



Canada's New Real-Time Payments System Policy Framework

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# RTR Consultation Document

SEPTEMBER 2020

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## a. Key Terms

Connection Service Provider	An entity that connects a Participant to the RTR Exchange and facilitates the exchange of messages to and from the RTR Exchange on their behalf. Connection services can be provided by a Participant or a third party.
Competitive Services	A payment scheme, product, and/or service or capability that is provided by RTR Participants, or by third-party service providers, to RTR Participants.
Direct Settlement Participant (DSP)	RTR Participants that are eligible and responsible to settle their own transactions.
End-user(s)	The end-user (person or organization) who is either the Payor or Payee for an RTR Payment.
Indirect Settlement Participant (ISP)	RTR Participants that use a Settlement Agent for settlement of their transactions via the RTR Clearing & Settlement.
Payee	The end-user (person or organization) who receives funds when an RTR Payment is credited to their account. <i>Also known as Creditor.</i>
Payment Capacity	An amount in the RTR Clearing & Settlement ledger that reflects the net liquidity position of a Direct Settlement Participant.
Payment Return	The process for the handling of messages submitted to the RTR Exchange for the purpose of returning the value of a completed RTR Payment.
Payment Return Request	A message submitted to the RTR Exchange to request that the value of a completed RTR Payment be returned by the Receiving Participant.
Payments Canada Member (or Member)	A member of Payments Canada as described in the <i>Canadian Payments Act</i> .
Payor	The end-user (person or organization) who sends funds from their payment account to the Payee through initiating an RTR Payment. <i>Also known as Debtor.</i>
Receiving Participant	The Receiving Participant is the entity servicing the account for the Payee. <i>Also known as Creditor Agent.</i> <sup>1</sup>
Real-time Rail (RTR) (RTR system)	A real-time payments system comprising the RTR Exchange and the RTR Clearing & Settlement components, operated by Payments Canada. The RTR includes the legal/business framework and technology infrastructure that enables the exchange, clearing and settlement of real-time, account-to-account credit transfers. The RTR enables RTR Participants to provide end-users with

<sup>1</sup> Note, in technical RTR documents the Receiving Participant is referred to as the BP (Creditor Agent).

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	the ability to initiate immediate and irrevocable account-to-account payments on a 24/7/365 basis.
RTR Clearing & Settlement	The component of the RTR that supports clearing and settlement of real-time payments between RTR Participants.
RTR Exchange	The component of the RTR that facilitates the real-time exchange of RTR Payment and related messages between RTR Participants.
RTR Financial Risk Framework	The RTR Financial Risk Framework establishes risk controls for the RTR to mitigate against inherent financial risks, and to comply with the Bank of Canada's Risk-Management Standards for Prominent Payment Systems. See <b>Appendix</b> .
RTR Participant	A Payments Canada member that is eligible to and participates in the processes of the RTR system, including the exchange and/or clearing and settlement of payments.
RTR Payment	A payment item that meets the ISO 20022 RTR Usage Guidelines that is exchanged using the RTR Exchange.
RTR Third-party Exchange	An entity, other than Payments Canada, that enables its participants to exchange messages through a proprietary exchange, and that connects to the RTR Clearing & Settlement to send and receive clearing and settlement messages.
Sending Participant	The Sending Participant is the entity servicing the account for the Payor. <i>Also known as Debtor Agent.</i> <sup>2</sup>
Settlement Agent	A Payments Canada member that is a Direct Settlement Participant and provides RTR Clearing & Settlement services to one or more other RTR Indirect Settlement Participants.

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<sup>2</sup> Note, in technical RTR documents the Sending Participant is referred to as the OP (Debtor Agent).

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## b. Introduction

The Real-Time Rail (RTR) is a new real-time payments system for Canada, expected to go live in 2022 following the launch of Lynx, Canada's new high-value payments system, in 2021. Payments Canada has a legislative mandate to establish and operate national systems for the clearing and settlement of payments, and other arrangements for making or exchanging payments. Foundational to developing a new system is ensuring that there is a sound legal framework consisting of by-laws, rules and standards that govern participation and the use of the system.

Payments Canada is publishing this document to consult on the fundamental policy elements of the RTR. The policy proposals have been developed through extensive consultation with members and regulators. The proposals have also been bolstered by in-depth feedback and dialogue conducted through targeted consultations with a number of stakeholders, representing the diverse perspectives of the payments industry and end-users. The consultation document reflects Payments Canada's current understanding of RTR policies, however, there should be recognition that some policies may be subject to a degree of modification based on continuing industry discussions and this consultation effort.

The general document structure includes background information on Payments Canada's public policy objectives (**Section c**) and the RTR design (**Section d**). The key RTR features are outlined (in **Section 1**), and the RTR system attributes and proposed RTR policy framework are described (in **Sections 2 to 6**). Lastly, consultation discussion questions for written feedback are highlighted (**Section 7**).

Consultation feedback is being sought on RTR policy issues, expectations for end-user and industry impacts, and the meeting of the RTR's policy objectives. Input should be provided in writing no later than October 30, 2020 (submitted to [consultation@payments.ca](mailto:consultation@payments.ca)).

