



PAYMENTS CANADA PUBLIC CONSULTATION

A Proposed Revised Framework for Pre-Authorized Debits

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TERMS

The Terms listed below are mainly from [Rule H1](#) (Payments Canada’s rule framework for Pre-Authorized Debits). All defined terms in this document have been *capitalized*, and can be referenced within the terms list.

Term	Definition
Authorization	Means signing, execution or similar adoption by a Payor, including but not limited to the use of a user id / password combination or other Commercially Reasonable method, for the purpose of signifying the consent and/or agreement of the Payor in accordance with applicable laws and “Authorized” has a corresponding meaning.
Business	Means any commercial entity including, but not limited to, any corporation, partnership, sole proprietorship, trust, franchise, association, government entity, venture or enterprise.
Business PAD	Means a PAD drawn on the account of a Payor for the payment of goods or services related to a Business or commercial activity of the Payor, including, but not limited to, payments between franchisees and franchisors, distributors and suppliers, and dealers and manufacturers that has been identified as a Business PAD “transaction type” in accordance with section 17 of Rule H1 .
Cash Management PAD	Means a PAD drawn on the account of a Payor for the purpose of transferring, consolidating or repositioning funds between their account at one Member to their account at another Member, for the same Business or closely-affiliated Businesses (e.g. transfers between a parent company and its subsidiary).
Commercially Reasonable	Is a term used to describe certain security procedures, specifically, the verification of a person’s identity; the reasonableness of which, ultimately can be determined by a court of law in light of the purposes of the procedure and the commercial circumstances at the time the procedure was used.
Confirmation	Means the mandatory Written notice from the Payee to the Payor prior to the first PAD wherein the details agreed to by the Payor in setting up an Electronic Agreement with the Payee are communicated in accordance with Appendix IV of Rule H1 .
Electronic Agreement	Means a Payor’s PAD Agreement that is not a Paper Agreement and that has been Authorized in accordance with this Rule by way of telephone, Internet, e-mail or other electronic means.
Funds Transfer PAD	Means, where the Payor and the Payee are the same individual, a PAD drawn on the account of a Payor for the purpose of transferring funds from their account at one Member to their account at another Member, including, but not limited to, registered savings plan, mutual funds, segregated funds, annuities, deposit accounts, cash accounts, and investments accounts.

Member	An entity (e.g. financial institution) that meets the applicable access criteria to access a payment system directly (without sponsorship or agency agreement with other bank/payment services provider).
Member Payee	Means a Member who is also a Payee.
Paper Agreement	Means a Payor's PAD Agreement that has been Authorized in accordance with this Rule on paper and exchanged in person or by mail, courier, facsimile transmission, e-mailed scan or any other method by which a paper instrument may be exchanged between persons, and does not include Confirmation received by the Payor subsequent to entering into an Electronic Agreement.
Payee	Means a person whose account at a Member is to be, or has been, credited with the amount of a PAD.
Payee Letter of Undertaking	Means in the case of a Business PAD, Cash Management PAD or Personal PAD, a Written agreement between a Payee and its Sponsoring Member which outlines the Payee's responsibilities and agreement to comply with this Rule and contains the mandatory information set out at Appendix I of Rule H1 .
Payment Originator	Means a business, association, government or other entity which, with authorization from a Payee or Payor, initiates an AFT transaction.
Payment Service Provider	A person or an entity that provides services directly to end users such as consumers and businesses/corporates, banks or other entities to support exchange, clearing and settlement services.
Payor	Means a person whose account at a Member is to be, or has been, debited with the amount of a PAD.
Payor's PAD Agreement	Means a continuing but revocable Written or otherwise Recorded authority that has been signed or otherwise Authorized containing the mandatory provisions set out in Appendix II, given by a Payor to a Payee that provides an Authorization for the Payee to issue PADs against the Payor's account at its Processing Member.
Personal PAD	Means a PAD drawn on the account of a Payor for payments such as, but not limited to, charitable donations, non-Member investment contributions, mortgage installments, utility bills, insurance premiums, membership fees, property taxes, credit card billings, lines of credit, loans and payment for other consumer goods or services but not a Business PAD, a Cash Management PAD or a Funds Transfer PAD.
Pre-Authorized Debit or "PAD"	Means a pre-authorized debit Payment Item issued by a Payee or Member Payee that is drawn on an account of a Payor held by a Processing Member.
Pre-Notification	Means the required Written notice by the Payee or Member Payee to the Payor of the amount or change in amount to a PAD and the date(s) of such debiting, prior to the date of the actual PAD.

