



Contents

Annual Review 2010

Section One	3
2010 by the Numbers	4
Thirty Years of History	5
Introduction	9
Message from the CPA Chair and the President and CEO	15
2010: A Year in Review	17
Pillar One: Supporting the Growth of Electronic Payments	20
Online Payments	
E Rules Facilitation	
Bill Payments	
Pre-Authorized Debits	
Pillar Two: Driving Efficiencies in Payments	23
Clearing and Settlement Framework	
Image Rule	
New LVTS Participant	
Pillar Three: Modernize CPA Legal Framework	25
Credit Union Framework	
Governance Work	
Pillar Four: Enhance CPA Exchange, Clearing & Settlement Technology	27
Payment System Health Check	
Long Term Technology Strategy	
Information Security Management Program	
Pillar Five: Value Added Services	28
CPA Conference: Payments Panorama 2010	
International Payments Council	
New CPA identity	
Broader Canadian Environment	30
The Changing Face of the Debit Card Market	
Task Force for the Payments System Review	
Stakeholder Advisory Council	31
Message from the Chair of the Stakeholder Advisory Council	32
2010 Stakeholder Advisory Council	34
Members	35
CPA Board Members	36
CPA Membership	38
Statistics	40
Our Systems at a Glance	41
ACSS Data	42
LVTS Data	44



2010

By the Numbers

VALUE CLEARED & SETTLED IN 2010

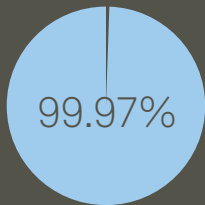
\$42.8 trillion

Cleared & Settled through the CPA

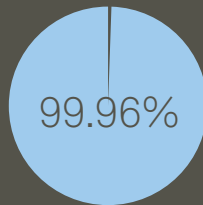
\$170 billion

Each Business Day (on average)

LVTS AVAILABILITY RATE



ACSS AVAILABILITY RATE



BILLERS ACROSS CANADA



Billers registered with a
Corporate Creditor Identification
Number issued by the CPA

VOLUME CLEARED & SETTLED IN 2010

6 billion

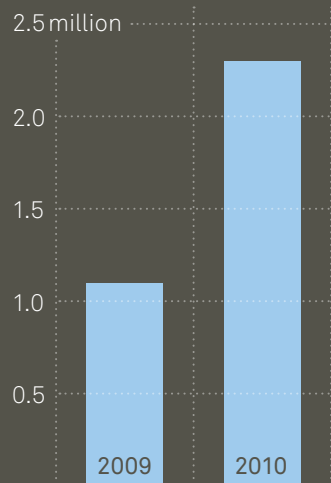
Payment Items Cleared by the CPA's ACSS
Retail System In 2010

24 million

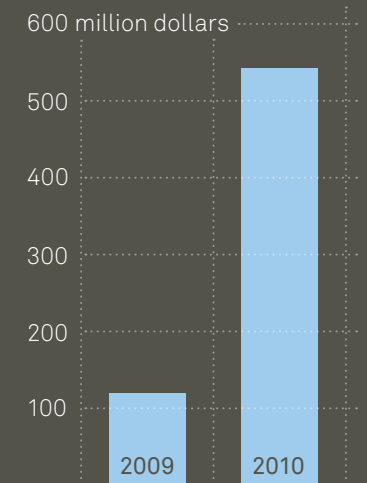
Each Business Day (on average)

In 2010, the CPA observed a tremendous
growth in the volume and value of the
online payments cleared via the ACSS

ONLINE PAYMENTS VOLUME



ONLINE PAYMENTS VALUE



ACTIVE MEMBERS

135

SUBSCRIBERS

381

To the Financial Institution File

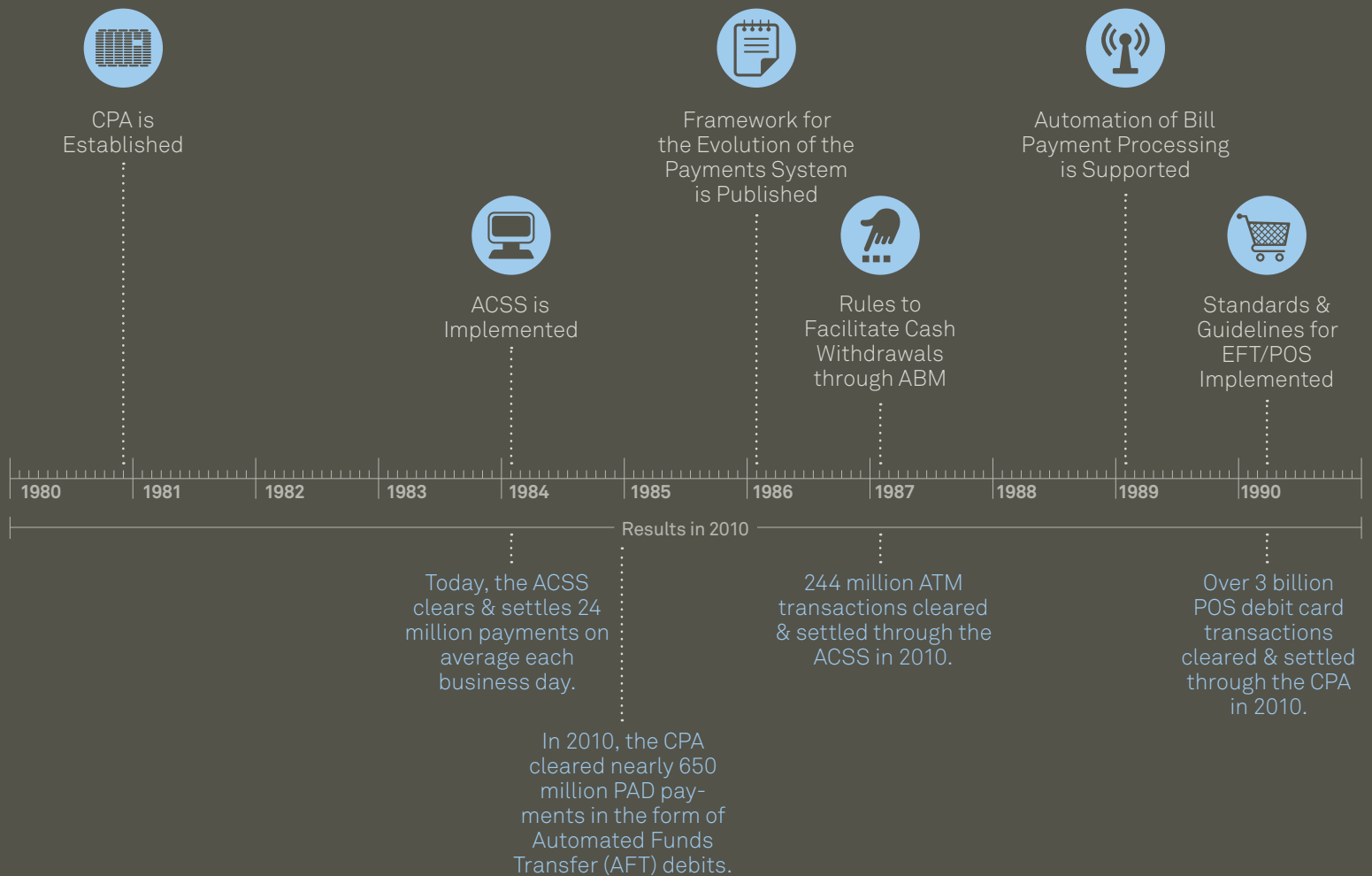


Canadian Payments Association

Thirty Years of History

The year 2010 marked the CPA's 30th anniversary. For the past three decades, the CPA has contributed to building the safe, sound and efficient payments system that Canadians rely upon. In 30 years, the CPA has been instrumental in driving the transition from cheques and paper in the '80s to electronic payments in the '90s. Today, the CPA continues to facilitate more efficient electronic payment methods by leveraging technologies such as wireless and contactless.

1980–1990



1980

The CPA is established through enactment of Canadian Payments Association Act on December 1st.

1983

CPA assumes responsibility from the Canadian Bankers Association for the existing clearing and settlement system.

1984

Implementation of the Automated Clearing Settlement System (ACSS), which automates calculation of Direct Clearers' settlement balances. Previously, clerks from Direct Clearers met each morning and manually calculated net balances of the previous day's clearing.

1985

The CPA issues Policy Statement for PAPs (renamed Pre-Authorized Debits or PADs), which outlined the intended direction for PADs (i.e., that they be non-variable and regular-recurring). PAD Rule (Rule H4) was approved in principle the following year.

1986

The CPA publishes the Framework for the Evolution of the Payments System, which outlines the principles and requirements held to be fundamental to safeguarding the payments system.

1987

The CPA's rules and standards to facilitate the clearing of cash withdrawals through shared automated banking machine (ABM) transactions is published.

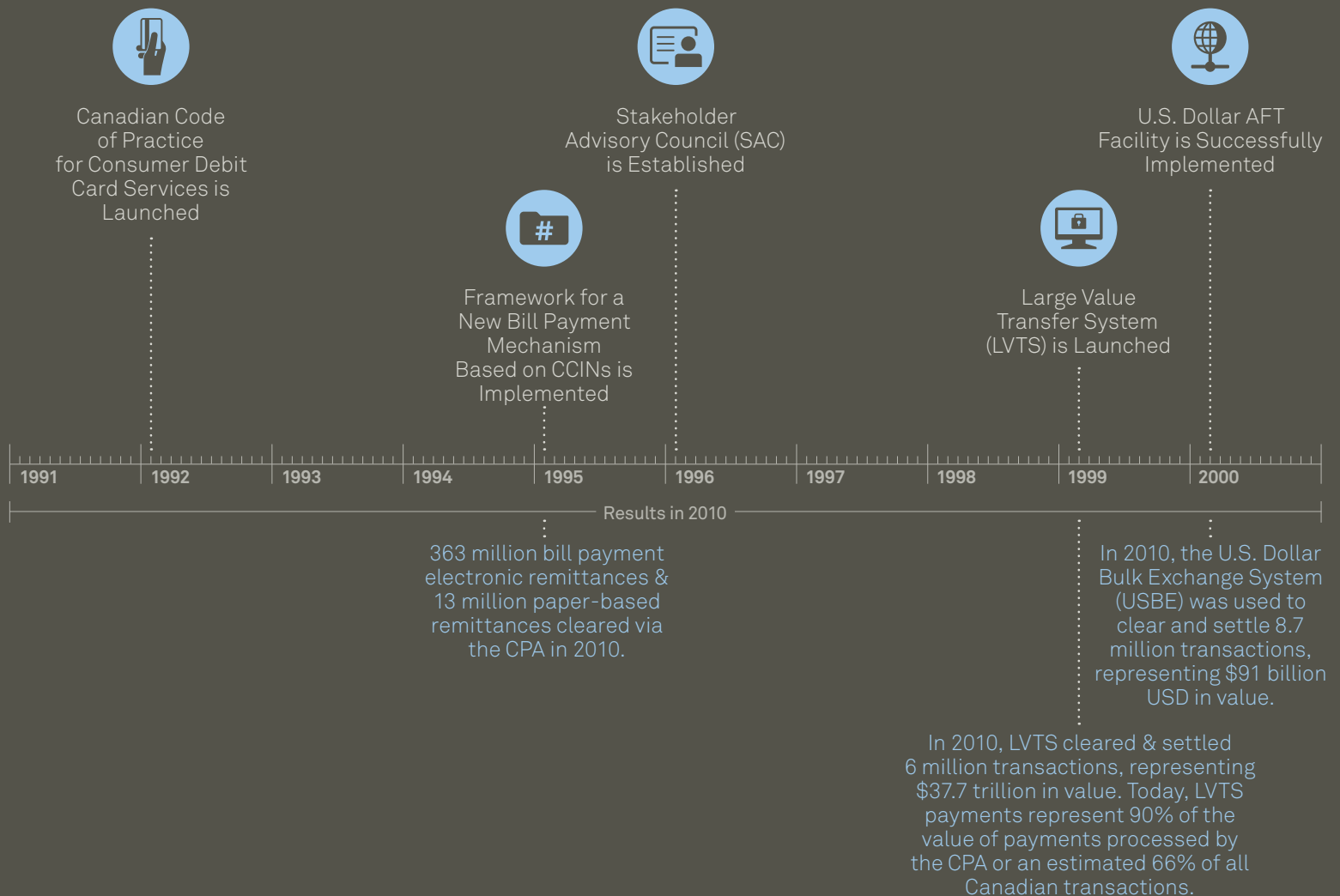
1989

A new standard is adopted to support the automation of bill payment processing using Optical Character Recognition (OCR) and Magnetic Ink Character Recognition (MICR) technology.

1990

The CPA implements "Standards & Guidelines Applicable to Electronic Funds Transfer at the Point of Sale (EFT/POS)" in March. Later that year, Interac launches a large pilot project for debit cards in the Ottawa-Hull-Gatineau area.

1991–2000



1992

The Canadian Code of Practice for Consumer Debit Card Services is launched. The CPA is among participants in the working group that developed the voluntary code, which includes provisions to protect consumers using automated banking machines and point-of-sale terminals.

1995

The Framework for a new bill payment mechanism based on *Corporate Creditor Identification Numbers (CCINs)* is implemented to improve the processing of both electronic bill payments and paper remittances.

1996

CPA's Stakeholder Advisory Council (SAC) is established to provide input on a range of payment system related issues and initiatives. The Council is later enshrined in the Canadian Payments Act in 2001.

