



November 15, 2016

From:

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To:

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

**RE: Payments Canada's submission to Department of Finance's Consultation Document for the Review of the Federal Financial Sector Framework**

Payments Canada welcomes the opportunity to contribute to the consultation and review process. As the consultation document notes, financial market infrastructures, including payment clearing and settlement systems, facilitate certain core activities of financial institutions and play a critical role in the financial system and the broader economy.

The purpose of this letter is to highlight the synergies between Department of Finance's core policy objectives and Payments Canada's policy priorities, and to note the ways in which Department of Finance's financial sector review is complementary to, and intertwined with, Payments Canada's legislatively mandated review process in 2018 and its current modernization initiative.

- **Shared Policy Objectives.** Department of Finance and Payments Canada share the same core policy objectives, which guide financial sector policy and anchor Payments Canada's operational requirements: stability (safety), efficiency and utility (effectiveness). Payments Canada is fully supportive of the federal financial sector framework review's fundamental objectives and has a particular interest in helping to



further the objective of ensuring that national payments systems are safe, efficient and responsive to users' needs. This policy alignment, and the strong ties between the Department of Finance and Payments Canada, will be an important foundation for Payments Canada's 2018 legislative review process.

- **Support for Modernization.** In 2014, Department of Finance and Payments Canada collaborated to establish a new governance framework for Payments Canada to support the modernization of its payments infrastructure. Payments Canada is now undertaking a multi-year, multi-phase initiative to modernize Canada's payments ecosystem, including the policies, rules, standards and technology infrastructure to ensure safe, secure and innovative systems for the coming years. Through an industry-wide consultation, Payments Canada identified the needs of the marketplace and the key features required of a modern Canadian payments ecosystem. Payments Canada has developed a Modernization Roadmap & High-Level Plan which focuses on how Payments Canada and the industry can start delivering on those marketplace needs. One of the necessary changes is to develop a modern set of rules for payments, so that Payments Canada's rules remain relevant, reflect current market practices, achieve the appropriate balance between flexibility and compliance, and facilitate innovation. Payments Canada is confident that the financial sector review will support and accommodate Payments Canada's modernization efforts.
- **Financial Innovation.** The consultation document recognizes the evolving financial marketplace for consumers, the rise of financial innovation and the emergence of financial technologies (Fintech). Specifically, the consultation document notes that distributed ledger technology (e.g., blockchain) has the potential to be used in clearing and settlement activities, and that technological developments are causing banks to change the way they manage their back office operations, including clearing and settlements. New entrants, working alone or with incumbents, are introducing innovative payment services and products, including offering alternatives to traditional payment infrastructure (such as distributed ledger technology). New entrants that are not financial institutions operate outside the regulatory obligations of deposit-taking institutions. It is important to simultaneously identify the new opportunities for innovators, and address any new emerging risks stemming from regulatory gaps, particularly as it is within the interests of Payments Canada to support responsible innovation in the payments industry. Financial innovation also includes improved, technologically advanced options and interfaces to access core clearing and settlement systems, supported by appropriate rules and regulations. These include options and interfaces that will allow non-bank payment services



providers to access core payment systems functions through existing participants rather than through direct connections.

- **Regulatory Frameworks Need Updating.** The consultation document presents a landscape view of the different entities in the financial sector, from large banks, insurance companies, credit unions and securities dealers and exchanges, to other entities that are not prudentially regulated. The oversight frameworks need to be updated to take into account the diversity of entities in the payments ecosystem. Existing rules and regulations in the national retail payments space, for example, focus on the nature of the provider rather than the function or service provided by the entity. As a result, financial institutions are regulated differently than non-financial institutions that offer one or more similar services. This regulatory imbalance introduces new risks into the current ecosystem. In its separate consultations with Department of Finance, Payments Canada has recommended that any oversight framework be institutionally independent, based instead upon the function or service the entity provides. Similarly, the payments system should include more open, risk-based access rules that are organization-agnostic, to level the regulatory playing field in the payments ecosystem. It is important to balance oversight and innovation in national retail payments systems so that end users are protected while having access to innovative products and services, as well as to establish certainty as to how Payments Canada can respond to innovation in the retail space.
- **Other Ongoing Policy Initiatives.** As this consultation proceeds, it will be important to recognize and take into account other initiatives that are proceeding on separate, but complementary, tracks. This includes, for example, the development of a resolution regime for financial market infrastructures in line with international standards, to mitigate the impact of the disorderly failure of systemically important financial market infrastructures on core financial markets. The regime would provide a mechanism to allow authorities to resolve financial institutions in an orderly manner without taxpayer exposure to loss from solvency support, while maintaining continuity of their vital economic functions.



We hope our submission and ongoing discussions will be helpful to Department of Finance as it undertakes this review. We would be happy to set up an interview at which we can elaborate on our submission and discuss these points in greater detail.

Sincerely,

A handwritten signature in black ink that reads "Anne Butler". The signature is fluid and cursive, with a large initial "A" and a stylized "B".

Anne Butler  
Vice-President, General Counsel and Corporate Secretary  
Payments Canada