Acquirer and Acceptor are one and the same, the responsibilities with respect to Acquirers and Acceptors as set out in section 6 apply, as applicable; and
 - b) Where an Acquirer uses an agent, such as but not limited to a reseller or aggregator, the Acquirer FI shall ensure the Acquirer is party to the agreement between the agent and the Acceptor and that all parties are complying with the requirements set out in this Rule and in section 6 in particular.

Payor FI Responsibilities

8. Each Member that functions as a Payor FI in a Service is responsible for the following:

- a) issuing Payment Applications that conform to EMV™ Chip Specifications or equivalent technology and other applicable industry, security and technical standards;
- b) registering with the Service;
- c) entering into an agreement with the Service whereby the Service agrees, in all respects, to:
 - i. comply with all applicable CPA By-laws and Rules, including in particular this Rule, and any CPA Standards that may be applicable; and
 - ii. employ security measures and controls for its Service that are consistent with modern industry standards to protect the privacy and confidentiality of the Delayed Authorization POS Transaction and any information provided by the Payor, and Acceptor;
- d) providing the Payor with a POS Agreement, which clearly identifies the Payor FI
- e) if a Payor FI enters into a valid agency agreement with a third party to supply a Delayed Authorization POS Agreement to its Payors, the Payor FI remains responsible for the content of the agency agreement and clearly indicates that the Member is identified as the issuer of the Payment Application;
- f) where the Payor FI opts to use the services of a TSP, entering into an arrangement with the TSP whereby the TSP agrees, in all respects, to:
 - i. comply with all applicable CPA By-laws, Rule and Standards that may be applicable;
 - ii. comply with EMV Payment Tokenisation Specifications, or an industry accepted equivalent; and
 - iii. employ security measures and controls that are consistent with modern industry standards to protect the privacy and

confidentiality of the POS Transaction and any information provided by the Payor and Acceptor; and

- g) ensuring Validation of the Payment Application by the Service and conducting Authorization for its customers who are Payors in a Delayed Authorization POS Transaction. Authorization shall be conducted on-line. Once Authorization has occurred, the Payor FI shall honour, Exchange and effect Settlement for the resulting Delayed Authorization POS Payment Item. In the event that there is a failure in either the Service's Validation or the Payor FI's Authorization technology and/or its security controls and policies, the Payor FI is liable to the Payor and Members, as applicable, for any unauthorized Delayed Authorization POS Transactions.

Disclosure

- 9. Each Member that functions as a Payor FI in a Service is responsible for disclosing to its Payors:
 - a) Prior to usage of the Payment Application, the terms, conditions and risks associated with using the Payment Application;
 - b) The procedures for dispute resolution in accordance with Part C of this Rule.

Delayed Authorization Pre-Funded Programs

- 10. Where a Payor FI offers pre-funded debit Payment Applications to its Payors, the Payor FI shall be liable for the aggregate value of all pre-funded debit Payment Applications issued that have access to the account(s) associated with that pre-funded program.
- 11. A third party may not offer pre-funded debit Payment Applications without entering into a valid agency agreement with a Payor FI to Authorize a Payor's consent to a Delayed Authorization POS Transaction. Notwithstanding the valid agency agreement, the Payor FI shall remain obligated to settle for the Delayed Authorization POS Payment Items once those Items have been Authorized.
- 12. Where a Payor FI enters into a valid agency agreement with a third party to offer pre-funded debit Payment Applications to its Payors, the Payor FI shall be liable for the aggregate value of all pre-funded debit Payment Applications issued that have access to the account(s) associated with that pre-funded program.
- 13. For greater certainty, where a Payor FI has entered into an agreement with a non-CPA Member to offer pre-funded debit Payment Applications to its Payors, the Payor FI shall remain the drawee.

Registration

- 14. Acquirer FIs participating in a Service shall exercise due diligence and "know your customer" principles to ensure that only Acquirers in good standing are registered with the Service and, in turn, that Acquirers are exercising the same

due diligence when signing up Acceptors. At a minimum, the following information shall be captured:

- a) the full legal name and address of Acquirers and Acceptors;
- b) the type of business being offered by the Acquirers and Acceptors;
- c) the length of time that the Acquirers and Acceptors have been operating in their business; and
- d) any other information that will help identify Acquirers and Acceptors and the type of business in which they are engaged.

Relationships

15.

