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# Organizational Framework

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## Introduction

This organizational framework provides an overview of the governance framework established for Payments Canada, and sets out the roles and responsibilities of the board of directors, its chair, and president and chief executive officer (CEO).

The objects of Payments Canada are established by the Canadian Payments Act (the “CP Act”) as follows:

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

In pursuing the objects, Payments Canada is required to promote the efficiency, safety and soundness of its clearing and settlement systems and to take into account the interests of users.

## Mandate of Payments Canada’s Board of Directors

### (a) Board of directors and board committees

The board is established by the CP Act and is charged with directing and managing the affairs of Payments Canada. The CP Act requires the board to establish a nominating committee to identify and propose qualified candidates for the election of directors. The board may establish other standing or ad hoc committees consisting of such persons as the board considers appropriate; and subject to the by-laws, delegate to its committees such powers and duties as the board considers appropriate.

There are currently four standing board committees, the duties and responsibilities of which are set out in separate terms of reference:

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- Governance and Nominating Committee
  - Audit and Finance Committee
  - Human Resources and Compensation Committee
  - Risk Committee

## (b) Advisory councils

The CP Act requires that the board appoint the following advisory councils, the duties and responsibilities of which are set out in the by-laws and separate terms of reference:

- Stakeholder Advisory Council, which provides counsel and advice to the board on payment and clearing and settlement matters and any other matter relating to the objects of Payments Canada.
- Member Advisory Council, which provides counsel and advice to the board on Payments Canada's operation of clearing and settlement systems, the interaction of those systems with other systems involved in the exchange, clearing or settlement of payments and the development of new technologies.

## (c) Composition

The board has 13 members: 7 independent directors, 5 member directors and the CEO. The mandate of the board requires complementary knowledge, skills and expertise on the part of the directors, to enable them to positively contribute to the achievement of Payments Canada's objectives, including a reasonable representation of payments, financial industry and risk management skills.

## (d) Board responsibilities

### Strategy, policy and budget

- Annually reviews, discusses and approves the strategic plan of Payments Canada, including the desired outcomes; high level strategies required to implement the plan; annual operating; capital budget; and the five-year plan submitted annually to the Minister of Finance;

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- Annually reviews and approves material projects, transactions and (if applicable) corporate reorganizations, alliances and financing;
  - Oversees Payments Canada's multi-year modernization initiative;
  - Reviews and discusses Payments Canada's progress against plan and material changes proposed to strategy, capital and operating budgets; and
  - Annually approves Payments Canada's annual report on operations and progress toward desired outcomes for each fiscal year.

## Management oversight

- Demonstrate and encourage a culture of integrity at the board, and implement policies designed to foster this culture throughout the organization;
- Establish an appropriate organizational structure including a CEO, a chief financial officer, chief risk officer and such other executives and oversight functions required for the sound management of the business and affairs of Payments Canada;
- Establish and document the authority delegated to the CEO appropriate to sound management of the business and affairs of Payments Canada;
- Appoint the CEO, establish CEO annual performance goals and objectives, and evaluate the performance of the CEO annually;
- Appoint such officers as may be required or recommended by the CEO;
- Set the compensation for the CEO; and
- Be satisfied that appropriate human resources policies, including a compensation framework, and succession planning process are in place for the organization.

The Human Resources and Compensation Committee assists the board with fulfilling these responsibilities.

## Risk management

- Be satisfied that the risk management function has adequate resources and independence to perform its responsibilities effectively; that the board committee structure and composition provides for effective oversight of risk; and that a culture of risk awareness is promoted throughout the organization;
- Establish an enterprise risk management policy that establishes the overall intent and expectations for risk management at Payments Canada including: appropriate approval levels for risk-related decisions, controls to mitigate risk, and relevant and prudent risk management policies;

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- Be satisfied that Payments Canada has implemented policies and procedures designed to identify principal risks of Payments Canada's business, and to monitor the implementation of appropriate controls to manage risk;
  - Establish Payments Canada's risk appetite statement designed to guide management decision-making in risk-related matters;
  - Annually review Payments Canada's risk profile as measured against the approved risk appetite, and be satisfied that the annual business plan and employee incentives are consistent with adhering to the risk appetite; and
  - Understand the significant risks (individually and as a portfolio) that Payments Canada is exposed to and have an understanding of the policies, procedures and controls used to manage these risks.

The Risk Committee assists the board with fulfilling these responsibilities.

