

National Banking Law Review

VOLUME 36, NUMBER 5

Cited as 36 Nat. B.L. Rev.

OCTOBER 2017

• DEPARTMENT OF FINANCE PUBLISHES SECOND CONSULTATION PAPER WITH RESPECT TO ITS REVIEW OF THE FEDERAL FINANCIAL SECTOR FRAMEWORK AND OSFI SUSPENDS “BANK WORDS” CRACKDOWN •

Darcy Ammerman, Senior Associate, Robert M. Scavone, Partner, Bob Bell,
Student-at-Law, McMillan LLP
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Darcy Ammerman



Robert M. Scavone

On August 11, 2017, the Department of Finance (the “**Department**”) released its second consultation paper, entitled *Potential Policy Measures to Support a Strong and Growing Economy: Positioning Canada’s Financial Sector for the Future* (the “**Second Paper**”), effectively launching the final stage of consultations in connection with the upcoming renewal of the federal financial sector legislative and regulatory framework. On the same date, and in connection with one of the requests for input in the Second Paper, the Office of the Superintendent of Financial Institutions (“**OSFI**”) released an unusual Notice of Suspension that in effect suspended enforcement of its June 30, 2017 Advisory that took a hard line on how words such as “bank” and “banking” could be used by non-bank financial services providers.

The first consultation paper, released on August 26, 2016 sought input with respect to, among other things, key trends that may influence future directions and related implications, based on three policy objectives: to ensure that the legislation and regulatory landscape governing the federal financial sector supports stability (safe, sound and resilient), efficiency (provides competitively priced products and services and passes such gains on to customers, accommodates innovation

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NATIONAL BANKING LAW REVIEW

National Banking Law Review is published six times a year by LexisNexis Canada Inc., 111 Gordon Baker Road, Suite 900, Toronto ON M2H 3R1 by subscription only.

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ISBN 0-409-91076-7 (print) ISSN 0822-1081
 ISBN 0-433-44684-6 (PDF)
 ISBN 0-433-44389-8 (print & PDF)

Subscription rates: \$510.00 per year (print or PDF)
 \$580.00 per year (print & PDF)

General Editor
 Blair Keefe
 Firm: Torys LLP

Eli Monas
 Firm: Torys LLP

Please address all editorial inquiries to:

LexisNexis Canada Inc.
 Tel. (905) 479-2665
 Fax (905) 479-2826
 E-mail: nblr@lexisnexis.ca
 Web site: www.lexisnexis.ca

Printed in the United States of America.

Note: This review solicits manuscripts for consideration by the Editors, who reserves the right to reject any manuscript or to publish it in revised form. The articles included in the *National Banking Law Review* reflect the views of the individual authors, and limitations of space, unfortunately, do not permit extensive treatment of the subjects covered. This review is not intended to provide legal or other professional advice and readers should not act on the information contained in this review without seeking specific independent advice on the particular matters with which they are concerned.



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 Registration No. 180858

and contributes to economic growth) and utility (meets the needs of different types of consumers, including individuals, businesses and families and is committed to protecting the interests of consumers).

The Second Paper takes into account the comments and recommendations previously submitted in connection with the first paper and requests feedback on whether and how to implement certain measures that could lead to the consideration of legislation in Parliament in advance of the statutory sunset date of March 29, 2019, and that may inform policy directions for longer-term future work.

These measures are categorized in the Second Paper under four themes: (i) supporting a competitive and innovative sector; (ii) improving the protection of bank consumers; (iii) modernizing the framework; and (iv) safeguarding a stable and resilient sector.

(I) SUPPORTING A COMPETITIVE AND INNOVATIVE SECTOR

The Department has identified several near-term measures that could be included in the 2019 update to the federal financial institutions statutes (namely, *The Bank Act*, the *Cooperative Credit Associations Act*, the *Insurance Companies Act* and the *Trust and Loan Companies Act*, collectively, the “**FFIS**”).

