

Electronic Transactions Association



Written Submission for the Pre-Budget Consultations in Advance of the 2023 Budget

Recommendations

- **Recommendation 1:** That the Government of Canada move quickly to finalize the framework for **open banking** in order to generate economic benefits to the Canadian economy, most importantly new opportunities for small businesses to access innovations in financial lending.
- **Recommendation 2:** That changes be made to Canada's payments system, including amendments to the **Canadian Payments Act** ("CPA") to broaden the membership of Payments Canada to allow access to new system participants who are focused on payments. ETA urges changes to the CPA be included in this Budget cycle, given that they are a requirement for the successful implementation of Payment Canada's Real-Time Rail ("RTR") initiative.
- **Recommendation 3:** That the Government of Canada adopt a principles-based approach to cryptoassets to ensure the legislative framework best serves the needs of consumers and businesses, furthers financial inclusion, preserves and strengthens the financial system, minimizes fraud and money laundering, and ensures that consumers and businesses continue to have access to a robust and innovative array of secure banking and payment options.

About ETA

The Electronic Transactions Association (ETA) is the leading trade association for the payments industry, representing over 500 companies that offer electronic transaction processing products and services. Its membership spans the breadth of the payments industry to include independent sales organizations, payments networks, financial institutions, transaction processors, mobile payments products and services, payments technologies, equipment suppliers, and online small business 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. ETA advocates for the payments industry in Canada to help drive innovation in the global market for payments technology services.

Contribution of ETA Members to the post-pandemic recovery

As an industry that tracks alongside the overall performance of the economy, the payments sector has experienced considerable turbulence throughout the pandemic. The periodic stay-at-home orders and shutdowns between March 2020 and spring 2022 had a pronounced impact on retail, hospitality and travel businesses that are responsible for a large volume of electronic payments. With the gradual return to improved economic conditions, however, the payments sector has been able to contribute to the recovery efforts of these and other sectors.

ETA members saw a notable shift during the pandemic in the ways in which Canadians pay for goods and services, as all manner of previously face-to-face interactions moved online. The decline in the use of cash in the past two years that is one consequence of this phenomenon. The Bank of Canada has noted that by November 2020 the volume of cash used for retail transactions in Canada had fallen to 22% compared to 33% in 2017. This trend had been underway for some years (in 2009, for example, cash represented 54% of retail payments volume), but the pandemic undeniably accelerated the momentum toward electronic payments and away from cash.

As the value and convenience of electronic payment options has become even more apparent many retailers have expanded the suite of payment options available to their customers. By mid-2021, 44% of SMEs were offering consumers the option to use digital wallets, in addition to credit and debit cards, to transact their business.

The Government of Canada has recognized the need to help more Canadian small businesses meet consumer expectations for enhanced digital capabilities with the establishment of the Canada Digital Adoption Program (CDAP). This \$4 billion funding program is designed to support small businesses to “get your business online, give your e-commerce presence a boost or help digitalize your business's operations.”

As governments seek to enable Canadian enterprises to succeed in the post-pandemic reality, digital adoption is no longer optional – it has become essential. And in a world where more and more business is conducted online, electronic transactions will be a central component of paying and getting paid. ETA members are working to ensure that Canadians have access to the latest innovations in digital payment solutions, including contactless payments, peer-to-peer (P2P) platforms which allow consumers to transfer funds through mobile phones, and convenient digital

“Pay” solutions for customers and SMEs to that support commercial activities that will lead to a robust economic recovery.

ETA and its members welcome the opportunity to contribute our experience and know-how to help Canadian consumers, small business and charities to chart a successful course out of the pandemic environment.

Open Banking

ETA is encouraged by the Government of Canada’s effort to advance Open Banking in this country. We were pleased by the appointment of the Open Banking Lead and the consultative work that has been underway over the course of the past six months. We regard it as essential that Finance Canada hold firm to the original timeline for formulating an Open Banking framework so that 2023 can be devoted to implementation and Canadians can finally begin enjoying the benefits of Open Banking seen in other jurisdictions.

One area where ETA sees enormous potential involves lending to small businesses. While Canada’s FinTech sector provided some lending support to small businesses during the pandemic, it was more limited compared with other jurisdictions. In the United States, for example, ETA members – banks and FinTech lenders – deployed innovative solutions and products that helped tens of thousands of American small business owners access billions of dollars under the Paycheck Protection Program. ETA believes the finalization of an Open Banking framework would allow FinTechs to do even more.

Canadian FinTechs have designed lending models that can capture small businesses traditionally not served by Canada’s large financial institutions. These new entrants have the technological capacity to provide rapid access to products and services in areas where traditional banks have struggled to be nimble. Open Banking in Canada would encourage Canada’s FinTech players to pursue new business models that could open up new financing options for the thousands of small businesses that might be unable to secure lending from banks. This would not only increase the opportunities for Canada’s FinTech sector, but it would allow for small business to benefit from the lending capacity of FinTech.

