



# Retail Payments Advisory Committee – Brief Overview of Retail Payments Supervision

23–24 September 2021

This note provides a brief overview of Retail Payments Supervision to assist participants in preparing for the Retail Payments Advisory Committee (RPAC) meeting in September 2021. Under the *Retail Payment Activities Act*, which received Royal Assent on 29 June 2021, a payment service provider will be required to register with the Bank of Canada and comply with operational risk management and end-user fund safeguarding requirements. The remainder of this note covers what a payment service provider is, what it would be required to do, and a few clarification points in relation to the supervisory program.

**Please note that the material contained in this note distills what is written in the RPAA in plainer terms for readability, and it should not be seen as a comprehensive statement of the RPAA's requirements or the Bank of Canada's interpretation of those requirements.**

## Who is a Payment Service Provider?

Under the RPAA, a payment service provider (PSP) is an individual or entity that performs one or more of five listed payment functions as a service or business activity that is not incidental to another service or business activity. As such, a variety of entities will be captured, such as payment processors, digital wallets, currency transfer services, and other payment technology companies.

The five payment functions are:

- providing and maintaining a payment account for transferring funds electronically;
- holding funds until an end user withdraws or transfers them through an electronic funds transfer;
- initiating an electronic funds transfer as requested by an end user;
- authorizing an electronic funds transfer or transmitting, receiving, or facilitating instructions about an electronic funds transfer;
- clearing or settling electronic funds transfers.

These payment functions need to be performed in relation to an electronic funds transfer that is made in the currency of a country, or using a unit that meets prescribed criteria. These criteria would be outlined in regulations pursuant to the RPAA. The Department of Finance Canada will be leading the work on what, if any, criteria should be prescribed in regulations. These criteria will determine whether payments in non-fiat currencies (e.g. stablecoins) are subject to the RPAA.

Having a place of business in Canada is not a requirement to be subject to the RPAA. Thus, a foreign PSP would be in scope of this framework if it directs its payment services to individuals or entities in Canada.

Based on the functional approach of the RPAA, which uses the five payment functions to scope in entities for supervision, various financial institutions, such as banks, credit unions, trust companies, and insurance

companies, would technically be a PSP. However, the RPAA will not apply to entities that are prudentially regulated under federal or provincial laws, even if they otherwise meet the definition a PSP. This ensures the RPAA fits into the broader financial regulatory framework in Canada rather than be duplicative.

The Bank of Canada would like to engage on the scope of the framework in more detail with RPAC and the industry more broadly. Discussions will include, but not limited to, what constitutes an incidental payment service or business activity. The relevant discussion material can be found in the document titled Registration Scope: Discussion guide #1.

## What requirements apply to a Payment Service Provider?

A PSP will need to meet a number of key requirements set out in the RPAA.

### Registration

A PSP will need to register with the Bank of Canada before performing any retail payment activities. Initially, there will be a transition period whereby existing PSPs will have a prescribed registration window.

To register, a PSP will need to submit an electronic application form and pay a fee. The Bank of Canada would like to engage on the basics of registration as well as the types of information that may be requested in the application form in more detail with RPAC and the industry more broadly. The relevant discussion material can be found in the document titled Registration Process: Discussion guide #2.

### Operational risk management and end-user fund safeguarding

A PSP will need to comply with operational risk management and incident response requirements, to preserve the integrity, confidentiality, and appropriate availability of the PSP's retail payment activities and of the systems, and data or information that provide or facilitate the provision of those activities.

A PSP that holds end-user funds will need to comply with end-user fund safeguarding requirements that protect end-user funds from the possibility that the PSP becomes insolvent and ensure end users' timely and reliable access to their funds held by the PSP.

The Bank of Canada published several discussion papers on these two requirements throughout 2020, and links to key papers are below. RPAC members and the industry more broadly are welcome to send further feedback on these papers [via email](#).

- [Discussion paper on operational risk management](#)
- [Discussion paper on end-user fund safeguarding](#)

### Reporting

A PSP will need to submit information to the Bank of Canada, all of which would be used for the Bank of Canada to assess whether the PSP is meeting the requirements under the RPAA. More specifically, a PSP will be required to:

- Submit a regulatory report on an annual basis;
- Report any incident that could have a material impact on an end user, a PSP, or a clearing and settlement system (also known as financial market infrastructures);
- Notify the Bank of Canada before making a significant change in the way it performs a retail payment activity or before it performs a new retail payment activity; and

- Meet the Bank of Canada’s request for information.

The Bank of Canada would like to engage on the requirements to submit a regulatory report on an annual basis and to meet information requests with RPAC and the industry more broadly. The relevant discussion material is expected to be posted in late 2021, and the link will be provided here, and the Bank of Canada will provide an update to the industry on the precise mechanism for gathering input at a later date.

The Bank of Canada published a [discussion paper](#) regarding incident reporting and significant change reporting in 2020. RPAC and the industry more broadly are welcome to send further feedback on these papers [via email](#).

## Fees

A PSP will need to pay a fee when it applies for registration (as noted on Page 2), and once registered, it will be required to pay an annual assessment fee to offset the expenses related to the Bank of Canada’s supervisory role.

The Bank of Canada would like to engage on key principles that would set the foundation of designing the fee structures and discuss various options that could be considered as the Department of Finance Canada works toward setting regulations in relation to these fees. The relevant discussion material is expected to be posted in late 2021, and the link will be provided here. It is anticipated to be tabled at a RPAC meeting in late 2021 or early 2022.

## What is, and is not, the Bank of Canada’s role?

The Bank of Canada will maintain a public registry of all regulated PSPs, as well as a list of those whose registration has been refused or revoked, and supervise payment service providers to determine whether they are meeting the requirements under the RPAA with the aim of building confidence in the safety and reliability of PSPs’ services. The Bank of Canada will also promote compliance with these requirements and monitor and evaluate trends and issues related to retail payment activities.

The Bank of Canada’s powers under the RPAA do not extend to broader consumer protection measures, such as: dispute resolution between a payment service provider and its end users; concerns about fees charged by payment service providers; and privacy complaints. Furthermore, unlike traditional prudential regulatory regimes, the Bank of Canada’s role will not focus on the financial condition of the PSP.

The RPAA includes a number of national security safeguards for which Canada’s Minister of Finance is responsible. These safeguards provide the Minister of Finance with authority to refuse or revoke the registration of a payment service provider that poses national security-related risks. The Minister could also impose conditions, require an undertaking, or issue directive orders to mitigate risks, if appropriate.

Illustration on the next page captures a few clarification points about Retail Payments Supervision that may be useful for industry stakeholders.