FINTECH BUSINESS POWERS AND COLLABORATION

Recognizing that collaboration between federally regulated financial institutions (“FRFIs”) and fintechns,¹ may lead to innovation, accessibility and affordability in the financial sector, and that FRFIs may add scaling to the technology and speed-to-market that fintechns often bring, the Department seeks input on appropriate statutory language that could clarify and modernize the fintech business powers of FRFIs, while maintaining the general prohibition on commercial activities and investments that is designed to keep FRFIs focused on financial services as their core area of expertise. A number of banks had complained that collaboration with fintechns is made difficult by restrictions on the business activities in which banks may engage and entities in which they may invest. The Department

is therefore also seeking input on whether to provide FRFIs with added flexibility to make non-controlling investments in fintechs and/or the ability to make referrals to fintechs, subject to the consumer activities prohibition and relevant consumer protection and prudential limitations (such as OSFI's outsourcing framework). On the topic of advancing fintechs more generally, the Second Paper notes that the Government will work to provide fintechs with more detailed information on the financial sector framework, such as better regulatory contact information.

ENTRY AND EXIT PROCESS FOR ENTREPRENEURS IN FINANCIAL SECTOR

Another way that competition, innovation and accessibility may be supported is to provide an easy to follow and streamlined entry and exit process for financial sector entrepreneurs, including fintechs, who may target certain underserved niches. The Department has identified two very specific refinements that could be made towards this goal (namely, increasing the number of officers a newly incorporated FRFI can remunerate, and providing the Superintendent the authority to extend the period to issue an Order to Commence and Carry on Business in exceptional circumstances), and is seeking input on whether to implement these or similar measures.

SMALL AND MID-SIZED BANKS

The Department is requesting insights into possible refinements that could better position the Canadian economy for growth and innovation in the future, including how small and mid-sized banks could promote competition and innovation by increasing capital formation and efficient credit allocation.

EXAMINING THE MERITS OF OPEN BANKING

One of the requests that may prove to be controversial is the Department's request for input on the merits of "open banking", described as "a framework under which consumers have the right to share their own banking information with other financial service

providers", following the lead of certain European jurisdictions which are in the process of implementing the EU's Second Payment Services Directive "PSD2" that will mandate open banking. As noted in the Second Paper, "Open banking holds the potential to make it easier for consumers to interact with financial service providers and increase competition" (for example by streamlining on-boarding and making comparison shopping more transparent). However, the Department may encounter significant push-back from traditional FRFIs, who may regard customer data as valuable proprietary information.

(II) IMPROVING THE PROTECTION OF BANK CUSTOMERS

The Second Paper notes that certain improvements were proposed by the Department in 2016 in the areas of access to basic banking services, business practices, information disclosure, complaints handling and governance and public accountability. It also describes initiatives that are currently underway by OSFI and the Financial Consumer Agency of Canada ("FCAC") to assess whether further improvements are required.

(III) MODERNIZING THE FRAMEWORK

In what may perhaps be the most hotly debated section of the Second Paper, the Department describes and seeks input on several measures designed to ensure that the federal financial sector framework remains current and effective in the face of a changing environment.

INSURER INVESTMENT IN INFRASTRUCTURE

Traditionally, FRFIs have had limited powers to make commercial investments. Federally regulated life and health insurers, in particular, have relied on fixed income investments to meet their insurance policy obligations, but some have recently gained experience in infrastructure investment, primarily through debt. In considering the long-term growth of such life and health insurers, the Department seeks stakeholder views on whether to provide these types

of insurers with greater investment powers to be used for permitted types of investment opportunities that would ensure that they maintain a focus on the business of life and health insurance.

CORPORATE GOVERNANCE

In order for FRFIs to ensure a strong and modern corporate governance framework, the Department is considering whether to apply certain changes proposed to be made to the *Canada Business Corporations Act* pursuant to the House of Government Bill C-25² (“Bill C-25”) to the FFIS. Given the concern that a blanket application may affect institutions differently, the Department is particularly interested in learning about the impact these changes may have on smaller institutions. Although there are a whole list of potential changes, the Second Paper describes four potential areas ripe for change: diversity on boards, shareholder democracy, meeting material distribution and corporate transparency.

With respect to diversity on boards, the potential change to be adopted from Bill C-25 is the introduction of the “complain or explain” model whereby a company (or FRFI, if adopted) would be required to disclose information on gender diversity policies (pertaining to the proportion of women on boards) among the directors and senior management and, if no such policies exist, explain why not. The goal is to promote the participation of women on boards of directors and in senior management roles of FRFIs.