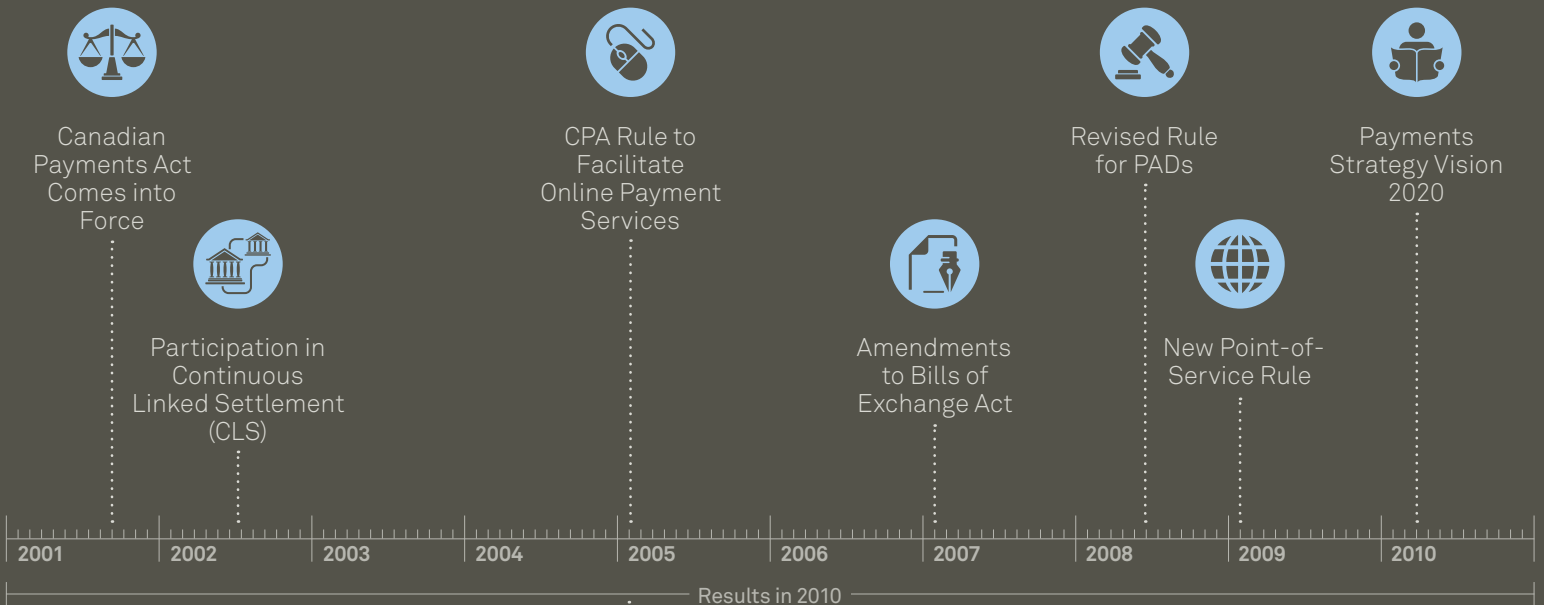
1999

Large Value Transfer System (LVTS) launched on February 4th. As all wire payments via LVTS are irrevocable and settlement is guaranteed, it substantially reduces risk in the payments system.

2000

The U.S. dollar automated funds transfer (AFT) facility is successfully implemented. All Direct Clearers can now receive AFT transactions (direct deposits and pre-authorized debits) that are credited to or drawn on U.S. dollar accounts held at Canadian financial institutions.

2001–2010



Over the past year, the CPA's online payments doubled in volume, reaching 2.3 million and nearly quadrupled in value to \$542 million.

2001

The Canadian Payments Act comes into force, bringing significant modifications to CPA's legislative framework.

2002

LVTs serve as the link enabling Canadian financial institutions to participate in Continuous Linked Settlement (CLS), which begins live operations. This global service provides simultaneous settlement of both legs of foreign exchange transactions.

2005

A new CPA rule to facilitate the introduction of online payment services (Rule E2) allows consumers to pay for internet purchases directly from their bank accounts.

2007

Amendments to Bills of Exchange Act initiated by CPA to make cheque images created under CPA rules and standards the legal equivalent of paper cheques, and to provide for electronic presentment of cheque images.

2008

A revised Rule for PADs (Rule H1: Pre-Authorized Debits) published by CPA introduces several provisions that improve disclosure of information to consumers and adds greater flexibility for both Payees and Payors.

2009

The CPA launches cross-country consultation of its proposed long-term payments strategy, Vision 2020, to establish a road-map for personal, corporate, and wholesale payments until 2020.

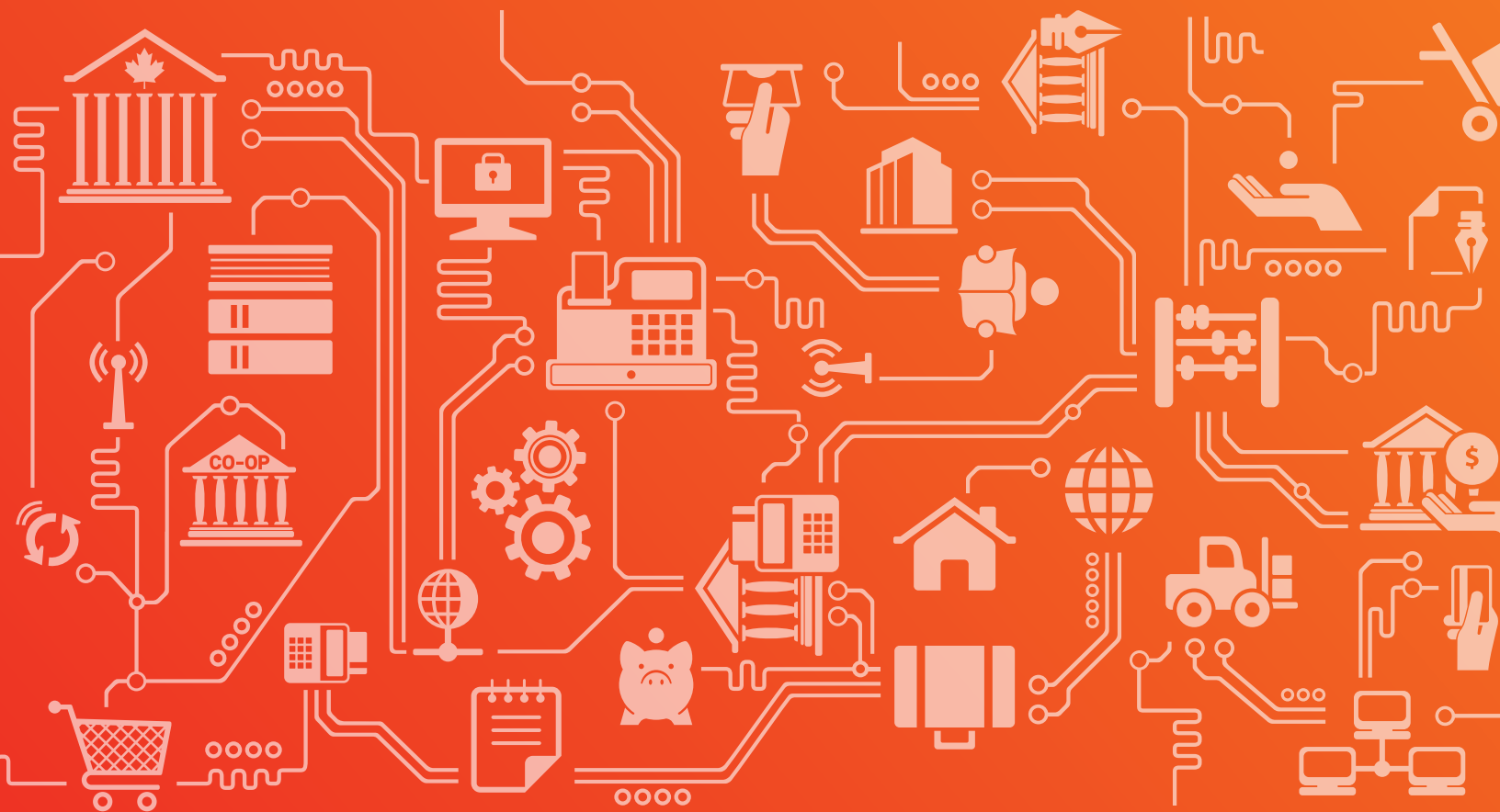
CPA implements a new Point-of-Service Rule (Rule E4) that allows consumers to make purchases from their bank accounts using a PIN-less payment platform with an embedded chip.

2010

In March, CPA publishes the Payments Strategy, Vision 2020.

In September, CPA publishes its submission to the Task Force for the Payments System Review. "Building a Strong Foundation for Canada's Digital Economy" examines the need to address payments efficiencies and payments system governance.

In November, CPA launches an independent review of Canada's Clearing and Settlement Framework to validate and discuss key aspects of Clearing and Settlement Frameworks.



Section Two

Introduction

The CPA plays a significant role in Canada's financial system. The CPA is a not-for-profit organization that establishes, maintains and operates a national system for the clearing and settlement of payments. The CPA provides leadership in the payments system by ensuring safe, sound and efficient systems, taking into consideration the needs of all payment users, and facilitating the introduction of new products and services that Canadians take for granted today.



Introduction

CPA Annual Review

10

Did you get paid this week? Use your debit card to buy boots for winter? Write a cheque to pay the daycare? Pay your phone bill online? Payments are the lifeblood of the economy. Every day, Canadians, businesses and governments use a variety of payment items to purchase goods and services, withdraw cash from banking machines and transfer funds from one person to another. Safe, efficient and sound clearing and settlement systems are an essential component to the smooth functioning of the Canadian financial system. They provide the mechanisms by which customers of one financial institution can effect the transfer of funds to customers of another financial institution, calculate how much is owed between institutions, and settle those balances.

The Canadian Payments Association is a not-for-profit organization created by an Act of Parliament to establish, maintain and operate a national system for the clearing and settlement of payments. The CPA also facilitates the interaction of its systems with other payment systems, and facilitates the development of new payment methods and technologies. In doing so, the CPA monitors developments in the payments industry to ensure that the framework for clearing and settling payments continues to serve the needs of all participants and stakeholders.

“The Canadian Payments Association is a not-for-profit organization created by an Act of Parliament to establish, maintain and operate a national system for the clearing and settlement of payments.”

PAYMENTS 101

Payments transfer value from one end party to another. Payments can be debit transfers authorized by the payor to be “pulled” from the payor’s Financial Institution (FI) by the payee’s FI or credit transfers authorized by the payor to be “pushed” to the payee’s FI.

Payment Systems consist of a set of instruments, banking procedures & typically, interbank funds transfer systems that ensure the circulation of money.

Clearing & Settlement Systems are essential to the smooth functioning of an economy. Clearing and settlement systems allow financial institutions to calculate how much is owed to each other as a result of their customers’ transactions and to transfer those funds to settle those balances.

Clearing means the reconciliation of payment items that were exchanged and the calculation of the clearing balances (the total of the net amounts owing to or by participants).

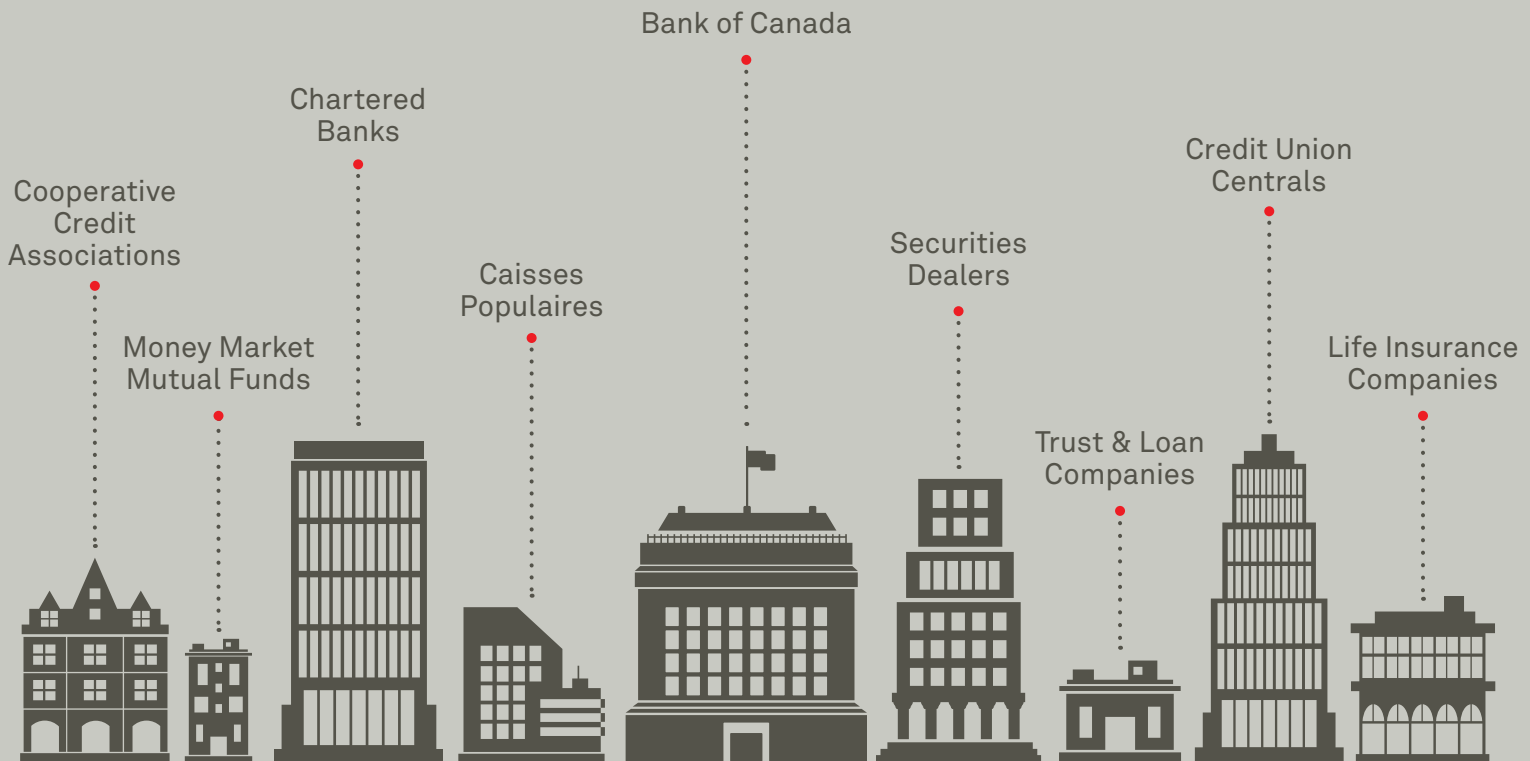
Settlement means the payment of the clearing balances.



135 Members of the Association

11

The Association's 135 members include the Bank of Canada, chartered banks, trust and loan companies, credit union centrals, federations of caisses populaires and certain other financial institutions. Most, but not all, credit unions & caisses populaires are represented through their provincial central. Other eligible organizations include cooperative credit associations, life insurance companies, securities dealers and money market mutual funds.

