



Department of Finance  
Canada

Ministère des Finances  
Canada

# Report on the Review of the Canadian Payments Act

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Cette publication est également disponible en français.

Cat. No.: F2-269/2019E-PDF  
ISSN: 978-0-660-29571-8

## Overview

In 2015, the *Canadian Payments Act* was amended to enhance the independent decision-making of Payments Canada's board, and make Payments Canada more accountable to the Government and to the public. The legislation also included a clause to undertake a review three years after the legislation took effect.

The Department of Finance launched a review of the Act<sup>1</sup> in May 2018 that sought views on two targeted themes:

1. the impact of the 2015 governance changes in enabling the organization to better achieve its public policy mandate; and
2. the merits of creating an associate member class in light of developments in the payments ecosystem and Payments Canada's modernization initiatives.

This report provides a summary of respondent feedback through this review. Overall, respondents view the 2015 governance changes as beneficial to the achievement of Payments Canada's mandate, but note that it would be too early to provide a comprehensive assessment of the 2015 changes on the ability of Payments Canada to fulfill its public policy objectives. Within that context, respondents made a number of proposals to further strengthen the governance of Payments Canada.

On the second theme, respondents indicate that broadening membership and access for non-traditional payment service providers would enable Payments Canada to better meet its public policy objectives, as long as risks are appropriately mitigated. Respondents view regulation under the proposed *Retail Payments Oversight Framework* as necessary for broadening membership. However, respondents express a wide diversity of views on how associate membership should be incorporated into the *Canadian Payments Act*.

This review is taking place at a time when Canada's payments ecosystem is undergoing dynamic transformation that is changing how Canadians make their payments. The review provides an opportunity to make sure Payments Canada is well positioned to respond to and enable this transformation.

Most stakeholders indicate that the 2015 legislative amendments were beneficial to the achievement of Payments Canada's mandate and the payments ecosystem more broadly. There is not a consensus on priority areas for further enhancement or on proposed directions. However, respondents generally agree that governance changes would be required to appropriately integrate a new associate member class into Payments Canada membership. The Government will continue to monitor and assess how well the 2015 governance changes are

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<sup>1</sup> The [Consultation on the Review of the Canadian Payments Act](#)

enabling Payments Canada to achieve its public policy mandate and will consider if there are technical amendments that would be appropriate to bring forward in the interim.

In response to the proposal to create an associate member class to broaden membership and access for non-traditional payment services, the Government will develop specific proposals in response to the feedback received during the review. The proposals will include how associate members should be incorporated into the governance structure of Payments Canada and whether and how the liability framework of Payments Canada should be modified to reflect this change. Any potential legislative amendments to the *Canadian Payments Act* to incorporate associate membership would follow the implementation of the proposed *Retail Payments Oversight Framework*.

## The Payments System

Canada's payments system consists broadly of infrastructure, including institutions and arrangements, which allow consumers, businesses, financial institutions, and other organizations to transfer value to one another. Payment systems are integral to support economic activity in Canada. Ensuring that these systems are fast, secure, reliable, and flexible allows consumers and businesses to transfer value safely and efficiently.

Payments Canada (formally known as the Canadian Payments Association) owns and operates Canada's core payment clearing and settlement systems. The *Canadian Payments Act* (the Act) establishes Payments Canada and sets out its legal requirements, including its mandate, the institutions eligible for membership, and the oversight responsibilities for the Minister of Finance.

Payments Canada operates the two core payment clearing and settlement systems in Canada. The Large Value Transfer System (LVTS) is an electronic funds transfer system that settles large-value and time-critical Canadian dollar payments. The Automated Clearing Settlement System (ACSS) is used primarily for clearing of retail payments, including: direct deposits, imaged paper, point-of-service and online debit transactions, pre-authorized debits, and ABM transactions. In 2018, Canadians made over \$209 billion worth of payments each day using Payments Canada's systems, totaling \$53 trillion on an annual basis.