ETA recommends that the Government of Canada move quickly to advance a framework for open banking to generate economic benefits to the Canadian economy, most importantly new opportunities for small businesses to access innovations in financial lending.

Canadian Payments Act (“CPA”)

We applaud the government for passing the Retail Payments Activities Act (“RPAA”), as a critical first step toward modernizing Canada’s payments system. Looking ahead, important changes to Canada’s payments system, including amendments to the Canadian Payments Act (“CPA”) are needed to broaden the membership of Payments Canada to allow access to new system participants. This entails creating new rules to facilitate risk-based access to the Real Time Rail (“RTR”), as well as the proposed access to the exchange networks for electronic payments streams. Currently, only Payments Canada members can participate in the payments system, excluding direct access for many new and innovative firms.

ETA encourages the government to continue to build on the foundation that will be established with the RPAA by modernizing the CPA to expand membership within Payments Canada during this Budget cycle. Such a change would facilitate access to the RTR to give a wider array of players (including some members of ETA) the opportunity to deliver innovative, cost-effective products and services to consumers and merchants.

In formulating the access rules to the RTR, ETA believes the Department of Finance should tailor the approach so that it is appropriate for fintechs focused on payments to participate and provide equal opportunity. This would enable the fintechs focused on payments to compete more effectively and deliver more payment options to the Canadian market.

ETA urges the Government of Canada to prioritize changes to the CPA that would facilitate expand membership in Payment's Canada. The inclusion of these changes in the current Budget cycle is particularly urgent, given that they necessary for the successful implementation of the Real-Time Rail ("RTR") initiative.

Cryptoassets

ETA is engaged in ongoing conversations within the industry and with policymakers about the promise and challenges of cryptoassets, and we believe there is a common set of principles against which any proposed governmental policies should be measured. In this regard, the payments industry has been a leader in developing industry best practices for mitigating risk and protecting the payments ecosystem. A principles-based approach to cryptoassets should encompass the following:

1. Properly Defining Cryptoassets: Developing appropriate and functional definitions of cryptoassets is a critical first step in ensuring clarity about the regulatory requirements that are applicable to the technology. Given that new technologies can be deployed in many different ways, and that new use cases are constantly being developed, cryptoassets should be defined and regulated based on the underlying activity or use case. Adopting tailored definitions for specific activities and use cases will balance the need to appropriately regulate activity against the harms that might arise from sweeping definitions that inadvertently regulate other activities and use cases, while encouraging innovation that benefits consumers, businesses, and the economy.

2. Tailoring Regulations to the Risk Profile of the Participant/Activity: Appropriate regulation of cryptoassets is key to unlocking their potential while ensuring the safety and soundness of the payments ecosystem. Entities engaging with cryptoassets should be subject to regulation that is tailored to the risks that they or the activity in which they are engaged poses to the payments ecosystem. Appropriate regulation of cryptoassets should consider potential harm to consumers as well as safety, soundness, and financial stability risks.

3. Ensuring Consumer Protection: The public policy governing cryptoassets should include a framework of standards and rules that appropriately safeguard the privacy and security of every transaction, protect consumers' interests, and give consumers confidence to use the technology for in-person and online transactions. Policymakers should also ensure that consumers

understand those protections and how they may differ from those offered by other payment methods. The ability to identify and reduce fraud is critical and should be part of the regulatory framework.

4. Harmonizing with Existing Regulatory Frameworks: The payments industry is thoroughly regulated, and the adoption of any new laws or regulations governing cryptoassets should be designed to fit within this established, robust, regulatory framework. This framework includes legislation relevant to anti-money laundering, economic sanctions, and other anti-fraud and consumer protection requirements. New public policies for cryptoassets should complement, and not conflict with, existing laws and regulations as well as private sector rules and practices.

5. Encouraging Responsible Innovation: Continual investment in innovation is at the heart of past, present, and future improvements to the financial ecosystem. Our financial system has benefited greatly from the development of new technologies and capabilities, which serve to strengthen cybersecurity and consumer protection, increase efficiencies, and expand access to financial services. As a technology, cryptoassets have the potential to further many of these developments and promote new innovation and developments. Accordingly, any regulation of cryptoassets should consider the technology's promise to improve existing capabilities while serving as a catalyst and platform for continued innovation.

ETA submits that the Government of Canada adopt a principles-based approach to cryptoassets to ensure the legislative framework best serves the needs of consumers and businesses, furthers financial inclusion, preserves and strengthens the financial system, minimizes fraud and money laundering, and ensures that consumers and businesses continue to have access to a robust and innovative array of secure banking and payment options.

Conclusion

ETA thanks you for the opportunity to submit these comments and looks forward to providing whatever additional information we can to inform the Committee's deliberations on the complex issues, in particular the proposed DST.

Respectfully submitted,



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