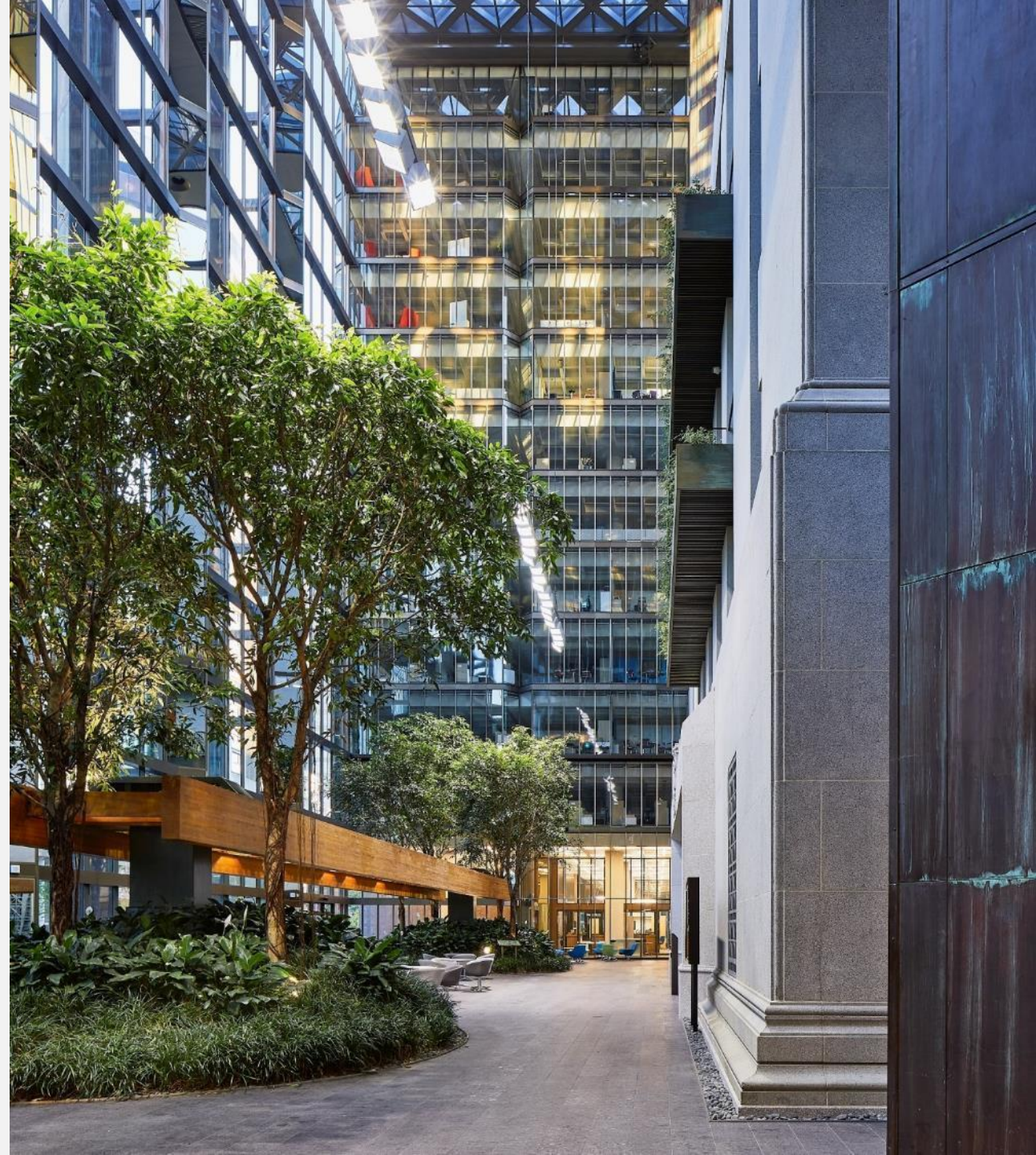


26 MARCH 2024

Supervisory Guidelines for Retail Payments Supervision

Information session on Guideline consultation



Opening remarks

Retail Payment Activities Supervision

The *Retail Payment Activities Act* (RPAA) provides the Bank of Canada (the Bank) with the authority to supervise payment service providers (PSPs) to build confidence in the safety and reliability of payment services and protect end users from certain risks.