### Internal controls

- Be satisfied that Payments Canada has an appropriate internal control framework in place that supports the achievement of Payments Canada's strategies and objectives, including the safeguarding of Payments Canada's accounting and financial reporting systems, appropriate financial controls, and appropriate internal and independent audits.

The Audit and Finance Committee assists the board with fulfilling these responsibilities.

### Compliance, ethics and governance

- Be satisfied that Payments Canada has the appropriate structures and programs in place to operate ethically and in compliance with applicable laws and appropriate governance practices;
- Be satisfied that Payments Canada has implemented adequate procedures for monitoring Payments Canada's compliance with applicable statutory and regulatory requirements and member compliance with Payments Canada rules and standards;
- Establish a code of conduct (the "code"), monitor compliance with the code, and be satisfied that procedures are established to address breaches of the code;
- Annually review Payments Canada's organizational framework and committee terms of references;

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- Establish criteria for director qualification and nomination of directors that complies with the requirements set out in the CP Act, the Election of Director Regulations, and Payments Canada's by-laws;
  - Be satisfied that Payments Canada has implemented appropriate director orientation and education programs;
  - Be satisfied that Payments Canada engages in appropriate consultation with members, stakeholders and other constituents; and
  - Assess the performance of the board itself, its committees and Payments Canada management annually with a view to ensuring their effectiveness, that the strategic direction and policy decisions are implemented, and that objectives are achieved.

The Governance and Nominating Committee assists the board with fulfilling these responsibilities.

### Independent advice

In discharging its mandate, the board has the authority to retain (and authorize the payment by Payments Canada of) and receive advice from special legal, accounting or other advisors as the board determines to be necessary to permit it to carry out its duties.

### (e) Role and duty of directors

Directors must act honestly and in good faith with a view to the best interests of Payments Canada and must exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Directors are expected to:

- Familiarize themselves with the CP Act, Payments Canada's by-laws and other related legislation brought to their attention;
- Diligently attend meetings of the board and any committee of which they are a member;
- Come to board meetings prepared, having reviewed the meeting materials distributed in advance that will form the basis of discussions and decisions; and identify any additional information reasonably required to participate meaningfully in meetings;

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- Participate actively and constructively in each meeting, seeking clarification from management and outside advisors where necessary to understand the issues under consideration;
  - Think, speak and act independently, but also demonstrate a willingness to listen to and consider others' opinions;
  - Review meeting minutes to be satisfied that they accurately record the deliberations and decisions, and destroy personal notes from meetings after formal meeting minutes are approved;
  - Annually review and confirm understanding of and compliance with the code; disclose to the chair before any meeting any matter that might reasonably be considered to be a conflict of interest or potential conflict of interest; and not participate in any decision related to such conflict of interest;
  - Maintain the confidentiality of board and committee deliberations; and
  - Speak with one voice through the Chair, the CEO or other authorized spokespersons to external groups, including members, stakeholders and governments.

Board members have full access to Payments Canada management, but should coordinate access on substantive matters through the CEO. Administrative questions can be directed to the corporate secretary's office.

## Role of Chair

The chair is an independent director elected by the directors of the board. The chair is to preside at all meetings of the board and perform the duties that are assigned by the by-laws. In the event of a tie vote on any matter at a meeting of the board, the chair has a second vote. In particular, the role of the chair is to:

### Provide leadership to enhance board effectiveness

- Promote the board working as a cohesive team and provide the leadership essential to achieve this;
- Build consensus with respect to matters brought to board, in collaboration with the CEO; and
- Be satisfied that a process is in place by which the effectiveness of the board and its committees are assessed on a regular basis.

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## Manage the board

- Set the agenda for the board, in consultation with the CEO and corporate secretary, and seek consensus in progressing the agenda;
- Call ordinary course meetings of the board and work closely with the CEO and corporate secretary to determine when special meetings of the board should be called;
- Lead the adoption of procedures designed to enable the board to conduct its work efficiently; and
- Consider and provide direction to directors in respect of any conflict of interest or potential conflict of interest raised for consideration.

## Act as a liaison between the board and Payments Canada management

- Be satisfied that the responsibilities of the board are well understood by both the board and management, and that the boundaries between board and management responsibilities are clearly understood and respected;
- Be satisfied that the conduct of board meetings provides adequate time for serious discussion of relevant issues and that Payments Canada is building a healthy corporate governance culture;
- Communicate with the CEO regarding emerging issues of the board, members, other interested constituencies and the public; and
- Foster an open and constructive relationship with management and act as primary liaison between the board and the CEO.