For shareholder democracy, the Department seeks input on whether to establish annual elections for directors with fixed, one-year terms for FRFIs, modeled on the changes proposed in Bill C-25 for publicly listed companies. It is hoped that the proposed change would increase director accountability and allow shareholders to voice their opinions on a more frequent schedule.

Bill C-25 also proposes to eliminate “slate voting” whereby shareholders, members and policyholders vote for a group of directors that have been nominated by management for election, instead of voting for each director as an individual. The Department wishes to understand any unique hurdles that smaller institutions

may face if such action is eliminated, and whether a two year grace period would alleviate any such concerns.

The Department is also inviting feedback with respect to how a majority voting standard could work in the case of an uncontested election for directors of FRFIs. Pursuant to Bill C-25, in an uncontested election and where the number of seats equals the number of nominees, candidates would require more votes in favour than against them to be elected or re-elected.

In order to save on costs, the Department is considering allowing FRFIs to choose to adopt the “notice and access” system described in Bill C-25 (instead of having to mail out meeting materials) requiring companies to simply notify shareholders of an upcoming meeting and how to gain access to the materials required.

Bill C-25, if enacted, would explicitly prohibit the use of bearer shares and bearer share warrants, given their untraceable nature and proclivity for use in money laundering and terrorist financing activities. The Second Paper requests feedback with respect to whether this prohibition should also be implemented for FRFIs.

REPEAL OF COOPERATIVE CREDIT ASSOCIATIONS ACT

The Department has also invited stakeholders views with respect to the potential repeal of the *Cooperative Credit Associations Act*, given that there are no active institutions currently subject to it.

USE OF BANK WORDS

On June 30, 2017, almost two months before the Second Paper was released, OSFI issued its Advisory 2017-01, *Restrictions on the use of the words “bank”, “banker” and “banking”* (the “Advisory”), which adopted a very restrictive interpretation of how the statutory prohibitions in the *Bank Act* on the use of those “bank words” by non-banks should be interpreted and administered, and an accompanying cover letter setting out an aggressive timetable for complying with what many players regarded as new and unwarranted restrictions.³

The Advisory caused considerable consternation among provincially regulated non-bank financial

institutions such as credit unions (which often use such phrases as “do your banking with us” in advertising) as they counted up the potentially huge costs of revising reams of marketing materials that offended OSFI’s interpretation of the *Bank Act* restrictions by the deadlines of December 31, 2017 for information contained on websites of other electronic media, by June 30, 2018 for information contained in print materials and by June 30, 2019 for information contained on physical signage.

Possibly in response to this controversy, the Department is asking for input with respect to whether prudentially regulated non-bank deposit-taking institutions (such as credit unions) should be granted flexibility to use the “bank words” in describing their activities and services in a way that avoids market confusion and ensures the appropriate protection of consumers.

It is probably no coincidence that on the same day as the Second Paper was released, OSFI issued a virtually unprecedented notice suspending the compliance expectations set out in the cover letter to the Advisory. In the suspension notice, OSFI indicates that it will communicate its revised compliance expectations once the Department has announced the outcome of its consultation with respect to these restrictions.

(IV) SAFEGUARDING A STABLE AND RESILIENT SECTOR

The Department, through its consultations to date, identifies several areas in the Second Paper whereby further work is required or for which additional insights from stakeholders is requested.

EARTHQUAKE EXPOSURE RISK

Based on data showing a lack of earthquake insurance uptake in certain areas in Canada, and the low level of predictive validity for damages caused by extreme earthquakes, the Second Paper notes that stakeholders in the property and casualty insurance sector have expressed concerns with their ability to cope in the event of a high-impact earthquake. The Department is considering how to best limit the risks of an extreme earthquake through consultations with provinces, territories and

stakeholders. The Second Paper describes the work of FCAC in this area who is planning to improve consumer education products to enhance consumer awareness of insurance products, along with awareness of the rights and responsibilities of consumers. No timeline for this awareness campaign is provided.

