



May 16, 2018

Director General
Financial Systems Division
Financial Sector Policy Branch
Department of Finance Canada
James Michael Flaherty Building
90 Elgin Street
Ottawa, Canada
K1A 0G5

Delivered via email: fin.fc-cf.fin@canada.ca

Re: Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime

Dear Financial Sector Policy Branch;

Payment Source Inc. ("PSI") welcomes the opportunity to provide comments with respect to "Reviewing Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime" as published by the Department of Finance and consents in whole to the disclosure of this submission.

PSI provides prepaid mobile top ups, open and closed loop gift cards, and domestic financial products to about 15,000 retail locations across Canada.

PSI supports the Department of Finance Canada efforts to review the AML regime every 5 years to deal with the ever changing landscape that is "to keep the framework current in response to market developments as well as new and evolving risks" all while it "must strive to minimize the compliance burden and cost".

As with our previous comments provided on October 6, 2017 with respect to the "New Retail Payments Oversight Framework", our primary concern is that the AML review lacks clarity around the definition of a PSP. We contend that PSI falls into the category of the "excluded" with respect to the "*Payment Clearing and Settlement Act*", "*legislation*," and the "*codes of conduct*". For example, with one of our offerings, we are the distributor of a Prepaid Visa card that is loaded at Canada Post (CPC), sponsored by Vancity, and governed by the "*Payment Clearing and Settlement Act*". In addition, CPC is governed by "*Canada Post Corporation Act*", which would be one of the legislations that we believe is being referred to in the framework, and Vancity which is governed another piece of legislation, "*The Bank Act*". Not to mention a host of other provincial regulatory requirements governing Prepaid. It is not clear that our role as a distributor of card programs and/or payment products issued by financial institutions, and therefore covered under a variety of existing legislation, exempts us from what would be redundant oversight. As we fall within the perimeter, there should be various exceptions with the proposed measures insofar as the activities are already covered under existing regulations.

In light of the above, Senior Management at PSI does understand that some form of regulatory oversight is imposed by its partners and will most likely be imposed by an existing regulator like FINTRAC or some other regulatory body. Thus, PSI has initiated a voluntary AML regime that best follows as many of the MSB regulations under the PCMLTFA that seem applicable. Therefore, our comments below are in relation to this aspect.

We are in agreement with government assessment that KYC ID verification in a digital age needs to be updated, especially for the Non Face-to-Face aspect as we see more and more interaction coming from the mobile vertical within the PSI ecosystem. The existing two methods are too restrictive, and in practice only one is viable in an online world: the credit bureau method. At present we are unaware of any other method that would allow for the dual method in an online environment. Perhaps a better solution would be looking at what is done in the US, Europe, and many other G37 members of the FATF with respect to ID and the Risk Based Approach. That is, a

licensing regime here in Canada that ensures KYC and onboarding is reviewed and approved by the regulator at registration time, and ensures it meets specific needs in a manner that would allow for identification in an online environment for the purposes of providing information related to PCMLTF. This would be in contrast to what is being done today where the KYC process is only reviewed when the FINTRAC examiner comes, which is 2-3 years after the registration/renewal process.

As we take on more and more of the actual implementation of the AML regime within PSI, there is agreement within the organization that a better way of confirming “Ultimate Beneficial Ownership” would significantly decrease the cost of compliance if it were an official repository. Perhaps one that uses “Zero-Proof” Verification. This would be similar to credit bureau questions when one signs up for the service at the likes of Equifax, TransUnion, Credit Karma, or Borrowell, to name a few. In this way, the information is kept private, and only confirmation of “known” information would provide the appropriate information. Of course, there would need to be a way for FINTRAC and law enforcement to pierce through the “Zero-Proof” to assist in investigation, information sharing, and prosecution of PCMLTF offenses.

With respect to information sharing, we are in agreement that there needs to be some sort of repository where regulated entities, regulators, and law enforcement can investigate potential PCMLTF related matters as well as provide intelligence without the fear of being implicated in the offences if they do materialize. This would be similar to the BCPIO under the CBA or BSA 314(b) in the US under FinCen. We believe that this would be one of the best defences for all involved to combat the ever-increasing sharing of information by criminals on the dark web.

In summary, PSI agrees that reviewing “Canada’s Anti-Money Laundering and Anti-Terrorist Financing Regime” could have adverse impacts to the current definition of a PSP within Canada over the next five years. We would like to recommend that the following aspects be reviewed sooner rather than later to bring clarity to the marketplace.

- ID verification in a non-face-to-face environment,
- the potential for duplicate oversight as a burden for PSPs like ourselves who are already required by regulated entities to enforce AML rules and regulation,
- investments be made in “zero-proof” technologies for ID verification, and
- investments be made into information sharing related to PCMLTF in a restricted environment.

PSI would welcome the opportunity to provide further information and guidance as a stakeholder within the Canadian marketplace. Please feel free to contact us for additional comment on this matter.

Sincerely,

Joseph Iuso
Chief Compliance Officer
Payment Source Inc.