Payment systems are undergoing major transformations both in Canada and abroad. Payments Canada has embarked on a multi-year initiative to modernize the core clearing and settlement systems in Canada. Launched in 1999, the LVTS will be replaced with a safer, more flexible and resilient high value payment system (Lynx). The ACSS, launched in 1984, will be gradually replaced with a more efficient retail system.

Payments Canada is also developing a new real-time retail payment system ("Real-Time Rail") as a third core payment system to better serve the needs of consumers and businesses and to provide a platform for innovation in the Canadian payments ecosystem. Access to the real-time

rail, as with all core payment systems, will be open and risk-based, consistent with international standards.

Many other countries have taken similar steps to modernize their core payment systems, generally through development of faster payments platforms, enabling data-rich messaging standards, and broadening access for non-traditional financial service providers through either direct participation or sponsored access by a participating financial institution.

The retail payments ecosystem in Canada is also undergoing significant transformation. New technologies and services are emerging that are fundamentally changing how Canadians make their payments. Many financial service providers and financial technology companies have successfully leveraged the power of computing, the capacity of data and the cloud, the ubiquity of the internet and mobile platforms to develop innovative products that enhance the consumer experience.

The Department of Finance launched consultations in July 2017 on a new oversight framework<sup>2</sup> for retail payments through the release of a public consultation paper: *A New Retail Payments Oversight Framework*. The proposed framework will help ensure that the Canadian retail payments ecosystem evolves in such a way that retail payment services remain reliable and safe, while supporting competition and innovation in the payments ecosystem. Certain retail payment service providers (PSPs) are currently not subject to oversight, which can raise issues related to risk, efficiency, and protection for payment service providers and end-users. The proposed oversight framework would serve to close this gap by establishing a number of requirements. The proposed measures in the consultation paper include requirements to safeguard end-user funds, operational risk-management standards, minimum disclosure requirements, dispute resolution mechanisms and liability rules. The proposed framework would apply to PSPs performing certain payment functions in the context of an electronic funds transfer that are not subject to substantially similar provincial or federal requirements. These payment functions include the provision and maintenance of payment accounts, payment initiation, authorization and transmission, the holding of funds, and clearing and settlement.

## Payments Canada and the *Canadian Payments Act*

Payments Canada, recognized legislatively as the Canadian Payment Association, is governed by the *Canadian Payments Act*. Under the Act, Payments Canada carries out a public purpose function in the operation of Canada's core payment clearing and settlement systems.

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<sup>2</sup> The Consultation on a [New Retail Payments Oversight Framework](#)

Payments Canada's mandate is to:

- establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments;
- facilitate the interaction of its clearing and settlement systems and related arrangements with other systems or arrangements involved in the exchange, clearing or settlement of payments; and
- facilitate the development of new payment methods and technologies.

In pursuing these objectives, Payments Canada must take into account public policy objectives of:

- *Safety and soundness* – With regard to payments, safety and soundness refers to the appropriate measurement, management, and control of risks. Safety and soundness are essential conditions to achieve a stable financial system and a well-functioning economy. Given the potential to transmit negative shocks, payment systems and services must be operated with appropriate regard to safety and soundness.
- *Efficiency* – Efficiency in payments includes how effectively the payment exchange, clearing and settlement processes are carried out to meet end-users' needs, as well as ensuring the efficient allocation of resources to deliver services.
- *User interests* – Payment systems and services should be designed and operated to meet the needs of Canadians and protect end-user interests. These needs include fast and secure payment systems that can process data-rich payments and may serve as adaptable platforms for new and existing use cases. End-user interests are not homogenous and are reflective of a wide range of needs of both businesses and consumers.

In addition to setting out the mandate and objects of Payments Canada, *the Canadian Payments Act* sets out the legal framework for the organization, including the role and responsibilities of the board, the oversight responsibilities of the Minister of Finance and the institutions eligible for membership.