Processing Member	Means a Member that holds the account of a Payor.
Recorded	Means any form of representation of information or of concepts in any medium that is accessible so that it may be used for subsequent reference and can be read or otherwise perceived by a person.
Reimbursement Claim	Means either (i) a duly completed and signed Written statement of a Payor in the form set out in Appendix III or (ii) a Written or otherwise Recorded communication from a Payor to its Processing Member by way of the Internet, e-mail, telephone or other electronic means that has been authenticated pursuant to the Processing Member's customary security measures relating to such means.
SAC (Stakeholder Advisory Council) Member	A Payments Canada forum for consultation and engagement with our broad base of stakeholders, including consumer associations, businesses, retailers, and governments, as well as related service providers.
Set Interval	Means occurring at specified, set or predictable periods or times or upon the occurrence of such criteria and/or event(s) as may be set out in a Payor's PAD Agreement.
SOC (Senior Operational Committee)	The SOC is a standing operational committee composed of Members that provides information, expertise and recommendations for operations of Payments Canada systems and its related rules, standards, and by-laws.
Sponsoring Member	Means a Member that holds the account of the Payee to be credited with a PAD.
Sporadic	Means occurring occasionally, irregularly, intermittently, infrequently, periodically, and not at Set Intervals.
Ultimate Beneficiary Payee	Is a non-Member that uses a Payment Service Provider for the purposes of exchanging PAD Payment requests.
Written	Means any form of representing or reproducing words in visible form, and includes an electronic document, provided the electronic document is under the control of the intended recipient, the information contained in the electronic document is substantially in the same form as a paper copy, and the information contained in the document is accessible if requested.

Introduction

The framework for processing Pre-Authorized Debits (PADs) through Payments Canada's Automated Clearing Settlement System (ACSS) is set out in Payments Canada's [Rule H1](#) - Pre-Authorized Debits ("Rule H1"). Rule H1 outlines the procedures for the Exchange for the purpose of Clearing and Settlement of PADs that are supported by an ongoing agreement between a Payor and/or a Payee. In 2020, Payments Canada began a comprehensive review of the PAD framework and is proposing a number of changes to Rule H1 in order to ensure the framework continues to support all parties involved in the PAD payment process.

A key aspect of the framework for the handling and processing of paper and electronic PADs is the requirement for Members to ensure that payment originators adhere to the requirements in Rule H1 through agreements between the financial institution (FI) and the originator, and between the originator and the consumer/business.

The last holistic review of Rule H1 was conducted in 2008. Since this time, new services, users, and technology processes have arisen, prompting a review of Rule H1 to ensure it remains relevant and meets the evolving needs of Members and stakeholders. A working group, including representatives from Payments Canada's member FIs and its Stakeholder Advisory Council, was established in November 2020 to review identified issues within the PAD framework and conduct a thorough analysis of the various options for consideration to address these issues. The purpose of this consultation paper is to obtain further member and stakeholder input on the proposed changes to Rule H1.

The document has been separated into three parts;

- Part 1 provides background information on PADs and how they operate, and Payments Canada's guiding principles on the PAD framework review;
- Part 2 lists the issues and proposed changes to be covered from this framework review; and
- Part 3 includes questions for the future state of PAD payments and an optional survey to better understand which segments of the Canadian payment ecosystem are represented by the consultation feedback.

Guiding principles

In an attempt to identify all opportunities for rule improvement, Payments Canada consulted with Members, the Stakeholder Advisory Council, and referenced Payments Canada's records on past PAD framework related challenges and suggestions for revision. In November 2020, the Working Group commenced its review of this feedback. The Working Group began by identifying which challenges were within Payments Canada's scope to address. This was followed by a thorough analysis of the issues and consideration of various options to address them. This review led to a number of proposed changes to Rule H1, which are outlined in Part 2 of this consultation document.

Overall guiding principles of the Working Group:

- Increase transparency, clarity and understandability of the PAD framework;
- Enhance usability and benefits of PADs for all users;
- Take into account the interest of the various participants;
- Consideration of PAD payments in the overall payment ecosystem; and
- Identify the future role of PAD payments.

Specific objectives of the revised framework:

- Embrace technological advancements and evolving marketplace;
- Enhance consumer protection and convenience; and
- Improve operational efficiency.