## c. Public Policy Objectives and Oversight

The Canadian economy depends on the exchange of billions of dollars each business day. Payments Canada is responsible for establishing and operating key national payment clearing and settlement infrastructure. Payments Canada is guided by its mandate, public policy objectives, and regulatory oversight of the rules and policies for the payment systems it operates.

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*The Canadian Payments Act provides the objectives and mandate of Payments Canada, to:*

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 or settlement of payments.

Facilitate the development of new payment methods and technologies.

In carrying out its mandate, Payments Canada has a legislated duty to promote the efficiency, safety and soundness of its clearing and settlement systems, as well as to take into account the interests of users.

The Bank of Canada and the Department of Finance will have oversight of the RTR pursuant to their responsibilities to oversee national payment systems. Given that the RTR will be introduced as a new system that is expected to clear and settle significant retail payment volumes, the Bank of Canada expects to designate the RTR as a Prominent Payment System, which will require the RTR system to observe the Bank of Canada's [Risk-Management Standards for Prominent Payment Systems](#). The Department of Finance will oversee the development of the RTR legal framework; the Minister of Finance will have review and approval power regarding by-laws, rules and standards.

The RTR policies have been reviewed by the Bank of Canada and the Department of Finance to ensure the RTR promotes fair and open access, enables competition and innovation, fosters fair and transparent pricing, implements appropriate risk controls and considers end-user interests. As such, the RTR policies have been defined to promote participation options for Payments Canada members and to support future access by new types of potential members.

The Government of Canada has proposed to implement a new Retail Payments Oversight Framework (RPOF) to regulate retail payment service providers so that they can continue to offer innovation in services, while remaining reliable and safe.<sup>3</sup> The framework would require payment service providers to establish sound operational risk-management practices and to protect users' funds against losses. The Bank of Canada would oversee compliance and maintain a public registry of regulated payment service providers. If the new framework, necessary changes to the *Canadian Payments Act*, and the registry are put in place, regulated payment service providers would become eligible for membership with Payments Canada.<sup>4</sup> The government is also considering local credit unions for future membership eligibility, which would require further legislative changes to the *Canadian Payments Act*.

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<sup>3</sup> *A New Retail Payments Oversight Framework*, Department of Finance Canada, 2017. Please see: <https://www.canada.ca/en/department-finance/programs/consultations/2017/new-retail-payments-oversight-framework.html>

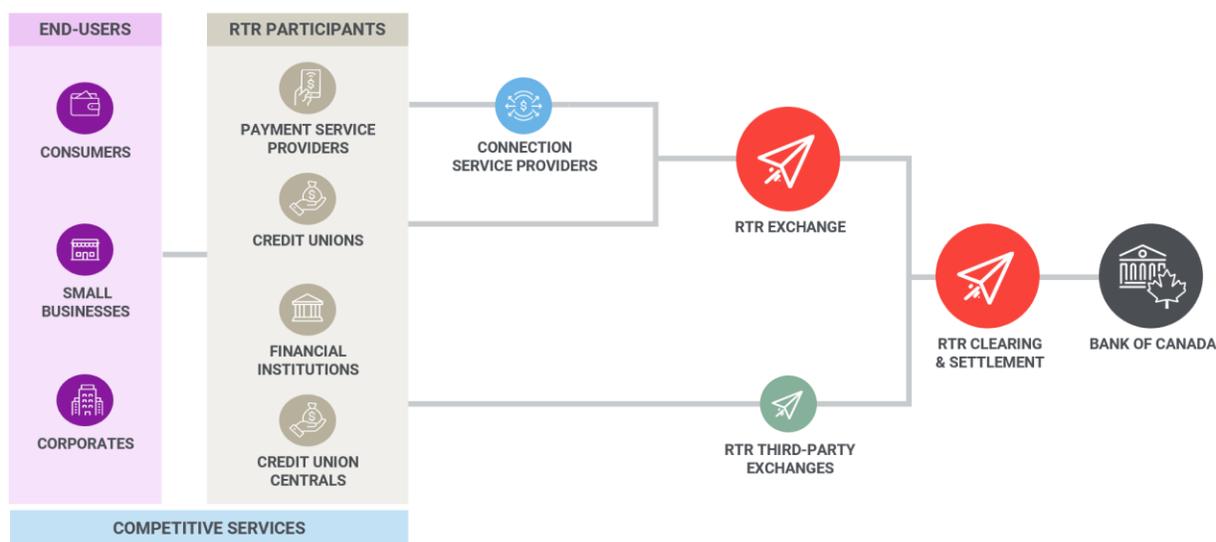
<sup>4</sup> *Report on the Review of the Canadian Payments Act*, Department of Finance, 2019.

## d. Background: The RTR Design Overview

Payments Canada will implement a new real-time payment system for Canada, which consists of the technology for the exchange, clearing and settlement of real-time payments and the associated legal framework of by-laws, rules and standards.

The RTR will be a national payments system enabling real-time credit payments denominated in Canadian dollars. The RTR will also provide a platform for innovation to allow Payments Canada members to offer new ways for Canadians and Canadian businesses to pay and be paid in real-time, and to make use of rich payment data.

**Figure 1: The RTR Design and Envisioned Ecosystem**



**Figure 1** illustrates how the RTR design will serve the needs of a wide variety of **end-users** including consumers, small businesses, and corporates. **RTR Participants** are Payments Canada members that participate in the RTR. Under the *Canadian Payments Act*, only Payments Canada members will be eligible to become RTR Participants, and the RTR policies have been designed to accommodate new potential members (see **Section c** above for more details).

