

2019 Federal Pre-Budget Consultations**Submitted to:****House of Commons Standing Committee on Finance c/o David Gagnon, Clerk****Submitted by:****Electronic Transactions Association****Ottawa, ON****August 3, 2018**

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2019 Federal Pre-Budget Consultations

The Electronic Transactions Association (“**ETA**”) submits these comments in response to the House of Commons Standing Committee on Finance 2019 Pre-Budget Consultations – *Economic Growth: Ensuring Canada’s Competitiveness*.

Canada’s financial ecosystem is rapidly changing and the payment industry is on the cusp of technological transformation. Fintech is changing the way Canadians are interacting with the economy around them and other parts of the global supply chain. The payments industry is essential to a high-functioning economy – large enterprises, small business and direct consumers rely on payment companies every day. To enhance international competitiveness, Canada needs a payment system which benefits business, increases participation while at the same time protects consumers. According to the Department of Finance, Canadians make \$200 billion worth of payments each day.

ETA is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services. ETA’s members include financial institutions, mobile payment service providers, mobile wallet providers and non-bank online lenders that make commercial loans, primarily to small businesses, either directly or in partnership with other lenders. ETA member companies are creating innovative offerings in financial services, revolutionizing the way commerce is conducted with safe, convenient and rewarding payment solutions and lending alternatives.

Canada’s payment system is industry led by Payments Canada, while not a crown corporation it does carry out a public purpose function in the operation of Canada’s core payment clearing and settlement systems. The Department of Finance has a regulatory oversight role in the system.

Recommendation 1: Introduce Real-Time Rail to Encourage Economic Growth

To encourage economic growth, ETA and its members support modernization of the Canadian payments systems, especially the introduction of Real-Time Rail (“**RTR**”), to serve as platforms for innovation in the Canadian payments ecosystem.

ETA believes that it is important that the eligibility criteria to participate in the RTR, Settlement Optimization Engine (“**SOE**”) and Lynx (collectively, the “**Payments Systems**”), and the accompanying legal rules and framework, be developed in a manner that allows broad access to the payments ecosystem (whether directly or indirectly) and facilitates continued innovation and development in the FinTech industry while maintaining a proper risk management framework. ETA and its members believe that this broader access to the Payments Systems will ultimately enable more market participants to deliver innovative payment services to customers at more favourable cost for consumers and businesses.

Recommendation 2: Allow Flexible Membership for FinTech

ETA and its members understand the importance of establishing eligibility requirements for obtaining access to the Payments Systems. In that regard, in framing the eligibility criteria, the ETA and its members caution that if the ability to participate in RTR is too restrictive or overly

cumbersome, this will have a negative impact on competition and ultimately on the products and prices available to consumers. ETA and its members support the creation of an associate membership class to facilitate risk-based access to the RTR, as well as the proposed access for associate members to the exchange networks for electronic payments streams that will clear through the SOE, subject to the comments below.

In determining eligibility for access to the RTR, the gatekeeping function should be proportional to the risks that the system aims to mitigate. In that regard, ETA and its members believe that in allowing institutions to access the RTR, the rules should take into consideration an institution's risk profile, size, institution type, the products it offers and what regulatory regime it is subject to. The ETA believes that proper access rules formulated using objective, risk-based criteria will serve as a platform for innovation in the Canadian payments ecosystem, which is in line with the stated policy objectives of the Department of Finance.

In formulating the access rules, the Department of Finance should tailor the approach so that it is appropriate for the FinTech industry's participation. In that regard, the access rules should ensure that the FinTech industry is provided with a level playing field so that its members can effectively compete in the Canadian market and have a positive regulatory framework for innovation. Where the regulatory requirements are too onerous and are not developed in accordance with objective risk management practices, it will be more difficult for the FinTech industry to participate and as a result, competition and innovation will be lessened. As such, the ETA supports leveraging the Retail Payments Oversight Framework ("RPOF") as a precondition for associate members to access the RTR and the exchange networks of the SOE. The ETA and its members recognize that while the goal of fostering competition and innovation is important, it needs to be balanced with mitigating risks in the payment system. The RPOF and its prudential regulatory controls will generally avoid duplicative sets of regulation to address similar risks and ease barriers of entry into the Payments Systems.

ETA and its members believe greater access for non-traditional payment services providers using objective, risk-based criteria will serve as a platform for innovation in the Canadian payments ecosystem. At the same time, regulation of associate members under the RPOF and oversight by the Department of Finance through its compliance and enforcement standards will ensure that the safety and soundness of the Payments Systems are preserved. Experiences elsewhere in the world have found that easing barriers to entry into payment systems, with the appropriate controls to maintain safety and soundness, leads to increased competition and innovation in the provision of payments services, ultimately benefiting both consumers and businesses. ETA and its members support the Department of Finance in its work to pursue this objective.

Recommendation 3: Modernize the Governance Structure Applicable to Associate Members at Payments Canada

ETA and its members support a governance structure that reflects the views of a broad range of participants in the Payments Systems to facilitate decision-making that supports competition and innovation, while at the same time maintaining safety and soundness. The broader access to the Payments Systems facilitated by the associate membership class should be accompanied by a means for the expertise and experience of both non-traditional and traditional payment services

providers be reflected in Payments Canada's decision-making, whether through advisory or other governance processes.

ETA and its members support participation in Payments Canada's governance structure by a range of members and stakeholders, including by incorporating associate members into the advisory councils. The ETA and its members recognize that several non-traditional payment services providers currently participate on the Stakeholder Advisory Council as non-member stakeholders, but that this may no longer be appropriate for non-traditional service providers who become associate members. As such, incorporating associate members into the Member Advisory Council ("**MAC**") forum would support the MAC in its role to provide counsel and advice to Payments Canada's Board on clearing and settlement systems, the interaction of those systems with other systems involved in the exchange, clearing or settlement of payments and the development of new technologies. Further, any changes to the core governance structure of Payments Canada should respect the existing level of independence for Payments Canada's Board.

Conclusion

Canada's economy depends on a reliable, flexible and inclusive payments system. Budget 2019 should in part focus on the changing nature of our financial system and lay the groundwork for a modern payment economy. Enhancing competitiveness means enabling competition through modern and flexible regulatory regimes. Consumers in Canada will benefit from increased choice, lower priced products and increased financial confidence in their lives.

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