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INDUSTRY BEST PRACTICE:
DEDUCTION OF CHARGES FOR THE RECEIPT OF LVTS PAYMENTS

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Through this best practice statement, the Canadian Payments Association (CPA) Board of Directors encourages member financial institutions to adopt the practice outlined below on a voluntary basis. The best practice statement does not create any obligation for the CPA or its member financial institutions beyond what is included in the CPA Rules.

I. INTRODUCTION

In 1999 the CPA implemented the Large Value Transfer System (LVTS) to eliminate systemic risk in the settlement of Canadian dollar payments, particularly large-value payments, and to provide users with certainty of settlement and finality of payment. The introduction of LVTS is supported by the Association's core mandate to "establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments". In pursuing its mandate, the Association is obliged to "promote the efficiency, safety and soundness of its clearing and settlement systems and take into account the interests of users".

The 'LVTS' name has rarely been promoted by CPA member institutions since each member that directly participates in LVTS has its own application that interfaces with the client, each branded with its own name (generically referred to as 'Canadian Dollar wire transfer/payment'). Furthermore, each application is marketed by members independently as a competitive offering and provides clients with different features/functionality for the processing of wire payments. From the outset, the CPA did not envision that LVTS payments would replace other paper-based payment instruments (e.g. cheques, drafts). The primary objective for introducing LVTS was to eliminate settlement risk by ensuring that an overwhelming majority of the value cleared and settled on a daily basis between Canadian financial institutions would be settled through a system which provided certainty of settlement. The CPA has made a number of changes to facilitate the migration of value over the years (e.g. $25 million cap on paper-based items in 2003). However, while the CPA has made considerable gains to increase the value settled in LVTS, some impediments to using wire payments still remain, which can lead to operational inefficiencies, particularly for commercial/corporate clients.

One of the impediments is a difficulty with payment reconciliation, which can be present in a wire payment environment. In the wire payment environment, it is common practice to credit the recipient with the proceeds of a wire transfer less any applicable charges. For example, the recipient is expecting to receive $1000 but its account is only credited $990 – assuming the fee to receive a wire transfer is $10.00. Crediting the beneficiary with the amount of the payment less any applicable charges is an industry practice followed throughout the world but it does not lend itself to automated reconciliation, particularly for commercial/corporate clients, and this increases customer costs for processing wire payments. Additionally, from a general policy perspective, the fact that one practice is generally applied for collecting charges for wire payments while another is applied for other types of payments (e.g. cheque, ABM where the full amount of the payment is credited and charges collected separately) can lead to confusion in the marketplace.

II. BEST PRACTICE

CPA members that offer Canadian dollar wire payment (LVTS) processing should, upon request of their client, credit the account of the LVTS recipient with the full amount sent by the originator of that LVTS payment (in Canada). In addition, if a CPA member that does not directly participate in LVTS is credited with an LVTS payment for the benefit of its client, it should credit the account of the recipient with the full amount sent by the originator of that LVTS payment (in Canada). In these situations, any service charges that would be applied to the transaction by the receiving CPA member financial institution should be handled separately, in accordance with any agreement between the financial institution and its client.