The **RTR**, operated by Payments Canada, will include two main components: the RTR Exchange and the RTR Clearing & Settlement. The **RTR Exchange** is the component of the RTR that facilitates the real-time exchange of payments and related messages between RTR Participants. RTR Participants may connect to the RTR Exchange directly or arrange technical connections through **Connection Service Providers** to facilitate the exchange of messages with the RTR Exchange.

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The **RTR Clearing & Settlement** is the component of the RTR that performs the clearing and settlement of transactions between RTR Participants using RTR Payment Capacity funded through deposits held at the **Bank of Canada**. RTR clearing will involve the process of transferring liquidity (Payment Capacity) for each payment between RTR Participants, reconciling payments, and confirming financial obligations between RTR Participants. RTR settlement will be the process for the discharge of the financial obligation arising from each individual payment, between RTR Participants.

The RTR will also support the clearing and settlement of transactions from eligible **RTR Third-party Exchanges**, that are operated by entities other than Payments Canada.

**Competitive Services** include payment schemes, products, services or a capability that is provided directly to RTR Participants such as consumer-facing payment products, and alias management and fraud monitoring services.

## RTR Attributes

### 1. RTR Key Features

The RTR is designed to enable a variety of commercial and consumer payment use cases that benefit from the real-time availability of irrevocable funds, and/or the use of payment data that travels with the payment.

The RTR will provide a fast and data-rich alternative to cheques and Automated Funds Transfer (AFT) payments. The RTR will support ISO 20022 messaging standards, allowing for the inclusion of detailed information about the payment with the payment. The efficiencies derived from this messaging standard have the potential to benefit commercial users, including corporates and small businesses.

Both businesses and consumers will benefit from the potential for enhanced payment options and services that will be enabled through the features of the RTR. ***For additional information on the benefits and use cases of the RTR, please visit [modernization.payments.ca/the-plan/real-time-rail/](https://modernization.payments.ca/the-plan/real-time-rail/).***

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Some key features of the RTR include:



**1. Fast Payments** - Payment message exchange and transaction processing, including settlement, completed within seconds.



**2. Payment Finality** - RTR Payments will be completed within seconds and will provide finality of payment for the Payor and Payee.



**3. Always On 24/7/365 Availability** -The RTR will be available on a 24/7/365 basis.



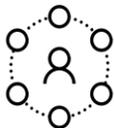
**4. Transaction Transparency** - Real-time payment status visibility, providing transparency and certainty for end-users.



**5. Data-Rich Payments** - The RTR supports ISO 20022 messaging. ISO 20022 is an international messaging standard that will harmonize payment messages to provide domestic and global interoperability. ISO 20022 also enables rich data to travel with payment messages.



**6. Account Number Based Routing** - The RTR will route payment messages using account numbers to support a wide range of payment use cases.



**7. Ubiquitous Reach** - The RTR will enable widespread payment initiation and receipt, with the ability to reach nearly every deposit account in Canada.



**8. Open, Risk-based Access** - All Payments Canada members will be eligible to participate in the RTR provided they meet the risk-based access criteria.



**9. A Platform for Innovation** - RTR Participants will be able to leverage the functionality of the RTR to enhance existing payment products, and to develop new payments products and services.



**10. Robust Risk Management** - Adherence to the Bank of Canada's Prominent Payment System risk management standards to ensure safety and soundness.



**11. Future Features and Functionality Ready** - The RTR Exchange is designed to enable the development of future system features and functionality. For example, Request-to-Pay functionality will exist in the RTR, and will be ready for a future legal framework to be developed to enable its use.

## 2. Key RTR System Policies

The RTR will meet the Bank of Canada's Risk Management Standards for Prominent Payment Systems and follow the established conditions of the RTR Financial Risk Framework. The RTR Financial Risk Framework was developed in conjunction with the Bank of Canada and Payments Canada members to ensure regulatory compliance, a safe and efficient approach to clearing and settlement, and appropriate risk mitigation and monitoring.<sup>5</sup>

The RTR will support a real-time gross settlement (RTGS) process to mitigate credit risk between RTR Participants. Every RTR transaction will be settled on a transaction-by-transaction basis, in real-time.

### 2.1 Payment Routing

Payment routing will be based on account numbers and institution transit numbers. If alias (such as an email address or a mobile phone number) is used in payment instructions, Sending Participants will be responsible to resolve them to account numbers prior to the payment being submitted to the RTR. Alias-based routing will not be a service provided by Payments Canada.

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<sup>5</sup> The RTR Financial Risk Framework is not the subject of this consultation, however, a summary of the key aspects is included in **Appendix**.

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## 2.2 Payment Initiation, End-user Authentication and Payment Authorization

The RTR policy proposals do not prescribe processes, technology, or standards regarding payment channel initiation, authentication or authorization. Financial institutions have well-established processes for these functions and are best placed to manage the associated risks. RTR Participants will be responsible for the initiation, authorization and authentication of their RTR Payments regardless of the service providers and channels they may use.

