



November 12, 2016

DELIVERED VIA EMAIL

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

RE: Supporting a Strong and Growing Economy: Positioning Canada's Financial Sector for the Future (the "Review")

To Whom It May Concern:

These comments are submitted on behalf of PayPal Canada ("PayPal"), in response to the Department of Finance Canada's (the "Department") review of the financial sector framework. We thank the Department for the opportunity to comment on the scope of the Review and will limit our comments in this letter to the Department's consideration of Fintech.

Background

Founded in 1998, PayPal is a leading technology platform company that enables digital and mobile payments on behalf of more than 192 million of our customers in more than 203 markets around the world. PayPal has more than 6.4 million active customers in Canada, including more than 250,000 online merchants from coast to coast to coast, most of whom are small businesses and virtually all exporters to international markets.¹

PayPal is also a proud partner to several technology incubators and accelerator programs across the country, including the BC Technology Industry Association and MaRS financial technology clusters, and the Ryerson DMZ, to name only a few prominent examples.

In order to offer services to our customers in Canada, PayPal operates as part of the financial ecosystem, in conjunction with and in reliance on other players, including banks, payment card network operators and acquirers. This, of course, is true of all fintechs.

PayPal is also an active participant in a number of consultations and conversations on financial sector policy in Canada, including as a member of the Finance Canada Payments Consultative Committee and on the Payments Canada Stakeholder Advisory Committee.

¹ U. Ahmed and H. Melin, "Technology-enabled small business trade in Canada: New evidence from eBay Marketplaces", Institute for Research on Public Policy, July 26, 2016 available at <<http://irpp.org/research-studies/aots6-ahmed-melin/>>

The Review should include consideration of how existing regulations support or stifle competition and innovation

As technology expands the delivery of financial services beyond traditional institutions and models, governments around the world are taking a hard look at validating existing regulatory frameworks against key public policy goals. PayPal is constructively engaged in these conversations in every market in which we operate.²

PayPal agrees with the Competition Bureau that “competitive forces within the Canadian payments landscape must be nurtured to spark innovation and drive this sector forward”³ and that oversight mechanisms should “enable innovative and competitive forces to thrive to the greatest extent possible, while maintaining safe and reliable payments systems for Canadians.”⁴

Achieving these goals will require the Department to consider two equally important approaches. First, whether extending regulation can, in and of itself, foster innovation and competition. Second, how best to regulate fintechs to limit clear market failures and risks, while minimally impacting innovation and competition.

The Department is already considering the question of how to balance increased regulation with the goals of fostering innovation and competition. Other federal institutions, including the Bank of Canada, Payments Canada and the Competition Bureau, are considering other questions related to financial sector policymaking and regulation. PayPal believes the Review offers an opportunity for the Department to take a broader perspective than any of these other exercises contemplate.

Given that fintechs rely inherently on connections to incumbents, PayPal believes the Department could use the Review to consider incumbents' incentives and opportunities for anti-competitive conduct, including, for example, barriers to basic business banking services.⁵

Incumbents themselves will have to adapt to remain competitive and meet Canadians' demands for increased financial freedom and flexibility. The change that Fintech represents is likely to be more evolutionary, than revolutionary.⁶ However, even revolutionary technologies will take time to mature. For this and other reasons, PayPal encourages the Department to consider the adoption of an iterative, principles-based approach to financial regulation – for fintechs and incumbents, both – which would be most flexible and supportive of market innovation.

² See e.g. PayPal, 21st Century Regulation: Putting Innovation at the Heart of Payments Regulation 12 (2013).

³ Submission by the Commissioner of Competition Before the Department of Finance Canada Balancing Oversight and Innovation in the Ways We Pay: A Consultation Paper Call for Comments on the Oversight of National Payment Systems June 15, 2015 (accessed on September 15, 2016) at para. 51 (Balancing Oversight).

⁴ Submission by the Commissioner of Competition Before the Department of Finance Canada Balancing Oversight and Innovation in the Ways We Pay: A Consultation Paper Call for Comments on the Oversight of National Payment Systems June 15, 2015 (accessed on September 12, 2016).

<<http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/03958.html>> at para 3.

⁵ Anti-competitive conduct was also a concern raised by the Commissioner of Competition in his submission to the Department of Finance on Balancing Oversight, at para. 41.

⁶ See e.g. C. Wilkins, “Fintech and the Financial Ecosystem: Evolution or Revolution?” (Remarks of the Sr. Deputy Governor of the Bank of Canada, presented to the Payments Panorama conference, June 2016, available at <<http://www.bankofcanada.ca/2016/06/fintech-financial-ecosystem-evolution-revolution/>>)

Finally, PayPal encourages the Department to consider how federal legislation is currently or could be inconsistent or duplicative with provincial regimes and thus unnecessarily burdensome on fintech start-ups.

Closing

In closing, PayPal appreciates the opportunity to comment on the scope of the Review and looks forward to working constructively with the Department as the conversation progresses in substance on the matters raised herein.

If you have questions or would like to discuss our comments in this letter, please do not hesitate to contact us.