

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

July 23, 2018

Dear Sirs/Mesdames:

**Re: Consultation on the Review of the *Canadian Payments Act* (the “Consultation Paper”)**

**INTRODUCTION**

Portag3 Ventures LP (“**Portag3**”) is pleased to provide this comment letter on the Consultation Paper.

Portag3 is a broad fintech (“**fintech**”) focused Canadian venture capital fund, with a leading portfolio of investments in Canada and abroad listed in Schedule A, and which include Wealthsimple, Borrowell and KOHO. We are an early-stage investor dedicated to backing global innovating financial services technology focused companies working to benefit all consumers.

**RESPONSES TO QUESTIONS**

Question: Have the 2015 changes to Payments Canada's governance been successful in better enabling the organization to achieve its public policy mandate to promote the efficiency, safety, and soundness of its systems while taking into account the interests of users?

Response:

Payments Canada provides critical infrastructure for the financial services industry in Canada which should be considered a public good. Fostering innovation and broadening access can assist our financial services industry transform and remain competitive and relevant in the future. As such, Payments Canada's governance structure should promote innovation and open access, including access by entities that are not traditional financial institutions.

In its recent report, the Competition Bureau commented on the negative impact on competition of the current restrictions on access to Payments Canada infrastructure, stating as follows:

“These restrictions (and the limited direct participation resulting from them) can, however, have a negative impact on competition. FinTech entrants, indirect clearers and

direct clearers all compete in end user markets and as a result, can face a significant degree of agency risk by not connecting directly to the system. Those directly accessing the system can act strategically to attain a competitive advantage for themselves—for example, by raising their downstream competitors' costs. A direct clearer can also use non-price discrimination to restrict competition in the downstream market by affecting the level of service its indirect clearer can provide to end users. While this may be inadvertent, clearing agents have a stronger incentive to impose costs strategically when they compete directly in end user markets with indirect clearers.”<sup>1</sup>

The Competition Bureau also specifically commented on the need for a strong governance framework for Payments Canada to prevent the potential for anti-competitive behaviour:

“A strong governance framework for the development of the real-time rail will prevent incumbent members and early entrants from strategically developing rules that exclude future entry. In particular, governance should be independent of membership but take into consideration a wide range of stakeholders including incumbent and new entrant PSPs, merchants and consumers.”<sup>2</sup>

The recent changes to Payments Canada’s governance structure, including the formation of the Member Advisory Council and Stakeholder Advisory Council and the requirement to have an independent board of directors, do appear to better permit Payments Canada to meet its broader public policy mandate, including the potential for the fostering of innovation. In addition, we applaud Payments Canada on its continuing active outreach to the fintech community, including through the Payments Canada Summit.

In addition to these measures we advocate secure, simple access to payment infrastructure with the purpose of bringing innovation to Canadians sooner, more securely and more efficiently. Canadian firms have the opportunity and potential to be major global players in fintech – but not without adequate payments infrastructure during their critical growth stage. We commend the vision and direction of the Real Time Rail initiative and Request to Pay, and we need this type of infrastructure to evolve rapidly and with surety.

Question: Are there aspects of Payments Canada’s governance structure that could be improved to better allow Payments Canada to carry out its mandate and serve its public policy objectives?

Response:

Currently, the board of directors of Payments Canada is composed of thirteen members composed of the President of Payments Canada, three directors from members that maintain a settlement account at the Bank of Canada, two directors from members other than those described above, and seven directors independent of Payments Canada and its members. We would suggest that the governance structure could be improved by requiring that a prescribed number of directors on the board be from the new or emerging types of members such as non-traditional financial institutions which are underrepresented despite their potential to greatly contribute to the reshaping of and innovation in the payment industry.

<sup>1</sup> Competition Bureau, “Technology-led innovation in the financial services sector”, December 14, 2017. Available at <http://www.competitionbureau.gc.ca/eic/site/cb-bc.nsf/eng/04322.html>.

<sup>2</sup> *Ibid.*

We also would caution that the safeguards aimed at preventing conflicts of interest (or the appearance of a conflict of interest) between Payments Canada and existing members should be constantly examined and reinforced as the industry evolves. Finally, we agree with and support the view in the Consultation Paper that “[a] modified funding model, for fees and potentially dues, paid to Payments Canada by associate members will also be required, and should be designed so as not to create any barriers to entry to the RTR.” As noted above, Payments Canada provides critical infrastructure for the financial services industry in Canada which should be considered a public good, and accordingly we would suggest that consideration should be given as to whether it should more properly be publicly funded rather than being member-funded, given that a member funding structure leads to an inherent risk of conflict of interest.

We would also suggest that the Department consider the structure and governance of similar entities from other jurisdictions, including Faster Payments in the UK, which has already provided direct access to its real-time payment infrastructure to non-bank payment service providers.

Question: Should the Government create an associate membership class to facilitate access to the RTR? Should alternate approaches be considered?