LIFE INSURANCE RESOLUTION FRAMEWORK

With respect to life insurers, the Department requests input with respect to possible enhancements to the life insurance resolution framework which would be utilized in the event of failure of a major life insurer in order to limit costs to the economy (instead of a conventional bankruptcy or liquidation). The Second Paper notes that reforms in this area have so far focused on the banking sector, but that a plan to establish a resolution framework for financial market infrastructures was announced in the 2017 budget.

CYBER SECURITY STRATEGY

The consultation to date confirms that cyber security and cyber risk is a complicated area in which three issues are often dealt with: privacy, collaboration, and personnel. An additional complicating factor is that responsibility for the inherent challenges faced in this area is shared amongst governments, the private sector, law enforcement and the public. Nonetheless, the Second Paper champions the creation of a cyber security strategy that is forward-looking, enduring and responsive to a continually changing cyber security environment, and making Canada a global leader in the provision of cutting-edge cyber security technology and the use of such technologies to promote safe and secure services to the global marketplace. To this end, the Second Paper notes that the Government has recently endorsed the *G7 Fundamental Elements of Cybersecurity in the Financial Sector* to assist financial sector entities to design and implement cyber security strategies and frameworks. Going forward, the Department will work with Public Safety Canada and also pursue international efforts in order to gain international co-operation and adequately assess potential changes to the FFIS.

DISCLOSURE OF CLIMATE-RELATED RISKS

One additional item identified by stakeholders that may enhance stability and resiliency is improved disclosure by firms of climate-related risks related to green finance. The Second Paper describes recommendations from the Financial Stability Board and a project currently underway by the Canadian Securities Administrators to review the disclosure of risks and financial impacts of climate change. However, there is no indication of whether or not the Department intends to incorporate any of these recommendations into the FFIS, once finalized. The Second Paper does note that the Department continues to contribute to ongoing work on green finance in international forums such as the G7 and G20.

The Annex lists several other targeted policy measures that the Department is seeking feedback on, including whether to:

- reflect OSFI's practice to publish basic information on its website about FRFIs in the FFIS;
- broaden the list of approvals that require advance publication in the *Canada Gazette*, providing an opportunity for Canadians to object;
- modernize the administration of unclaimed balances, including revising the unclaimed balances that should be transferred to the Bank of Canada, as custodian, the information that should be provided to the custodian to claim unclaimed balances, the period of time for holding such unclaimed balances, whether the timelines should vary depending on the size or instrument, what should be done with unclaimed balances after this time and whether there should be an administration fee payable;
- repeal the nuclear insurance exception pursuant to Part XIII of the *Insurance Companies Act* and subject nuclear insurance to the general foreign companies regime thereto;
- allow foreign insurers to hold records in Canada at a location other than the chief agency location of the foreign company;
- allow property and casualty and marine insurers to assume periodic payment obligations pursuant to three-party structured settlement agreements;
- exempt persons who already control a FRFI from the requirement to obtain Ministerial approval for indirect increases in their share ownership;
- allow increased electronic participation in meetings (and under what conditions);
- clarify rules pertaining to advance voting for decisions such as members of the board or proposals, especially for members of credit unions;
- implement a threshold that would apply before members of a federal credit union can bring forward a proposal (and what that threshold should be);
- continue to allow members of Federal Credit Union Membership Lists automatic access to such lists or whether access should only be provided upon request;
- expand the scope of the definition of "related party" and the application of the related party regime under the *Insurance Companies Act* to increase the transactions that are subject to OSFI approval;
- reduce the limit of 50% of regulatory capital to 25% with respect to transactions between FRFIs and directors, officers and their interests;
- establish a materiality threshold for Superintendent approval of the acquisition of an unregulated entity of up to 2% of the consolidated assets of the acquirer;
- eliminate the requirement for Superintendent approval where a FRFI acquires control of a limited partnership investment only because it controls the general partner of such partnership;
- introduce Superintendent approval for the acquisition of control of a factoring or financial leasing entity, subject to the determined materiality threshold;
- remove the "principal and primary tests" (which allows mutual fund distribution entities and real property brokerage entities to engage in unauthorized activities so long as their principal or primary activities meet the statutory definition of such entities) and introduce a requirement for such entities to exclusively engage in authorized activities, consistent with the rules for other unregulated entities;
- clarify that when a financial institution reclassifies an investment, it would be deemed to be acquiring

