



# *Interac e-Transfer Disclosure*

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## **Bank of Canada Prominent Payment System Risk-Management Standards**

As at April 30, 2023

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Responding FMI: [Interac Corp.](#)

Jurisdiction in which the FMI operates: [Canada](#)

Regulating, supervising, or overseeing authority: [Bank of Canada](#)

This disclosure can also be found at <https://interac.ca/>

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# Overview

## Interac and *Interac* e-Transfer – Key Information

*Interac* e-Transfer® is a person-to-person, person-to-business, business-to-person and business-to-business electronic payment system offered through online banking with participating Canadian financial institutions. It is a payment service that enables low value transactions for domestic digital money transfers within Canada. The domestic service is offered by over 250 Financial Institutions (“FIs”) and enables customers to instantly send, request and receive money between accounts using an email address or mobile phone number. The *Interac* e-Transfer service is directly integrated into the mobile and online banking platforms of these FIs.

Interac Corp. (“Interac”) is the organization that operates the *Interac* e-Transfer and *Interac* e-Transfer Bulk Disbursement services (“the Service”), along with other payment systems. Interac is responsible for the functional and operational management, continual development, and commercialization of the service, which is then offered to participating FIs, or “Participants”.

Participants can be either Direct or Indirect Connectors, which describes how they access the Service. Direct Connectors connect directly to the Service and Indirect Connectors connect through a Direct Connector or Connection Service Provider and both are signatories to a Participation Agreement for the Service. Affiliates can either access the Service through their parent Participant or sign their own Participation Agreement. Credit unions access the Service through a credit union association, and Downstream Entities are co-brand partners to a Participant - neither of these categories are Participants to the Service.

Interac’s shareholders are a diverse body of financial services entities, including banks, credit unions, caisses populaires, and payment acquirers.

Interac and its predecessors Interac Association and Acxsys Corporation, have delivered secure financial transactions through innovative and convenient debit and money transfer solutions for over 35 years. It does so by way of shared, scalable technology platforms, offered through payment options that are low-cost, secure, with high availability (24x7x365) and supported by highly effective fraud monitoring, detection, and response techniques.

## *Interac* e-Transfer Prominent Payment System Designation

*Interac* e-Transfer was designated as a Prominent Payment System (“PPS”) under the *Payment Clearing and Settlement Act* in August 2020, bringing the system under formal oversight by the Bank of Canada (“the Bank”) and making it subject to the [Bank’s Criteria and Risk-Management Standards for Prominent Payment Systems](#).

This document is intended to provide relevant disclosure to Participants and Stakeholders on Interac’s governance, operations and risk-management framework with regard to *Interac* e-Transfer.

The following are *Interac* e-Transfer services:

- Autodeposit / Alias Payment (“Autodeposit”)
- Q&A Send Money
- Request Money
- *Interac* e-Transfer for Business Real-time Account Number Routing Payment (“*Interac* e-Transfer for Business”)

The following are *Interac* e-Transfer Bulk Disbursement services:

- Bulk Disbursements
- Bulk Payables / Bulk Receivables ("*Interac* e-Transfer Bulk")

These services fall under PPS designation standards in that they represent domestic money movement and are offered as general Canadian financial services that impact end customer usage and have the potential to pose risks to economic activity through disruption / failure in the payments system.

## Annual Statistics

Measure	2020	2021	2022
Daily average value processed	\$673 million	\$896 million	\$1,049 million
Daily average volume processed	2.09 million	2.66 million	2.92 million
Number of participants	28	29	31 <sup>†</sup>

<sup>†</sup> *Interac* e-Transfer has 31 participants, of which 19 connect directly to the network and 12 connect indirectly.

## Standard-by-Standard Narrative Disclosure

### Standard 1: Legal Basis

*A PPS should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.*

*Interac* e-Transfer and *Interac* e-Transfer Bulk Disbursements are Canadian currency payments systems and operate under Canada's jurisdiction only. Defined rules and legal agreements are governed by Canadian laws and the laws of the Province of Ontario. *Interac* has legal agreements in place with all Participants, vendors, and relevant stakeholders where needed, which are signed by all relevant parties. The contractual arrangements provide for a high degree of legal certainty and support operational resilience through a clear set of contractual obligations between *Interac*, its Participants, vendors, and relevant stakeholders.