While Canadian banks and the Bank of Canada are required to be members of Payments Canada, other institutions (such as credit union centrals, trust and loan companies, securities dealers, cooperative credit associations, and money market mutual fund corporations) are eligible for membership. Payments Canada had 110 members at the end of 2017. Members may participate either directly or indirectly in Payments Canada's systems. The advent of financial technology means that retail payment services are increasingly being provided by non-traditional providers. These non-traditional PSPs are not eligible for Payments Canada membership. As a result, they cannot directly participate on any of Payments Canada's systems, including the real-time rail currently under development.

Payments Canada is funded by its members, which are required to pay common service dues for membership. In addition, Payments Canada funds its operations through transaction fees charged to members who use the core systems.

Payments Canada has two advisory councils established under the Act to provide advice and counsel to the board of directors. The Stakeholder Advisory Council (SAC) is comprised of a broad stakeholder base of payment system service providers and users of payment services. The Member Advisory Council (MAC) is comprised of Payments Canada members broadly representative of the organization's diverse membership.

### *2015 Legislative Revisions*

In its final report, published in 2012, the Task Force on the Payments System Review identified several areas with regards to Payments Canada's governance structure that warranted change. In particular, the Task Force found that the governance structure created a conflict of interest on the part of members, making it difficult for Payments Canada to plan and build for the longer term or remove barriers to entry for new participants. Following amendments introduced in 2014, governance and accountability changes to the *Canadian Payments Act* came into force in 2015 to ensure that Canada's core payments clearing and settlement infrastructure continued to be operated for the benefit of Canadian consumers, businesses, and the economy; and support competition and innovation in the payments industry.

The legislative amendments (see Annex for greater detail) improved Payments Canada's governance by ensuring independent decision-making by Payments Canada's board. The board was reduced from 16 directors to 13, of whom a majority were required to be independent. A majority-independent board of directors is intended to allow for decisions to be made in the broader public interest, with appropriate input and participation by member-directors with specific and diverse payments systems expertise. The voting structure was adapted from a volume-based voting structure to one where each member held a single vote.

SAC – which existed before the 2015 changes – is mandated to provide counsel and advice to the board on payment clearing and settlement matters and any other matters related to the objects of Payments Canada. The 2015 amendments created MAC to provide counsel and advice to the board of directors on the operation of clearing and settlement systems, the interaction of those systems with other systems, and the development of new technologies.

Legislative amendments were also made to improve the accountability of Payments Canada to the Government and to Canadians in serving its public policy mandate. Payments Canada is required to submit an annual report to the Minister of Finance for approval, as well as a five-year corporate plan. The legislative amendments also harmonized the Minister of Finance's public interest powers with those of federal crown corporations under the Minister's purview. Specifically, legislation was introduced to provide the Minister of Finance with powers to issue

directives to the board on matters beyond the scope of Payments Canada's by-laws and rules, if the Minister is of the opinion it is in the public interest to do so.

As part of the 2015 legislative changes, a review clause was added to the Act to require its review three years following the coming into force of the amendments. The review provided an opportunity to consider whether the 2015 governance changes are working to achieve the intended policy objectives of efficiency, safety and soundness, and user interests.

In the context of Payments Canada's modernization initiatives and the dynamic evolution of payments systems in Canada and abroad, the consultation also provided an opportunity to seek views on how best to adapt Payments Canada's membership structure to ensure access to its systems reflects developments in the payments market while ensuring the ongoing policy objectives are achieved.

## Canadian Payments Act Review

The Government launched the statutory review of the *Canadian Payments Act* in May 2018. The Department of Finance released a consultation paper and sought views on two targeted themes under the Act:

1. The impact of the 2015 governance changes in enabling the organization to better achieve its public policy mandate to promote the efficiency, safety, and soundness of its systems while taking into account the interests of users. Views were also sought on other aspects of the governance structure that could be improved to better allow Payments Canada to carry out its mandate and serve its public policy objectives.
2. Payments Canada's current membership structure in light of developments in the payments ecosystem and Payments Canada's modernization initiatives. Specifically, feedback was sought on the creation of an "associate member" class to enable non-traditional payment service providers – that would be overseen under the proposed *Retail Payments Oversight Framework* – to participate on Canada's national core payments systems. Associate members would be separate and distinct from members, with a separate set of rights and obligations, and subject to Payments Canada's compliance and enforcement standards. In addition, the consultation sought feedback on what consequential changes would be necessary to enable Payments Canada's governance structure to appropriately incorporate new associate members' views and expertise. Feedback on participation in the context of the new Lynx platform was also sought for designated financial market infrastructures.