- the investment at the time it originally made the acquisition;
- eliminate the ability for the Minister or Superintendent to authorize indeterminate extensions for temporary investments, loan workouts and realization of a security interest;
 - narrow the scope of exemptions related to undertaking a large asset transaction to ensure that the Superintendent reviews transactions involving significant financial risks; and
 - revise the *Canada Deposit Insurance Corporation Act* to clarify that the liquidator of a Canada Deposit Insurance Corporation (“CDIC”) member institution has no right to apply set-off against a claim related to insurance deposits, allowing CDIC to recoup the full payment of insured deposits made to depositors.

Stakeholders are invited to make written submissions to the Department by September 29, 2017. Given the breadth of topics covered in the Second Paper, it is likely that the Department will again receive submissions from a broad range of stakeholders that will take some time to dissect. However, the consultation regime has proven to be a dynamic process capable of responding to many of the concerns raised. It will be interesting to see which of these policy measures end up in draft legislation and whether this consultative process will eventually lead to changes to the FFIS driven by those working and breathing in the industry.

[Darcy Ammerman is a senior associate advising on all aspects of secured lending transactions, general contract law, financial institution regulation and insurance matters, including cybersecurity insurance. Darcy also has current payments experience, having recently completed a 3 month secondment working with the team responsible for Canada’s essential payments

For more information please contact:

| | | | |
|---------|-------------------|--------------|----------------------------|
| Ottawa | Darcy Ammerman | 613.691.6131 | darcy.ammerman@mcmillan.ca |
| Toronto | Robert M. Scavone | 416.865.7901 | rob.scavone@mcmillan.ca |

A cautionary note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

systems. Darcy’s transactional expertise includes syndicated lending, asset-based lending, real estate, DIP financing, mezzanine financing, project finance and corporate restructuring. She also routinely advises federally regulated entities with respect to regulatory approvals and compliance, licensing and operational requirements. Darcy is named as a 2017 rising star in the IFLR1000 Financial and Corporate Guide.

Robert M. Scavone is a financial services partner with the Toronto office of McMillan LLP and the Co-Chair of the firm’s Securitization and Structured Products Group. His clients include financial institutions, government agencies, automotive finance companies and payment networks and his practice covers secured transactions, fintech, P3 financing, asset securitization, derivatives, personal property security law and legal opinions. He was recently re-appointed by the Ontario Minister of Government and Consumer Services to the Ontario government’s Business Law Advisory Council and is a Fellow of the American College of Commercial Finance Lawyers.]

¹ Defined as “companies that commercialize emerging financial technologies”.

² *An Act to amend the Canada Business Corporations Act, the Canada Cooperatives Act, the Canada Not-for-profit Corporations Act, and the Competition Act.*

³ To provide some further context, section 983 of the *Bank Act* contains restrictions on the use of the “bank words” by financial service providers that are not banks governed by the *Bank Act* (i.e., listed on Schedules I or II), the violation of which is a criminal offence potentially punishable by fines or imprisonment. However, there has been confusion in the past (or, in some cases, a sheer “blindness” approach) with respect to how far these restrictions go.

• DEPARTMENT OF FINANCE RELEASES CONSULTATION PAPER ON NEW RETAIL PAYMENTS OVERSIGHT FRAMEWORK PROVIDING FOR FUNCTIONAL REGULATION OF PAYMENT SERVICE PROVIDERS •

Ana Badour, Partner, Kirsten Thompson, Partner, McCarthy Tétrault LLP

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Ana Badour



Kirsten Thompson

On July 7, 2017, the Department of Finance issued the consultation paper “A New Retail Payments Oversight Framework”¹ (the “Consultation Paper”) proposing a federal oversight framework for retail payments. Comments on the Consultation Paper are due October 6, 2017.

SUMMARY OF PROPOSED OVERSIGHT FRAMEWORK

The Consultation Paper is discussed in more detail below, but the key elements are:

- **Broad Scope:** The oversight framework would apply to any payment service providers (“PSP”) that perform any listed core functions and would capture credit card transactions, online payments,

pay deposits, debit transactions, pre-authorized payments and peer-to-peer money transfers.