*Interac*'s legal agreements, by-laws, rules, and regulations set the legal basis for *Interac*'s activities and are available to Participants (and eligible parties under a Non-Disclosure Agreement). All legal agreements, rules and procedures are communicated to – and reviewed by, as appropriate – Participants and relevant external bodies as required by law.

*Interac*'s Board Risk Committee ("BRC") and Management Risk Committee ("MRC") monitor regulatory developments for new risks or in cases of heightened risk on an active basis. All risks to *Interac*, including regulatory, are monitored by both risk committees.

The Service is grounded in a well-founded, clear, transparent, and enforceable legal framework. Interac's Unanimous Shareholder Agreement ("USA") sets out the framework within which Interac must conduct its business, which includes the requirement that Interac's business must be principally in Canada or for Canadians.

The contractual legal framework in respect of the operation of the Service as between Interac and the Service Participants is set out as follows:

1. Participation Agreement ("PA") defines participation criteria, requirements and obligations for Participants;
2. Enhanced User Features ("EUF") Addendum includes additional participation criteria for Request Money and Autodeposit features that were developed post the initial PA;
3. PA Amending Agreement ("PAAA") incorporates certain provisions of the Interac Master Service Agreement related to other Interac services.
4. By-Law reinforces participation criteria and requirements and defines the appropriate actions if participation requirements are not met, and the expectations for being a Participant to be recognized as in good standing (including financial);
5. Operating Regulations ("ORs") defines the regulations Participants must adhere to for certification and testing, marketing and trademarks, sender/receiver limits, safety and security, and disaster/recovery.
6. Rules for Network Payment defines the payment instructions, claims, settlement and reconciliation process, and the dispute and error process;
7. Amended and Restated Trademark Licensing Agreement - defines the licensing rights, standards, and terms for the use of any Interac-owned trademark set out in the Service ORs as between Interac and Participants.
8. Tri-Party Co-Branding Trademark Licensing Agreement – defines the licensing rights, standards, and terms for the use of any Interac-owned trademark set out in the Service ORs as between Interac and Participants where they have co-branded arrangements.

The material aspects of the Service's activities that require a high degree of legal certainty are settlement period, finality (i.e., settlement advice file), netting, and default procedures. This high degree of legal certainty ensures that the operational resilience of the financial market infrastructure is maintained via the rules and procedures that Participants are required to follow to meet their contractual obligations.

The Service's rules and regulations clearly define the settlement period, including the start and cut-off times for when settlements are calculated, when Participants are expected to settle and when transactions are considered final (irrevocable).

Prior to joining the Service, applicants are required to complete the Service's Application Form which provides a clear and consistent understanding of the content of Interac's rules, procedures, and contracts. Within the form, applicants must certify against a number of dimensions, including its settlement arrangement, its understanding of the documents that govern its participation, and that it meets all the requirements for participation.

## Standard 2: Governance

*A PPS should have governance arrangements that are clear and transparent, promote the safety and efficiency of the PPS, support confidence in and the smooth functioning of the markets it serves, and support other relevant public interest considerations as well as the objectives of relevant stakeholders.*

Interac has a set of annual corporate objectives, which cascade through all Interac activities, including those of the Service, to support the safety and efficiency of the system. Governance arrangements that operate at the corporate level (i.e., Board of Directors, BRC, etc.) and have applicability to the Service, as well as product governance structures specific to the Service, are in place.

Interac's Board of Directors' ("BOD") roles and responsibilities are defined in the Board Onboarding Handbook and the Mandate of the Board of Directors, which also incorporates by reference duties and obligations under the *Business Corporations Act (Ontario)*, the company By-laws and the USA.

Governance arrangements are defined and communicated through Participation Agreements, by-laws, rules and regulations. Additionally, Interac has multiple operational committees with Participants to manage the operationalization of the Service.

Interac has an Enterprise-Wide Risk Management Framework ("ERMF") in place, that is applicable to the Service, and is supported by a set of Risk Appetite Statements ("RAS") that cover its material risk types. Risk appetite metrics are monitored and assessed by the MRC while responsibilities over daily risk management rest with the business with engagement from the Risk Management team on major initiatives.

Interac has adopted the 3 Lines of Defence risk management model ("3LOD")\* and has established and communicated the formal lines within the company. The ERMF defines clear roles and responsibilities under the 3LOD model, including authority and reporting lines across each line of defense. The ERMF is reviewed by the Management Risk Committee and Board Risk Committee and approved by the Board annually.