The Government heard responses from all facets of the payments ecosystem. The Department received over 30 written submissions from various organizations representing most of Payments Canada's members, international financial market infrastructures, representatives of



the co-operative sector, FinTech organizations, and consumer groups. Finance officials also met with stakeholders across Canada as part of this review.

## What we Heard

### *Governance*

The first targeted theme that the consultation raised was whether the impact of the 2015 governance changes enabled the organization to better achieve its public policy mandate. Respondents broadly view the 2015 governance changes as beneficial to the achievement of Payments Canada's mandate and the payments ecosystem in general. At the same time, opportunities for improvement were identified to enhance the overall transparency and accountability of the board to members and stakeholders when it comes to decision-making. A summary of these comments, grouped by theme, is included below.

*Achievement of Public Policy Objectives* – Many submissions suggest that it is still too early to provide a comprehensive assessment of the success of 2015 changes in supporting the achievement of Payments Canada's public policy objectives. Many also see the success of modernization efforts, which are ongoing, as a litmus test for assessing the success of changes to Payments Canada governance implemented in 2015.

*Board Structure* – Most respondents see the creation of a majority independent board of directors and the shift to a "one-member, one-vote" system for board elections as benefitting Payments Canada's capacity for independent decision-making, and are of the view Payments Canada's board took into account a broader range of inputs in making decisions after these changes were made. Initiatives to modernize Canada's core payment clearing and settlement systems were often cited as evidence of the impacts of greater board independence, noting that changes to the board contributed significantly to Payments Canada's decision to move ahead with these projects. On the other hand, concerns were raised by some respondents who suggested the changes resulted in a misalignment with members' own interests and objectives as they can no longer manage the development of Payments Canada under the new structure.

There is not a consensus on priority areas for further enhancements or on proposed directions. Some suggest that Payments Canada members be afforded more input and participation in major board decisions or to solicit reports and recommendations from the Member Advisory Council. Other respondents suggest that Payments Canada adopt an entirely independent board or substantially increase the number of independent directors to further enhance board independence and better ensure a more diverse range of opinions are represented. Among those who did not suggest changes to the composition, there are a few who indicate that greater flexibility in board term limits would be beneficial.

*Transparency of Board Decision-Making* – There is a wide recognition that Payments Canada has been effective in reaching out to the payments industry and fostering a collaborative

environment. However, there is a sentiment among some respondents that Payments Canada has not provided enough transparency on board decision-making and the ways in which the board considers advice it receives from both MAC and SAC. To address this, some respondents suggest making public the board's records of decisions and for the board to engage directly with SAC and MAC to provide more explanation of its decision-making processes.

*Nominating Committee for Board Appointments* – The few respondents who commented on this aspect of 2015 changes believe it resulted in the identification of high-quality candidates for appointment to Payments Canada's board. Some respondents point to the need to review the definition of director independence to avoid potential conflicts of interest that could result if the creation of an associate membership framework goes forward and opens membership to new organizations. Suggestions were also made regarding the length of directors' tenure and succession planning for independent board members.

*Advisory Councils* – There were many comments on Payments Canada's two advisory councils established under the Act. Respondents present contrasting perspectives and provide the view that councils have either too little or too much influence over the board, and express concerns that there is an overall lack of clarity in how input from the councils is incorporated into board decisions. Several respondents suggest that the SAC and/or the MAC be given seats on the Payments Canada board to improve communication and ensure better alignment between the board and the councils, and to achieve a fairer balance of input to the board. The creation of additional advisory councils is also proposed for associate members and consumer groups.

