

# What we heard in 2022: Discussions with industry to develop supervisory guidance

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## Introduction

The Bank of Canada is developing supervisory guidance related to the *Retail Payments Activities Act* (RPAA). This guidance will clarify our expectations for payment service providers (PSPs) that fall within the retail payments supervision (RPS) framework. It will also explain how we interpret the RPAA and its supporting regulations. The Bank will issue the guidance after the RPAA regulations are published in Part II of the *Canada Gazette*.

In 2022, we held meetings with payments industry stakeholders—in addition to formal meetings with the [Retail Payments Advisory Committee \(RPAC\)](#)—to help us develop the supervisory guidance. While we continue to engage with stakeholders primarily through the RPAC, these additional meetings provided a window into the operations and practices of PSPs. This helped us better understand the potential impact of the Bank's supervision on payment industry stakeholders. Additionally, we met with regulators in Canada and around the world to learn more about best practices to inform our internal operations as we move into a regulatory role.

In this report, we note the stakeholder groups we met with throughout 2022, what we heard from them, how we will use this feedback and what's next.

## Who we consulted



Throughout 2022, we met with a wide range of payment industry stakeholders, including industry associations, money service businesses (MSBs) and potential PSPs of varying sizes. We also met with financial sector regulators in Canada and around the world to gain a deeper understanding of best practices as we equip our internal operations to effectively carry out our supervisory role.

In total, we held more than 120 discussions with industry stakeholders and regulators.

## What we heard

### Industry insights

The following themes emerged from our discussions with industry stakeholders.

#### Geographic scope

- Some industry stakeholders had concerns that the Bank would adopt a broad interpretation of the supervisory requirements in the RPAA to include entities that provide services to Canadians who are temporarily living, attending school, working or vacationing outside Canada.
- Similarly, stakeholders shared their views on RPAA applicability to PSPs based outside of Canada. Some suggested that only Canadian entities should be required to register with the Bank.

#### Registration

- Some potential PSPs raised concerns over the connection between the RPAA and Real Time Rail (RTR) and the potential gap between release dates. They noted that competitive issues may arise if certain PSPs have access to RTR before others. Stakeholders suggested a temporary bridging solution to allow some PSPs early access to RTR before they register under the RPAA.

#### Safeguarding end-user funds

- Stakeholders provided us with useful insights into how MSBs and potential PSPs currently hold and manage end-user funds. This included:
  - operational practices such as how long funds are held
  - corporations' use of MSBs and potential PSPs for indirect banking services
  - segregation of end-user and corporate funds
- Some industry stakeholders noted constraints for implementing safeguarding options.

#### Operational risk

- Industry stakeholders explained how they understand their operational risks and the steps they take to actively manage them. This included current risk management practices and how they differ depending on the size of the MSB or potential PSP.
- Industry stakeholders suggested that we should strike a balance between principles and rules to benefit from existing practices when we develop guidance on operational risk.

### Regulatory best practices

The following themes emerged from our discussions with regulators.

#### Internal operations

- We learned more about the day-to-day policies and procedures of financial regulators from around the world. This information will be highly useful as we take on our new supervisory function.

#### Enforcement

- Regulators shared their supervisory best practices, investigation processes, administrative monetary penalty regimes, collection processes and payment processing experiences.
- Regulators demonstrated how they structure the review process to ensure the overall organizational design maintains procedural fairness between the review and enforcement functions.

- Our peers shared information about how they manage their relationships with fellow regulators recognizing that financial sector regulations are often highly interconnected between organizations.

## How we'll use the feedback

The robust discussions with industry stakeholders and regulators were invaluable in helping us better understand the range of PSPs who will be under our supervision and how the RPAA will affect them. This is important for developing a cohesive and effective approach to supervising entities of varying sizes and complexity.

The discussions also allowed us to hear about areas of concern and issues requiring further clarity as the RPAA comes into force. Overall, the input we received is helping us draft clear guidance for all entities in the payments ecosystem.

Our discussions with regulatory peers were also highly valuable as we equip our operations to support the supervisory role.

## What's next

We are actively considering the feedback we heard in 2022 as we work to develop the supervisory guidance.

In addition to ongoing discussions with the RPAC in 2023, we will continue to engage with industry stakeholders to seek feedback on various aspects of our supervisory role and to raise awareness of the RPS function.

The Bank will issue the guidance after the RPAA regulations are published in Part II of the *Canada Gazette*.