## 2.3 Payment Finality

An RTR Payment cannot be cancelled, amended or recalled once sent to the RTR and it is considered final and complete (as described in **Section 3** below). Once completed, a Sending Participant may pursue a Payment Return Request in exceptional circumstances (see **Section 3.11**).

## 2.4 Transaction Value Limit

The RTR system will have a central transaction value limit to mitigate operational and fraud risk. The transaction value limit will also define the maximum value of a payment that an end-user may receive. RTR Participants may not set a receiving limit that is lower than the central transaction value limit. The starting transaction value limit is proposed to be \$100,000. The intention is to increase the central transaction value limit over time, based on the needs of system users and demonstrated effectiveness of RTR system risk controls.

RTR Participants can set their own transaction sending limits for end-users. RTR Participants may use this discretion to set tailored send limits for end-users based on a variety of factors specific to their risk tolerance and product offerings. For example, RTR Participants may offer higher transaction limits to corporate users than for consumers.

## 3. RTR Processes and Policies

The RTR Exchange functionality will be used to route messages between RTR Participants and conduct the required transaction validations and confirmations to support the successful completion of RTR Payments.

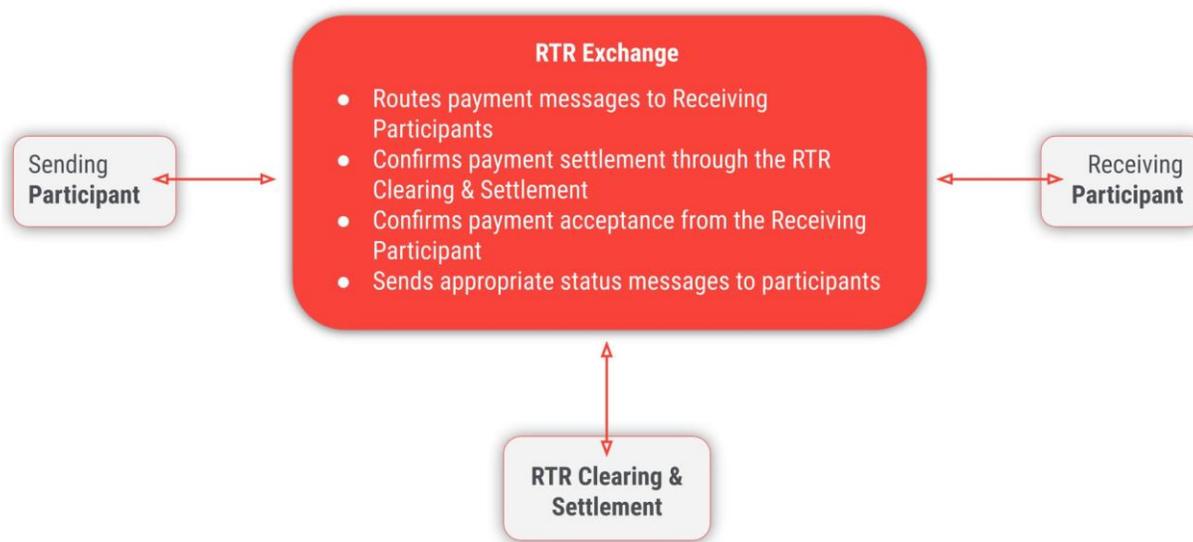
Upon submission of a payment by the Sending Participant, the RTR will confirm that Payment Capacity is available and reserved to allow the payment to settle. The RTR will notify the Receiving Participant and confirm acceptance of the payment, and will then notify the Sending Participant. Once the messages and confirmations are completed, transactions will be settled and the RTR will send messages to the Sending and Receiving Participants confirming the final status of the RTR Payment.

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### 3.1 RTR Processing Time Limit

Once a payment is submitted to the RTR, the payment must be exchanged, cleared and settled within 10 seconds. In the vast majority of cases the processing will be faster than 10 seconds, however, if the message processing exceeds 10 seconds, the payment will not be successfully completed. The RTR Processing Time Limit will be reviewed and adjusted as RTR Participant processes become more adept.

**Figure 2: RTR Exchange Functionality**



### 3.2 Sending and Receiving RTR Payments

The Sending Participant is responsible for end-user authentication and authorization prior to acting on instructions to initiate an RTR Payment. Once a payment is initiated, it will be the responsibility of the Sending Participant to ensure an accurate payment message is successfully submitted to the RTR.

Receiving Participants are responsible to accept or reject an incoming payment and notify the Payee of the status of the payment. Receiving Participants are also responsible for making funds and accompanying payment information available to the Payee.

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### 3.3 Accompanying Payment Information Format

ISO 20022 messaging standards support the inclusion of payment-related information with the payment. Accompanying payment information may be in a structured format or be up to 420 characters of an unstructured format. The payment information can include URL (web page) links.

### 3.4 Payment Status Availability

Sending and Receiving Participants must make the status of payments known immediately to end-users, as soon as information becomes available through the RTR Exchange.

### 3.5 Reachability and Availability

RTR Participants must be available to receive RTR Payments on a 24/7/365 basis.

### 3.6 Payment Rejection

A Receiving Participant can reject an RTR Payment only for valid reasons (e.g., account closed or blocked, invalid account number, Payee not known).

### 3.7 Funds Availability

Once a payment is declared final, funds must be made available to the Payee immediately.