- a) Where an Indirect Clearer uses a Connection Service Provider to process its Delayed Authorization POS Transactions in a Service that Indirect Clearer shall ensure that a clearing arrangement and a settlement account are established in accordance with Rule D3.
- b) For greater certainty, the establishment of an arrangement solely between an Indirect Clearer and a Connection Service Provider does not fulfil the requirement of section 16 of By-law No. 3 and Rule D3.
- c) Every Indirect Clearer shall give written notice to the President of its clearing arrangement(s) for Delayed Authorization POS Payment Items in accordance with Rule D3.
- d) Where an Indirect Clearer Payor FI offers pre-funded debit Payment Applications to its Payors, the Indirect Clearer Payor FI shall disclose such pre-funded debit arrangements to its Clearing Agent.
- e) A Direct Clearer that acts as a Representative for another Direct Clearer, shall give notice of this arrangement to the President in accordance with Rule D1.
- f) A Direct Clearer that acts as a Settlement Intermediary shall give notice of this arrangement to the President in accordance with Rule D1
- g) Each Direct Clearer that acts as a Representative making entries into the ACSS in respect of Delayed Authorization POS Payment Items on behalf of another Direct Clearer as a result of that Direct Clearer employing the services of a Connection Service Provider shall use the Institution Number of the Direct Clearer for which it is acting.
- h) The relationships referred to in subsections 15(c) and 15(e) shall be recorded in Rule D4.
- i) A Member may Exchange Delayed Authorization POS Payment Items, for the purpose of Clearing and Settlement, for a non-CPA member but is responsible and liable for those transactions as if they were their own.

B. GENERAL RULES FOR DELAYED AUTHORIZATION POS PAYMENTS

Part B) of this Rule contains general rules applicable to the processing of Delayed Authorization POS Transactions and the Exchange of Delayed Authorization POS Payment Items.

16. Each Member shall ensure that its entries or entries made on its behalf into the ACSS in respect of Delayed Authorization POS Payment Items originate from an environment that adheres to the following:

- a) Information
 - i. All messages comprising of a Delayed Authorization POS Payment Item and the associated information relating to the Payor shall be protected to ensure their integrity and authenticity.
- b) Payment Application Validation
 - i. The Service is responsible for Validation by the Delayed Authorization POS Gateway of the Payor's Payment Application. Such Validation shall occur prior to undertaking each Delayed Authorization POS Transaction.
 - ii. Validation techniques shall use the accepted Card Authentication Methods (CAMs) outlined by the current EMV™ Chip Specifications, or equivalent technology or accepted industry standards.
- c) Amount
 - i. The total or maximum amount of the transaction shall be accessible to the Payor, prior to Validation.
- d) Submission for Authorization
 - i. A Delayed Authorization POS Transaction shall only be submitted for the purposes of Authorization a maximum of four (4) times within eight (8) days of Validation.
 - ii. Each submission or resubmission of a Delayed Authorization POS Transaction in accordance with subsection 16(d)(i) shall be for the same amount.
 - iii. Notwithstanding subsection 16(d)(i), a Delayed Authorization POS Transaction that has been Authorized shall not be submitted again.
- e) Payment Authorization
 - i. The Payor's FI shall conduct Authorization in an on-line environment, using the current, applicable EMV™ Chip Specifications, or equivalent technology or standards, prior to debiting the Payor's Account.

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- ii. Authorization shall only be conducted if the Payment Application has been duly Validated by the Service.
 - iii. Upon Authorization, the Payor's FI is deemed to have accepted the Delayed Authorization POS Transaction, which shall give rise to a Delayed Authorization POS Payment Item, which shall create an obligation on the part of the Payor FI to settle for that Item.
 - iv. Where the Payor FI is an Indirect Clearer, it shall settle with the Receiving Direct Clearer. Subject to paragraph (vi), the Receiving Direct Clearer is then obliged to settle for that Delayed Authorization POS Payment Item with the Delivering Direct Clearer.
 - v. For greater certainty, where the Payor FI is an Indirect Clearer that uses a Connection Service Provider, the Payor FI shall settle with the Receiving Direct Clearer that is one of its designated Clearing Agent(s) for Delayed Authorization POS Payment Items. That Receiving Direct Clearer is then obliged to settle for that Payment Item with the Delivering Direct Clearer.
 - vi. Where the Payor FI is a Direct Clearer that uses a Settlement Intermediary, it shall settle with that Settlement Intermediary in lieu of settling with the Delivering Direct Clearer. The Settlement Intermediary shall be obligated to settle for that Payment Item with the Delivering Direct Clearer.