Suggestions were put forward to review the requirements for the SAC in the *Canadian Payments Act* to provide Payments Canada flexibility to change the stakeholder representation as the evolution of payment services may lead to new types of providers, which might not be represented on SAC. Removing the legislative prohibition on remuneration of the SAC members is suggested as a way to better ensure that representatives with financial constraints, such as consumer and end-user groups, can effectively participate on SAC.

### *Membership*

The consultation paper's second targeted theme sought views on the merit of creating an associate membership class in the *Canadian Payments Act*. The proposed associate membership would create a separate and distinct class of members in Payments Canada. This would permit non-traditional payment service providers, regulated under the proposed *Retail Payments Oversight Framework*, to participate directly on the real-time rail.

On this issue, there is a widespread support among stakeholders that the Government's objective to broaden access to core payment clearing and settlement infrastructure would be beneficial to furthering the ability of Payments Canada to carry out its mandate and serve its public policy objectives.

*Broader Access* - The feedback from respondents on expanding access to the in-progress real-time payment system being built by Payments Canada is largely positive. Those who responded are of the view that there are barriers to entry for PSPs and room to improve competition and innovation. Nearly every respondent who discussed membership agreed with the proposal to expand risk-based access to the real-time rail to non-traditional PSPs, with a large majority of respondents supporting the proposed associate member class. A number of respondents also suggest expanding full membership to some or all of the PSPs envisioned for associate membership. Provincially-regulated credit unions that are members of a provincial central expressed an interest in having greater options to participate as either a member or an associate member. Currently, these entities are precluded from membership in Payments Canada under the *Canadian Payments Act*.

*System Access* - Interest in a limited form of participation to the ACSS is high. Most respondents support exchange-only<sup>3</sup> access for associate members, provided associate members meet the same operational and technical standards as full members. Some respondents note an interest in seeing associate members participate in loss-sharing arrangements as well. A few respondents suggest that associate members be permitted to clear and settle payments directly on both the ACSS and LVTS. However, there is a general understanding that the number of changes needed to preserve the safety necessary for the smooth operation of these systems would be a complex project.

*Associate Membership Requirements* - Many respondents agree that the requirement for associate members to be regulated under the proposed *Retail Payments Oversight Framework* would ensure sufficient oversight. However, direct participation on core payment infrastructure would still require meeting the relevant Payments Canada by-laws that all Payments Canada's members are subject to. There are a small number of respondents who argue it could be beneficial to extend associate membership to entities not regulated under the proposed *Retail Payments Oversight Framework* who were interested in collaborating with industry without participating on Payments Canada's payment systems.

*Advisory Councils* - There were a wide range of suggestions from respondents on how to incorporate associate members' views and expertise into Payments Canada's decision-making process. The ability for associate membership to lead to greater communication and collaboration within the payments ecosystem is viewed as an incremental benefit of expanding membership, with a few respondents suggesting that associate members should be required to participate in workshops and committees. Almost all respondents agreed with the need to ensure representation on one of Payments Canada's advisory councils. The range of

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<sup>3</sup> Presently, there are only 12 direct clearers on the ACSS. All other members of Payments Canada submit payment items to the ACSS through the direct clearers. Direct clearers process both the payment messaging and the exchange and settlement on the ACSS. An exchange-only access would provide members of Payments Canada the ability to directly exchange payment messaging over the ACSS, while clearing and settlement of the actual payments would continue to be undertaken by direct clearers.

suggestions on representation is broad - from a single seat at MAC to the creation of an entire associate member advisory council to mirror MAC and SAC.

*Board Representation* – Respondents are interested in ensuring that associates were able to participate in the nomination and election process. There is a divergence of views, however, about reserving associate member seats on the board or equal voting rights for associates. Regardless of the form of representation, there is a recognition that an associate membership governance structure should not be disruptive to Payments Canada if associate membership evolves differently than anticipated.