### 3.8 Funds Availability Maximum

Funds must be made available to the Payee within the Funds Availability Maximum requirement. A maximum funds availability time of 60 seconds is proposed at the RTR launch. While it is anticipated that the vast majority of RTR transactions will result in funds to end-users in real-time, a 60 second maximum is defined to provide flexibility for RTR Participants that make use of arrangements with other RTR Participants (e.g., Settlement Agents) or non-members to process RTR Payments. This setting will be reviewed as the ecosystem matures.

### 3.9 Funds Availability Policy Exceptions

Exceptions to policies described in **3.7** and **3.8** include transactions that are subject to legal or regulatory requirements that take precedence over Payments Canada rules, and where unauthorized or fraudulent transactions are suspected. Another situation may arise where payment recipients (e.g., billers) opt-out of immediate funds availability to improve their reconciliation efficiency. In these cases, RTR Participants will be able to aggregate payment information and funds on behalf of recipients under their mutually agreed upon contractual terms.

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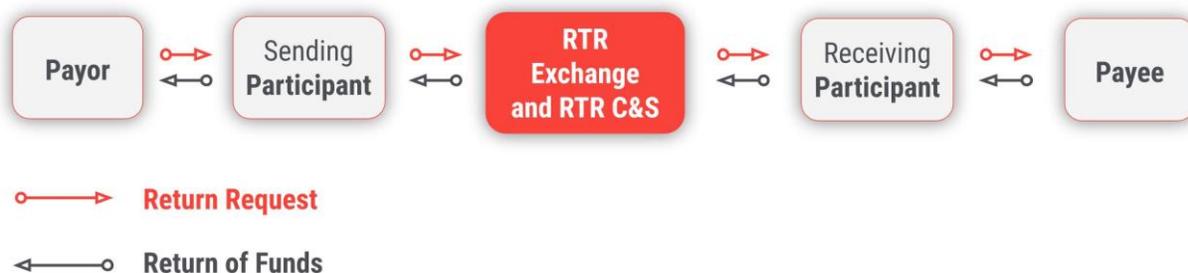
### 3.10 Accompanying Information

Payment-related information accompanying a payment must be made available to the end-user at the same time as funds are made available.<sup>6</sup>

### 3.11 Payment Return Request Functionality

The vast majority of RTR Payments will be completed to the satisfaction of both the Payor and Payee. However, it is recognized, as with any payment system, that there will be exceptions and errors. Errors could arise, for example, if payments are misdirected to the incorrect Payee or the payment amount is incorrectly entered. The potential for unauthorized and fraudulent transactions is also recognized. The RTR Exchange will include exceptions handling policies (see **Section 4** below) and a Payment Return Request process and functionality in the event of errors, unauthorized transactions and fraud (illustrated below in **Figure 3**).

**Figure 3: Illustration of the RTR Return Request Process**



## 4. RTR Exceptions Handling and Returns

The RTR exceptions handling and returns policies are modelled on the exceptions handling approach for direct credit payments as defined in the Automated Clearing and Settlement System (ACSS) rules; for example, AFT credits (e.g. used for payroll, pension benefit and consumer disbursement payments) and Electronic Remittances (where EDI messages are used to complete bill payments to corporate billers). Payments Canada will provide a framework, process, and system functionality for returns between RTR Participants, and the RTR Participants will establish the terms and conditions for end-user reimbursements. The approach enables RTR Participant flexibility in their terms and conditions, for

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<sup>6</sup> RTR Participants will be responsible to manage and handle ISO 20022 data in accordance with RTR operational, technical and security requirements.

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example, in setting different terms and conditions for consumers and corporate users. RTR Participants will also establish the circumstances under which an RTR Payment Return Request may be issued on behalf of their Payors, subject to the conditions of applicable federal or provincial regulations guiding financial institutions and their client agreements.<sup>7</sup> As such, end-users can expect the terms and conditions for RTR exceptions handling to be similar to the other direct credit payments they may use.

The RTR Payment Return Request process is not intended to constitute a chargeback process for consumer disputes. Although common in card networks, chargebacks are not a feature found with today's direct credit payments, nor will chargebacks be part of the RTR.

## 4.1 RTR Participant Exceptions Handling and Returns Disclosure

RTR Participants must make their policies for errors, unauthorized and fraudulent transactions clear in their terms and conditions established with their end-users. This will include setting out circumstances in which the RTR Participant will reimburse the end-user or send a Payment Return Request on their behalf. RTR Participants must also make their end-user obligations clear, for example, end-user care in payment initiation and in safeguarding their security credentials, such as passwords.

## 4.2 RTR Participant Processing Errors

Where an RTR Participant's systems or processes are responsible for a properly initiated payment being duplicated, misdirected (to the wrong recipient) or completed with an incorrect payment amount, the RTR Participant will be responsible for correcting the error(s). Such error corrections should occur promptly and include reimbursement for the end-user where it is appropriate to do so (in some cases an error may be corrected by Receiving Participants without the need for a separate reimbursement transaction).

## 4.3 Exceptions Handling and Returns Timeframe

The RTR Exchange Payment Return Request process will be available to RTR Participants for up to 60 days from the transaction date. Where an RTR Payment Return Request is made it should be accepted or declined by the Receiving Participant within 10 days of its receipt. Receiving Participants may seek an extension of up to a maximum of 30 days, where more time is required to investigate the request.