Subsequent Dishonour

17. Delayed Authorization POS Payment Items may not be dishonoured. As such, CPA Rule A4 – *Returned and Redirected Items* does not apply to these Payment Items.

(Note: For greater certainty, a Delayed Authorization POS Transaction may be submitted for Authorization in accordance with subsection 16(d)(i), however once the Payor FI Authorizes the Delayed Authorization POS Transaction, it results in an obligation on the part of the Payor's FI to settle for that Delayed Authorization POS Payment Item (thereby making all duly Authorized Delayed Authorization POS Payment Items not subject to subsequent repudiation by the Payor or dishonour by the Payor FI).

Reconciliation

18. Each Member shall maintain sufficient internal records of Delayed Authorization POS Payment Items to determine and confirm that the amounts due to and from other CPA Members, calculated by the ACSS, are correct. These records shall be maintained for a period of one (1) year. Errors in Delayed Authorization POS Payment Item deliveries entered into the ACSS may be contested and corrected in the manner provided for in Rule B1.

Settlement

19. CPA Rule B1 – *Inter-member Exchange and Clearing at Regional Exchange Points* and CPA Rule B2 – *Manual Preparation of Clearing Logs* apply to the Clearing of Delayed Authorization POS Payment Items through the ACSS. In particular,

- a) All entries into the ACSS in respect of Delayed Authorization POS Payment Items shall be made in the National Electronic Settlement Region, using the *Point of Service – Debit (P)* and *Point of Service – Credit (Q)* stream identifiers.
- b) ACSS entries shall be made in accordance with ACSS procedures and shall be made as soon as possible and no later than the ACSS closing time applicable to the Business Day following Authorization.
- c) Such entries shall be made in a manner that reflects both the volume and value involved.
- d) ACSS entries using the stream identifier “P” or “Q” shall include the appropriate Point-of-Service Identifier where the entries are in respect of Delayed Authorization POS Payment Items involving:
 - i. a Connection Service Provider, who is a non-CPA Member; or
 - ii. a CPA Member with multiple direct connections to a Service.
- e) Errors in ACSS entries may be contested and corrected in the manner provided for within the ACSS procedures. Refer to CPA Rule B1 – *Inter-member Exchange and Clearing at Regional Exchange Points*.

Audit Trail, Tracing

20. Each Member participating in a Service must maintain or have access to an audit trail of each Delayed Authorization POS Transaction for a minimum period of twelve (12) months that contains the information necessary for tracing requests. Each Member that is involved in the Exchange of a Delayed Authorization POS Payment Item for the purpose of Clearing and Settlement shall trace the disposition of that Payment Item, if so requested by another Member. Each trace request shall contain the following information:

- a) the unique Delayed Authorization POS Payment Item identifier that identifies the Payor and the Payor FI;
- b) local transaction time, if available;
- c) total transaction amount; and
- d) Acceptor identification.

C. PAYOR INQUIRIES / COMPLAINTS

Part C) of this Rule contains the procedures that shall apply to each Member involved in the Exchange, Clearing and Settlement of Delayed Authorization POS Payment Items if a Payor claims that an approved Delayed Authorization POS Transaction, purportedly voluntarily initiated by the Payor that gave rise to a Delayed Authorization POS Payment Item, was actually initiated as a result of fraud or theft or was coerced by trickery, force or intimidation. None of the procedures outlined below preclude a party to a Delayed Authorization POS Payment Item from exercising its rights and seeking recourse outside of the Rules.

Payor FI Responsibilities

21. Payor FIs shall have clear, timely procedures for dealing with Payor claims, which shall include:

- a) procedures to investigate the claim; and
- b) provisions for review of claims at a senior level within their institution.

22. When a Payor contacts its Payor FI with a claim, the Payor FI shall inform the Payor that:

. the Payor FI will investigate the Delayed Authorization POS Payment Item(s) in question;

- a) a determination regarding any reimbursement will be dependent on the outcome of the investigation;
- b) the Payor FI will respond to the Payor's claim as soon as possible, but no later than ten (10) Business Days; and
- c) during the investigation, the Payor FI may require a statement or affidavit from the Payor or request information from another Member which may result in the temporary suspension of the ten (10) Business Day time limit until the requested information is received.

Member Responsibilities During Investigation

23. Each Member contacted by a Payor FI during the course of an investigation shall assist in the investigation and, if requested, trace the disposition of the Delayed Authorization POS Payment Item(s) in question as soon as possible in accordance with section 20 above.