Public consultation purpose & objectives

This consultation document seeks to gather views from the broader Canadian payment ecosystem on specific considerations related to PADs. The objective of this consultation is to obtain feedback to better understand the impact of the proposed changes to the PAD Framework from the following groups:

- Consumers and consumer groups: Regular Payors that have PADs debited from their account;
- Members: FIs that process and administer PADs on behalf of Payees and Payors;
- Businesses & Corporates: Organizations (Payees) that have agreements with Member FIs to issue PADs on their behalf; and
- Third-Party Providers: Any organization that participates in the PAD payment process, such as Payment Service Providers.

Please consider how the proposed changes to Rule H1 will affect your operational processes, costs, protection of data, recourse options, or any other impacts to your organization or stakeholders. Additionally, if you have concerns, questions, or feedback on any of the issues listed in Part 2, please provide a detailed response. Part 3 includes questions on the future state thinking around PADs, and optional questions to provide Payments Canada with additional information on the respondents. This information will not be used for any other purpose.

The proposed changes to the PADs framework will be launched in multiple phases based on the complexity for Members and stakeholders to implement, with the first set of changes becoming effective in mid-2022, and the remaining changes coming into effect at dates to be determined in consultation with Members and stakeholders to align with their operational and technological capabilities.

Payments Canada invites interested parties to provide comments regarding these proposals by January 14, 2022 to consultation@payments.ca.

PART 1

Background

The Canadian Payments Association (doing business as “Payments Canada”) is the organization that owns and operates key payment clearing and settlement infrastructure in Canada, including associated systems, by-laws, rules and standards. In 2020, Payments Canada’s systems cleared and settled payment values of over \$107 trillion - more than \$420 billion every business day. PAD transactions are cleared and settled through Payments Canada’s retail batch payment system, the Automated Clearing Settlement System (ACSS). In 2020, the ACSS cleared over 7.8 billion payment items representing \$7.2 trillion in value, including over 965 million PAD transactions, totalling \$909 million. PADs represent nearly 13 percent of the value processed through the ACSS, the third highest total of all payment types cleared through this system.

Top Five ACSS Payment Streams by Value in 2020		
	Payment Stream	Value
1	AFT Credit	\$2,686,671,690,249
2	Cheques (Images)	\$2,165,038,325,913
3	AFT Debit (PADs)	\$909,490,751,001
4	Gov. Direct Deposit	\$450,577,117,706
5	Electronic Remittances	\$264,224,755,103

Top Five ACSS Payment Streams by Volume in 2020		
	Payment Stream	Volume
1	Point of Service	4,819,075,155
2	AFT Debit (PADs)	965,372,927
3	AFT Credit	695,533,295
4	Electronic Remittances	470,132,349
5	Gov. Direct Deposit	382,075,526

FIGURE 1 – Top Five ACSS Payment Streams by Value & Volume in 2020

The existing ACSS legal framework consists of by-laws, rules, and standards, as well as guidelines and best practices related to Payments Canada’s public policy objectives, which include the duty to take into account the interests of end-users. Existing policies have been developed through thorough and careful analysis and consultation with Members, stakeholders and regulators. The ACSS framework aims to create the necessary balance of rules and standards, with efficient infrastructure to achieve optimized, low-friction value flow. Rule H1 was introduced in 2002, based on previous payment frameworks, and revised in 2008 to establish requirements for Members of Payments Canada that initiate, exchange or settle Pre-Authorized Debits (PADs).

Overview of Pre-Authorized Debits (PADs)

A Pre-Authorized Debit (PAD) is a withdrawal from an individual’s or business’s bank account that is initiated by a company or an FI that has the account holder’s written authority to do so. PADs are a convenient way to make recurring, sporadic or one-time payments between the accounts of an end user’s (Payor) and a third-party (Payee). PADs are commonly used for mortgage and utility payments, membership dues, charitable donations, RSP investments, and insurance premiums.

To set up a PAD payment, the Payor (i.e. the end user whose account is being debited) makes arrangements directly with the Payee (i.e. the end user whose account is to be credited, such as a biller) by signing a Payor's PAD Agreement, which authorizes the Payee to withdraw funds from the Payor's bank account. In addition to other details, the authorization form specifies the amount, the frequency and the account from which the funds are to be withdrawn.