## Represent Payments Canada to external groups in certain circumstances

- At the request of the board or the CEO, represent Payments Canada to external groups, including members, stakeholders and governments.

## Role of President and CEO

Pursuant to the CP Act, the CEO has, on behalf of the board, the direction and management of the business of Payments Canada with authority to act in all matters that are not by the by-laws or by resolution of the board specifically reserved to be done by the chair or the board. Other than the matters that have been specifically identified for board

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decision, the CEO has a broad power to manage the day-to-day affairs of Payments Canada.

The CEO is responsible for working with the board to develop and implement the strategy for Payments Canada that best serves its core purpose of underpinning the financial systems and economy by providing safe, efficient and effective clearing and settlement of payments; ensuring the delivery of operational excellence to meet the needs of its members and stakeholders; leading and motivating the staff; playing a key role in the development and shaping of policy; managing funding; and overseeing the financial health and viability of the organization.

In particular, the role of the CEO is to:

### Provide strategic and operational leadership

- Lead the development of the five-year strategic plan for the organization, soliciting input from the board and management;
- Develop and articulate a set of annual priorities for board approval that the organization will pursue. Communicate these effectively to the board, staff, members and stakeholders;
- Lead the development of action plans and ensure that the appropriate resources, including staff and funding, are in place to deliver these priorities; and
- Provide outstanding leadership to the management and staff of Payments Canada so that roles are clearly defined and are aligned to the priorities of the organization; succession plans are in place for all senior roles; and team members are empowered to act in the best interests of Payments Canada.

### Direct and manage the business of Payments Canada

- Be responsible for the general management and administration of Payments Canada, its funding, budgets and operations;
- Deliver the financial objectives of Payments Canada through the efficient execution of a long term strategy and the agreed-to priorities;
- Provide the board with recommendations for the appointment of senior officers when board approval is required;

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- Collaborate with the chair in building consensus with respect to matters brought to the board;
  - Oversee the preparation of briefing material and reports for the board so that Payments Canada recommendations and conclusions are supported by appropriate information and analysis; and
  - Stay current on payments issues and trends and provide pertinent information to the organization and the board as input for the strategic planning process.

### Establish and maintain relationships and communicate regularly

- Establish and maintain healthy and effective relationships with all members and stakeholders of Payments Canada;
- Communicate regularly with the board of directors, members and stakeholders on the implementation and achievement of strategies and plans;
- Seek out partnerships that Payments Canada can leverage to achieve its near and longer-term objectives;
- Foster an environment of openness and transparency between the board and management to enable the board to provide strategic leadership to the organization; and
- Act as spokesperson and advocate for Payments Canada at the national and international levels, explaining Payments Canada's views on matters and issues relating to its mandate as well as its accomplishments and the importance of clearing and settlement systems for the Canadian economy.

Further details of the CEO's responsibilities are set out in the position description and performance expectations documents, as amended from time to time.

The board has established specific financial limits to the CEO's authority, which are set out in the Delegation of Authority policy.

## Management Senior Operational Committee

Management has established a senior operational committee to advise and report to the CEO, or a delegate of the CEO, on operational matters relating to Payments Canada's systems and the efficiency of the national clearing and settlement system generally. The

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committee membership is established by the CEO and includes broad member representation with significant payment system expertise.

The committee is responsible for the creation and oversight of the operational sub-committees, providing leadership and direction in relation to Payments Canada operational projects, and dealing with issues raised by Payments Canada management, members or Payments Canada's board concerning day-to-day operations. The committee also seeks to keep the CEO apprised of issues of a strategic or policy nature, which might arise relating to Payments Canada's systems or the Canadian payment ecosystem more generally.

The senior operational committee will also serve as the committee for the purpose of handling member compliance matters referred to in the Compliance Bylaw.

From time to time, the senior operational committee may establish project specific task forces or working groups for a particular project, issue or matter, which are generally created for a limited period of time.

## Modernization Program governance

Management has established a governance structure for the Modernization Program that will support the pillars as they move to execution, and ensures that forums and working groups are functioning effectively.

The roles outlined in the governance model include:

- Strategic Advisors: Provide ongoing strategic input and advice to the Modernization Steering Committee, taking into account the program objectives in support of the broad interests of the payments system.
- Review and challenge: Provide counsel and advice to the board and management on all aspects of the Modernization Program.
- Consult and recommend: Provide input and advice to the Member Advisory Council and management on day-to-day input on the Modernization Program and advice and guidance on specific issues, as required.