Supervisory expectations



Supervisory framework

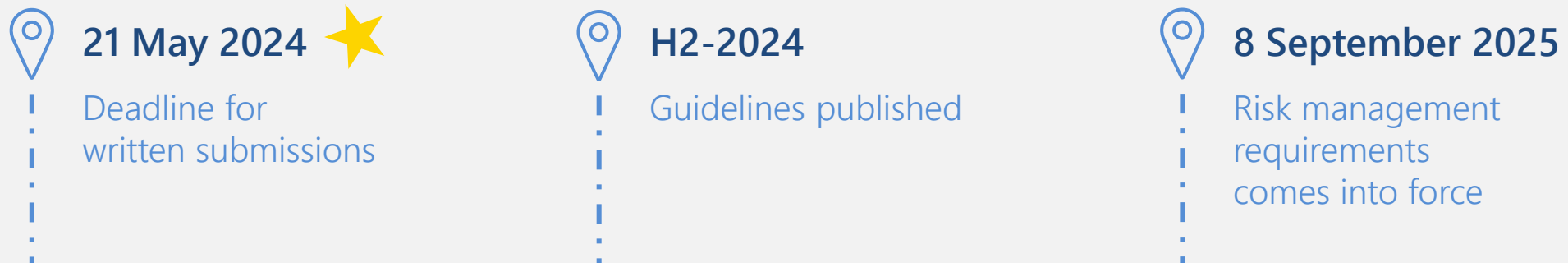


Guideline consultation

We are seeking feedback on the standards and practices in the following draft Guidelines*:

- Safeguarding of end-user funds (EUFS Guideline)
- Operational risk and incident response
- Incident notification
- Notice of significant change or new activity

For each Guideline, we want to know if any aspects could be clarified or challenging to implement.



****The material in this presentation is based on draft Guidelines and is therefore subject to change.***

Safeguarding of end-user funds

End-user Funds Safeguarding Application

A PSP that *holds* end-user funds until withdrawn or transferred by the end user must safeguard those funds.

RPAA section 2 - Payment Function (b)

The holding of funds on behalf of an end user,

until they are withdrawn by the end user or transferred to another individual or entity.

Holding funds begins
when an end user places funds into a PSP's account or when a PSP receives funds transferred for one of its end users.

A PSP holds funds **on behalf of** an end user when it keeps funds at rest and available for future withdrawal or transfer by a payer or payee.

Holding funds ends when a PSP receives an instruction to immediately transfer or withdraw the funds or, for pre-authorized transfers, when the set transfer date arrives.

Retail Payment Activities Act (RPAA) and Regulations (RPAR)

Safeguarding requirements are intended to achieve two objectives:

1. To ensure that end users have reliable access without delay to their funds held by a PSP
2. To protect end-user funds against financial loss in the event of a PSP's insolvency

Means of Safeguarding



In-trust or using insurance or guarantee

Framework



Systems, policies, procedures, and other controls

Evaluation of Insolvency Protection & Independent Review



Monitoring of fund protection and independent reviews

The RPAA and RPAR must be read concurrently to fully interpret the prescribed requirements for end-user funds safeguarding.

Guideline on Safeguarding End-User Funds

The guideline provides additional clarity on the safeguarding obligations in the RPAA and RPAR, including:

Means of Safeguarding

Timeframe for segregation

Indirect account access arrangements

Validity of trust arrangements

Amount of insurance or guarantee

Framework & Evaluation of Insolvency Protection

Secure and liquid assets

Procedures for returning funds

Factors to consider for legal and operational risks

Methodology to identify shortfalls

Operational risk and incident response

Requirements under the RPAA

For the purposes of **identifying and mitigating operational risks and responding to incidents**, a PSP must, in accordance with the regulations, **establish, implement and maintain a risk management and incident response framework** that meets prescribed requirements. *RPAA subsection 17(1)*

Operational risk



A risk that any of the following will result in the **reduction, deterioration or breakdown** of retail payment activities:

- a) deficiency in an information system or internal process;
- b) a human error;
- c) a management failure; or
- d) a disruption caused by an external event.

Incident



Unplanned event(s) that results in or could result in the **reduction, deterioration or breakdown** of any retail payment activity

Requirements under the RPAR

A PSP must *establish, implement, and maintain* a *written, available, approved* and *proportionate* framework that ensures the *confidentiality, integrity and availability* of retail payment activities, systems, data and information.

A framework must

- Set out integrity, confidentiality and availability objectives and supporting targets and indicators
- Identify and classify assets and business processes, and identify operational risks and potential causes
- Protect those assets and business processes and mitigate those risks
- Detect, respond to and recover from incidents, anomalous events, and lapses in the framework

Supported by

- Allocation of roles and responsibilities, including oversight and challenge
- Sufficient and accessible human and financial resources
- Provision of information and training for individuals to carry out their role effectively
- Management and oversight of third-party service providers, agents and mandataries
- Internal reviews, testing, and independent reviews (for some PSPs)

Operational Risk and Incident Response Guideline

A guideline to support a PSP's establishment, implementation and maintenance of an operational risk and incident response framework.

Items of note



The scope of the PSP's framework should contemplate the PSP's retail payment activities, including its associated assets and business processes.