Before a Payee is able to offer PADs as a payment option to its customers, the Payee must first sign a Payee Letter of Undertaking or an equivalent contract with the sponsoring FI that will be responsible for exchange and clearing of the transaction in the ACSS. Under this contract between a Payee and its sponsoring FI, the Payee agrees to follow Payments Canada's rules that apply to PADs.

The clearing system provisions relating to PADs are primarily set out in Payments Canada Rule H1. This Rule applies only to PADs drawn on an account at a Payments Canada member FI and does not apply to pre-authorized payments charged to a credit card. Below is an example of a typical PAD transaction flow between a gym (the Payee) and its client (the Payor):

The customer ("Payor") authorizes the gym ("Payee") to withdraw funds from their account with a Payor's PAD Agreement



The Gym ("Payee") submits a PAD payment request to their bank ("Sponsoring Member") which sends the PAD payment request to the customer's bank ("Processing Member") and debits the customer's ("Payor") account.

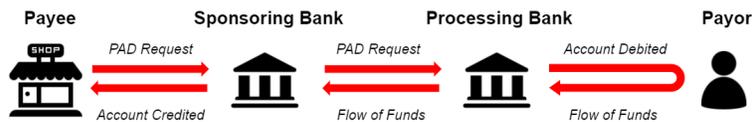


FIGURE 2 – Example of PAD Transaction Flow

PART 2

Proposed changes to Payments Canada's Pre-Authorized Debit Framework

This section outlines proposed policy changes.

1. The definition of "Commercially Reasonable"

Overview and current requirement

Since the last PAD framework review in 2008 there has been significant growth in Electronic Agreements (see definition in Terms). As more PAD Agreements are authorized electronically or remotely, there is a need to improve the efficiency of the current Payor onboarding process for the authorization of PAD Agreements.

Rule H1 requires that all PAD Agreements be authorized using a Commercially Reasonable method (see definition in Terms). Moreover, Electronic Agreements have additional requirements for verification of the Payor's personal and/or banking information using a Commercially Reasonable method. There has been confusion on what constitutes a Commercially Reasonable method despite the broad definition provided in the rule. Multiple methods are used to verify the Payor's banking information, including, but not limited to:

- a void cheque (common current practice);
- a letter from the Payor's FI or other documentation (e.g. FI agreements, FI statement); and
- online or mobile banking platform information/screen printouts.

If agreements are completed online, the Payee is required to verify the Payor's personal and/or banking information remotely (e.g. submit an image of identification or of a void cheque). This can be cumbersome, and is not required where the Payor PAD Agreement is a Paper Agreement (see definition in Terms).

Rule H1 also does not distinguish the verification process for a new customer and an existing customer that has been previously identified by the Payee.

Proposed change(s)

It is proposed that the current definition of Commercially Reasonable be updated with the following directions and considerations:

- Make wording that has caused confusion easier to understand, such as:
 - "the verification of a person's identity; the reasonableness of which, ultimately can be determined by a court of law in light of the purposes of the procedure and the commercial circumstances at the time the procedure was used,"

- Revisit and update or remove, as needed, the list of considerations that could be taken into account to assess the reasonableness of particular methods used to verify Payee identity (while confirming that any revised list is not exhaustive).
- Remove the list of verification examples, and replace with clear wording that Payee is able to use a form of verification that meets the circumstances of the PAD, their relationship with the Payor, and meets their operational capabilities, as long as that verification method can ultimately be determined by a court of law.

Rationale for proposed change(s)

The current definition of Commercially Reasonable has caused confusion for Payees and Members. Some read the examples of verification methods as the only acceptable forms of verification rather than a non-exhaustive list. Moreover, Rule H1 already requires that all PADs must be Authorized using a Commercially Reasonable method, as stated in the definition of Payor’s PAD Agreement.

2. Differences between Paper and Electronic Agreements

Overview and current requirement

There are two types of Payor PAD Agreements, Paper-based and Electronic. In 2008, Rule H1 was amended to permit PAD authorizations to be submitted electronically (e.g. via telephone, Internet, e-mail, etc.). At the time of the introduction of Electronic PAD Agreements, Payees faced operational challenges to provide Payors with confirmation of the PAD Agreement and notification prior to the first debit within the timeframes of Paper PADs; therefore, different requirements were developed for Electronic Agreements. Since 2008, new methods have been developed to present PAD Agreements to Payors, such as PAD Agreements displayed on tablets. These new methods have blurred the line between what is classified as a Paper Agreement and what is an Electronic Agreement, resulting in confusion as to which related rule requirements – for example, for notification timeframes and waivers – should apply.