As part of the 3 Lines of Defence risk management model, Interac has an Internal Audit team that performs all third line activities and is continuing the build of the Internal Audit program.

Interac also demonstrates accountability to owners, Participants, and other relevant stakeholders through its assessment against the set of Key Risk Indicators that are aligned to both Interac's ERMF and the RAS established. These metrics are reviewed on a monthly basis by the MRC and quarterly by the BRC.

*\*The three lines of defense were represented by management control as the first line, risk and control monitoring as the second, and independent assurance through the internal audit function as the third.*

### Standard 3: Framework for the Comprehensive Management of Risk

*A PPS should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational and other risks.*

Interac recognizes that to achieve its strategic objectives and grow sustainably, it must identify and understand the risks to its strategy. It must also maintain a critical balance between the pursuit of growth and the need to align risk-taking activities with its corporate strategy.

To address this, Interac has developed an ERMF in line with the commitment of the Board and Senior Management to establish and maintain good risk management practices. The ERMF is applicable enterprise-wide and is thereby applicable to the Service.

The ERMF sets out Interac's structure and process for identifying, assessing, measuring, monitoring and reporting on its significant risks, as well as the ownership, and responsibility obligations of Interac's management and directors.

Interac's ERMF is primarily governed by two risk committees - the BRC and MRC. Both committees have a role in defining and ensuring that the ERMF is relevant and effective, while also monitoring the ongoing performance and risk tolerances for the material risks identified. The CRO has overall ownership and responsibility for the review of the ERMF on a minimum annual basis. The ERMF will be reviewed and approved at least annually by the BRC and MRC on the recommendation of the CRO.

#### ***Risks resulting from significant changes to the Service***

Cross functional risk reviews are conducted as part of the design of all new features and significant changes to the Service. These assessments are conducted at the beginning of the program and monitored throughout the duration of the program. Typically, risk reviews in product design, operationalization and commercialization are conducted through the lenses of strategic risk, fraud risk, security risk, operational risk and commercialization risks.

#### ***Participant risks***

Participants' risks are managed through the appropriate Rules for Network Payment, ORs, the By-Law and PA. These documents are available to Participants through the appropriate channels – either directly with the Participant or through Interac's extranet site, which is accessible to Participants, as well as eligible parties under an NDA.

As part of the ERMF, the Enterprise RAS define the nature and amount of risk that Interac is willing to accept across each of its risk types in its risk universe. The RAS, together with the risk management policies and procedures, support Interac in identifying, assessing, managing, and reporting on its risk being within an acceptable level.

Interac has a comprehensive annual Enterprise Risk Assessment process in place, aided by a quarterly update process, to assess risks in a consistent manner. A comprehensive risk register, capturing the risks that are present based on the materiality identified in Interac's RAS, has been developed which includes a description of the risk, a rating of the risk impact (inherent and residual), the likelihood of occurrence and identified controls to mitigate the risks.

Interac also maintains a New Product/Service Risk Assessment program using the risk taxonomy adopted in the ERMF. This risk assessment must be completed for all enterprise initiatives, including those related to *Interac e-Transfer*.

The BRC is responsible for overseeing risk management at Interac and ensuring that policies, processes, and procedures are in place to manage the risks to which it is exposed. The BRC also reviews actions taken by Management to ensure significant risks are being managed to an acceptable level that is consistent with the ERMF and RAS. The MRC is chaired by the CRO and brings together a multi-divisional team to serve as a decision-making forum on cross-business risks.

Interac tracks enterprise-wide risk events across each of the risks as defined in the risk universe, and an executive report is updated on a monthly basis to reflect the overall performance for each of the material risks. This risk appetite reporting is reported to the MRC and BRC and included in the meeting materials that are reviewed and discussed at these meetings.

While the risk tolerance and control processes are governed by committees and designated leadership roles, the responsibility for developing and implementing day-to-day policies and procedures aligned to the objectives of individual functions lie with the business leaders, as does risk ownership. Business leaders are responsible for identifying risks, putting controls in place, and making recommendations to mitigate identified risks.

At the Service-level, risks borne by Participants and third parties are managed through the governing documents for each product which are available to Participants through the appropriate channels. Categories of risk managed through the governing documents include fraud, liability, privacy, intellectual property, reputational, operations and information technology.