- **Registration Requirement:** All PSPs would be required to register with a “designated federal retail payments regulator”.
- **End-User Fund Safeguarding Measures:** All PSPs that hold end-user funds overnight or longer would be required to meet certain requirements, including placing them in a trust account and certain record-keeping requirements.
- **Operational Standards:** All PSPs would be required to comply with a set of principles related to establishing security and operational objectives and policies and business continuity planning.
- **Disclosure Requirements:** All PSPs would be required to provide end users with certain information, including information on the key characteristics of their service or product, the responsibilities of customers and PSPs, terms and conditions, the end user’s account history of payment transactions and receipts for transactions.
- **Third-Party Dispute Resolution:** An external complaint body would be designated for customers to elevate complaints not resolved through PSPs’ internal complaint handling processes, and PSPs would need to advertise their complaint-handling processes.

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- **Liability for Unauthorized Transactions:** The payment-authorizing PSP would have to refund the payor for losses resulting from unauthorized transactions or errors, unless the payor acted fraudulently or failed to fulfil certain obligations.
- **Increased Emphasis on Privacy:** The regulator for the oversight framework would promote awareness of, and compliance with privacy laws, including by directing PSPs, at the point of registration, to relevant guidance from privacy regulators.

The oversight framework is proposed to be principles-based, with tiering of measures (such that, for example, smaller firms may be subject to less stringent requirements) and a recognition of equivalent requirements under other legislative frameworks.

In addition, the Consultation Paper proposes the establishment of an advisory service for small firms that could guide and assist qualified PSPs in understanding the framework requirements based on their specific business models.

DETAILS OF PROPOSED OVERSIGHT FRAMEWORK

1. SCOPE OF RETAIL PAYMENTS OVERSIGHT FRAMEWORK

The Consultation Paper proposes a functional approach to regulation of retail payments in Canada, which would apply to any PSP that performs any of the following five core functions in the context of an electronic fund transfer ordered by an end user:

- Providing and maintaining payment accounts for the purpose of making electronic fund transfers;
- Enabling the initiation of a payment at the request of an end user;
- Authorizing and transmitting payment messages;
- Holding of funds; or
- Fund clearing and settlement.

The Consultation Paper provides examples of PSP functions: credit card transactions, online payments, pay deposits, debit transactions, pre-authorized payments and peer-to-peer money transfers. Certain types of transactions are specifically excluded:

- Transactions entirely made in cash;
- Transactions conducted via an agent authorized to negotiate or conclude the sale or purchase of goods or services on behalf of the payer or the payee, where the funds held by the agent on behalf of the payer or payee are kept in a trust (e.g., real estate agent or lawyer);
- Transactions made with instruments that allow the holder to acquire goods or services only at the premises of the issuing merchant (e.g., store cards) or within a limited network of merchants that have a commercial agreement with an issuer (e.g., shopping mall cards);
- Transactions related to securities asset servicing (e.g., dividends distribution, redemption or sale) and derivatives;
- Transactions at ATMs for the purpose of cash withdrawals and cash deposits;
- Transactions between entities of the same corporate group, if no intermediary outside of the corporate group is involved in the transaction; and
- The clearing and settlement of transactions made through systems designated under the *Payment Clearing and Settlement Act*.

Furthermore, the Consultation Paper states that the proposed retail payments oversight framework is to be limited to transactions that are carried out solely in fiat currencies, and not virtual currencies given their current limited use. The Government indicated that it will continue to monitor the use of virtual currencies in retail payments and may propose adjustments to the framework as needed.

Many types of Fintech entities in the payment space, particularly those offering e-wallets, prepaid cards and/or peer to peer payments, as well as more traditional payment entities such as merchant acquirers, would appear to fall within the scope of the proposed framework. In addition, entities that are already otherwise regulated, such as banks, credit unions, trust companies and money services businesses may also be PSPs.

In addition, although the Consultation Paper refers to “retail” payments oversight, the currently proposed

scope of the framework contemplates more than what would be considered to be consumer transactions.