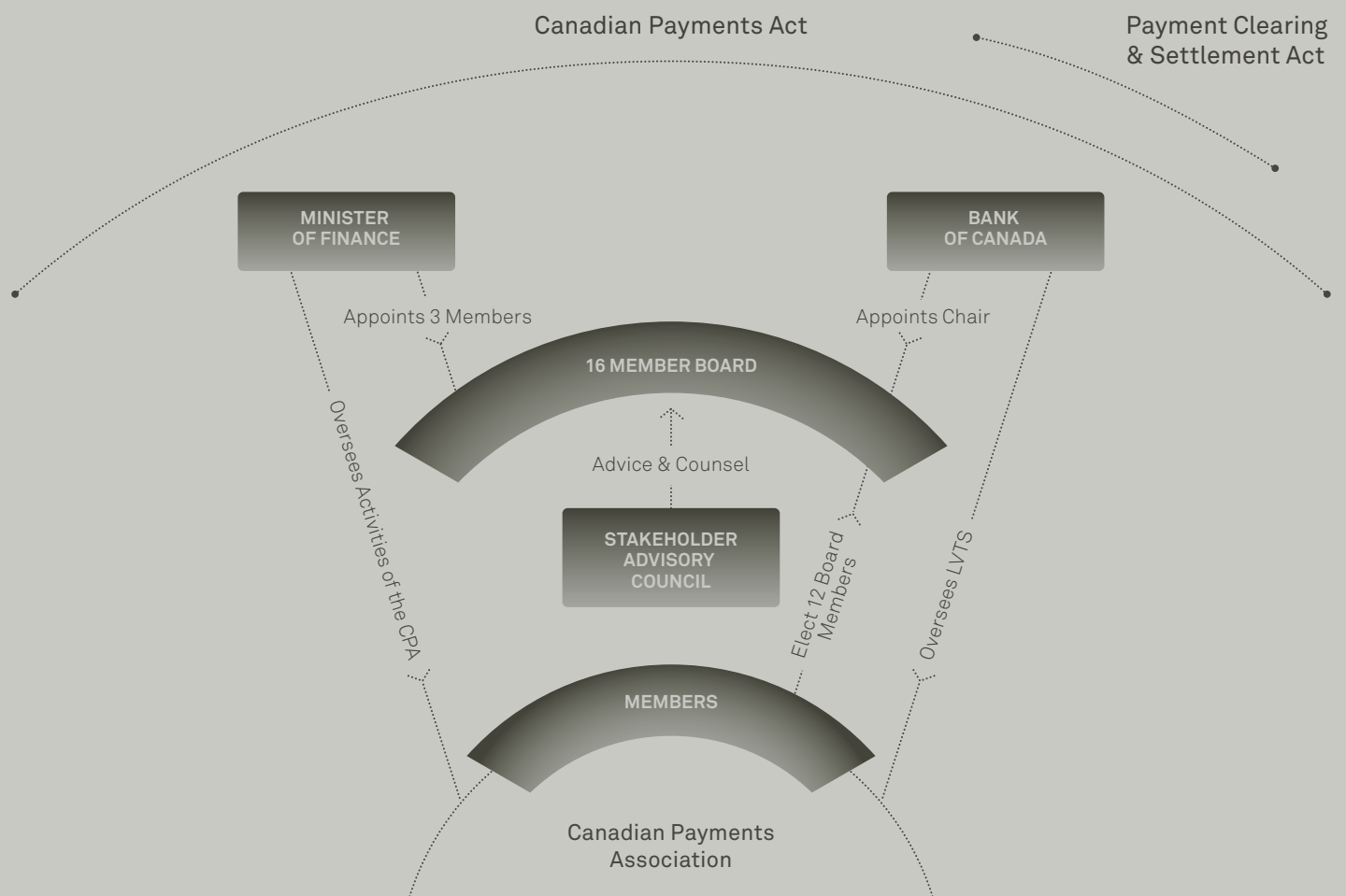


The Association's governance framework is largely defined in the Canadian Payments Act, including provision for a 16-person Board of Directors chaired by an official of the Bank of Canada, and a Stakeholder Advisory Council comprised of industry representatives.

12

CPA by-laws and rules are created under the authority conferred by the Canadian Payments Act.

- CPA by-laws are subject to approval by the Minister of Finance.
- The Minister of Finance has oversight responsibilities for the CPA. All proposed rule changes are reviewed and may be disallowed by the Minister, in whole or in part, as a mechanism to ensure the public policy objectives of the CPA in regards to the payments systems have been met.
- Having been designated by the Governor of the Bank of Canada as a systemically important system pursuant to the Payment Clearing and Settlement Act, the Large Value Transfer System is subject to oversight responsibility by the Bank of Canada.





Value:

CPA 79.1%
Other* 20.9%



Volume:

CPA 54.4%
Other* 45.6%

*on-us, credit cards, proprietary/closed loop

The CPA is a public purpose corporation—in addition to supporting its members, the CPA has interests and objectives that extend beyond those of its membership. The CPA has a statutory duty to:

- Promote the efficiency, safety and soundness of the clearing and settlement systems.
- Take into account the interests of users.

Since its creation in 1980, the CPA has matured into the leading centre of knowledge for the clearing and settlement of payments in Canada. To that end, the CPA leverages its expertise in identifying issues of concern for the payments system, the inherent risks in the system and above all, facilitating and brokering consensus among members and a broad base of stakeholder interests to deliver a sound rules framework to support this infrastructure, which is so critical to the Canadian economy.

The CPA is an important national forum, which brings together users, members and regulators of the Canadian payments system in order to discuss issues and seek resolutions that fully consider the needs and interests of users.

The CPA maintains a clearing and settlement framework for payments in Canada. As part of this framework, the CPA operates three main clearing and settlement systems. These robust, efficient and safe systems are critical to the stability and smooth functioning of Canada’s payments system:

- **The Large Value Transfer System (LVTS)** is Canada’s primary system for clearing & settling large value, time critical Canadian dollar transactions. It provides participants and their customers with the certainty that, once a payment has passed the system’s risk-control tests, the transactions are final and will settle on the books of the Bank of Canada on the same day. LVTS payments represent 90% of the value of payments processed by the CPA or an estimated 66% of all Canadian transactions. In 2010, LVTS cleared and settled 6 million transactions, representing \$37.7 trillion in value.
- **The Automated Clearing Settlement System (ACSS)** is a system through which Canadian dollar cheques and electronic payment items, such as direct deposits, ATM withdrawals, point of sale transactions, online payments, pre-authorized debits and bill payments are cleared and settled. The system tracks the exchange of payment items and the resulting balances due to and from participants. Balances are calculated and netted on a bilateral basis between each pair of participants. ACSS payments represent 99% of the volume of payments processed by the CPA. In 2010, the ACSS cleared and settled 6 billion payment items, representing \$5.2 trillion in value.

- **The U.S. Dollar Bulk Exchange (USBE)** is a parallel system to the ACSS used for payment items in US dollars in Canada. The USBE tracks the exchange of US dollar payment items and the resulting balances due to and from participants. Balances are calculated and netted on a bilateral basis between each pair of participants. In 2010, the USBE cleared and settled 8.7 million transactions, representing \$91 billion USD in value.

In addition, the CPA is called upon, from time to time, to develop and operate other systems to support payments and payment-related services. For example, at the request of its membership, the CPA has taken on additional responsibilities such as:

- **The CPA Services Network (CSN)**, a network used to exchange batch payment transaction files such as Automated Funds Transfers (AFT) and Electronic Data Interchange (EDI).
- **The Financial Institution File (FIF)**, an electronic directory of CPA member branches used for the routing of payments.
- **The Corporate Creditor Identification Number (CCIN)**, a database that allows corporate creditors (i.e. billers) to be uniquely identified for the purpose of EDI and paper-based electronic bill payment processing.

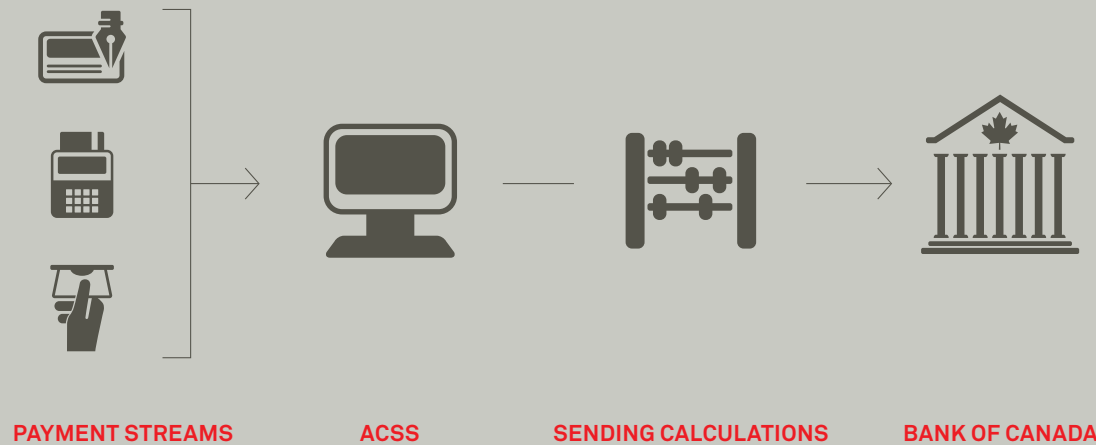
On average, some 24 million payment items, representing approximately \$170 billion in transactions, were cleared and settled through the CPA's systems each business day during 2010. The systems also performed well over their target rates in 2010, boasting an availability rate of nearly 100%. In total, the CPA cleared and settled \$42.8 trillion last year.

The CPA, with the support of various committees that bring together representatives of its members and stakeholder groups, develops and implements the rules that apply to the clearing and settlement of different types of payments between its member financial institutions. These rules provide a clear legal framework for the clearing of payments that fall under the CPA's mandate.

The CPA is administered by a full-time staff of approximately 74 and is headquartered in Ottawa. Under the direction of the President and CEO, the CPA carries out its activities through four departments: Corporate Services, Legal, Operations and Technology, and Policy and Public Affairs.

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ACSS CLEARING CALCULATIONS





Message from the CPA Chair & the President & CEO

15

The year 2010 marks the 30th anniversary of the Canadian Payments Association (CPA). Its creation in 1980 was the first time in Canada that an association of various types of financial institutions had been entrusted with a legislated mandate to operate a national clearing and settlement system. Over the past three decades, the CPA has steered the processing of a largely paper-based payment industry in the '80s, ushered in the era of electronic payments in the '90s, and pushed the boundaries of innovation to facilitate emerging payment segments in the noughties ('00s).

Indeed, the clearing and settlement system has undergone significant transformation since the CPA was created. The annual volume of payments cleared through the CPA has more than quintupled and now exceeds 6 billion transactions, in part due to new payment options that did not exist three decades ago. At the consumer and retail levels, the debit card, online commerce and bill payments have dramatically altered the way we transact. At the systemic level, the introduction of the Large Value Transfer System (LVTS) in 1999 significantly reduced risk by providing immediate finality and guaranteed settlement of payments. Today, the CPA continues to facilitate innovation in payments with frameworks for contactless debit payments and, in the near future, mobile payments.

At the dawn of a new decade, further transformation in the payments industry is being considered. Parties in the payments marketplace are addressing emerging trends with a variety of responses including legislation, strategic planning and greater consideration given to system governance, payment stakeholders and users.

Recognizing the implications and needs associated with this burgeoning evolution in the sector, the CPA embarked on an ambitious exercise to develop its long term payment strategy to ensure the CPA framework for clearing and settlement continues to serve the needs of all participants and the Canadian public. After 100 days of webinars, written feedback and town-hall meetings across Canada involving some 240 participants representing more than 100 organizations, in March 2010 the Board approved the release of the CPA's **Payments Strategy: Vision 2020**, charting a clear course for the organization for the years to come, anchored in the digital economy.



Janet Cosier
Chair, CPA Board of Directors



Guy Legault
President & CEO

“The CPA’s submission to the Task Force, Building a Strong Foundation for Canada’s Digital Economy, highlighted a number of initiatives the CPA proposes to undertake over the long term to increase payments efficiency and also identified a number of issues falling outside its current mandate which need to be addressed by all system participants.”

16

That same month, the Government of Canada signaled the creation of an independent Task Force for the Payment System Review which was officially launched at the CPA’s Conference in June by the Minister of Finance.

With its Vision 2020 strategy, its 30 years of experience, its understanding of daily operations, and its role as a consensus-broker within the payments industry, the CPA is well-positioned to contribute to the Task Force. The CPA’s submission to the Task Force, Building a Strong Foundation for Canada’s Digital Economy, highlighted a number of initiatives the CPA proposes to undertake over the long term to increase payments efficiency and also identified a number of issues falling outside its current mandate which need to be addressed by all system participants.

Looking ahead to the future of its own framework and systems, the CPA undertook several projects this year with objectives that are reflected in Vision 2020, including a review of its clearing and settlement system and rules framework. In the fall of 2010, the Association held open stakeholder and member consultations to assess the current clearing and settlement framework for retail payments against objectives, needs and gaps identified by its stakeholder base. Of particular concern to the CPA is its ongoing ability to respond quickly to both member and user needs in the current dynamic payments environment. At the same time, the CPA developed a Long Term Technology Strategy and Transition Roadmap to modernize the CPA’s core clearing and settlement systems. These and other key initiatives are covered in further detail under the following section, A Year in Review.

To complement these initiatives, which are focused on enhancing the internal workings of the clearing and settlement system, the CPA boosted its industry outreach. Fostering strong relationships with its members, regulators and stakeholders has

always been a priority of the CPA. In this regard, the Association enhanced its member relationship program, broadened the participation on its Stakeholder Advisory Council (SAC), established a Government Relations (GR) program, and held its most successful conference to date, attracting nearly 400 delegates interested in learning about payment developments in both Canada and abroad.

An ongoing focus for the Board of Directors is to ensure governance best practices for the Association. Working with industry experts in 2010, the CPA continued to enhance the Board’s governance review in such areas as its committee structure and roles and responsibilities.

The CPA is proud of its achievements over these past 30 years and looks forward to managing the evolution of the payment system to meet Canadians’ needs well into the future. The collaborative spirit among members and stakeholders that has facilitated many of our accomplishments to date will continue to fuel our ongoing drive for improvement. We thank current and former members of the Board, members and stakeholder representatives on committees, and CPA staff for their vital contributions to the successes of the past year and the last three decades.



