

# Public Consultation Report: Interim Retail Payments Advisory Committee (RPAC)

September 30, 2020

## Summary

The Interim Retail Payments Advisory Committee (RPAC) held its fourth meeting on September 30, 2020. Participants had their first discussion on reporting of incidents and significant changes.

| Who we consulted  |  |   |
|---|--|---|
| <p><b>Participants:</b></p> <ul style="list-style-type: none"> <li>• Bank of Canada</li> <li>• Department of Finance</li> <li>• Moneris</li> <li>• Nanopay</li> <li>• PayPal</li> <li>• Paytm (regrets)</li> <li>• Square</li> <li>• STACK</li> <li>• Telpay</li> <li>• TransferWise</li> <li>• Visa (regrets)</li> <li>• Western Union</li> </ul>  | <p><b>Method of engagement:</b></p> <p>Virtual (Webex)</p> | <p><b>Purpose of engagement:</b></p> <p>To facilitate the Bank of Canada’s understanding of the retail payments ecosystem and current business practices of payment service providers (PSPs).</p> |
| What we asked   |  |   |
| <ul style="list-style-type: none"> <li>• Participants were asked:               <ul style="list-style-type: none"> <li>○ Challenges they face when meeting incident reporting requirements set by regulators in various jurisdictions, specifically taking the Revised Payment Services Directive (PSD2) approach as an example; and</li> <li>○ Areas where clarity would be paramount in the context of reporting on significant changes.</li> </ul> </li> <li>• Detailed questions of what was asked can be found in the discussion note for this event.</li> </ul>   |  |   |
| What we heard   |  |   |
| <p><b><u>Incident Reporting</u></b></p> <ul style="list-style-type: none"> <li>• Multiple regulators requiring different types of incident reports can create a compliance burden for industry. Consistency between regulators would be helpful for the payments industry.</li> <li>• Clarity on when an incident should be reported to regulators is important and should be driven by clear parameters.               <ul style="list-style-type: none"> <li>○ A risk-based approach was suggested as an option to determine what would be a material incident. For example, identical types of incidents could pose different degrees</li> </ul> </li> </ul> |  |   |

of risk depending on variables such as the timing of the incident and/or the number of impacted end users.

- Guidance on the type and purpose of information required in an incident report, as well as the motivation behind collecting such information, would be beneficial.
- Notifying end users of incidents is typically done as part of maintaining end-user trust. Participants are doing this already in the absence of a legislative requirement.
  - Participants typically provide end users information about the impact of the incident and what is being done to rectify the situation.
  - This communication may take place using email, social media, in-app notifications, or a notification on the PSP's website. A communications channel is chosen based on the nature of the incident, i.e., affecting a small subset of customers as opposed to affecting an entire product line.
- Some participants emphasized the importance of having an open line of communication between the regulator and the regulated entity during an incident, rather than having the regulated entity follow stringent, inflexible rules with respect to reporting for the sole purpose of being compliant.
- An appropriate timeframe for an initial report following the detection of an incident is dependent upon what information is being sought by the regulator. The timeframe should be balanced against the PSP's resources being focused on resolving the incident. The initial report could be done quickly but may need to be a simple notification.
- It can be challenging for PSPs to gather sufficient information about an incident to determine if it is material before a regulator's deadline for an initial report, which can result in overreporting. It could be useful for the deadline to be related to when an incident has been determined to meet reporting thresholds rather than from when it is detected.

### **Significant Change**

- Much of the discussion focused on the purpose of significant change reporting, which is to determine whether and how controls for operational risk and end-user fund safeguarding may need to be added or modified as a result of that change to maintain compliance with the framework.
- Clarity on what is a "significant" change is important. Examples provided in the discussion note for this session are useful guidance.
- A 90-day timeframe for providing a notification on a potential significant change may be considered as too much in advance for some PSPs. Participants preferred a 30-day timeframe as a more realistic length for a "longer term" reporting option.
- Whether a PSP is required to "notify" or get "approval" from the Bank for a significant change influenced participants preference for the timeframe for reporting a change. If a change is "approved", a longer deadline with a response from the regulator would be preferred. If a PSP needs to "notify" the regulator of a change, a shorter timeline would be preferred. The Bank clarified that while this was a notification rather than approval, the significant change could result

in the Bank requesting certain measures so that the PSP maintains compliance with operational risk and end-user fund safeguarding requirements.

### What happens next

- The Bank of Canada will continue to support Finance Canada in the approach to reporting under the Retail Payments Oversight Framework.
- The Bank of Canada may return to RPAC in 2021 with additional discussion material on reporting.