Figure 3 below outlines the current differences in requirements between Paper and Electronic Agreements.

Requirement	Electronic PAD Agreements	Paper PAD Agreements
Time period the mandatory information must be provided to the Payor prior to the first PAD	15 Days	10 Days
Mandatory notification information to be provided to the Payor prior to the first PAD	<ol style="list-style-type: none"> 1. Account Name 2. Financial Institution (Name & Transit #) 3. Account Number 4. Amount of Payment 5. Frequency of Payment 6. Payment Start Date 	<ol style="list-style-type: none"> 1. Amount of Payment 2. Payment Start Date

	7. Type of Pre-Authorized Debit (Business or Personal) 8. Statement with regard to Pre-notification	
The minimum time period the rule allows for the mandatory information to be provided to the Payor prior to the first PAD	3 Days Minimum	Full Waiver of the mandatory information provided to the Payor
Default time period to notify the Payor for Change of amount/date of PAD	10 Days	10 Days
In addition to PAD Agreement Authorization the verification of Payor's Personal and/or Banking Information*	Required	Not Required*

FIGURE 3 – Requirement & Notification Periods for Electronic and Paper PAD Agreements

*While 16 (a) PAD Authorization - Electronic Agreements specifically states the requirement of verification of Payor's Personal and/or Banking Information, Paper Agreements must simply be Authorized using a *Commercially Reasonable* method.

Proposed change(s)

It is proposed that Rule H1 be updated to remove the two different types of Payor PAD Agreements (Electronic Agreements and Paper Agreements), and use one Payor PAD Agreement type that includes consistent notification and waiver requirements applicable to all Payor PAD Agreements. The proposed default requirements for Payor PAD Agreements would be as follows:

Requirement	PAD Agreements
Default time period to notify the Payor prior to first PAD	10 Days
Mandatory notification information to be provided to the Payor prior to the first PAD	<ol style="list-style-type: none"> 1. Account Name 2. Financial Institution (Name & Transit #) 3. Account Number 4. Amount of Payment 5. Frequency of Payment 6. Payment Start Date 7. Type of Pre-Authorized Debit (Business or Personal) 8. Statement with regard to Pre-notification
The minimum time period the rule allows for the mandatory information to be provided to the Payor prior to the first PAD	No minimum time period, the Payee can process a PAD Payment as long as the mandatory information has been provided to the Payor

Default time period to notify the Payor for Change of amount/date of PAD	10 Days
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FIGURE 4 – Proposed Requirement & Notification Periods for Electronic and Paper PAD Agreements

Furthermore, It is proposed that Rule H1 be updated to remove section 16(a), which is applicable only to Electronic Agreements:

“prior to taking the steps set out in the remainder of this section 16, upon the Authorization of a Payor’s PAD Agreement by a Payor, the Payee shall verify that the personal and/or banking information set out in that membersPayor’s PAD Agreement actually belongs to that Payor using a Commercially Reasonable method of verification;”

Rationale for proposed change(s)

The proposed changes provide consistency for all PAD Agreements and will reduce Payee confusion around which requirements to use as all PAD Agreements will have the same requirements.

Moreover, it will improve the Payee’s operational ability to process a new PAD without having to wait for the current three-day minimum notification period for Electronic Agreements.

3. Link between the cancellation of the goods and services contract and the Payor PAD Agreement

Overview and current requirement

Rule H1 addresses the requirements for PADs as a method of payment, but does not address the requirements or terms of any associated goods and services contract between the Payor and Payee. There have been instances in which a Payor cancels the goods and services contract with the Payee, but does not cancel the Payor PAD Agreement in accordance with section 28 of Rule H1 (cancellation provisions). A link between the cancellation of the PAD Agreement and the goods and services contract could mitigate confusion regarding the cancellation steps a Payor must take.

Proposed change(s)

It is proposed that if the Payee uses a separate goods and services agreement from the Payor PAD Agreement, a mandatory element must be added to the Payor PAD Agreement . The mandatory element would state that if the goods and services agreement has been cancelled by the Payor, it will result in the automatic termination of the Payor PAD Agreement in accordance with the current cancellation requirements set out in Rule H1. For clarity, this would not absolve the Payor of any remaining financial or other contractual obligations of the

goods and services contract, which would be handled outside of the rule. Moreover, the termination of the PADs could take effect at a later date as per the Payor's cancellation request.