Interac does not have a direct/contractual relationship with Participant's customers with regard to the Service; however, given that Interac operates the Service, it manages a Help Desk and social media channels to assist in directing Participant customer complaints. Where customers may be experiencing issues with addressing concerns directly with their Participants, Interac will directly contact those Participants to ensure that actions are being taken in accordance with the Service's governing documents.

Given that Interac is a non-collateralized system and is not part of the payment settlement process, Interac does not offer regular incentives to Participants or their customers for monitoring and managing risks.

Interac regularly attends industry forums and leads monthly and quarterly Advisory Committee meetings. These meetings focus on business issues, as well as risks and interdependency risk exposures, relating to the Service. Furthermore, there are specific, formalized committees for the Service's fraud and, where requested by the Participant, one-on-one discussion with the Participant to discuss risk they may be facing.

Additionally, Interac utilizes commercial tactics such as differential pricing structures for its Participants that implement certain functionalities, that lead to risk mitigation practices, risk minimization functionality adoption and better end customer product positioning. For example, the Service's Fee Schedule offers Participants better pricing if they adopt Autodeposit. This is because Autodeposit offers better capability for combatting intercept transactions.

Interac continues to mature its risk culture and risk management practices as set out in the ERMF, developed and approved by the Board in 2018 and reviewed annually.



## Standard 4: Credit Risk

*A PPS should effectively measure, monitor, and manage its credit exposures to Participants and those arising from its payment clearing and settlement processes. A PPS should maintain sufficient financial resources to cover its credit exposure arising from the default of the Participant and its affiliates that would generate the largest aggregate credit exposure for the PPS in extreme but plausible market conditions.*

*Interac* e-Transfer is a credit push payment instrument that relies on Participants' deferred net settlement practices. *Interac*'s role in the Service is outlined in the Rules for Network Payment and the By-Laws. *Interac*'s role is to provide the reconciliation and settlement advice to Participants, along with identifying the rules and procedures for disputes resultant of the financial advice.

The measuring, monitoring and managing of credit risk associated with the Service is managed by Participants through acceptance of each transaction and bi-lateral settlement under the rules of the Payments Canada's Lynx system (replaced LVTS in 2021). Participants are responsible for the settlement payments aligned to the cut-off times agreed to. *Interac* does not take on credit exposure from Participants. While implications for Participants defaulting are based upon the rules and models of Lynx, additional rules are identified for Participants of the Service through the Governing Frameworks. For example, a Participant can be terminated from the Service as a result of financial inability to settle and not being in good standing.

The *Interac* e-Transfer system will be migrated to the Real Time Rail (RTR) Clearing and Settlement (C&S) system in a phased approach. The new system will be based on a pre-funded real time gross settlement model. Under the RTR C&S approach, Participant credit risk will be eliminated.

## Standard 5: Collateral

*A PPS that requires collateral to manage its credit exposure or the credit exposures of its Participants should accept collateral with low credit, liquidity, and market risks. A PPS should also set and enforce appropriately conservative haircuts and concentration limits.*

Under their contractual requirements, Participants are expected to manage their exposures to credit risk, and to settle by the settlement cut-off. All funds are settled under the rules of Lynx and, as a result, specific collateral is not required from Participants. The collateral posted by Participants to Lynx meets the prudent valuation standards aligned to the Bank of Canada's requirements.

As disclosed under Standard 4, the *Interac* e-Transfer system will be migrated to the Real Time Rail (RTR) Clearing and Settlement (C&S) system which will be based on a pre-funded real time gross settlement model. Under the RTR C&S approach, Participant collateral risk will be eliminated.

## Standard 6: Liquidity Risk

*A PPS should effectively measure, monitor, and manage its liquidity risk. A PPS should maintain sufficient liquid resources in all relevant currencies to effect same-day and, when appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the Participant and its affiliates that would generate the largest aggregate liquidity obligation for the PPS in extreme but plausible market conditions.*

Interac does not bear any liquidity risk related to transaction settlement. The liquidity risk arising from the Service transactions is measured, managed and monitored by Participants through acceptance of each transaction. Participants are expected under their contracts with Interac to identify, manage and monitor their funding flows and settlement requirements on an ongoing basis. The Service is not responsible for managing liquidity risk as Interac does not handle the funds and the responsibility lies with the Participants.

The *Interac* e-Transfer system's planned migration to Payments Canada Real Time Rail (RTR) Clearing and Settlement (C&S) system, which is based on a pre-funded real time gross settlement model, will help to eliminate Participant liquidity risk.