Response:

We support the creation of an associate membership class to facilitate access to the RTR. Providing membership to the new or emerging types of members that will be accessing the RTR will provide these members with the opportunity to become better included and integrated into Payments Canada. Direct access to the RTR would also be preferable to indirect access. Indirect access would create the need for intermediaries that are not necessary and who may have multiple interests which could conflict. This would also impede the overarching goal of promoting efficiency. We also support risk-based participation requirements for access to the RTR. Fees, dues and regulatory requirements should be appropriately tailored to the role of associate members.

In considering the structure of Payments Canada going forward, the Department should be mindful of the opportunity for innovation in financial services that exists in respect of the offering to customers of “overlay services”. These services, ranging broadly from personal financial management to accounting services and receipt management, have the potential to significantly improve the payments experience for users. The structure should seek to limit barriers to such innovation.

When considering membership for this new associate membership class, consideration should be made for:

- How they can represent the voice of consumers in the evolution of payments in Canada
- Overall contribution to innovation in payments and the potential contribution to Payments Canada as an innovation thought leader
- Global perspective with Canadian interests and Canadian economic growth at the core

Question: Should registration and regulation under the proposed retail payments oversight framework be a pre-condition for associate membership?

Response:

No. There may be some parties who could benefit from access to the RTR or other parts of the Payments Canada Infrastructure and who would not be captured under the proposed retail payments oversight framework, particularly, as noted above, in the case of “overlay services” (e.g. entities such as data aggregators and lenders). The Department and Payments Canada should be mindful of the distinction between entities requiring only “read access” to the RTR (i.e. access to the data) versus those entities requiring “write access” (the latter involving a transfer of value). Entities requiring only “read access” may not be subject to the proposed retail payments oversight framework. However, they should still be given the opportunity to access the RTR to the extent needed and in the manner needed, and the Payments Canada governance framework should take their distinct interests into consideration.

Providing broader access to the Payments Canada infrastructure, including access to entities providing overlay services by way of “read access”, can improve the competitiveness and health of the Canadian financial services industry and provide better products for consumers in the Canadian market.

Question: How could Payments Canada's governance structure be adapted to allow for appropriate reflection of associate member views into Payments Canada's decision-making process? In what ways could this be designed?

Response: Payments Canada's governance structure could be designed to allow for different classes of members, with the ability to restrict voting to a certain class with respect to items that affect that class only. In addition, the Department could consider a structure whereby veto rights could be granted to classes of members with respect to certain types of decision-making.

## **CONCLUSION**

As noted above, we support initiatives to provide broader access to Payments Canada and promote greater innovation, which in turn will spur greater consumer access, choice, as well as outcomes and overall competition in financial services.

Fintech innovation is already providing Canadians access to services that enable greater financial literacy (see for example, the “know your credit score” service offered by Borrowell and the financial education blog maintained by Wealthsimple) and improved budgeting (through personal financial management software such as that offered by KOHO). We are only at the start of the fintech journey. Portag3 is at the forefront of the fintech industry in Canada and makes investments globally. As such, we have broad exposure to emerging global trends in the area of fintech and would welcome the opportunity to provide ongoing observations.

We further support the receptive approach of the Canadian government to fintech and its initiatives to provide for greater innovation.

We welcome the opportunity to discuss this response with you and thank you for the opportunity to provide comments. We would be pleased to work with the Department as we recognize the need to lay the important groundwork for the future of the financial services industry in Canada.

Sincerely,



Adam Felesky  
President  
Portag3 Ventures LP

**Portag3 Ventures Investments as at July 23, 2018**

<b>Investment in Companies</b>	<b>Domicile</b>
Alan S.A.	France
Albert Corporation	United States of America
Borrowell Inc.	Canada
Clear Financial Technology Inc. / Clearbanc	Canada
Collage Inc.	Canada
D1g1t Inc.	Canada
Dialogue Technologies Inc.	Canada
Drop Loyalty Inc.	Canada
FL Fintech E GmbH	Germany
Flybits Inc.	Canada
HD insurance Ltd.	Cyprus
Kin Insurance Inc.	United States of America
Koho Financial Inc.	Canada
League, Inc.	Canada
Limelight Health Inc.	United States of America
Loot Financial Services Limited	United Kingdom
Rook Wealth Limited t/a Multiply	United Kingdom
Neat Corporation	United States of America
Planto	Hong Kong
Quantify Labs Inc.	Canada
Quovo, Inc.	United States of America
Seed Platform Inc.	United States of America
Stride Health Inc.	United States of America
Wave Financial Inc.	Canada
Wealthsimple Financial Corp.	Canada
Zensurance Inc.	Canada

<b>Investment in Funds</b>	<b>Domicile</b>
Arbor Venture Fund II, LP	Cayman Islands
Diagram Ventures, LP	Canada
Information Venture Partners II, LP	Canada
FinTech Collective Fund II	United States of America
La Famiglia Fund I, LP	Germany
Nyca Investment Fund, LP	United States of America
Real Investment Fund 17 LP	Canada
White Star Capital II, LP	Guernsey