A Receiving Participant may still provide reimbursement of a transaction after the time limits have elapsed, at their discretion. End-users may also pursue a return of funds outside of the RTR rules and processes.

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<sup>7</sup>For example, the Financial Consumer Agency of Canada (FCAC) provides information to consumers on their rights and responsibilities in dealing with banking products and services, and oversees the financial consumer protection framework. The framework applies to relevant aspects of client agreements, including disclosure and consent.

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## 4.4 Complaints Handling and Escalation Process

End-users will have access to a formal complaint handling process managed through their RTR Participant. The complaint handling process should include an escalation process in the event end-users are dissatisfied with the actions taken by their RTR Participant regarding an RTR transaction error, unauthorized or fraudulent transaction. It is expected that RTR Participants will leverage existing processes and protocols that, in the case of consumers, are overseen by federal or provincial government agencies.<sup>8</sup>

Payments Canada does not provide oversight or mediation for end-user complaints, and will not be involved in end-user claims or disputes that may arise with RTR Participants.<sup>9</sup>

## 5. RTR Eligibility and Participation

The Bank of Canada and Department of Finance have provided direction that broad system eligibility and participation are required to meet their public policy objectives for the RTR, particularly to foster competition and innovation. Key to encouraging broad system participation is adherence to the Financial Risk Framework for participant settlement (described in the **Appendix**) and a functional approach to the RTR legal framework.

Today, there are approximately [110 financial institution members of Payments Canada](#). In order to be eligible to be a participant on a Payments Canada system, a financial institution must be a member of Payments Canada. As is described in the *Canadian Payments Act*, Payments Canada members are composed of chartered banks (mandated members) and those that may choose to become members, for example credit union centrals or life insurance companies.

The Department of Finance has proposed expanding the eligibility for membership at Payments Canada to new entities, including payment service providers. The RTR participation policies have been designed to accommodate new types of members, such as payment service providers regulated under the Retail Payments Oversight Framework and local credit unions, should the government decide to introduce legislative changes.<sup>10</sup> In addition, Payments Canada is working with its regulators, members and

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<sup>8</sup>For example, banks are required to have dedicated procedures and personnel in place to address customer complaints and to be a member of an approved external complaints body that handles unresolved disputes. Please see: *How to make a complaint to a financial institution*, FCAC, accessed on July 8, 2020:

<https://www.canada.ca/en/financial-consumer-agency/services/complaints/file-complaint-financial-institution.html>

<sup>9</sup> Payments Canada may get involved in disputes between RTR Participants when the disputes pertain to RTR Participant compliance with the Payments Canada system rules.

<sup>10</sup> For more information please see Department of Finance Consultation Paper:

<https://www.canada.ca/en/department-finance/programs/consultations/2017/new-retail-payments-oversight-framework.html> and the 2019 budget update: <https://www.payments.ca/about-us/news/2019-federal-budget-includes-measures-improve-canadian-payment-system>

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stakeholders to explore interim options to facilitate access to the RTR, in the event that expected legislative changes to expand Payments Canada Membership eligibility are delayed.<sup>11</sup> All Payments Canada members will be eligible to become RTR Participants. Members interested in becoming RTR Participants will need to complete an application process, demonstrate appropriate risk mitigation capabilities, and meet the applicable Payments Canada RTR operational, technical and security requirements. In the future, if non-FI members become RTR Participants, they will be subject to the same rights and responsibilities as FI member RTR Participants.

## 5.1 RTR Participation Policies

Formal tiering helps to ensure RTR by-laws, rules and standards explicitly include direct and indirect participant rights and requirements, enabling clarity and transparency around the system roles and responsibilities. Formal tiering also enables greater certainty in achieving public policy objectives, as the framework will inherently include a greater number of Payments Canada members as established RTR Participants.

The foundation for RTR Participation is for eligible Payments Canada members to establish themselves as Direct Settlement Participants (DSP) or Indirect Settlement Participants (ISP) in the RTR Clearing & Settlement. Under a formally tiered framework of system by-laws and rules, RTR Participants will be either a DSP if they settle their own RTR Payments, or an ISP if they use a Settlement Agent to complete RTR Payment settlement. A DSP will be considered a Settlement Agent if it performs settlement in the RTR Clearing & Settlement system for another RTR Participant. Settlement Agents are responsible to settle their own items and the items from the ISPs on whose behalf they act.

All RTR Participants using the RTR Exchange will have certain rights and obligations regarding the exchange of their RTR payments, whether they connect directly, through another RTR Participant, or a non-member Connection Service Provider.

### 5.1.1 Direct Settlement Participants (DSPs) and Settlement Agents

The RTR legal framework will set out requirements for the safe, sound, and legally certain settlement of transactions between RTR Participants in the RTR Clearing & Settlement. Payments Canada will work closely with the Bank of Canada to establish the eligibility requirements for DSPs and Settlement Agents. Payments Canada members wishing to become a DSP will provide Payments Canada with an application confirming their adherence to the requirements to settle their own items. RTR Participants that wish to

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<sup>11</sup> The options being explored would provide temporary measures to help transition from the current membership framework until the planned legislative changes come into effect. One option under consideration would allow current Payments Canada members to have arrangements to sponsor compliant use of the RTR by eligible non-members.