## Standard 7: Settlement Finality

*A PPS should provide clear and certain final settlement by the end of the value date. When necessary, or preferable, a PPS should provide final settlement intraday or in real time.*

Interac's Rules for Network Payment clearly state the roles, responsibilities and obligations of Interac and each Participant. They identify the requirement to settle for Participants and the act of settlement is the irrevocability in settlement.

The Service calculates the settlement obligations owed to and from each Participant and provides these in a settlement file (advice). The settlement advice provides the information required for Participants to settle. In its current state, the Service does not support real-time settlements and Participants are expected to settle by the next business day upon receipt of the settlement file. As Canada is going through its Payments Modernization journey, the *Interac* e-Transfer transactions will be migrated onto RTR C&S which will effect real-time gross settlement for all Services.

In addition to the settlement advice, a reconciliation file is provided to help identify, reconcile, and resolve discrepancies.

As a result of the Service's settlement advice, Participants are expected to settle through Lynx either as a Settlement Agent on their own behalf or as a Settlement Client through a Settlement Agent.

Participants who do not have the ability to settle directly through Lynx, leverage a Settlement Agent who can provide this capability. As part of the Service's governance, Participants are required to identify their Settlement Agent and validate those appropriate agreements are in place to provide settlement services to that Participant.

Interac defines its Settlement Cycles as 24-hour periods starting at 00:00:00 ET and ending at 23:59:59 ET. In the case of weekends and holidays, the Settlement Cycle is extended to multiple days (e.g., Settlement cycle for Saturday, Sunday, and Monday begins on Saturday at 00:00:00 ET and ends on Monday at 23:59:59 ET). For

transactions captured on national and Ontario provincial holidays, settlement happens on the next valid settlement date.

At the end of each Settlement Cycle, Interac calculates the settlement obligations of all Participants, and provides totals for settlement purposes.

As Canada is going through its Payments Modernization journey, the Service will be migrated towards the new Payments Canada Clearing & Settlement system, in lieu of the current deferred and batched settlement. The new system will be based on a pre-funded real time gross settlement model. Under the RTR C&S approach, transactions will be cleared and settled immediately.

## Standard 8: Money Settlement

*A PPS should conduct its money settlements in central bank money when practical and available. If central bank money is not used, a PPS should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.*

Interac is responsible for calculation of the settlement amounts, in Canadian dollars, that are due to or from each Participant. Interac is not involved with the exchange of funds and the payment of the settlement amounts is made directly between Participants using the Lynx system. Interac has no responsibility for settlement payments, which is the sole responsibility of the Participants.

Interac e-Transfer system's planned migration to Payments Canada Real Time Rail (RTR) Clearing and Settlement (C&S) system, which is based on a pre-funded real time gross settlement model, will help to eliminate the money settlement risk.

## Standard 9: Participant-default Rules and Procedures

*A PPS should have effective and clearly defined rules and procedures to manage a Participant default. These rules and procedures should be designed to ensure that the PPS can take timely action to contain losses and liquidity pressures and continue to meet its obligations.*

The Service's Rules for Network Payment set out the obligations of Participants who end up in a default scenario and the Service's internal procedures in the case of a such scenario.

The Service is responsible for the settlement calculations and for sending end-of-day advice for payments due to the Participants. Settlement payments are the responsibility of each Participant. Accordingly, under the existing contractual terms, the Service is not required to cover losses or contain liquidity pressures arising from a Participant's default.

While Interac does not bear the financial consequences of default, it recognizes the importance of managing the risk of default to the broader Canadian payment's ecosystem. Interac considers the following as mitigants to this risk exposure:

- Interac's Participants are Financial Institutions, incorporated in Canada and carrying on, under the regulatory supervision of federal or provincial law, the business of providing financial services in Canada. As such, they are subject to financial solvency reviews and minimum capital requirements.

- Participants are expected to notify Interac in the case of potential or actual default, upon which Interac mitigates exposure to other Participants by immediately suspending the Participant and its customers to the Service's platform.
- A Participant's financial exposure to other Participants in the Service is modest relative to the intra-day financial exposure to which the Participant is exposed in other payment systems (e.g., ACSS, Lynx).

