

February 23, 2018

Delivered via e-mail: consultation@payments.ca

Comments re: Modernization Target State-Payments Canada

The Electronic Transactions Association (“**ETA**”) submits these comments in response to Payments Canada’s request for comment on its Modernization Target State. ETA and its members support Payments Canada’s vision for modernization and specifically the introduction of a Real-Time Rail (“**RTR**”) to serve as a platform for innovation in the Canadian payments ecosystem. We hope that these comments will assist Payments Canada and its stakeholders in tailoring the RTR platform for broad application to the FinTech industry.

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. As a result, ETA applauds Payments Canada’s commitment to innovation and its efforts to develop the RTR platform in a manner that will benefit both consumers and businesses.

General Comments

ETA and its members support an inclusive financial system that provides secure and faster payments with enhanced functionality to benefit consumers and businesses. In that regard, ETA believes that it is important that the eligibility criteria to participate in the RTR platform, and the accompanying legal rules and framework, be developed in a manner that allows access to the payments ecosystem (whether directly or by way of a sponsorship model) and facilitates continued innovation and development in the FinTech industry while maintaining a proper risk management framework. The ETA and its members believe that broader access to the RTR will ultimately enable more market participants to deliver innovative payment overlay services to customers at a favourable cost.

In keeping with the foregoing, ETA and its members believe that the following principles are important in developing the future payments state for the Canadian payments framework:

I. System Access

The 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. As such, the ETA and its members believe that in establishing eligibility criteria for the RTR system, Payments Canada should consider a risk based approach that leverages off the new Retail Payments Oversight Framework that is concurrently being developed by the by the Department of Finance to avoid duplicative sets of regulation to address similar risks. Experiences elsewhere in the world have found that easing barriers to entry into the payment system, with the appropriate controls to maintain safety and soundness, leads to increased competition and innovation in the provision of payments services which ultimately benefits both consumers and businesses. ETA and its members support Payments Canada in its work to pursue this objective.

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, the ETA and its members believe that in allowing stakeholders 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, in line with the stated policy objectives of Payments Canada. In formulating the access rules, Payments Canada 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 it 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 sound risk management practices, it will be more difficult for the stakeholders to participate and as such, competition and innovation will be lessened.

The ETA and its members also recognize that while the goal of fostering competition and innovation is important, it needs to be balanced against mitigating risks in the payment system. In keeping with the foregoing, in the event that Payments Canada determines to allow access to the RTR platform through a sponsoring institution, then, in those circumstances the proposed regulatory burden for the FinTech industry should be lightened, as the sponsoring institution would be undertaking its own due diligence on the FinTech participant and be responsible for its actions, thereby lessening the risk on the system. Alternatively, where the model adopted allows direct access to the RTR platform by the FinTech industry, it is more appropriate for there to be more rigorous controls. As previously noted, the ETA and its members believe that in order to avoid duplicative regulatory requirements and an onerous legal framework, Payments Canada should consider leveraging off the Retail Payments Oversight Framework and use that framework and its prudential regulatory controls as a basis for allowing FinTech participants direct access to the RTR platform.

II. Encourage competition

The ETA and its members support an inclusive financial system that provides high quality, secure and affordable financial service for the broadest set of consumers and businesses. In that regard, the ETA fully supports a modernized payment system that will result in increased competition and financial inclusion while also ensuring safety and soundness. In order to maintain a competitive marketplace, it is

important that Payments Canada, as part of its modernization effort, take into account the costs of participation that may be imposed on FinTech participants for using the RTR platform, whether directly or indirectly, so that all participants are on a level playing field.