*Financial Market Infrastructures* – There is strong support among those respondents who chose to provide views on allowing financial market infrastructures designated for oversight by the Bank of Canada to participate on Lynx. Overall, the view is such a change would be beneficial, if the financial market infrastructures met the same operational, technical, and financial requirements as other participants, including the pledging of collateral. Many cite international precedents for similar access in other jurisdictions. There is nonetheless recognition of the need to consider related concerns, such as cross-border operational security, before providing access to the large value system.

Overall, respondents support broadening membership for non-traditional PSPs and financial market infrastructures, as long as any risks were appropriately mitigated. However, the specifics of the models that respondents recommend differed widely.

### *Additional Suggestions*

Some respondents provided additional suggestions on updating and modernizing the *Canadian Payments Act* beyond the questions in the consultation paper. In particular, respondents made suggestions regarding:

*Review Period* – Several respondents appreciate the opportunity to provide their input and express their desire for more frequent reviews of the Act, ranging from every two to five years.

*Terminology* – A few respondents recommend a review of the terminology used in the Act to ensure that the wording used is still appropriate. Sections of the act were written when Payments Canada used a paper-based system; wording may need to be updated to reflect the current state of the payments system.

*Liability* – Under the current legislative framework, Payments Canada is a corporation established under the *Canadian Payments Act*. Payments Canada is fully funded through usage fees and membership fees and members bear the financial risk for its operations. Some respondents feel the liability structure should be reviewed.

Some respondents note that the potential expansion in membership and other modernization initiatives could expose Payments Canada to legal and financial liabilities which could ultimately be borne by the members. As such, some respondents suggest that the Government consider the potential for indirect liabilities on members and to limit such liabilities.

## Conclusions

This review is being undertaken at a time when Canada's payments ecosystem is undergoing major transformation that is changing how Canadians make their payments. The *Canadian Payments Act* should remain responsive to this transformation. Respondents provided very valuable feedback to help inform the review of the two key themes of:

1. the impact of the 2015 governance changes in enabling the organization to better achieve its public policy mandate; and
2. the merits of creating an associate member class in light of developments in the payments ecosystem and Payments Canada's modernization initiatives.

On governance, respondents view the 2015 governance changes as beneficial to the achievement of Payments Canada's mandate and the payments ecosystem in general. There is broad agreement among respondents that it is too early to provide a comprehensive assessment of the 2015 legislative amendments on the ability of Payments Canada to fulfill its public policy objectives. There is not a consensus on priority areas for further enhancement or on proposed directions. At the same time, opportunities for improvement were identified to enhance the overall transparency and accountability of the board to members and stakeholders when it comes to decision-making. The Government notes that Payments Canada is responsive to addressing concerns that have been raised around transparency of the board since the governance changes were introduced and encourages Payments Canada to explore further opportunities as appropriate. The Government will continue to monitor and assess how well the 2015 governance changes are enabling Payments Canada to achieve its public policy mandate and will consider whether technical amendments are warranted at this time.

As regards to the merits of a new associate membership class, respondents are of the view that broadening membership and access for non-traditional payment service providers would enable Payments Canada to better meet its public policy objectives, as long as risks are appropriately mitigated. However, there is a wide diversity of views on how associate membership should be incorporated into the *Canadian Payments Act*, including how they are integrated into Payments Canada's governance structures.

Respondents mainly agree that regulation under the proposed *Retail Payments Oversight Framework* would be a necessary condition for becoming an associate member.

As Payments Canada progresses with the development of the real-time rail, the Government will consider the viewpoints around associate membership and develop specific proposals for

consultation, including in respect of governance and liability. Any potential legislative amendments to the *Canadian Payments Act* to incorporate associate membership would follow the implementation of the proposed *Retail Payments Oversight Framework*.

## ANNEX

### Overview of 2015 changes to Payments Canada's governance structure

#### *Independent Board*

Prior to 2015, Payments Canada's board of directors was comprised of 16 individuals, 13 of whom were drawn from Payments Canada's membership, including the chair of the board, who was an appointed official of the Bank of Canada. Three of the board members were appointed by the Minister of Finance.