Currently, the *Interac* e-Transfer system does not fully meet the Bank of Canada's financial risk management standards for a prominent payment system, given its deferred, bilateral and uncollateralized settlement model. However, Interac has committed to meeting these standards by migrating all *Interac* e-Transfer transactions to the RTR. In advance of the launch of RTR, Interac took actions to address some control gaps in the interim and enhanced its *Interac* e-Transfer participant default procedures and rules, which had made its default management processes clearer to its Participants through enhancements completed in 2022.

In the future, as *Interac* e-Transfer settlements will be migrated onto the RTR C&S system, the risks resulting from one (or more) Participant(s) defaulting will be significantly reduced.

## Standard 10: General Business Risk

*A PPS should identify, monitor, and manage its general business risk and hold sufficient liquid net assets to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure recovery or orderly wind-down of critical operations and services.*

Interac manages its general business risks through various mechanisms, including the risk profile, enterprise risk assessment processes, risk appetite monitoring and reporting, business continuity program, and Interac's budget setting and monitoring process.

Budgets are established ahead of each fiscal year and presented to the Board of Directors for approval. Interac performs periodic cash flow projections to monitor actual financials against forecast and budget.

To cover the financial requirements for large-scale strategic projects and other financial obligations, Interac has the option to generate funding by way of debt securities and/or share issuance to Interac's shareholders.

In addition, Interac maintains a liquidity buffer, or capital reserve, to cover unexpected/large operating expenses arising from periods of stress. This liquidity buffer is calibrated based on stress revenue and current sources of finance, to ensure that Interac may continue to operate as a going concern in the event that it experiences general business losses.

Interac holds its liquid net assets in the form of cash and cash equivalents at two Canadian federally regulated financial institutions which are also Domestic Systemically Important Banks' (D-SIBs). These assets are highly liquid in nature and therefore would incur minimal to a negligible loss of value in adverse market conditions.

## Standard 11: Custody and Investment Risk

*A PPS should safeguard its own and its Participants' assets and minimize the risk of loss on and delay in access to these assets. A PPS's investments should be in instruments with minimal credit, market, and liquidity risks.*

As disclosed in Standard 10, Interac holds its liquid assets in cash and cash equivalents at two Canadian federally regulated financial institutions ("FRFIs") and Interac chooses not to hold any investment instruments as assets, providing it with the highest quality of liquidity in line with the Board of Directors-approved ERMF.

Interac does not hold the assets of any of its Participants, given its role is only to calculate the settlement payments.

Interac holds its assets at two Canadian FRFIs and as such they are obligated to adhere to the Canadian regulatory requirements and expectations for FRFIs and are under the supervisory oversight of the Office of the Superintendent of Financial Institutions ("OSFI"). Interac relies on the regulatory oversight of these banks to oversee their risk management frameworks and practices.

## Standard 12: Operational Risk

*A PPS should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business-continuity management should aim for timely recovery of operations and fulfillment of the PPS's obligations, including in the event of a wide-scale or major disruption.*

Interac employs a framework of policies and procedures for *Interac* e-Transfer, supported by the Service governing participation agreements, By-law and rules and regulations (see Standard 1 and 2 for details), which work collectively to identify and mitigate operational risks.

Interac has set out clearly defined expectations for a high degree of physical and information security. This is managed and monitored through set review, testing and audit activities.

Operational reliability for Interac is designed to be achieved and tracked on a continual basis, to ensure high availability, and functioning of key components of Interac's products and services, including those pertaining to *Interac* e-Transfer.

Interac actively manages scalability and capacity of the Service through testing and ongoing monitoring with the ability to deploy vertically and horizontally if demand requires.

Interac's operational risk management framework sets out minimum requirements for the management of operational risk across the operational risk types identified in the risk taxonomy in the ERMF. As Interac enhances its approach to operational risk management, it is augmenting its existing ERMF and Risk Appetite Statements, and related policies and processes, for the consistent management of operational risks.

Some of Interac's IT operations for the *Interac* e-Transfer platform is managed by a critical vendor, CGI Information Systems and Management Consultant's Inc. ("CGI"). As a result, Interac relies upon CGI to manage operational risk for the services contracted under the Master Services Agreements ("MSA") on behalf of Interac.

These requirements of CGI are set out in the MSA between Interac and CGI and certain controls are regularly audited to provide assurance to Interac and relevant stakeholders that CGI's IT services are being provisioned securely.

Interac also carries out point-in-time monitoring for risk categories including operational risks. The aggregate outcomes of operational risk monitoring are periodically reported to the MRC and BRC.