Rationale for proposed change(s)

There should be an expectation for the Payor that cancellation of the goods and services contract automatically cancels the Payor PAD Agreement. Rule H1 should reflect this issue in a manner that is clear to the Payor and Payee that the PAD Agreement is cancelled.

4. The use of One-Time PADs

Overview and current requirement

While Rule H1 allows for one-time payments, the Payor PAD Agreement that supports this one-time payment is not required to automatically terminate once the payment has been completed. The Payor PAD Agreement remains in effect after the initial one-time debit (even if the Payee does not ever attempt a future debit), and requires the Payor to initiate a cancellation request to terminate the PAD Agreement. Clarity is required for Payors and Payees regarding one-time PAD payments and to reduce the risk of additional, unapproved PADs.

Proposed change(s)

It is proposed that Rule H1 be updated to include the following changes to address one-time PADs:

- Add a new definition for "One-Time" PADs
- Update multiple sections to include requirements that "One-Time" PADs cannot be authorized for any subsequent PAD transaction, and would require a newly Authorized Payor PAD Agreement.
- A Mandatory element would be required for all "One-Time" PADs that states that the PAD is "One-Time" and cannot be Authorized for any subsequent PAD transaction. Subsequent PAD transaction(s) would require a newly Authorized Payor PAD Agreement.

Rationale for proposed change(s)

The proposed changes will provide clarification to the Payor and Payee on what elements are required for the use and termination of a PAD Agreement used for one-time debits.

5. The role of third-party/Payment Service Providers (PSP)

Overview

The market for third-party/ Payment Service Providers (PSPs) in Canada has grown in recent years, and some businesses are outsourcing parts or all of their PAD processing to these providers. Below is an example of how third-party providers/PSPs are used to process PAD payments compared to a typical PAD process :

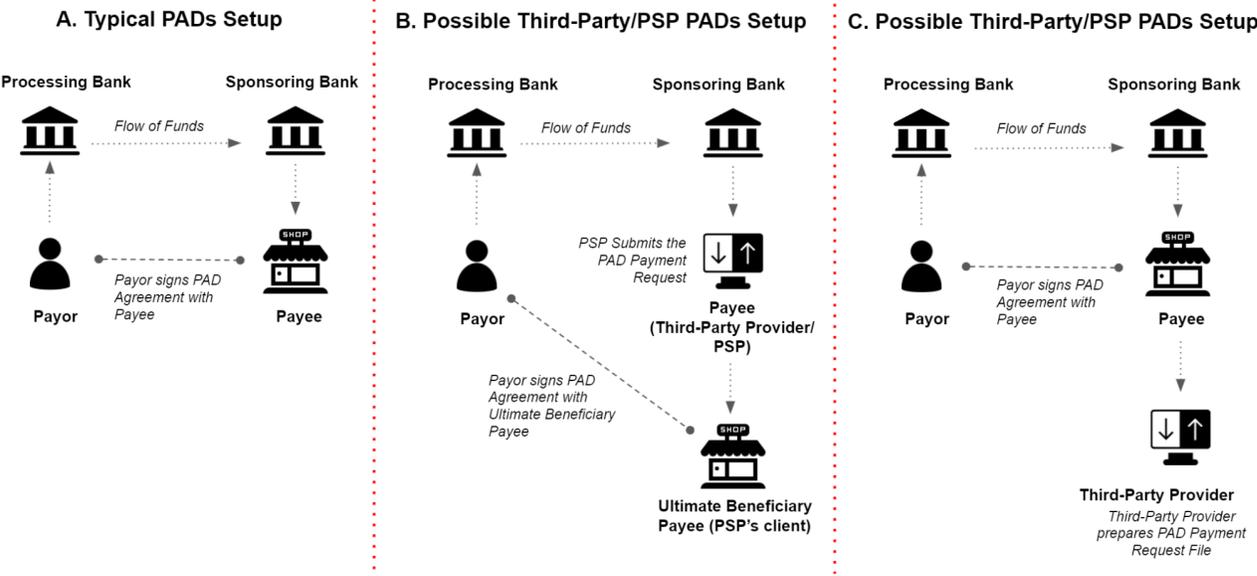


FIGURE 5 – Different scenarios for third-party providers processing PAD payments

Currently, Rule H1 requires that a statement must be included in the Payor’s PAD Agreement that a third-party will be administering the PAD and provides the name of the third-party/PSP administrator. The Rule does not require information to be provided about the roles and responsibilities of the third-party provider/PSP and the Payee. In addition, currently the PSP’s name may appear on the Payor’s banking statements and not the Ultimate Beneficiary’s Payee name, which causes confusion for the Payor.

