BANK OF CANADA
BANQUE DU CANADA

Retail Payments Advisory Committee
Reporting of Significant Changes and Incidents

September 30, 2020

This note is provided to assist participants in preparing for the fourth Retail Payments Advisory Committee (RPAC) meeting. This meeting will have two primary objectives:

1. Understanding how retail payment service providers (PSPs) report incidents under other regulatory regimes, where relevant; and
2. Soliciting PSPs' views on their preferred timing for reporting a significant change to the Bank.

Questions are provided to help guide preparation for the meeting. Questions should not be viewed as mandatory, nor as exhaustive. They are a starting point for discussion to assist the Bank in gathering information on PSP's reporting practices.

Session 1: Incident Reporting

The purpose of this session is to understand PSPs' current practices for incident reporting and challenges associated with this reporting.

In July and August, RPAC discussed the objectives and scope of what may be expected of PSPs with respect to operational risk management, and, at a high level, the concepts that could be covered within such expectations. For example, PSPs may need to have plans for responding to, and recovering from, operational incidents. This is a similar expectation to the European Banking Authority's revised Payment Services Directive (PSD2), where PSPs are expected to establish and maintain effective incident management procedures.

Continuing to use PSD2 as an illustrative example, PSD2 also requires PSPs to report major operational incidents to their regulator and to payment service users when their financial interests are impacted. There are three stages at which information must be reported to a PSP's regulator:

1. Without delay when the incident is detected ("initial report");
2. When the PSP determines there is a relevant update ("intermediate report(s)"); and
3. Following root cause analysis, no more than two weeks after business has been deemed back to normal ("final report").

PSD2 further requires that a PSP's final report to its regulator include the following information:

- **Incident detection** – e.g., date and time of detection, how the incident was detected;
- **Incident description** – e.g., specific issue, cause, actions taken;
- **Incident classification** – e.g., number of transactions affected, service downtime, payment service users and other PSPs affected;
- **Incident impact** – e.g., payment services affected, systems and components affected;
- **Incident mitigation** – e.g., if the business continuity plan was activated; and

- **Root cause analysis and follow-up** – e.g., root cause, corrective actions/measures taken or planned to be taken to prevent incident from reoccurring.

1. **Do you currently report operational incidents to other regulators? If so:**
    a. To whom, and for what purpose?
    b. Are all incidents reported, or only those that meet a certain threshold?
    c. If applicable, what is the threshold?
    d. What information do you need provide to the regulator?
2. **Do you currently notify end users of operational incidents? If so:**
    a. Are you required to do so by law? If so, what law(s)?
    b. Are end users notified of all incidents, or only those that meet a certain threshold?
    c. If applicable, what is the threshold?
    d. How do you communicate the information to the end user?
    e. What information do you share with the end user?
3. **PSD2 interprets "without delay" as within four hours of detection of the incident. What challenges are you aware of, or do you think could arise, with respect to providing an initial report within this timeframe?**
4. **What concerns, if any, do or would you have with the information that PSD2 requires PSPs to report to its regulator as part of its final report? Why?**

Session 2: Significant Change Reporting

The purpose of this session is to solicit PSPs' views on their preferred timing for reporting a significant change to the Bank.

As outlined in the Department of Finance Canada's 2017 Consultation Paper, *A New Retail Payments Oversight Framework*, PSPs will be required to report certain information to the Bank when there is a significant change in their business activities. **The Bank would consider significant changes to be those that could have a material impact on a PSP's operational risks or management of those risks, or its end-user fund safeguarding practices.** For example, changes to a PSP's method for safeguarding funds, adoption of a new technology to operate the PSP's retail payment activities, movement of operations to a different jurisdiction, or outsourcing of significant portion of operations, where those operations had previously been conducted in house could all be significant changes.

Before a significant change is made, the Bank would expect to be informed of the change and would seek information to allow it to assess whether the change would affect the PSP's compliance with the Bank's operational risk management or end-user fund safeguarding requirements. This could include information about:

- What the change is;
- Reason for the change;
- When the change would be implemented;
- Confirmation the change has been approved by management;
- The risks associated with the change and how they will be mitigated; and
- The risks once the change is implemented and how they will be mitigated.

5. **Do you currently report significant changes to other regulators or entities? If so:**

a. To whom do you report?

b. Are all changes reported, or only those that meet a certain threshold (e.g., significant)? If applicable, what is the threshold?

c. What type of information do you provide in the notice?

d. Are there any best practices for reporting significant changes followed by these regulators or entities?

e. Do you find any aspects of reporting significant changes to be challenging?

6. **What challenges would you have, if any, with reporting the suggested information listed above about a significant change to the Bank?**

   a. What type of additional guidance from the Bank would you find helpful to address these challenges?

Timelines for reporting changes to the Bank will need to be established. The Bank envisions two alternative reporting timelines for when this information would need to be reported to the Bank:

1. **Longer notification period to the Bank (e.g., 90 days) –** Significant changes would be reported to the Bank well in advance of the change so that the Bank can review the change and identify any concerns before the change is implemented; or
2. **Shorter notification period to the Bank (e.g., 5 days) –** Significant changes would be reported to the Bank shortly before the change to allow PSPs to take a more agile approach in making changes, but with the Bank potentially identifying concerns following execution of the change that would need to be rectified.

7. **Are the example timeframes of 90 days and 5 days reasonable for the longer- and shorter-term options, respectively?**

   a. What challenges would you have, if any, with meeting the: (i) 90-day deadline?

   b. What challenges would you have, if any, with meeting the: (i) 5-day deadline?

8. **What is your preference for the timing of reporting a significant change to the Bank: (i) well in advance of the change (longer term); or (ii) shortly before the change (shorter term)? Why is this your preference?**

9. **What other options, if any, should be considered for the timing of reporting a significant change to the Bank?**