2. PROPOSED REQUIREMENTS

a. Registration – The Consultation Paper proposes a requirement that all PSPs register with the “designated federal retail payments regulator” (see “Regulatory Authority” section below) either when the oversight framework comes into effect or in the case of a new PSP, prior to launch. The Consultation Paper provides a list of information required to register in Appendix B, including the type of services and payment functions provided, the volume and value of transactions processed in Canada and globally in the last year (or expected to be processed in the upcoming year for a new PSP), the average amount of consumer funds held where the PSP is not a deposit-taking financial institution, the trust account where consumer funds are held, and the total assets value of the PSP. In addition, the PSP’s owners and directors would need to undergo a criminal record check. Furthermore, if Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) determines or has determined that a PSP has committed a “very serious” violation of the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* or, in the case of a money remitter, the PSP has not registered with FINTRAC, the PSP’s registration would be denied or revoked.

b. End-user fund safeguarding – The Consultation Paper proposes that PSPs that place end-user funds held overnight or longer in a trust account be required to meet the following requirements:

- The account must be at a deposit-taking financial institution that is either a member of the Canada Deposit Insurance Corporation or covered under a provincial deposit insurance regime;
 - The account must be in the name of the PSP;
 - The account must be clearly identified as the PSP’s trust account on the records of the PSP and the financial institution;
 - The account may only be used to hold end-user funds;
- The PSP must ensure that the financial institution does not withdraw funds from the account without the PSP’s authorization (*e.g.*, service fees incurred by the PSP must be paid from the PSP’s general account); and
 - The assets held in the account must be cash held on deposit or highly secure financial assets that can be readily converted into cash.

PSPs would also be required to maintain detailed accounting records that would allow for the accurate identification of funds held in trust and the beneficiaries, and to report on their trust accounts in their annual filings to its designated regulator.

c. Operational standards – The Consultation Paper proposes that PSPs be required to comply with a set of principles related to establishing security and operational objectives and policies and business continuity planning:

- A PSP should establish a robust operational risk-management framework with appropriate systems, policies, procedures and controls to identify, monitor and manage operational risks.
- A PSP’s management should clearly define the roles and responsibilities for addressing operational risk and should endorse the PSP’s operational risk-management framework. Systems, operational policies, procedures and controls should be reviewed, audited and tested periodically and after significant changes.
- A PSP should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives.
- A PSP system should have comprehensive physical and information security policies that address all major potential vulnerabilities and threats.
- A PSP should have a business continuity plan that addresses events posing a significant risk of disrupting operations. The plan should be designed to protect end users’ information and payment data and to enable recovery of accurate data following an incident. The plan should also seek to mitigate the impact on end users

following a disruption by having a plan to return to normal operations.

- A PSP should identify, monitor, and manage the risks that end users, participants, other PSPs, and service and utility providers might pose to its operations. In addition, a PSP should identify, monitor and manage the risks that its operations might pose to others.

Operational system testing may be conducted through self-assessment for small firms or through third-party verification for larger firms.

d. Disclosure requirements – The Consultation Paper proposes that PSPs be required to provide end users with information on the key characteristics of the service or product (such as charges and fees, functions, limitations, security guidelines), customers’ responsibilities, the PSP’s responsibilities, terms and conditions, the end user’s history of payment transactions on an account and receipts for transactions.

Disclosures have to meet the following principles:

- Information must contain **adequate and relevant** content;
- Information must be provided in a **timely** manner;
- Information must be presented in language that is **clear, simple** and **not-misleading**; and,
- Information must be **easily accessible**.

PSPs would also be required to provide a separate, concise summary containing key information related to a payment service on the cover page of the terms and conditions regarding the use of the service. Annex A to the Consultation Paper provides further detail on proposed disclosure requirements.

e. Dispute resolution – The Consultation Paper proposes that a designated external complaint body (ECB) be designated for PSPs to receive complaints that fail to be resolved through a PSP’s internal complaint handling process. PSPs would also be required to:

- Advertise their complaint handling procedures and the possibility for customers to refer cases to the designated ECB;

- Provide the ECB with all the information it may need in resolving the dispute; and
- Participate in the dispute resolution process (*e.g.*, participate in conciliation sessions and ECB consultations).