Proposed change(s)

Where a third-party/Payment Service Provider is acting on behalf of an Ultimate Beneficiary Payee (the party engaging the Payment Service Provider, that maintains the relationship with the Payor) for the purposes of administering a PAD, then it is proposed that the Payee Letter of Undertaking be updated to reflect what information the third-party/Payment Service Provider must ensure their client includes in the Payor PAD Agreement. Rule H1 will also be updated to ensure that the name of the Ultimate Beneficiary Payee will be displayed as the debtor in the Payor’s banking records (e.g. online or mobile banking applications), not the PSP, which is the debtor name displayed today.

Rationale for proposed change(s)

The proposed changes will reduce confusion for the Payor as the Ultimate Beneficiary Payee name will be displayed in their banking records, which is the organization/business the Payor has authorized the PAD Agreement with, not the name of the PSP. In addition, the changes will provide the Payor with the information on which provider is processing their payments, and who to contact if an issue occurs.

6. Rule H1 Appendix changes

Overview and current requirement

Payors and Payees have expressed clarity on two separate issues:

1. *Jurisdiction of the Payor PAD Agreement*

Privacy and consumer protection regulations may differ by province, and the Payor may not be aware of what laws or regulations the Payee is following since the jurisdiction is not listed in the PAD Agreement. Rule H1 does not require Payees to indicate the jurisdiction of the laws and regulations applicable to their Payor PAD Agreement. Currently, jurisdiction is determined by multiple factors, and could ultimately be determined by courts or arbitration. Payees that operate on a national level have indicated that it would be difficult to issue Payor PAD Agreements based on the different jurisdictions (e.g. provinces) in which they operate.

2. *Funds Transfer PAD from a joint bank account*

Rule H1 sets out that Funds Transfer PADs may only be initiated where the Payor and the Payee are the same individual. A Funds Transfer PAD can be drawn on a joint account, but the Rule does not specify whether each account holder's authorization is required.

Proposed change(s)

1. *Jurisdiction of the Payor PAD Agreement*

It is proposed that the list of supplementary elements for PAD Agreements (i.e. Appendix II of Rule H1) be updated to include jurisdiction

2. *Funds Transfer PAD from a joint bank account*

It is proposed that the PAD Agreement templates be updated to include a sample statement of "authorized to debit" that declares the Payor has the appropriate permission to debit their account without restrictions (e.g. account does not require authorization of both joint account holders).

Rationale for proposed change(s)

1. *Jurisdiction of the Payor PAD Agreement*

This proposed change clarifies that Payees or Payors are permitted to include “jurisdiction” into their template agreements. Currently, the parties may not be aware they are permitted to include conditions, such as “jurisdiction” because it does not appear in the supplemental elements of Appendix II of Rule H1.

2. *Funds Transfer PAD from a joint bank account*

Including an example authorization statement to the current Payor PAD Agreement templates would provide clarification to the Payor and Payee that the Payor is duly authorized to debit the account.

7. Payee-initiated cancellation of a PAD Agreement

Overview and current requirement

Rule H1 sets out the requirements regarding Payor-initiated PAD Agreement cancellations; however, the rule does not consider cancellation of the Payor PAD Agreement by the Payee. There are situations where a Payee may wish to cancel a PAD Agreement (i.e. multiple returned payments due to insufficient funds by the Payor), but not the underlying goods and services contract.

Proposed change(s)

It is proposed that the sections within Rule H1 that refer to cancellation be updated to include requirements for Payee-initiated cancellations. The requirements for Payee-initiated cancellations will mimic the requirements of Payor-initiated cancellations, such as notification to the Payor (in writing), and cancellation not to exceed 30 days.

Rationale for proposed change(s)

An update to the rule will provide consistency and transparency for the Payor and Payee on the timing, notification, and cancellation record for a Payee-initiated cancellation of the Payor PAD Agreement.