In that regard, it is important that costs (both direct and indirect) for a FinTech's access to the RTR platform not be structured in a manner that will pose a strategic disadvantage to FinTech participants. If the cost benefit analysis for adopting security technologies is too cumbersome so that it is decided that only financial institutions will be allowed to participate directly, the rules for indirect access/participation should not be expensive so that they effectively create a barrier to access. Any such costing will undoubtedly affect the level of services that can be provided by FinTechs thereby affecting the overall competitive market and the resulting choices for payment services that are available to end users. While the FinTech industry offers benefits for consumers in providing access to affordable financial products and services, it faces limitations to do so when the costs to participate are prohibitive. In adopting the participation requirements (whether direct or indirect) the ETA and its members believe that Payments Canada should preserve these cost benefits by ensuring that the participation requirements take into account the unique attributes of the FinTech Industry. If smaller institutions cannot scale to the required standards, it is important that they have an indirect path into the RTR platform that is affordable so that there is a level the playing field for all participants.

III. Safety and soundness

The ETA and its members understand that for the RTR platform to function properly and have broad adoption, safety and security protocols are critical. As such, the ETA and its members agree that there should be established rules and standards that will incorporate a baseline set of requirements to enable payments to move securely where end users have trust and confidence in the system. In keeping with the regulation of Prominent Payment Systems, the ETA and its members support a system that addresses legal, credit, liquidity, operational and other risks across the system.

Whether RTR access is provided to FinTech participants directly or through a sponsoring financial institution, the final framework adopted should be both fast and secure. The ETA and its members encourage Payments Canada to work with banks and/or other institutions with direct access to the RTR platform to ensure the adoption of a collaborative approach which allows for the sharing of information to enhance cyber security threat protections and support payment system resiliency while at the same time enabling FinTech's to seamlessly adopt to the required protocols. Ensuring the proper rules are crafted will aid in achieving broad adoption, safety, trust and the required interoperability between systems and parties. The participation requirements for the RTR platform should be crafted to ensure all banks and non-banks have operational, financial and legal capacity to fulfill their obligations. If there is a sponsored system, the rules and frameworks for access should be agreed to in cooperation with the FinTech industry.

The oversight should integrate with adopting appropriate payment security standards. The FinTech industry offers a number of benefits for consumers and end users including financial inclusion and access to affordable financial products and service. The safety and soundness provisions of the RTR platform should be tailored to preserve these benefits while addressing safety and soundness considerations.

IV. Efficiency

ETA supports a positive regulatory environment for innovation, in line with the principles espoused by both the Competition Bureau (in its report of *Technology led innovation and emerging services in the Canadian financial services sector*) and Payments Canada (in its *Modernization Target State* report). Inefficiencies generally result in higher costs preventing end users from benefitting from the advanced technologies that the FinTech industry has to offer. In keeping with principles of efficiency, it is important that any standards adopted be flexible to adapt to changing technologies. In respect of regulations, the ETA believes that any regulations drafted for participation in the RTR platform (whether direct or indirect) should leverage off existing legal frameworks, to avoid duplicative regulatory burdens that result in inefficiencies and higher costs for end users of FinTech services, depriving end users from obtaining the benefits of the advanced technology that the FinTech industry has to offer. It is also important that participants beyond traditional banks be included.

V. Transparency

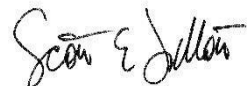
As the Target State documents note, an open, transparent and competitive dialogue process was initiated for Lynx, and we would encourage that the same rigour be applied in the final selection of the Real Time Rail (RTR) vendor. While it is our understanding that other service providers may eventually be allowed to bid on work associated with the RTR, the specific timeframes and criteria are opaque. The ETA and its members believe that a more open and transparent bidding process, as well as clearer timeframes, would drive competition and innovation, bring in international expertise and invite more points of view.

As such, the ETA and its members strongly encourage an open and transparent bidding process and more open access for service providers as Payments Canada moves forward with Lynx and the RTR. Canada has the unique opportunity to fundamentally overhaul how it understands payments and build a globally competitive payments system, and as such, the ETA and its members encourage Payments Canada to adopt a global approach and to examine other options beyond those that have been historically used.

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ETA thanks you for the opportunity to submit these comments.

Respectfully submitted,



Scott Talbott
Senior Vice President of Government Affairs
Electronic Transactions Association
stalbott@electran.org