f. Liability for unauthorized transactions – The Consultation Paper proposes that payors not be held liable for losses for unauthorized transactions or errors unless they acted fraudulently or failed to fulfil certain obligations, and that the payment-authorizing PSP would have to refund the payor for losses resulting from unauthorized transactions or errors. Cases where the payor could be held liable include where (i) the payor has not taken reasonable care to protect the security of the payor’s passwords; (ii) the payor has not notified the PSP, without undue delay, that a payment instrument has been lost or stolen, or that a password has been breached; and (iii) the payor has entered the payee information incorrectly such that it was impossible for the PSP to transmit the funds to the right payee. Under these scenarios, the PSP would have to make reasonable efforts to recover the funds.

g. Privacy – The Consultation Paper notes that technological innovation has given PSPs the ability to collect and store many different types of personal and sensitive information and states that “weak protection of personal information by PSPs is a type of market conduct risk that may lead to a series of undesirable consequences for end users, such as financial or reputational harm due to data breaches”.

While the federal privacy legislation (PIPEDA) applies to all Canadian businesses in all sectors of the economy, including retail payments, the Consultation Paper states that “some PSPs may not be familiar with their responsibilities under PIPEDA or applicable provincial privacy legislation”.

The Consultation Paper proposes that the regulator for the oversight framework promote awareness of, and compliance with, PIPEDA and similar provincial legislation, including by directing PSPs, at the point of registration, to relevant, existing information published by the Office of the Privacy Commissioner

or other provincial regulators regarding compliance with privacy-related obligations.

3. GUIDING PRINCIPLES

The Consultation Paper states that “the proposed oversight framework would encourage innovation and competition” and aim to apply measures commensurate to the level of risk posed by each PSP.

To achieve these goals, the oversight framework is proposed to be built around the following guiding principles:

- **Principles-based requirements** – Requirements are generally intended to be principles-based, both to accommodate the diversity of business models in the retail payments sector and to allow for flexibility in the case of future models.
- **Tiering of measures** – The Consultation Paper states that consideration is to be given to tiering of specific measures such that, for example, smaller firms may be subject to less stringent requirements.
- **Recognition of equivalent requirements under other legislative frameworks** – The Consultation Paper proposes that PSPs be exempt from having to implement a framework measure if the entity is subject to a substantially similar requirement under another federal or provincial statute (such as, for example, the *Bank Act* or credit union legislation).

4. ADVISORY SERVICE FOR SMALL FIRMS

The Consultation Paper proposes the establishment of an advisory service (similar to some of the regulatory sandbox models in other jurisdictions) for small PSP firms planning to commercialize a new product, process or service. Such advisory service could guide qualified PSPs through the registration process and assist by interpreting the various framework requirements based on their specific business model.

5. REGULATORY AUTHORITY

As noted above, the Consultation Paper refers to a “designated federal retail payments regulator”. Rather than explicitly address the creation of a new regulator, the Consultation Paper states that the framework will leverage the mandate and expertise of existing regulators, in order to ensure consistency in the implementation of similar measures across federal oversight frameworks. The Consultation Paper does not explicitly address which regulator will supervise those PSPs that are not currently subject to federal oversight.

Finally, the Consultation Paper provides that the regulator would have access to a combination of compliance tools that would allow for effective intervention with any type of PSP, set out in more detail in Annex C to the Consultation Paper, and including the issuance of guidelines, annual filing requirements, on-site examinations, and the ability to issue administrative penalties and compliance orders.

[Ana Badour is a partner in the Financial Services Group of McCarthy Tétrault LLP. Her practice focuses on regulatory and compliance issues relating to financial institutions and the payments industry.]

[Kirsten Thompson is a partner at McCarthy Tétrault and leads the firm’s national Cybersecurity, Privacy and Data Management Group. She has both an advisory and advocacy practice focused on securing, utilizing and leveraging data, with a particular emphasis on payments, new technologies (such as predictive analytics, blockchain, artificial intelligence and autonomous technologies) and data competition and strategy.]

¹ Department of Finance Canada, “A New Retail Payments Oversight Framework”, July 7, 2017, online: <http://www.fin.gc.ca/activty/consult/rpof-cspd-eng.asp>.