Compliance is not a 'one-size fits all' approach.

The PSP should take a proportionate and risk-based approach, based on the outcomes outlined in the Operational Risk and Incident Response Guideline.



The guideline is structured to support PSP implementation.

- Outcomes
- Main guidance
- Appendices provide further detail on specific topics

Guideline sections

Introduction

1. Documentation and availability
2. Roles and responsibilities
3. Human and financial resources
4. Objectives
5. Identify (risks, assets and processes)
6. Protect
7. Detect
8. Response and recovery
9. Internal review
10. Testing
11. Independent review
12. Third party service providers
13. Agents and mandataries

Incident notification

Incident notification

Notifications following the identification of **incidents with material impact**, including those that occur at or are detected by a PSP's third-party service providers, agents or mandataries.

Notifications to the Bank, and to materially impacted parties must include certain information.

After becoming aware of an **incident with material impact**, the PSP must...

RPAA section 18



Notify materially impacted end users,
other PSPs and clearing houses



Notify the Bank



without delay

No later than
24 hours after
becoming
aware of the
incident

Incident notification: *material impact*

Notifications following the identification of incidents with a *material impact on one or more end users, other PSPs, or clearing house* of a designated clearing and settlement system. *RPAA section 18*

Incident



Unplanned event(s) that results in or could result in the **reduction, deterioration or breakdown** of any retail payment activity

Potential incidents with material impact

- Any amount of an end-user's funds becomes lost or unavailable
- An outage or slowdown in retail payment activities for 8 hours or more
- The PSP is subject to an insolvency proceeding event
- Confidential information is accessed or disclosed without authorization, resulting in or creating a real risk of significant harm
- The integrity of the retail payment activities is compromised

Incident notification: *form of reporting*

Notifications are made to the **Bank** and **materially impacted parties**, as well as when the Bank requests a **follow-up notice**.

After becoming aware of an **incident with material impact**, the PSP must...

RPAA section 18



Notify materially impacted end users, other PSPs and clearing houses

- Using the contact information provided by the impacted parties directly by email, text message, or the PSP's application; or
- Through publication on the PSP's website where contact information for all impacted parties is not available

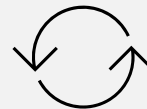


Notify the Bank

- Using a standardized form provided by the Bank



Follow-up notice



A PSP may need to issue one or more follow-up notices if the Bank determines that further information is required or should be reported.

RPAA subsection 19(2)

Significant change or new activity notification

Significant change or new activity notification

Notification of significant changes and new activities prior to their implementation at the PSP.

The Bank does not approve changes, rather the Bank will perform a review to verify that the PSP's planned change(s) will not impede the PSP's ability to remain in compliance with regulatory requirements.

The PSP must **notify the Bank**

RPAA section 22



Before making significant changes to the way it performs retail payment activities



If a new retail payment activity is planned



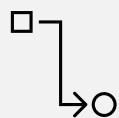
5 business days prior to the change or new activity

Change notification: *material impact*

Notifications of changes that could reasonably be expected to have a *material impact on operational risks or the manner in which end-user funds are safeguarded*. This does not include changes of an administrative nature.

RPAA section 22

Significant change



Potential significant changes

- Certain changes to how the PSP safeguards end-user funds (the means used, change in provider, substantive changes to terms and conditions)
- Starting or ceasing to outsource an activity
- Changing a technology for the provision of retail payment activities
- Ceasing to perform a retail payment activity

New activity



Potential new activities

- Beginning to perform a payment function that was not performed in the past

Change notification: *form of reporting*

Notifications are made to the **Bank** using a standardized reporting form.

The PSP must **notify the Bank**

RPAAs section 22



Before making significant changes to the way it performs retail payment activities



If a new retail payment activity is planned

- Details of the change (what it is and when it will be implemented)
- The assessed impact that the change will have on the PSP's operational risk management or the manner in which end-user funds are safeguarded both during and after the change is implemented
- Whether the change has been approved by the senior officer
- A list of documents created, updated or amended due to the change

Guideline consultation

Next steps: *Guideline consultation*

We are seeking feedback on the draft Guidelines and would appreciate your help in:

- Raising awareness with your members
- Identifying opportunities to engage with smaller members
- Providing feedback on behalf of your association

For each Guideline, we want to know if any aspects could be **clarified** or **challenging to implement**.



21 May 2024



Deadline for
written submissions

- Submissions can be made to RPSconsultationsSPD@bank-banque-canada.ca
- The Bank welcomes the opportunity to meet prior to your submission to discuss any preliminary feedback.

2024

To learn more about the consultation process, visit:

<https://www.bankofcanada.ca/core-functions/retail-payments-supervision/retail-payments-supervision-consultation/>