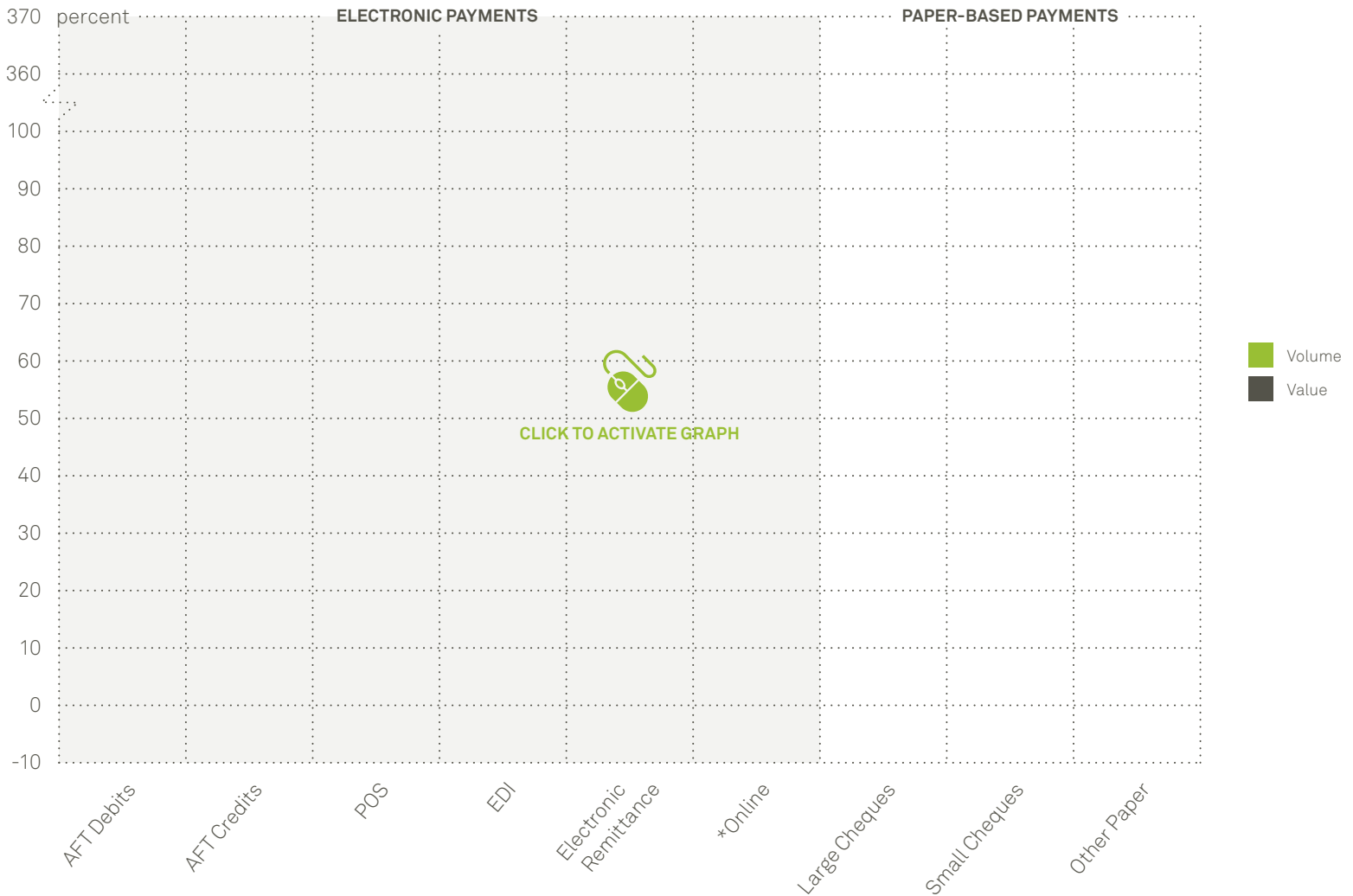
2010

A Year in Review

18 **The Canadian payment ecosystem has entered a period of unprecedented change.** Today, Canadians can pay for goods and services in a vast number of ways, thanks to the efforts of an ever-growing industry continually pushing technological boundaries. Innovation continues to provide new opportunities for payments, and business models are changing rapidly,

especially in emergent payment segments such as online, contactless (point-of-sale), and mobile payments. Not surprisingly, electronic payments continued to dominate the Canadian landscape. For example, online payments volume doubled in volume, while Electronic Data Interchange (EDI) payments grew by 15% in 2010.

2010 ACSS Payments Volume & Value Growth Rates



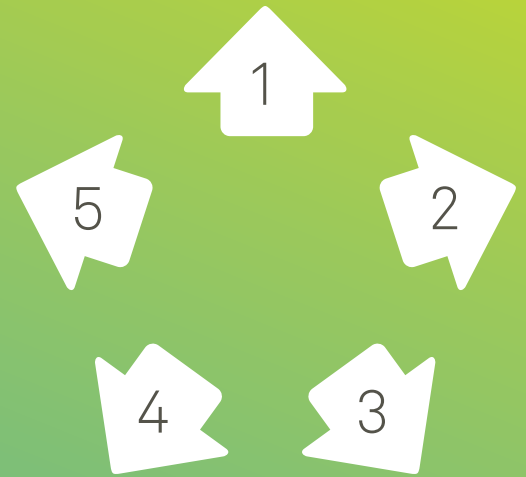
These developments have all occurred against the backdrop of a serious economic downturn. Canadian financial institutions have weathered the crisis remarkably well and the payments industry remained highly dynamic in 2010.

In an effort to harness this change, the government established a Task Force in 2010 to review the country's payments system and ensure that public policy keeps pace with the evolution in payments. Its goal is to balance innovation and competition in payment systems with the issues of safety, soundness, and industry oversight. The Task Force and the government's other work in 2010 in relation to payments are featured at the end of this section.

The CPA, for its part, charted a clear course for itself in 2010 with the release of its **Payments Strategy: Vision 2020**—all the while, continuing to provide a stable clearing and settlement foundation for Canadian payments. The development of Vision 2020 was driven in large part by a research program that engaged member institutions, stakeholders, and international counterparts and a comprehensive consultation program that validated the needs of the payments industry.

With this roadmap, the CPA has found itself in a good position to participate in both the industry and the government's mapping of the future payments landscape. As illustrated, Vision 2020 is anchored in five important pillars—areas in which the Association made progress this year:

- 1 **Support the Growth of Electronic Payments**
- 2 **Drive Efficiencies in Payments**
- 3 **Modernize the CPA Legal Framework**
- 4 **Enhance CPA Exchange, Clearing & Settlement Technology**
- 5 **Expand Value-Added Services**



- 1 Support the Growth of Electronic Payments
- 2 Drive Efficiencies in Payments
- 3 Modernize the CPA Legal Framework
- 4 Enhance CPA Exchange, Clearing and Settlement Technology
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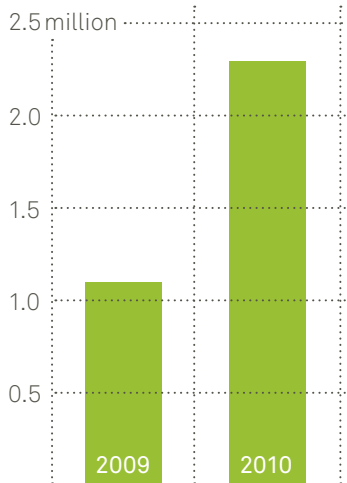


Pillar One

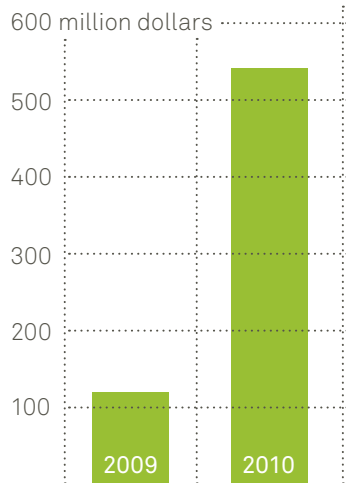
Supporting the Growth of Electronic Payments

20

Online Payments Volume



Online Payments Value



ONLINE PAYMENTS

The proliferation of e-commerce websites globally, and in particular in North America, has created an explosion in the number of virtual storefronts with everything from books, to music, to software, to travel, to bonsai trees being made available online. In Canada, the number of online payment transactions has grown at a compound annual average rate of 25.1% per annum over the period 2001 to 2009. Though credit cards continue to dominate this channel by a wide margin, the CPA is now seeing marked growth in the use of Canadian debit cards online.

CPA online payments are transactions initiated by a customer using debit accounts for online purchases of goods or services (e.g. Interac Online), in accordance with CPA Rule E2. In 2010, the CPA observed a tremendous growth in the volume and value of the online payments cleared via the ACSS. Over the past year, the CPA's online payments doubled in volume, from 1.14 to 2.3 million, and nearly quadrupled in value compared to 2009 figures, from \$115

million to \$542 million. Over a two-year period, volume increased nearly fourfold from 2008 levels while value in 2010 was nine times greater than 2008 levels.

E RULES FACILITATION

In reviewing the blue print of other countries that have successfully launched mobile payment products for the Point-of-Sale (POS) channel, the CPA found that a key success factor was the establishment of contactless payments for environments where convenience and speed of throughput is essential.

Contactless and PIN-less debit products enhance the utility of the POS channel in Canada by facilitating, for example, a number of tap & go debit products, but opportunities remain. Under current CPA rules, POS debit products cannot be processed at many locations where speed of throughput is essential (e.g. transit, highway tolls) or systematic access to an online channel is not possible (e.g. parking, vending machines, home delivery, on-board airline purchases). As a means of being

In 2010, the CPA observed a tremendous growth in the volume and value of the online payments cleared via the ACSS. Over the past year, the CPA's online payments doubled in volume, from 1.14 to 2.3 million and nearly quadrupled in value compared to 2009 figures, from \$115 million to \$542 million.

responsive to market needs, the CPA worked with its members and stakeholders in 2010 to review the online and receipting requirements of CPA Rule E4—Exchange of PIN-less Point-of-Service Debit Payment Items for the Purpose of Clearing and Settlement.

The objective of the review was to provide POS scheme operators and other stakeholders with the flexible environment they require to offer competitive debit products with the same speed and convenience that the market has come to expect. **As such, the CPA is seeking to:**

- A Allow for alternative authorization methods to support the use of various processes for real-time authorization for PIN-less POS Debit Payments; and
- B Provide more flexibility for ensuring that a payor is notified of the value of a transaction in order to address challenges in certain environments where the provision of receipts is not practical or rapid throughput is critical.

A key ingredient in developing the rules applicable to the clearing and settlement of payments is the CPA's effort to consult with members and various stakeholders during their development, particularly when dealing with new payment methods and technologies such as mobile payments. Over the summer of 2010, the CPA conducted preliminary discussions with 16 key players in the mobile and POS Debit payments industries. Consultation participants represented a cross-section of the industry including FIs, consumer groups, merchants, a POS scheme operator, mobile payment scheme operators and a telecom security consultant. Throughout the fall, the CPA worked with its members and representatives from its Stakeholder Advisory Committee (SAC) to develop enhancements to CPA Rule E4. Moving forward, the CPA is conducting a broad public consultation in Q1 2011.

BILL PAYMENTS

Today, the adoption of electronic systems at each level of the payment chain has greatly enhanced the efficiency of the processes supporting bill payments and reduced lead times considerably. In 2010, electronic remittances cleared and settled via the CPA's ACSS grew 6%, representing 363 million transactions versus only 13 million paper remittances. Nevertheless opportunities to further streamline the process exist. Throughout 2010, the CPA's Bill Payments Task Force, comprised of financial institutions, corporate stakeholders and consumer associations, reviewed the efficiency and effectiveness of bill payments in Canada, and identified areas where improvements may be made.

CPA rule changes are being considered to allow POS debit products which cannot be processed today—unlike their credit and pre-paid counterparts—at many generally low-value, unattended or cash-based locations, including:



TRANSIT

Delays in online approvals & scheme receipts may prevent the speed of throughput desired for transit



PARKING

Machines may not have the ability to be systematically online 24/7



VENDING MACHINE

Machines may not have the ability to be systematically online 24/7, nor do they currently provide scheme receipts



HOME DELIVERY

Salesperson may not always have access to an online channel when traveling to different locations for home deliveries



AIRLINES

For on-board flight purchases (e.g. food and beverages), airlines may not have access to an online channel



HIGHWAY TOLLS

Machines may not have the ability to be systematically online 24/7, nor do they currently provide scheme receipts

In December, the CPA's Board of Directors approved the Bill Payments Task Force's recommendations for changes to the bill payments framework, namely:

- 22
- A New Rule:** The development of a new rule that would apply to all electronic credit-push bill payments cleared via the CPA's ACSS, regardless of the underlying payment item (e.g. bill payments leveraging a Corporate Creditor Identification Number (CCIN) and non-CCIN bill payments). The new rule, which would cover the biller enrolment process, would increase consistency and transparency in the treatment of individual bill payments cleared via the CPA's ACSS.
 - B Simplified Sign-on Process:** A simplified sign-on process would be integrated into the new Rule. This will result in greater standardization within biller/payee FI proprietary contracts, which is anticipated to reduce the amount of effort required by billers when registering for the receipt of electronic bill payments. Although this would not eliminate the need for separate biller contracts with payee FIs and payor FIs, it will standardize the payee FI contracts to a greater degree and reduce the detail required in the payor FI contracts. It is also anticipated that it would reduce the effort required on the part of payor FIs to accept non-CCIN billers. The process will be implemented on a going forward basis, with existing contracts to be grandfathered.
 - C Value-Dating:** To achieve greater consistency, extending value-dating provisions to all bill payment remittances made to a biller using a CCIN number will also be proposed, including those payments made from one account at an FI to another account held at the same FI (i.e. on-us bill payments).
 - D Best Practices for Error Corrections:** A best practice statement regarding bill payment error corrections would guide parties in establishing appropriate response mechanisms in order to provide satisfactory service to customers and billers (for instance, responding to an error request within certain timelines). Such a statement would provide greater predictability and consistency in the error corrections process.

As its next steps, the CPA is expected to prepare and release a public consultation document in 2011 that will outline these proposals and seek further feedback from members, stakeholders and consumers prior to implementation. In the meantime, the CPA wishes to thank members of the Bill Payments Task Force from across the country for their diligence in researching bill payment issues and developing recommendations for improved efficiency in bill payment processing.

PRE-AUTHORIZED DEBITS

Pre-authorized debits (PADs) have been an efficient and convenient payment mechanism for several decades. On average, approximately 2.6 million PADs were cleared through the CPA's ACSS each business day in 2010. Notwithstanding this popularity with businesses and consumers, both stakeholder groups had identified some potential improvements in 2008—namely, ensuring appropriate disclosure of information to consumers and accommodating the use of electronic communications channels by both businesses and consumers within the framework for establishing PAD arrangements.

Although a revised Rule H1, which reflects the needs of members and stakeholders, was published in June 2008, a transition period remained in effect until February 28th, 2010 to allow businesses and financial institutions sufficient time to make the mandatory changes. PAD agreements that were already in place at the time of the Rule's release were grandfathered to avoid inconvenience to businesses and their payor customers. On March 1st, 2010 the grandfather period ended and all new Payor PAD agreements and new Payee Letters of Undertaking were transitioned to the meet the requirements of the revised rule. CPA Rule H1, as well as additional information about the new requirements, is available on the CPA's web site www.cdnpay.ca

In 2010, electronic remittances cleared and settled via the CPA's ACSS grew 6%, representing 363 million transactions versus only 13 million paper remittances. Nevertheless opportunities to further streamline the process exist.



Pillar Two

Driving Efficiencies in Payments

23

CLEARING AND SETTLEMENT FRAMEWORK

In tandem with the work of the Task Force for the Payments System Review established by the government, and in part to inform the CPA's contributions to the Task Force, the CPA commenced a review of its clearing and settlement framework in the fall of 2010. The review encompasses a number of initiatives detailed in its strategy, **Vision 2020**, and incorporates the feedback from dialogue the Association held with its members and stakeholders.