8. Recorded submission of business Reimbursement Claims

Overview

Rule H1 states that a Payor of a Personal or Funds Transfer PAD can submit a Reimbursement Claim using either a Written or Recorded format; however, Payors of Business PADs can only submit a reimbursement

claim using a Written format. Due to changes in technology and business operations since the last PAD framework review, there is now compelling rationale to update the reimbursement claim submission options for Business PADs.

Proposed change(s)

It is proposed that Rule H1 be updated so Payors of Business PADs can submit reimbursement claims using either a Written or Recorded format, aligning with the current requirements for Payors of Personal or Funds Transfer PADs.

Rationale for proposed change(s)

Technology at FIs, and the methods used by businesses to communicate with their FI, has evolved since this requirement was introduced.

PAD Consultation questions for consideration

1. Do you agree with the proposal outlined in this consultation paper? Are there specific areas you do not agree with? Please identify them.
2. Are there any reasons why your organization could not support the proposed change of displaying the Ultimate Beneficiary Payee when using a PSP?

This concludes Part 1 of this consultation paper. Payments Canada is seeking feedback on the proposed changes above. **Kindly submit responses to this consultation paper by email to consultation@payments.ca by January 14, 2022.**

PART 3

The future-state of PAD payments

Overview

Payments Canada regularly reviews its payment frameworks to ensure that they meet the needs of the payment ecosystem users. As part of our future-state analysis, additional enhancements to the PAD framework are being considered as the Real-Time Rail continues to progress, and analysis on the future of retail batch payments in Canada is being undertaken. As these new business capabilities are introduced, Payments Canada will continuously review and evolve the underlying payment frameworks. Further information on retail batch modernization plans can be found on our [website](#).

Payments Canada has identified four key areas whereby new payment systems and future technology functionality can enhance the PAD experience:

Payor control

PAD is a debit pull payment type, which means the Payee debits the funds from the Payor's account (see *Overview Pre-Authorized Debits (PADs)* on Page 7). The nature of the PAD framework is to allow approval of one's account to be debited at recurring intervals, and real-time review and approval of each transaction is not part of the model. Unauthorized debits must be handled through the PAD recourse process. Future technology could allow the Payor to review transactions before they are initiated (i.e. Request to Pay).

Data-rich payments

A PAD Payment provides the Payee with the minimum necessary information to reconcile the payment to the Payor's user account. Payment information includes amount, date of payment, Payor's user account number, and Payor's FI. ISO 20022 messages will allow for more data to travel with the payment, such as invoice details.

Speed of payment

PAD payments are processed on the date set out on the Payor PAD Agreement, and are most commonly debited from the Payor's bank account and deposited into the Payee's bank account on the value date. A PAD can also be processed during the day, and deposited into the Payee's account within a 24-hour period. Future technology could allow for payment requests to be completed in real-time or near real-time.

Onboarding of a new Payor

Rule H1 outlines the requirements a Payee must undertake to ensure that the Payor understands their obligations and the Payor is authorized to make debits from the account. Future technology, such as digital IDs/wallets, or centralized account information depositories (whereby bank account information and account

holders have been verified by regulatory agencies) would allow the Payor to submit verified and accurate information for PAD set up.

As the payments landscape continues to evolve, Payments Canada would appreciate your thoughts on the following questions as the legal framework and operational framework for PADs continues to be examined in the coming years based on new payment systems and technologies.

Questions for consideration

1. As a Payee, how important is the speed of PAD, from the time you initiate your PAD payment request until you receive the funds in your account? Please provide details on what timing would be beneficial for your business.
2. As a Member, would you find it beneficial for your customers if they were asked to approve each PAD amount prior to funds being debited from their account?
3. As a Payee, what factors are used when selecting PADs as your payment choice (i.e. costs, data, control, onboarding, automation, etc.)?
4. In addition to the future possibilities with PADs, what other capabilities do you feel would be beneficial to your organization in a future batch payment system?

Optional questions of consultation paper respondents

Below is a series of optional survey questions that will help us understand who participated in the public consultation process, and how you make payment decisions.

1. I send and/or receive PADs as a:

- Retail Consumer
- Small Business
- Commercial Business
- Corporate Business
- Financial Institution
- Financial Technology Company
- Other

2. How many PADs do you receive each month:

- 0
- 1-3
- 4-10
- 11-50
- 51-100
- 101 - 1000
- 1001+

3. What percentage of your PADs are recurring PADs:
