

Access to Bank of Canada Settlement Accounts for Lynx and ACSS

The Bank of Canada (Bank) provides settlement accounts to direct participants in Lynx and direct clearers in the Automated Clearing Settlement System (ACSS).

The Bank has designated Lynx as a systemically important payments system and ACSS as a prominent payments system under the *Payment Clearing and Settlement Act*. Both systems – owned and operated by Payments Canada – are critical to the Canadian financial system and economy.

This document describes the requirements that must be met by applicants for the Bank to consider granting a settlement account for either of these systems. These requirements update and replace the requirements associated with Lynx and ACSS which were communicated in the Bank's February 26, 2019 paper *Access to Bank of Canada Settlement Accounts*.

The Bank's provision of a settlement account for either of these systems can provide benefits to the payments ecosystem but may also expose the Bank, Payments Canada and/or other participants to risk. These requirements are designed to balance the benefits and risks.

The Bank reserves the right to request additional information beyond what is specified to assess applicants, and in all cases reserves discretion as to whether to provide a settlement account.

For existing settlement account holders of these systems, the Bank will confirm on a regular basis that these requirements continue to be met. The Bank may require settlement account holders to periodically provide information to facilitate this confirmation.

The Bank regularly reviews – and may periodically update – these settlement account requirements.

Settlement account requirements

Payments Canada associated requirements

Eligible settlement account applicants are those that qualify for Payments Canada membership in accordance with the *Canadian Payments Act* and meet Payments Canada's participation requirements as defined in the Lynx and ACSS rules.

Legal requirement

Successful applicants must sign the Bank's Settlement Account Agreement, which sets out the rights and duties of both the Bank and the accountholder with respect to maintaining a settlement account on an ongoing basis. Where payment system activities require the provision of credit from the Bank, applicants must also formalize with the Bank any other ancillary legal agreements and deliver to the Bank such other agreements or documents that may be required from time-to-time.

Regulatory requirement

Applicants must be subject to comprehensive and risk-based Canadian prudential regulation. This may be conducted at the federal level (i.e. by OSFI) or at the provincial level where regulators have adopted regulatory standards that are broadly equivalent to those implemented by OSFI.¹ Canadian

¹ Due to the different nature of their regulation and supervision, securities dealers, money market mutual funds, and insurance companies (including those regulated by OSFI), are not captured in this definition and thus not eligible for settlement accounts.

branches of foreign banks are authorised by OSFI to conduct certain activities in Canada, but their assessment will also take into account the regime adopted by their home regulator(s).

Business need requirement

Settlement accounts only serve payment system purposes. They are distinct from other central bank accounts and lending policies made available to some market participants for other policy reasons. Applicants must clearly explain their payments-related business need for a settlement account applicable to the given system for which they are applying.

Financial requirement

Applicants will need to have a credit quality deemed by the Bank to be generally equivalent to investment grade or above (i.e. BBB- or above). The Bank will evaluate whether this requirement is met, and continues to be met over time, using the Bank's internal credit rating framework. This framework will establish a risk profile for each applicant that specifically accounts for:

- Canadian-owned FIs' core business activities and risks. However, for payment system purposes this will not take account of an FI's degree of regional or business concentration.
- Canadian activities and risks of the subsidiaries of foreign owned FIs, as well as the financial health of the ultimate parent bank; and
- Foreign bank branches' global activities, including the broader institutional and regulatory frameworks of the jurisdiction in which they are located.

The Bank does not use non-public regulatory or supervisory information for its credit assessments. While it may use analysis published by credit rating agencies, the Bank's credit assessments are not derived from these ratings. Where there is not sufficient information available to carry out a full credit assessment, the Bank may request additional information directly from the applicant.

Cyber security requirement

Lynx and ACSS settlement account holders access settlement account services through a secure Bank-developed application called the High Availability Banking System (HABS).

To mitigate risks in providing external access to HABS, the Bank has developed a set of cyber security requirements to ensure that fundamental security principles are being followed by settlement account holders. This includes controls around restricting external access, encryption, vulnerability management, physical security, and personnel security.

Applicants must attest to meeting the Bank's cyber security requirements.

Know Your Client requirement

Applicants must satisfy the Bank's Know Your Client requirement which includes collection of due diligence information and information detailing the directors and beneficial ownership of the applicant.

Applicants will also be required to attest to the presence of a financial crimes program and confirm that financial crimes controls are in place such as ongoing monitoring of its business relationships. This supports the Bank's responsibility to perform due diligence on those who will be settling payments via settlement accounts on the books of the Bank.

Operational requirements

The Bank's operational requirements are designed to minimize operational risks associated with settlement account management.

Settlement account holders are expected to have the ability to pledge eligible collateral to the Bank using CDSX of CDS Clearing and Depository Services Inc. (or have a custodial arrangement in place to do so) to support the risk models of the applicable systems and for other services as applicable.

ACSS settlement account holders will be required to settle their net settlement obligation daily via a Lynx payment. Applicants that are not direct participants in Lynx will need to arrange for a Lynx direct participant to perform this settlement on their behalf.

Approved applicants will undergo an onboarding process that includes requirements for connectivity, user management, training, testing, contingency and collateral management. At the application stage, the Bank may enquire about and review an applicant's operational capability to assuredly meet these onboarding requirements on an ongoing basis.

Collateral-associated requirement

The Bank will review whether the applicant has sufficient liquidity, such as available eligible assets to be pledged for the SLF, available lines of credit, or other liquidity arrangements, as applicable. The Bank will assess if the applicant's arrangements are sufficient to meet its obligations of the given system(s), including – in the case of ACSS - under a stress scenario where additional liquidity and collateral may be required in a short period of time to manage a participant default.²

² ACSS direct clearers are exposed to credit risk in the ACSS. This risk materializes in the event of another direct clearer's default, via a survivors-pay loss-allocation mechanism.