In Phase I of the review, the CPA held workshops with participants representing a cross-section of the payments industry. Through these, the CPA identified a preliminary list of objectives and guiding principles which should be met by a clearing and settlement framework. Members, users and other stakeholders also validated their needs (such as straight through processing and enhanced remittance data) and the gaps in fulfilling those needs under the current framework.

A second phase began in late 2010 and focused on the development of a "baseline document"—a holistic and in-depth look at the CPA's current clearing and settlement framework (e.g. laws, systems, processes and rules). This document, completed in Q1 2011, is expected to support the next phases of the work in the program, including an assessment of the current clearing and settlement framework for retail payments against the identified objectives, needs and gaps, and relative to frameworks supporting centralized clearing systems.

WHAT IS A CLEARING FRAMEWORK?



IMAGE RULE

With most FIs well advanced in using cheque images for purposes such as internal record retention and delivery to customer, the anticipated benefits of the image environment have become increasingly available to businesses and consumers. As many more efficiencies may be gained by our members through the use of images, the CPA is committed to support these efficiency gains through its Rules.

In December 2009, the CPA Board of Directors approved Phase I of the Image Rule Project. Phase I involved the development of a new rule for cheque images and a security standard to support “official image” provisions in the **Bills of Exchange Act (BEA)** and to allow for the use of image printouts for the purpose of returning items through the clearing. Phase I came into effect in June 2010.

One year later, in December 2010, the CPA Board of Directors approved Phase II of the Image Rule Project. Phase II builds on work completed in Phase I in order to gain additional efficiencies in the exception processing environment through the development of an enabling framework for members to create Return Replacement Documents (RRDs) as an option for returns. RRDs are MICR encoded cheque-sized documents with an image of the front and back of a payment item.

Of members clearing payment items directly through the CPA’s ACSS, a majority make use of an archive for the storage of their images post-clearing. Under Phase II, when a decision is made to dishonour an item, the financial institution will have the option to conduct the return process using an RRD created from the cheque image stored in their archive. This will enable a more efficient return process and allow returns to be initiated faster by those institutions that chose to implement the process.

As part of the development for Phase II, a new standard to describe the physical characteristics of an RRD was developed along with draft rule amendments to accommodate the use of RRDs. The draft amendments and new standard underwent a consultation with all CPA Members and targeted stakeholders during the summer of 2010. Phase II serves as a stepping stone to future Phases of the Image Project, including Phase III which will commence in 2011. Phase II will come into effect in June 2011.

NEW LVTS PARTICIPANT

In October of last year, ING Bank of Canada commenced operations as a Large Value Transfer System (LVTS) Direct Participant. The CPA, the Bank of Canada, and other LVTS Direct Participants worked closely with ING throughout 2010 in preparation for the institution’s transition to Direct Participant status. ING is the first addition to the number of Direct Participants in the LVTS in six years. With the introduction of ING, the CPA’s LVTS system now supports 16 Direct Participants, including the Bank of Canada.

On average in 2010, LVTS was used to clear and settle about \$149.4 billion in Canadian dollar payments each business day, or approximately 90% of the total value moving through the Canadian payment system. Through LVTS, funds can be transferred between participating financial institutions virtually instantaneously, and the money can thus be credited to the recipient’s account on a timely basis. The amount of credit available is verified at the time of each transaction, in real time, based on the positions and credit limits of the participants involved. As all LVTS payments are immediately final and irrevocable, the recipient may withdraw the money, invest it or use it to make another payment in full confidence that the incoming payment will not be reversed for any reason.



Pillar Three

Modernize CPA Legal Framework

GOVERNANCE WORK

Robust governance is an important feature of sound clearing and settlement mechanisms. It must seek to promote organizational integrity and legitimacy, inclusiveness of appropriate players, and transparency in decision making. It is vital to preserve the reputation of any national clearing and settlement arrangements. To this end, the CPA Board of Directors continues to review its governance to emulate best practices in governance and improve its effectiveness.

Working with industry experts in 2010, the CPA supported its Board throughout Phase II of its governance work. The objectives of this work were to (i) clearly define roles and responsibilities for the Board of Directors, Directors, Chair, President and CEO, Management and Governance Committees; (ii) develop a code of conduct for the Board of Directors; & (iii) establish a Nominating Committee.

At year's end, the CPA Board had developed and approved a code of conduct and terms of reference for two new Board committees: the Governance and Nominating Committee, and the Human Resources and Compensation Committee. Revised terms of reference were also approved for the existing Executive Committee. Finally, a charter of Roles & Responsibilities was also developed and is expected to be approved by the Board in February 2011.

CREDIT UNION FRAMEWORK

The credit union system is in transition; it is undergoing dynamic change that affects its structure, composition, core services and governance. Recognizing

this, the CPA conducted a multi-year review of its framework for cooperative sector participation in the clearing and settlement system. Having completed its review in December 2010, the CPA believes that the current model remains appropriate. However, to enhance transparency and remove uncertainty in the marketplace, some modifications are needed to close the gap in the CPA's legal framework relating to local credit union arrangements for clearing & settlement.

The CPA Board of Directors approved in principle the following recommendations to enhance the framework's robustness and flexibility for users, while at the same time ensuring that the payments system as a whole remains efficient, safe and sound:

Recommendation #1 Eligibility for Membership

There will be no change to the entities entitled to CPA membership. Specifically, a local credit union that is a member of a central or cooperative credit association is not entitled to CPA membership in its own right; but it can enjoy the benefits of membership through its central. Typically, local credit unions are required by their provincial legislation to maintain liquidity deposits with their provincial central. This meets an important prudential requirement by providing a liquidity reserve to satisfy unexpected demand for withdrawal. This liquidity pool is an essential part of the regulatory regime that permits centrals to provide local credit unions with access to the Canadian payments system. This framework has generally served the credit union system well and will continue do so moving forward.

Recommendation #2 Group Structure and Exceptions

- i Clarify that a local credit union must exchange its payment items through its central. If the central is a member of a group, the local credit union's payment items must be exchanged through its central's group clearer, and if the central is an indirect clearer, through its central's clearing agent. Any locals clearing via means other than through their central will be provided a 10-year period to transition their clearing and settlement arrangements and re-allocate the use of their financial institution numbers (FINs) to their central or group clearer.
- ii Clarify that a CPA member that has chosen to belong to a group, belongs to this group for the purpose of the exchange, clearing and settlement of all its payments items.

Recommendation #3 Use of Payment Service Providers

Provide greater certainty with regards to the use of payment service providers (PSP) by local credit unions for payments processing. In particular, a local is not precluded from using a PSP to process its customers' Automated Funds Transfer (AFT) and Electronic Data Interchange (EDI) transactions.

These recommendations will be the focus of a targeted consultation in early 2011 and final approval will be sought from the Board of Directors at a later stage in the year.

Credit Union Framework Review

Recommendations



Recommendation #1

Eligibility for Membership

No change to the entities entitled to CPA membership. Specifically, a local credit union that is a member of a central or cooperative credit association is not entitled to CPA membership in its own right; but it can enjoy the benefits of membership through its central.



Recommendation #2

Group Structure & Exceptions

Clarify that a local credit union must exchange its payment items through its central. Also, if a CPA member has chosen to belong to a group, it belongs to this group for the purpose of the exchange, clearing and settlement of all its payments items.



Recommendation #3

Use of Payment Service Providers

Provide greater certainty with regards to the use of payment service providers (PSP) by local credit unions for payments processing.



Pillar Four

Enhance CPA Exchange, Clearing & Settlement Technology

27

The CPA's ACSS and LVTS information technology (IT) systems cleared and settled on average \$170 billion every day in 2010 and play a vital role in Canada's financial services industry. The CPA provides secure, highly available and cost-effective exchange, clearing and settlement IT systems.

However, continual and rapid technology advancements, heightened member and stakeholder expectations and emerging payment methods require the CPA to keep up with the pace of change and invest in its critical IT infrastructure.

PAYMENT SYSTEM HEALTH CHECK

In 2010 the CPA finalized an all-inclusive evaluation of its payment systems known as the Payment Systems Health Check (PSHC). With an objective of identifying the current state of these systems, the CPA focused on gaining a better understanding of its overall risk profile as it relates to unsupported or near end of life technologies which could potentially have a negative impact on its systems availability. The final results of the systems health check, along with a comprehensive long term technology strategy, were presented and approved by the CPA Board of Directors in December 2010 and are now underway.

LONG TERM TECHNOLOGY STRATEGY

In 2010, the CPA led the development of a multi-year Technology Strategy and Plan. The strategy mitigates risk, modernizes the payments systems, consolidates and standardizes technologies and enhances the safety and soundness of current and future business operations. The strategy also supports the CPA's role in the evolution of the payments industry over the next 10 years.

INFORMATION SECURITY MANAGEMENT PROGRAM

In 2010, the CPA engaged the services of an independent party to conduct an assessment of the Association's information security management practices. Information security practices protect systems, assets, and services from a security event that could negatively impact business operations. Though no significant security issue has affected the CPA's payment systems to date, the CPA routinely conducts risk assessments of changes to the technical environment with a view to staying ahead of security issues. Based on the findings of the review, the CPA implemented an Information Security Management Program to further enhance its practices with respect to information security and reduce the probability of potential security breaches in the future.



Pillar Five

Value Added Services

28

CPA CONFERENCE: PAYMENTS PANORAMA 2010

Payments Panorama, the CPA's biennial conference, headed to Vancouver in June 2010, attracting nearly 400 delegates interested in learning about payment developments in Canada and on the international front. The conference focused on leadership, change and vision in the payments industry.

Over a three-day period, participants had the opportunity to listen to and engage with industry experts on the challenges and strategic directions for the payments industry. Dedicated networking events and exhibit areas exposed attendees to new and emerging payments technologies and opportunities. Keynote speeches addressed change, leadership and vision in the industry, while panel discussions featuring domestic and international industry experts covered mobile payments, crime and payments, international standards, development in person-to-person payments, key issues for merchant retail payments, international payment developments, and going green in payments. Select conference presentations are available on the conference website at www.cdnpay.ca/conference/english/presentations.html

Praised as the CPA's best conference to date, the event also made the news with the Minister of Finance, a keynote speaker, announcing at the Conference the formal launch of the Task Force for the Payments System Review and naming its Chair, who also had the opportunity to discuss her mandate with conference participants.

INTERNATIONAL PAYMENTS COUNCIL

Immediately following the CPA Conference, the CPA hosted the International Council of Payment Association Chief Executives (ICPACE). The CPA co-founded and has been participating on ICPACE since its inception in November 2004. The Council is an important forum for sharing expertise and discussing the implications of payment developments occurring globally, with the goal of applying this knowledge to ensure Canada's payment system keeps pace with international best practices.

In addition to the CPA, the Council includes representatives from the United Kingdom's Payments Council, the Irish Payments Services Organization (IPSO), the Payments Association of South Africa (PASA), the Australian Payments Clearing Association (APCA), the United States' NACHA, and most recently, the New Zealand's Bankers Association. Other organizations have also expressed an interest in joining ICPACE.

At the CPA Conference, APCA, IPSO, and the UK Payments Council were invited to join the CPA on the CEO's panel of international payment developments addressing issues such as competition, legislation and innovation. Later that day, PASA provided delegates with key insights on South Africa's experience with mobile payments.

At the ICPACE meetings, discussions focused on a number of key payments initiatives including: national payment plans and strategies, national debit card systems, public and stakeholder consultations, fraud prevention, the future of cheques, mobile payments & cash reduction strategies, regulatory architecture for payment systems, risk

in retail systems, and same-day settlement. The next ICPACE conference will be hosted by NACHA in the United States in April 2011.

NEW CPA IDENTITY

2010 marks the CPA's 30th anniversary, and at the current rate of innovation and change in the payments industry it's hard to predict what the future will look like in another 30 years. We know that 30 years ago, 98% of payments cleared and settled by the CPA were paper-based; today, electronic payments now account for nearly 85% of the payments volume. Clearly, electronic payments are now at the core of the CPA's national clearing and settlement systems and need to be reflected in our identity.

Not surprisingly then, the CPA grasped its 30th anniversary as an excellent opportunity to refine its brand and messaging by featuring its strength and core business. The new corporate identity was unveiled in June 2010 at the Payments Panorama conference in Vancouver, along with the Association's new tagline: **Payments you can count on.**

The CPA hosted the **International Council of Payment Association Chief Executives (ICPACE)** in Whistler, BC, which included representatives from the United Kingdom's Payments Council, the Irish Payments Services Organization (IPSO), the Payments Association of South Africa (PASA), the Australian Payments Clearing Association (APCA), the United States' NACHA and most recently, the New Zealand Bankers Association.



AUSTRALIAN
PAYMENTS CLEARING
ASSOCIATION (APCA)



CANADIAN PAYMENTS
ASSOCIATION (CPA)



IRISH PAYMENTS
SERVICES
ORGANIZATION (IPSO)



PAYMENTS
ASSOCIATION OF
SOUTH AFRICA (PASA)



NEW ZEALAND
BANKERS ASSOCIATION



UNITED KINGDOM'S
PAYMENTS COUNCIL



UNITED STATES' NACHA



Broader Canadian Environment

30

THE CHANGING FACE OF THE DEBIT CARD MARKET

Canadians are infatuated with their debit cards, and are among the top users of this payment method in the world. In 2010, the CPA processed 3.2 billion debit card payments, representing \$144 billion in value. With such a popular payment method, it is not surprising that changes in this particular Canadian marketplace attracted a lot of attention from industry and government in 2010.

The announcement of new players in the Canadian debit card market in 2009 and 2010—most notably Visa and MasterCard—spurred debate amongst industry stakeholders and government on the rapidly changing debit payment landscape. On the one hand, consumers stood partially to benefit from a wider choice of payment cards; on the other, many retailers feared that the entry of major credit companies into the debit environment would result in higher costs for accepting the cards.

In response to a call for action from the industry, the federal government released in May 2010 the **Code of Conduct for the Credit and Debit Card Industry in Canada**. The Code aimed at promoting fair business practices and ensuring that merchants and consumers understood the costs and benefits associated with credit and debit cards. Two months later, in July, the Government enacted legislation it had introduced into Parliament earlier that year, the **Payment Card Networks Act**. The Act gives the Minister of Finance the power to regulate the market conduct of the credit and debit card networks and their participants, if necessary. In addition, the legislation expands the mandate of the Financial Consumer Agency of Canada (FCAC) to supervise payment card network operators and monitor their compliance with the Code of Conduct and with any regulations introduced under the new Act.

TASK FORCE FOR THE PAYMENTS SYSTEM REVIEW

As noted earlier, the Minister of Finance launched an independent Task Force for the Payments System Review, while speaking at the CPA's industry conference, Payments Panorama in June 2010. Fulfilling a commitment made in Budget 2010, the Task Force was mandated by the government to review the safety, soundness and efficiency of the payments system, focusing on innovation, competition, governance, and stakeholder needs. The Task Force is expected to make recommendations to the Minister of Finance by the end of 2011. In the meantime, the Task Force has invited submissions from all payments system participants on the key issues facing the current payments system and to share their views on issues or concerns for the future of the payments system.