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become Settlement Agents and perform settlement services for other RTR Participants will undergo an application process that considers Settlement Agents distinctly.

### 5.1.2 Funding RTR Payment Capacity

DSPs and Settlement Agents must fund and defund their RTR Payment Capacity via Lynx transfers (Canada's new high-value payments system being built to replace the Large Value Transfer System (LVTS)). DSPs and Settlement Agents that are not direct participants in Lynx may engage another member that participates in Lynx to fund and defund their RTR Payment Capacity on their behalf.

### 5.1.3 DSPs and Settlement Agents Must Use Their Own RTR Payment Capacity

An RTR Participant that establishes itself as a DSP or Settlement Agent may not use RTR Payment Capacity from another DSP or Settlement Agent for the purposes of RTR Payment settlement.<sup>12</sup>

### 5.1.4 Settlement Liquidity

DSPs must always have sufficient liquidity to settle their RTR Payments, as an RTR Payment will be approved and cleared for settlement only if the sending DSP has sufficient Payment Capacity at the time the transaction is validated. Settlement Agents must maintain sufficient liquidity for themselves and the ISPs they serve.

A capability to set ISP net debit caps will exist in the RTR Clearing & Settlement to help Settlement Agents manage their liquidity. Settlement Agents that employ this optional functionality will have assurance that RTR Payments originating from ISPs will be approved and cleared for settlement only if the transaction will not cause the ISP's net position to exceed an established net debit cap.

## 5.2 Indirect Settlement Participants (ISPs)

ISPs will be required to establish and maintain arrangements with an RTR Settlement Agent. Settlement Agents will be responsible for managing the settlement risk between themselves and their ISPs. The RTR rules will require that both Settlement Agents and ISPs provide an up-to-date record of their settlement relationships to Payments Canada.

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<sup>12</sup> Thus, no matter what arrangements a DSP might enter into with its use of service providers in the RTR system, the DSP (or Settlement Agent) will draw down their own allocation of Payment Capacity, ensuring an accurate monitoring potential of each participant's standing in the RTR.

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### 5.2.1 ISP Connection to RTR Exchange

ISPs may send and receive RTR Payments by establishing a direct technical connection to the RTR Exchange, or by using a Connection Service Provider (which may be another RTR Participant) to provide the technical connection.

### 5.2.2 Adherence to RTR Exchange Technical and Security Requirements

ISPs that establish a direct technical connection to the RTR Exchange, create their own RTR payment messages, and directly send and receive payment messages will be required to meet the corresponding technical and security requirements for each function.

### 5.2.3 ISP Use of Settlement Agents

An ISP may establish arrangements with only one Settlement Agent for the RTR Exchange.

## 5.3 Connection Service Providers and Competitive Services

RTR Participants will be responsible for all third-parties they employ to enable RTR Payments. This includes ensuring any contractual arrangements with third-parties do not conflict with the RTR legal framework requirements.

There are two service provider roles specifically contemplated in the RTR requirements, Competitive Services and Connection Service Providers. These service provider roles may be performed by an RTR Participant or another entity (such as a non-member service provider) acting on behalf of an RTR Participant. RTR Participants employing service providers must ensure service provider adherence to the RTR requirements.

### 5.3.1 Competitive Services

A Competitive Service, sometimes referred to as an overlay service, is a payment scheme, product, service, or a capability (other than a Connection Service Provider) that is provided to RTR Participants. Competitive Services will need to formally register their service with Payments Canada in order to be identified within RTR messages (if applicable for their service offering).

### 5.3.2 Connection Service Providers

A Connection Service Provider connects an RTR Participant to the RTR Exchange to facilitate message exchange for the RTR Participant. An RTR Participant may also act as a Connection Service Provider for other RTR Participants. Providers of connection services will be required to meet and adhere to the RTR technology, security, risk management and other requirements. A potential Connection Service Provider will also need to undergo an application, registration, and annual attestation process with Payments Canada.

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## 6. Clearing and Settlement for RTR Third-party Exchanges

The RTR design includes the capability for payment exchanges operated by eligible third-parties to access the RTR Clearing & Settlement infrastructure. RTR Third Party Exchanges will *not* have to follow the requirements established for the RTR Exchange functionality (outlined above in **Sections 3 and 4**) and may follow their own proprietary policies and rules for message exchange. RTR Third-party Exchange transactions will be settled through a similar process as RTR Exchange transactions, and will be subject to the RTR Financial Risk Framework.<sup>13</sup>

### 6.1 RTR Third-party Exchange Applications

Third-party Exchange providers wishing to connect to the RTR Clearing & Settlement infrastructure must apply to Payments Canada. Applicants must demonstrate compliance with Payments Canada processes, including testing, to determine if they meet the established requirements (i.e., technical, security, risk management and other applicable requirements).

### 6.2 RTR Third-party Exchanges Rules

RTR Third-Party Exchanges may maintain their own rules regarding message exchange that could include distinct standards, processes, and access requirements, and must ensure that their own rules do not contravene the RTR Clearing & Settlement requirements.

### 6.3 RTR Third-party Exchanges and their Use of ISO 20022

There is no requirement for RTR Third-party Exchanges to use ISO 20022 for payment messages. However, RTR Third-Party Exchanges must be able to send and receive ISO 20022 messages to the RTR Clearing & Settlement for transaction settlement purposes.

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<sup>13</sup>The first envisioned RTR Third Party Exchange will be Interac Corp. for the settlement of many of today's Interac e-Transfer® transactions.

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## 7. RTR Consultation Discussion Questions

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Payments Canada acknowledges the need for, and seeks to support the introduction of faster, innovative, and convenient payment methods in the Canadian payments ecosystem. The RTR is a real-time payments system that is intended to support a broad range of participants and to enable innovation and competition.

1. Will the RTR design and policy framework, as described in this document, support regulators' stated policy objectives to foster innovation and competition?
2. Will the proposed RTR design and policy framework support broad participation across the Canadian payments ecosystem?
3. Does the proposed RTR design and policy framework create attractive opportunities for providers of competitive services? Does the framework enable compelling payment options for Canadian consumers, businesses, and corporations?
4. Will the proposed policies in any way adversely impact the potential expansion of Payments Canada membership?
5. Are there any additional RTR considerations, impacts, or implications that Payments Canada should be made aware of?

Payments Canada proposes to adopt the same approach to address exceptions handling for RTR transactions that is in place today for common direct credit payments from deposit accounts (e.g., bill payments, wire payments, and direct deposits). Payments Canada rules will outline the processes to be followed between RTR Participants; RTR Participants will determine policies for their account holders (subject to applicable provincial and federal regulations).

6. Do you have any concerns about employing the exceptions handling approach used in today's Payments Canada system direct credit payments in the RTR environment?



Payments Canada ensures that financial transactions in Canada are carried out safely and securely each day. The organization underpins the Canadian financial system and economy by owning and operating Canada's payment clearing and settlement infrastructure, including associated systems, bylaws, rules and standards.

For more information on Payments Canada, please visit: [www.payments.ca](http://www.payments.ca)

## REQUEST FOR WRITTEN FEEDBACK

Input on the RTR policy proposals is encouraged from members, stakeholders and other interested parties. Input should be provided in writing no later than 30 October 2020 to [consultation@payments.ca](mailto:consultation@payments.ca).

## NEXT STEPS

Feedback will be disseminated and reviewed by Payments Canada, our members, our regulators and key stakeholders by December 15, 2020.

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## Appendix: RTR Financial Risk Framework and Risk Monitoring Policies

The RTR Financial Risk Framework is one component of the overall RTR risk management framework. The objectives of the RTR Financial Risk Framework are to ensure risk controls are established for the RTR Clearing & Settlement System that effectively and efficiently mitigate against inherent financial risks, and to comply with the Bank of Canada's Risk-Management Standards for Prominent Payment Systems. The RTR Financial Risk Framework will provide for risk controls that are intended to mitigate credit, liquidity and settlement risk, as well as processes that will provide for real-time gross settlement finality.

This appendix provides details of some key aspects of the RTR Financial Risk Framework settlement and funding model. This is intended to provide context for the RTR Clearing & Settlement policies. This is not an exhaustive summary of the RTR Financial Risk Framework and is not the subject of consultation.

**Credit Risk Model:** A cover-all defaulter pay credit risk model will be adopted for the RTR Clearing & Settlement System, meaning sufficient financial resources must be provided by each RTR Participant to fully cover the credit exposure each may introduce to the system.

**Settlement in Central Bank Money:** The RTR Clearing & Settlement will use claims on central bank money for settlement, meaning each DSP will be required to deposit funds at the Bank of Canada and maintain RTR Payment Capacity accounts following the established Bank of Canada processes.

**Real-time Gross Settlement Mechanism:** The RTR Clearing & Settlement System will adopt a real-time gross settlement mechanism where payments are continuously settled on an individual and gross basis in real-time. All transactions must settle individually in the RTR Clearing & Settlement.

**Fully Prefunded Cash Model:** Funding is the process of provisioning and managing liquidity to support RTR Participants' payment activity. A fully prefunded cash model will be adopted for the RTR Clearing & Settlement System, which requires DSPs to have sufficient cash deposits available as Payment Capacity for the settlement of all of their payments (and those of all ISPs for which they act as Settlement Agent).

**RTR Payment Capacity Funding:** All cash deposited by DSPs to prefund RTR settlement activity will be maintained at the Bank of Canada. As banker and settlement agent to the RTR Clearing & Settlement System, the Bank of Canada will establish the requirements and processes to manage the funding and defunding of RTR Payment Capacity by eligible RTR Participants.

**'On-We' Transactions:** Inter-member RTR Payments, where the Payor and Payee accounts are held with different Payments Canada members and both Payments Canada members clear and settle RTR payments through the same Settlement Agent. On We transactions must be submitted to the RTR Exchange and processed through the RTR Clearing & Settlement.

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**‘On-Us’ Transactions:** Payments where the Payor and Payee accounts are held within a single Payments Canada member.<sup>14</sup> There is no requirement for these transactions to be submitted to the RTR, however, from the end-users’ perspective, these transactions should be treated the same as RTR Payments and provide the same experience.

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<sup>14</sup> ‘On-Us’ refers to situations where a transaction is processed as a book transfer on an RTR Participant’s internal ledger and is not submitted to the RTR Exchange.