The board is now comprised of 13 members, the majority of whom are independent. Specifically, five of the 13 directors are drawn from Payments Canada's membership, seven are independent directors, with the final director being the CEO and President of Payments Canada who serves as an *ex officio* director. The Bank of Canada no longer sits on the board (or acts as chair) and the Minister of Finance no longer appoints any of the directors. Of the five member-directors, three hold settlement accounts at the Bank of Canada, while the remaining two directors are drawn from Payments Canada's remaining members.

While the concept of independence is not defined in the Act, the test of independence may be found in associated regulations and is defined as having no direct or indirect material relationship to the organization or a member. Elected directors (those other than the President and CEO, who is appointed by the board) serve a term of three years, renewable once. The chair and deputy chair of the board of directors must be selected by the elected directors from the seven independent directors.

This majority-independent board of directors is intended to allow decisions to be made in the broader public interest, with appropriate input and participation by member-directors with specific and diverse payments systems expertise. A relatively small board of directors is intended to allow for efficient dialogue and decision-making, in line with governance best practices.

#### *One member one vote*

Prior to 2015, Payments Canada operated under a volume-based voting structure for elected directors, whereby various classes of members were allotted votes in proportion to their respective volume of payment items processed through Payments Canada's systems in the preceding year of election.

Following the 2015 changes, under the Act, each member is now entitled to one vote on all matters to be decided by members. In this regard, all members are entitled to a vote for each elected director position.

The intention of the new voting structure is to ensure equality of voting rights, such that voting power is not concentrated into the hands of the largest participants.

### *Nominating Committee*

In 2015, the concept of a nominating committee was introduced into the Act. Now, a nominating committee composed of elected directors, a majority of whom must be independent directors, must be appointed to identify potential independent directors and member-directors to stand for election. In selecting member-directors, the nominating committee must ensure that candidates are broadly representative of the diversity of Payments Canada's membership.

The use of nominating committees for evaluating potential board of director candidates is common practice in organizations. It sets a robust foundation for a well-functioning board, and helps to facilitate timely replacement of board members when terms expire.

### *Accountability*

Prior to 2015, Payments Canada was not required to formally report to the Government, or publish an annual report or financial statements.

Payments Canada is now legislatively required to annually submit a five-year corporate plan for approval by the Minister of Finance. The plan must include Payments Canada's objectives over the period, strategies that will be employed to achieve those objectives, expected performance over the five-year period, and capital and operating budgets. Payments Canada is also required to produce a publicly-available annual report on the operations of the organization which must include financial statements and the report of the auditor on those statements.

These requirements are intended to support Payments Canada's accountability to the Government and Canadians in serving its public purpose mandate.

### *Directives*

Prior to 2015, the Minister of Finance had the legislative authority to direct Payments Canada to make, amend or repeal any of Payments Canada's rules or bylaws. The Minister of Finance's directive power was broadened in 2015 to include directives that may be related to issues beyond the scope of bylaws and rules.

Now under the Act, the Minister of Finance may issue a written directive to Payments Canada, if he or she is of the opinion that it is in the public interest to do so. The Minister's current directive power is in line with the directive power the Minister has over Crown corporations under the *Financial Administration Act*.



### *Advisory Councils*

As part of the suite of governance changes, a Member Advisory Council was created under the Act as a complementary consultative forum to the Stakeholder Advisory Council, which existed under the Act prior to 2015. The Stakeholder Advisory Council, comprised of a broad base of users and payment service providers, is mandated to provide counsel and advice to the board on payment clearing and settlement matters and any other matters related to the objects of Payments Canada.

Now, under the Act, the board must appoint Payments Canada members to a Member Advisory Council, which has an objective to provide counsel and advice to the board of directors on the operation of clearing and settlement systems, the interaction of those systems with other systems, and the development of new technologies. The Member Advisory Council serves as a consultative and engagement forum for participating member financial institutions.

### *Review*

As noted above, as part of the suite of governance changes made in 2015, a review clause was added to the Act to require the Minister of Finance to conduct a review of the Act and its operation three years following the coming into force of the amendments, and to table a report on the review in both houses of Parliament upon completion of the review.