With its 30 years' worth of experience, its understanding of daily operations, and its role as consensus-brokers within the payments industry, the CPA is well-positioned to contribute to the Task Force's work. Indeed, many issues facing stakeholders today were brought to our attention in cross-country consultations during the development of our **Payments Strategy: Vision 2020**. The CPA's submission to the Task Force, **Building a Strong Foundation for Canada's Digital Economy**, highlights a number of initiatives the CPA proposes to undertake over the long term to increase payments efficiency and also identifies a number of issues falling outside its current mandate which need to be addressed by all system participants.

The Task Force also undertook a collaborative research project designed at developing plausible scenarios for the future of the payments system. The CPA's President and CEO was one of the Canadian payments experts involved in the Future Scenarios Workshops that were hosted by the Task Force in the fall of 2010 and into early 2011. Next, the Task Force anticipates releasing preliminary findings to the Minister in order to begin a second round of discussions and public consultations in 2011. The CPA will continue to provide its views throughout the process.



Section Four

Stakeholder Advisory Council

The CPA is an important national forum, which brings together members, regulators and users of the Canadian payments system in order to discuss issues and seek resolutions collaboratively. Created in 1996, and enshrined in legislation in 2001, the Stakeholder Advisory Council (SAC) provides advice and counsel to the CPA on issues that matter to payments system users.



Message

from the Chair of the Stakeholder Advisory Council

32

The announcement of the Task Force for the Payments System Review and the dramatic advancements in new payments technologies in 2010 made it an interesting year to be involved in the payments arena. While the CPA's primary mandate relates to the clearing and settlement of payments between financial institutions, the astounding level of innovation and change across the payments industry highlights its importance; and in particular, its carefully-crafted and robust policies and rules that serve the needs of all Canadians, and support the safety, security and soundness of the payments system.

The Stakeholder Advisory Council (SAC) has been providing advice and counsel to the CPA's Board of Directors towards sound public policy in payments since 1996. Yet, with the onset of new payments technologies, the SAC's role in CPA's consultation with a broad range of users of the national payment system has never been more necessary.

As the payments landscape transforms so too must the composition of the SAC. In 2010 the Council welcomed more new members who represent innovators, particularly in the key areas of Internet and mobile-based payments. Their added perspective, along with representation from payment service providers, consumer groups, governments, retailers and other businesses, further enhances the SAC's ability to provide balanced, trusted and effective advice on existing CPA matters, as well as emerging issues that are likely to resonate throughout the payments sector.

In particular, the evolution of SAC's composition supported the CPA's work in 2010 towards enhancing its current electronic payments framework, and facilitating the clearing and settlement of emerging mobile payments. Individual SAC members also actively participate in various CPA committees, working groups and task forces to impart targeted knowledge and expertise.



Ron Matthews

Chair

CPA Stakeholder Advisory Council

“The Stakeholder Advisory Council (SAC) has been providing advice and counsel to the CPA's Board of Directors towards sound public policy in payments since 1996.”

“The evolution of SAC’s composition supported the CPA’s work in 2010 towards enhancing its current electronic payments framework, and facilitating the clearing and settlement of emerging mobile payments. Individual SAC members also actively participate in various CPA committees, working groups and task forces to impart targeted knowledge and expertise.”

The SAC continues to provide input to the Bill Payments Task Force on the impact of its proposals on stakeholders. Members also supported the development and introduction of new image rules for cheques and the Cheque Printer Self-Accreditation Program, and delivered key views on the review of the clearing and settlement framework. Additionally, the CPA began the development of a Consumers Group with a view to providing clear and cohesive representation of the unique needs of Canadian consumers amid rapidly evolving payments technologies.

Although the SAC’s legislative function is to provide advice on matters within the CPA’s mandate, the Council’s value across the payments sector was further demonstrated in 2010. For example, select SAC members continue to engage in dialogue with direct clearers in examining the role of CPA rules and ‘on-us’ payments (transactions involving only one financial institution which are outside the scope of CPA rules). Furthermore, the SAC’s activities this past year included a dynamic and productive discussion with the Chair of the Task Force for the Payments System Review, which was established by the Minister of Finance to help guide the evolution of the payments system in Canada.

In addition to the above, the Council continued with its initiative to enhance its effectiveness, part of which was the creation of a tool to better track our projects and commitments. The SAC will continue to work on the development of its Effectiveness Recommendations Dashboard, which will better support the Council in quickly and proactively providing advice and counsel to the CPA Board on existing and future challenges and opportunities in the Canadian payments industry.

As we look forward to 2011 and the recommendations of the Task Force for the Payments System Review, I would like to extend my appreciation to my fellow council members for their dedication and hard work throughout the past year, as well as to the CPA Board of Directors, its members and the CPA staff for their continued support.

Ron Matthews
Chair, Stakeholder Advisory Council



Stakeholder Advisory Council

As at December 31, 2010

34

CHAIR

MR. RON MATTHEWS
Manager, Cash Operations
Imperial Oil Limited

VICE CHAIR

MR. PHILIPPE VISINTINI
Vice President
Banking
ADP Canada

CPA BOARD REPRESENTATIVES

MS. BETH BAILEY
Vice President
Cash Management and
Payment Services
Global Transaction Banking
Bank of Nova Scotia (The)

MR. JEAN-GUY LAVOIE
Vice President
Operations Centre
Caisse centrale Desjardins du
Québec (La)

OBSERVER

MS. LYNN HEMMINGS
Senior Chief
Financial Sector Division
Department of Finance
Canada

MEMBERS

MS. TAYLORE ASHLIE
Director of Communications
CGA—Canada

MS. MURIELLE BOUCHER
Acting Director General
Banking and Cash
Management
Public Works and Government
Services Canada

MR. SANJAY DHAWAN
Vice President
Finance & Operations
EnStream

MR. KEITH F. T. EVANS
Manager
Billing and Revenue Services
Enbridge

MR. STEPHEN FRANK
Director—Policy Development
and Analysis
Canadian Life & Health
Insurance Association

MR. KEN KANDEEPAN
Manager
Cash Management
Ontario Financing Authority

MR. MARC-ANDRÉ LACOMBE
Chief Legal & Development
Officer
Interac Association

MR. KEN MORRISON
Banking and Payments
Consultant
Retail Council of Canada

MR. RENE PELEGERO

Senior Director
Industry Relations & Strategy
PayPal Inc.

MR. JIM ROBBINS

President
EWA—Canada Ltd

DR. JAMES SAVARY

Member
Finance Committee
Department of Economics
Consumers' Association of
Canada

MR. IAN SHELLEY

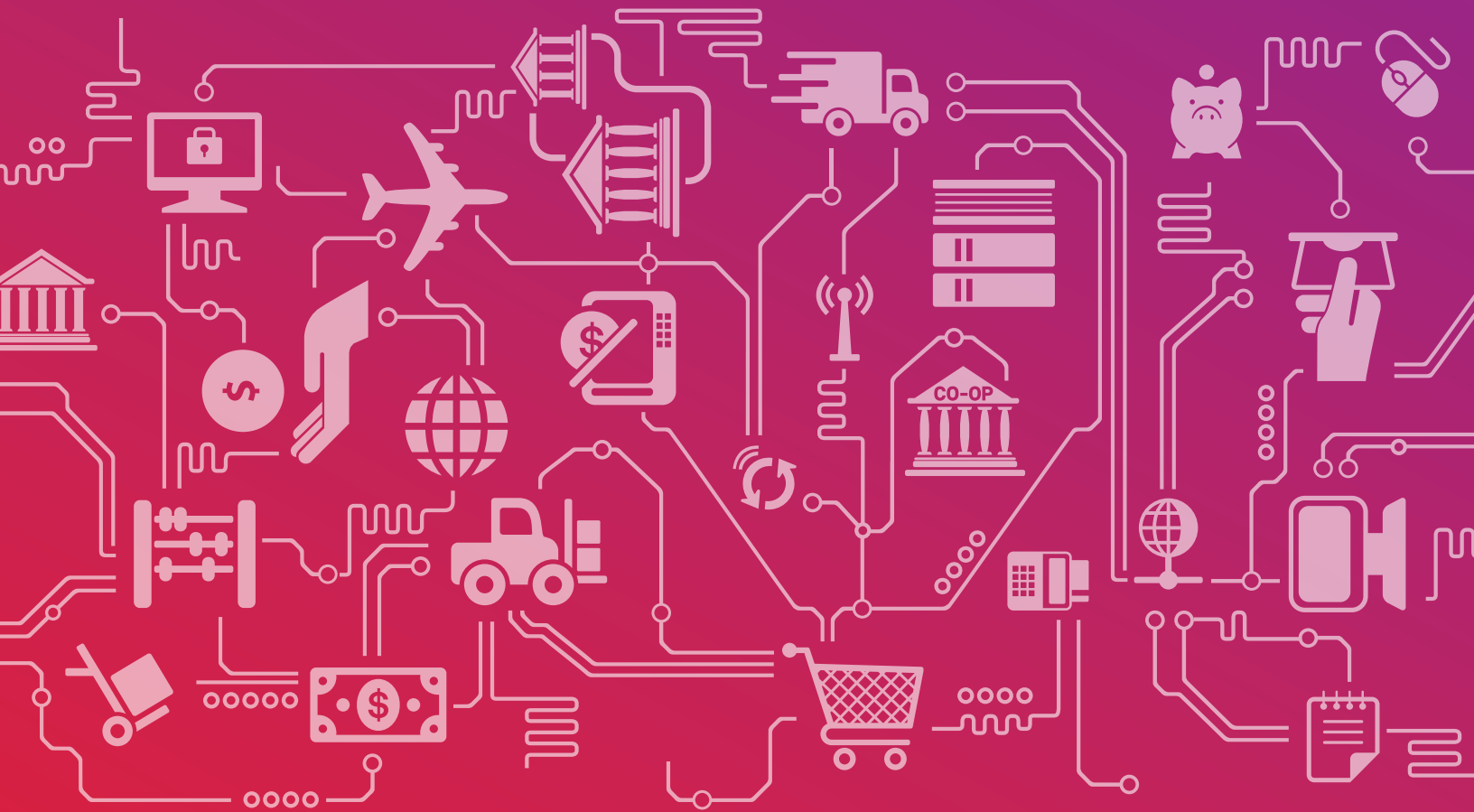
Director
KPMG

MR. PETER THOM

Director, Cash Management &
Assistant Treasurer
Bell Canada

MR. JEAN-FRANCOIS VINET

Financial Services Analyst
Option consommateurs



Section Five

Members

Fostering strong relationships with its members and stakeholders has always been a priority of the CPA. The diversity within our membership and amongst our stakeholder community requires a commitment to a wide-ranging set of outreach, dialogue and consultation activities.



CPA Board of Directors

As at December 31, 2010

36

	DIRECTORS	ALTERNATES
BANK OF CANADA	<p>Chairperson MRS. JANET COSIER Adviser Bank of Canada</p>	<p>Deputy Chair MR. RON MORROW Deputy Chief Funds Management & Banking Bank of Canada</p>
BANKS	<p>MS. INGRID VERSNEL Head—Payments & Trade GTO Centre Royal Bank of Canada</p>	<p>MS. NATHALIE GÉNÉREUX Vice President Administrative Services Laurentian Bank of Canada</p>
	<p>MS. BETH BAILEY Vice President Cash Management & Payment Services Global Transaction Banking The Bank of Nova Scotia</p>	<p>MR. GORD FORFAR Senior Vice President P&C Product Operations Bank of Montreal</p>
	<p>MS. BRENDA CLARK Vice President Distribution Strategy & Innovation Canadian Imperial Bank of Commerce</p>	<p>MS. PAMELA BEAUCHAMP Vice President Wholesale Operations The Toronto-Dominion Bank</p>
	<p>M. SIMON JACQUES Vice President—International Banque Nationale du Canada</p>	<p>MS. LISA LANSDOWNE-HIGGINS Vice President Global Payments and Cash Management Head of Product & eChannels Management HSBC Bank Canada</p>
	<p>MS. RICKI GOLICK Senior Vice President & Treasurer Canadian Western Bank</p>	<p>MR. WARREN LAW Senior Vice President Compliance, Regulatory & Stakeholder Relations ICICI Bank Canada</p>
	<p>MS. CHRISTINE MARGIE Director GTS Cash Product Canada Citibank Canada</p>	



CPA Board of Directors

(continued)

	DIRECTORS	ALTERNATES
CENTRALS	<p>MR. JEAN-GUY LAVOIE Vice President Operations Centre La Fédération des caisses Desjardins du Québec</p>	<p>MR. CAROL ROY Vice President Operations and Compliance La Fédération des caisses Desjardins du Québec</p>
	<p>MR. DAVID PHILLIPS President & CEO Credit Union Central of Canada</p>	<p>MR. GARTH MANNESS Chief Executive Officer Credit Union Central of Manitoba Limited</p>
TRUST & LOAN COMPANIES	<p>MR. GREG YASHAN Vice President E-commerce M.R.S. Trust Company</p>	<p>MR. GERRY T. KINSELLA Executive Vice President and C.F.O. Peace Hills Trust Company</p>
OTHER FINANCIAL INSTITUTIONS	<p>MR. KEN H. CASEY Senior Vice President Major Initiatives Alberta Treasury Branches</p>	<p>MR. DEAN OZANNE Vice President Central Services & Operations Alberta Treasury Branches</p>
	<p>MR. MIKE ALEXANDER Chief Executive Officer All Trans Financial Services Credit Union Limited</p>	
	<p>MR. JOHN MACH President and CEO Communication Technologies Credit Union Limited</p>	
DIRECTORS APPOINTED BY THE MINISTER	<p>MR. RON MATTHEWS Manager, Cash Operations Imperial Oil Limited</p>	
	<p>PROFESSOR MARGARET H. OGILVIE Department of Law Carleton University</p>	



CPA Membership

As at December 31, 2010

38

Bank of Canada (1)

Bank of Canada

Banks (52)

Amex Bank of Canada
 Bank of America Canada
 Bank of China (Canada)
 Bank of Credit and Commerce Canada
 Bank of Montreal
 Bank of Nova Scotia (The)
 Bank of Tokyo-Mitsubishi UFJ (Canada)
 Bank One Canada
 Bank West
 BNP Paribas (Canada)
 Bridgewater Bank
 Canadian Commercial Bank
 Canadian Imperial Bank of Commerce
 Canadian Tire Bank
 Canadian Western Bank
 Citco Bank Canada
 Citibank Canada
 Citizens Bank of Canada
 CS Alterna Bank
 CTC Bank of Canada
 Deutsche Bank Canada
 DirectCash Bank
 Dundee Bank of Canada
 First Nations Bank of Canada
 General Bank of Canada
 Habib Canadian Bank
 HSBC Bank Canada
 HomeEquity Bank
 ICICI Bank Canada
 Industrial and Commercial Bank of China (Canada)
 ING Bank of Canada
 J.P. Morgan Bank Canada
 J.P. Morgan Canada
 Jameson Bank

Korea Exchange Bank of Canada
 Banque Laurentienne du Canada
 Manulife Bank of Canada
 MBNA Canada Bank
 Mega International Commercial Bank (Canada)
 Banque Nationale du Canada
 Northland Bank
 Pacific & Western Bank of Canada
 President's Choice Bank of Canada
 Royal Bank of Canada
 The Royal Bank of Scotland (Canada)
 Shinhan Bank Canada
 Société Générale (Canada)
 State Bank of India (Canada)
 Sumitomo Mitsui Banking Corporation of Canada
 The Toronto-Dominion Bank
 UBS Bank (Canada)
 Walmart Canada Bank

Centrals and Cooperative Credit Associations (15)

Brunswick Credit Union Federation Limited
 Central 1 Credit Union
 Concentra Financial Services Association
 Credit Union Central Alberta Limited
 Credit Union Central of Canada
 Credit Union Central of Manitoba Limited
 Credit Union Central of Nova Scotia

Credit Union Central of Prince Edward Island
 Credit Union Central of Saskatchewan
 L'Alliance des caisses populaires de l'Ontario, Ltée.
 La Caisse centrale Desjardins du Québec
 La Fédération des caisses Desjardins du Québec
 La Fédération des caisses populaires Acadiennes Limitée
 La Fédération des caisses populaires de l'Ontario Inc.
 La Fédération des caisses populaires du Manitoba Inc.

Trust Companies and Loan Companies (30)

AGF Trust Company
 B2B Trust
 Canada Trust Company (The)
 Central Guaranty Trust Company
 CIBC Mortgage Corporation
 CIBC Trust Corporation
 Community Trust Company
 Effort Trust Company
 The Equitable Trust Company
 Household Trust Company
 HSBC Mortgage Corporation (Canada)
 Income Trust Company
 Industrielle Alliance, Fiducie inc.
 Investors Group Trust Co. Ltd.
 Laurentian Trust of Canada Inc.
 M.R.S. Trust Company



CPA Membership

(continued)

39

Manulife Trust Company	St. Stanislaus-St. Casimir's
Montreal Trust Company of Canada	Polish Parishes Credit Union Limited
National Trust Company	Virtual One Credit Union Limited
Peace Hills Trust Company	
Peoples Trust Company	
ResMor Trust Company	
Royal Bank Mortgage Corporation	Securities Dealers (1)
Royal Trust Company (The)	Edward Jones
Royal Trust Corporation of Canada	
Scotia Mortgage Corporation	Authorized Foreign Banks (22)
Security Home Mortgage Corporation	Bank of America, National Association
Sun Life Financial Trust Inc.	The Bank of New York Mellon
TD Mortgage Corporation	Capital One Bank (Canada Branch)
TD Pacific Mortgage Corporation	Citibank, N.A.
	Comerica Bank
	Deutsche Bank AG
	Dexia Crédit Local S.A.
	Fifth Third Bank
	First Commercial Bank
	HSBC Bank USA, National Association
	JPMorgan Chase Bank, National Association
	M&T Bank
	Maple Bank
	Mizuho Corporate Bank, Ltd., Canada Branch
	Rabobank Nederland
	The Royal Bank of Scotland N.V., (Canada) Branch
	Société Générale (Canada Branch)
	State Street
	The Northern Trust Company, Canada Branch
	U.S. Bank National Association
	UBS AG Canada Branch
	United Overseas Bank Limited

Other Financial Institutions (14)

Airline Financial Credit Union
Limited

Alberta Treasury Branches

All Trans Financial Services
Credit Union Limited

Arnstein Community Credit
Union Limited

Communication Technologies
Credit Union Limited

Desjardins Credit Union Inc.

DUCA Financial Services
Credit
Union Ltd.

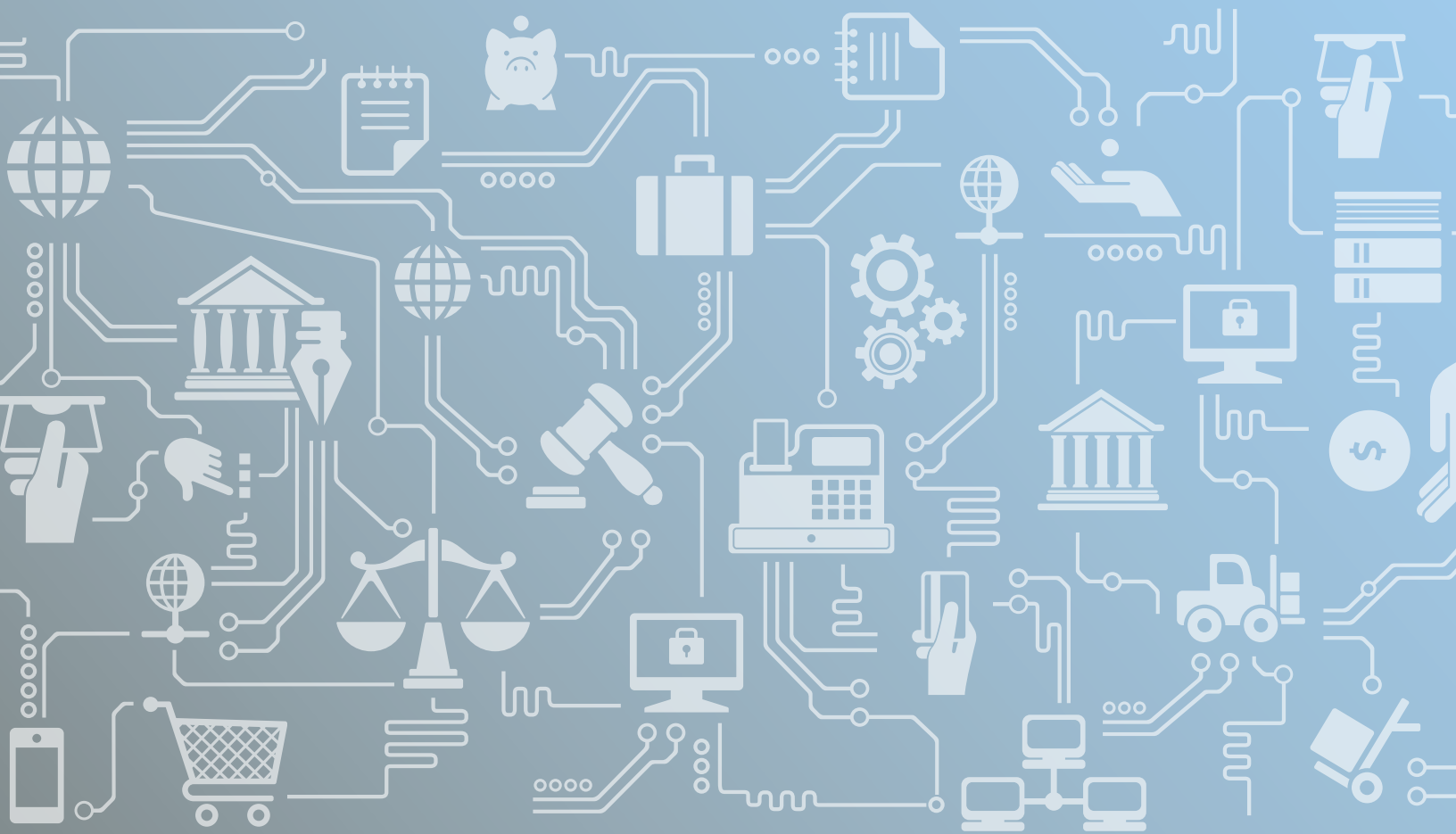
Dundalk District Credit
Union Limited

Goderich Community Credit
Union Limited

Golden Horseshoe Credit
Union Limited

Latvian Credit Union Limited

Ontario Civil Service Credit
Union Limited



Section Six

Statistics

Today, Canadians can pay for goods and services in a vast number of ways from the traditional cheque, to the widely accepted debit card and pre-authorized debit, to innovative online, and soon, mobile phone methods. The CPA cleared and settled some 24 million payment items each business day during 2010, representing approximately \$170 billion in transactions a day. That's what we like to call "payments you can count on."



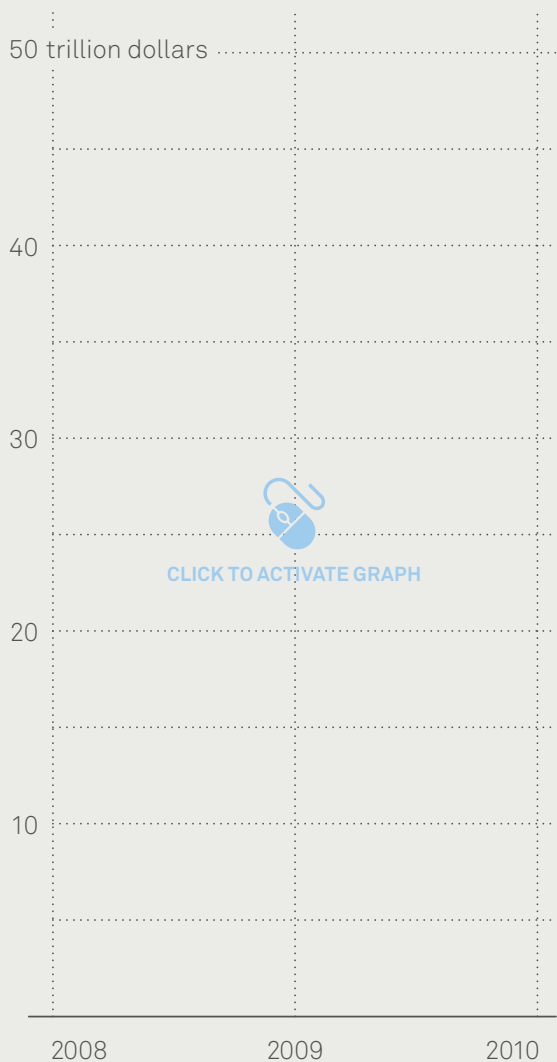
Statistics

Our Systems at a Glance

41

Following the economic turmoil of the previous year, the value of payments cleared and settled via the CPA's systems has stabilized. The total volume of payments cleared and settled in the CPA's systems was over 6 billion transactions, representing \$42.8 trillion last year.

Annual Value
LVTS & ACSS Comparison



Annual Volume
LVTS & ACSS Comparison





ACSS Data

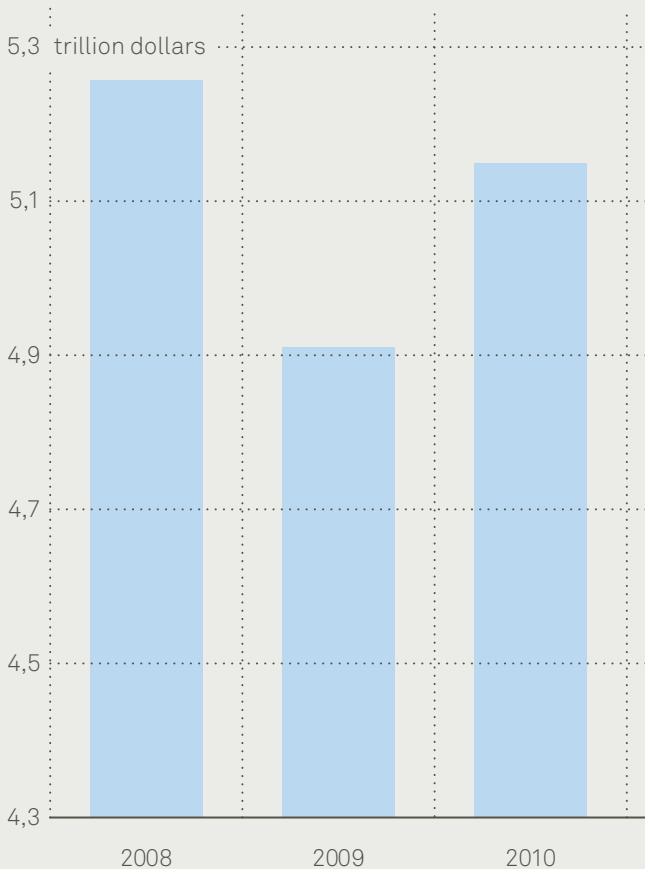
Annual Value & Volume

42

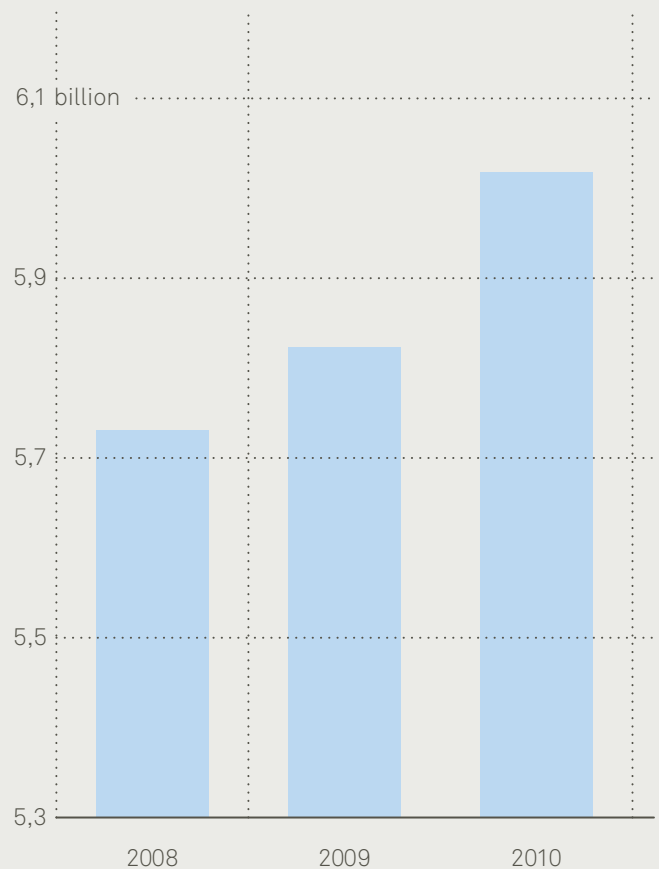
ACSS volumes grew by 3% in 2010, nearly doubling the growth rate of 2009. That year, the value of payments cleared through the ACSS dropped by about 7%. In 2010 the value of payments cleared bounced back, growing by about 5%, nearly reaching the all-time highs achieved in 2008.

The growth in ACSS payments has taken place primarily in the electronic realm of AFT Credits, EDI, POS payments, and Electronic Remittances expanding in terms of both value and volume. Online payments also showed strong growth in 2010 (in both value and volume), contributing to the overall growth of electronic payments cleared through the ACSS.

ACSS Annual Value
in Trillions of dollars



ACSS Annual Volume
in Billions





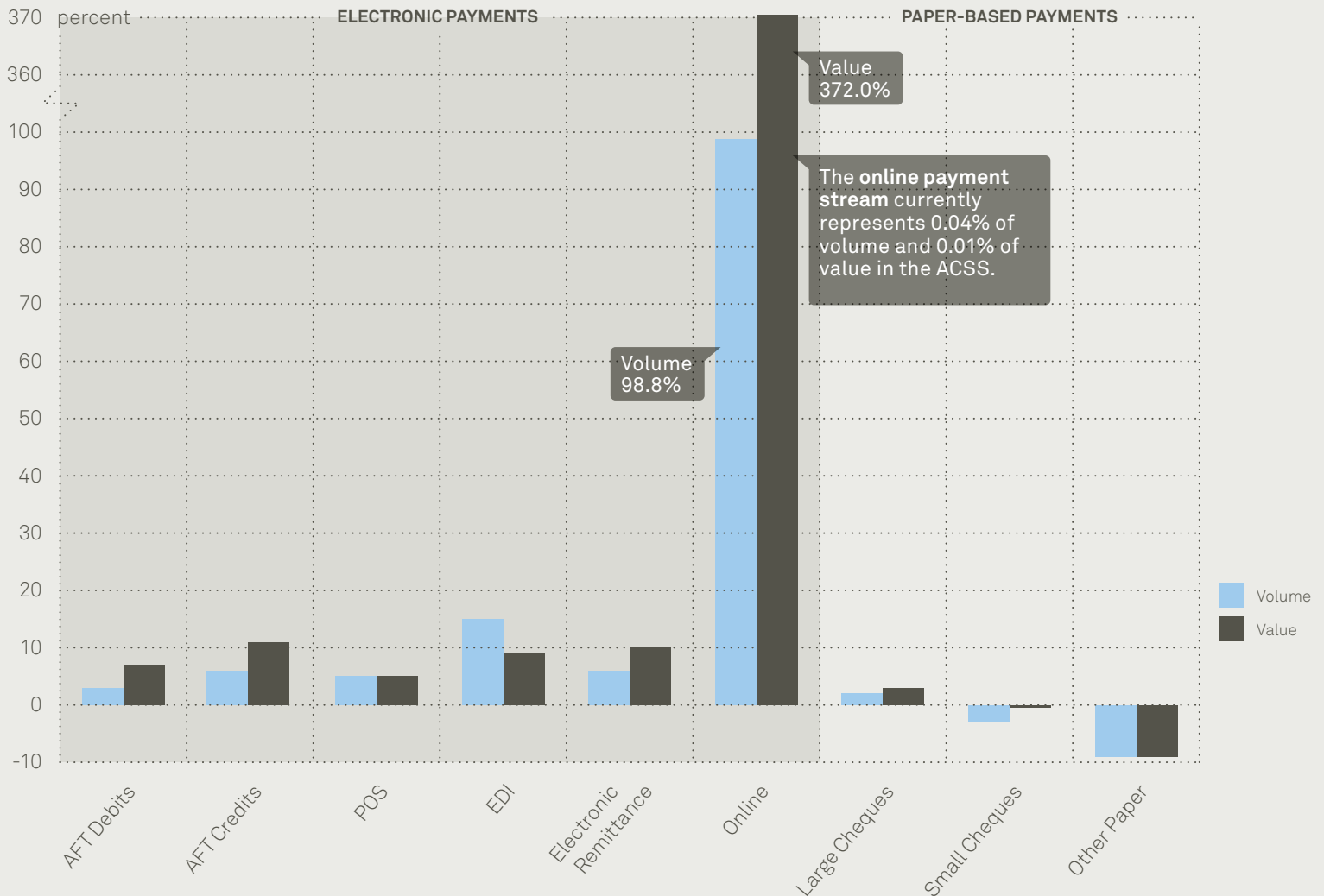
ACSS Data

Growth Rates by Stream

43

Innovation continues to provide new opportunities for payments, and business models are changing rapidly, especially in electronic payment segments. As a result, electronic payments continued to increase their dominance of the Canadian landscape in 2010; while cheques generally and other paper payments continued their decline, as per the global trend.

2010 ACSS Payments Volume & Value Growth Rates





ACSS Data

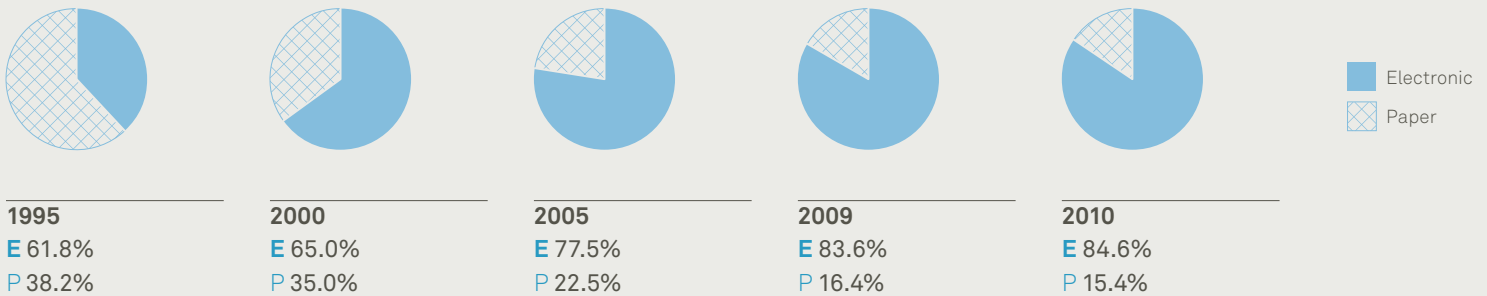
Value & Volume of Paper vs. Electronic Items

44

In 2010 the proportion of electronic payments cleared at the CPA continued to trend upwards as overall paper based transactions declined. For payments cleared through the ACSS, electronic payments represented about 85% of the volume and over 44% of the value of transactions.

ACSS Volume

Percentage of Paper & Electronic Items



ACSS Value

Percentage of Paper & Electronic Items





LVTS Data

Annual Value & Volume

45

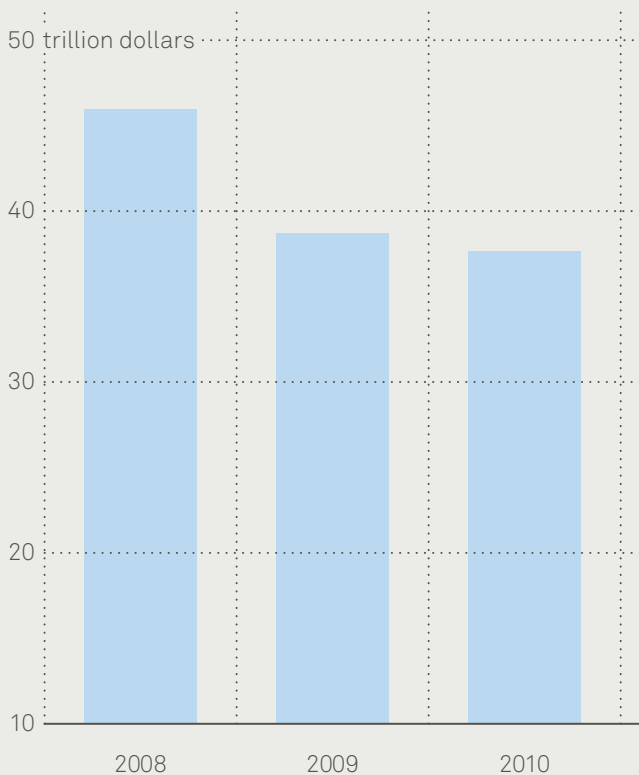
Total LVTS value of transactions decreased slightly, by 3%, in 2010 continuing a trend that began in 2008. With the economic turbulences of 2009, that year saw the largest decrease in LVTS total value in the system's history, about 19%. A much smaller decrease in 2010, as well as solid payment volume growth signal that LVTS transaction values may be leveling off. The decrease in value can be attributed to a reduction in the capital market activities, corporate entitlements and the increase use of the Continuous Link System (CLS) by members for settlement of foreign exchange transactions.

LVTS volume increased markedly in 2010, growing by over 7%—yielding the highest yearly volume to date. Transaction volumes grew at all value levels except for payments valued between \$750,000 and

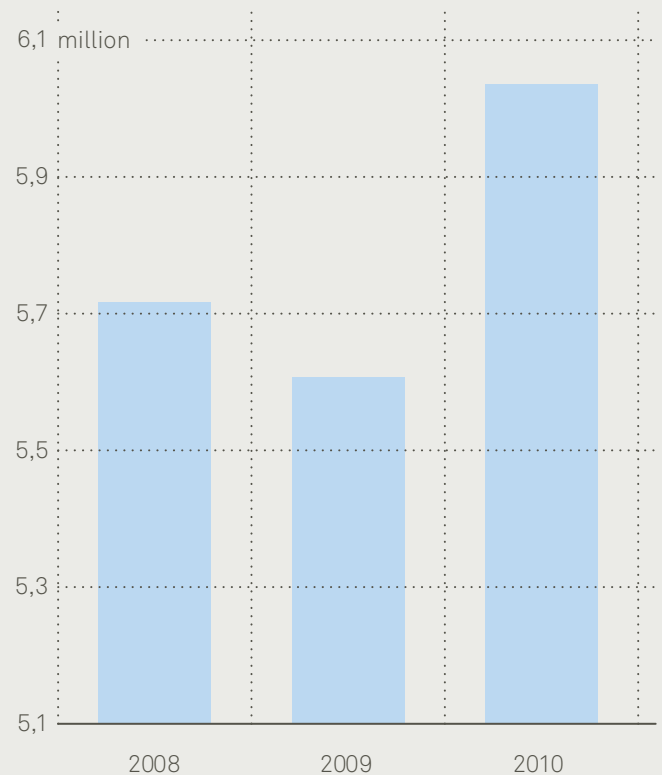
\$5 million. The most marked increase in volume growth occurred in lower value LVTS transactions (under \$50,000).

Lower value transactions grew strongly even during 2009 when overall LVTS volumes decreased. Since 2008, LVTS transactions under \$50,000 have grown by 16%, including 11% growth in 2010. Transactions valued under \$10,000 have grown the most, expanding by about 17% since 2008. Transactions greater than \$750,000 dropped precipitously in 2009 (by 17%), accounting for nearly all of the aggregate LVTS volume decrease in that year. These high value transactions rebounded in 2010 growing slightly by 0.1%, while transactions between \$50,000 and \$750,000 grew by 7%.

LVTS Annual Value
in Trillions

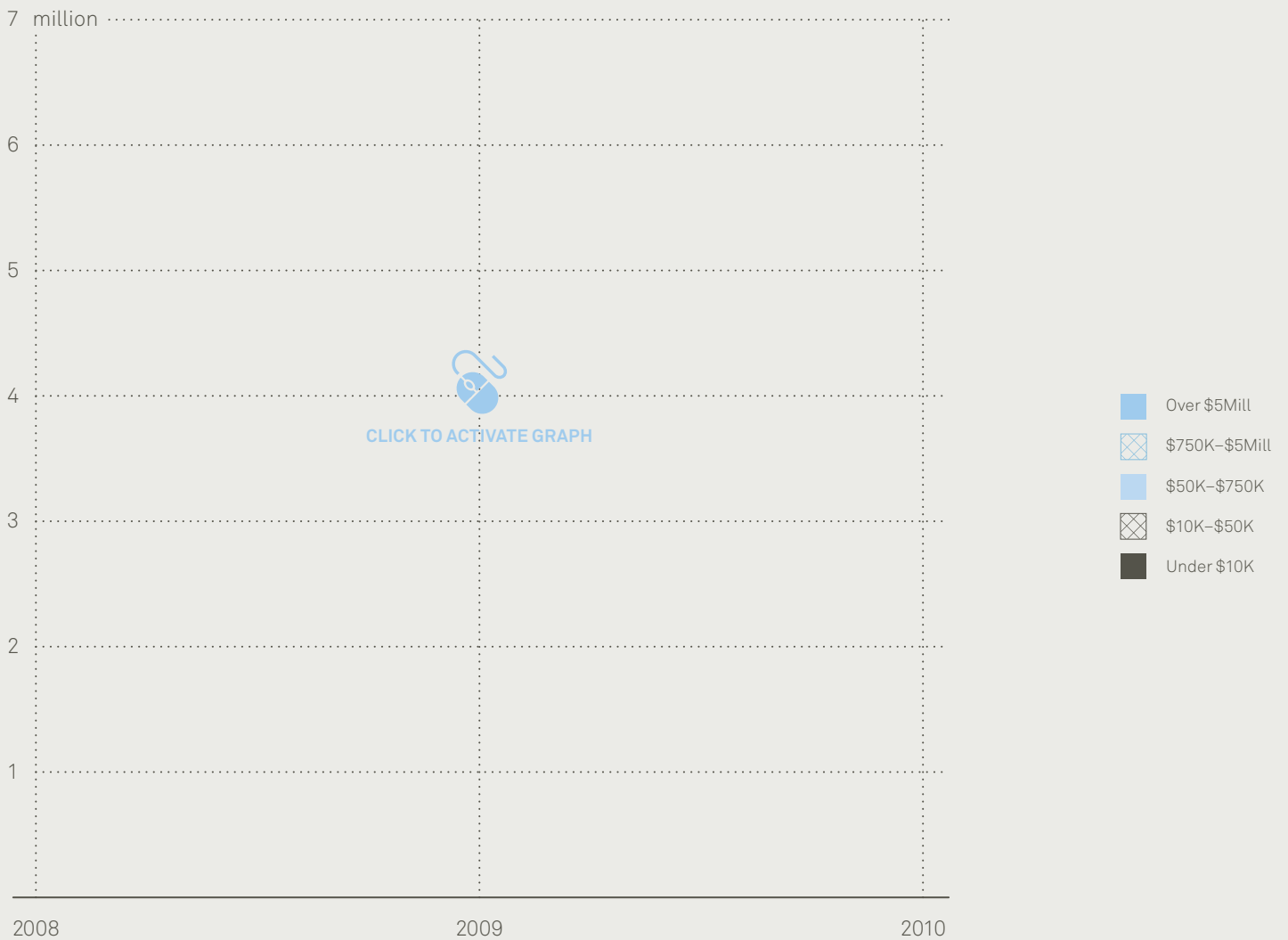


LVTS Annual Volume
in Millions



LVTS volume increased markedly in 2010, growing by over 7%—yielding the highest yearly volume to date. Transaction volumes grew at all value levels except for payments valued between \$750,000 and \$5 million. The most marked increase in volume growth occurred in lower value LVTS transactions (under \$50,000).

46 **LVTS Volumes**
by Transaction Levels



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