In order to manage the risk of service availability, Interac operates a 24/7 Integrated Operations Center ("IOC") that monitors the platform to proactively identify, detect, and mitigate operational risks related to Interac's services. If service availability deteriorates, the IOC can immediately take action to resolve the issue. In addition, Interac has completed a network redundancy project and has made significant progress on adding additional circuits with a second carrier to strengthen the existing network redundancy of *Interac* e-Transfer and to mitigate against future systemwide network outages.

Interac utilizes a framework of policy and procedures to help ensure business continuity, including a Business Continuity Management Policy and Standards and a Crisis Response Plan. Interac also intends to further review the Service platform to determine how best to add additional resiliency to our already redundant and diverse networks.

### Standard 13: Access

*A PPS should have objective, risk-based, and publicly disclosed criteria for participation that permit fair and open access.*

Access starts with participation. To become a Participant, a set of criteria must be met for the Service which are outlined in the Service By-Law, which is available on Interac's extranet site and accessible by all fully certified Participants and eligible parties under an NDA. These criteria are considered to strike an appropriate balance between fair and openness of participation and the stability of the Service platform and risks to Interac.

Suspension and orderly exit procedures are also clearly defined in the same Service By-Law. Furthermore, Interac has implemented an Annual Compliance Program to strengthen the validation of Participants' understanding and compliance with the Service policies, procedures, rules, regulations, and by-laws.

Regulated Financial Institutions are eligible to participate in the Service. Interac at present does not publicly disclose criteria for participation and has plans to publish the Service's participation criteria.

### Standard 14: Tiered Participation Arrangements

*A PPS should identify, monitor, and manage the material risks to the PPS arising from tiered participation arrangements.*

The Service offers its Participants and Downstream Entities tiered participation for access and clearing. Changes in FI arrangements are processed via technical implementation.

For access, there are two types of Participant connections: i) Direct Connectors: Participants who directly connect to the Service; and ii) Indirect Connectors: Participants who connect to the Service through a Direct Connector or Connection Service Provider (Currently, Direct connectors make up majority of the total value and volume on the Service).

A Connection Service Provider is an entity that connects one or more Participants to the Service and facilitates the exchange of messages to and from the Service on their behalf. For access, Downstream Entities gain access to the Service through a Participant. Downstream Entities are not Participants to the Service.

For settlement, there are two types of arrangements: i) Settlement Agent: an entity who settles through Payments Canada's Lynx; and ii) Settlement Client: a Participant that settles through a Settlement Agent.

Interac also licenses the use of the trademarked *Interac* logo where a Participant partners with another organization to offer the Service. These "Co-brand Partners" sign a Tri-Party Co-Branding Trademark Licensing Agreement to use the *Interac* e-Transfer logo and partner with a Participant for use of the Service. The Participant takes on all obligations in relation to the Co-brand Partner.

The Service conducts ongoing 24/7 transaction monitoring of all Participants. This includes the measuring and monitoring of both operational performance and fraud scoring using the Service's fraud service. In addition, monthly reporting on volumes and values are provided to all Participants providing insight into their performance on the Service. Interac relies on its Participants to manage and monitor the risks associated with tiered participation.

## Standard 15: Efficiency and Effectiveness

*A PPS should be efficient and effective in meeting the requirements of its Participants and the markets it serves, with a particular consideration for the interests of end-users.*

Interac meets the requirements of its Participants and the markets it serves, with specific considerations for the interests of end-users through:

- Definition of Service Level Targets ("SLT") with its Participants that set out efficiency and effectiveness operational requirements, on an annual basis;
- Regular monitoring and reporting of the SLTs directly by the Technology and Operations Team;
- Regular monitoring and reporting of a set of Key Performance Indicators (tied to the SLT operational requirements) by the IOC;
- Regular collection of feedback directly from Participants through client experience and feedback programs; and
- Governance forums, which are engaged for consultation and feedback on various topics and issues.

The Service gains feedback on its products, services, and technology through governance forums and direct feedback to ensure it is meeting the needs of the market with its Participants, summarized below.

There are three governance forums that enable feedback to be provided by a sub-set of Participants.

- Advisory Committee has the mandate to provide input, advice, and support to Interac on policy and business issues relating to the Service.
- Risk Management Standing Committee (RMSC) meets to provide guidance and input to Interac with respect to fraud mitigation strategies for all products and services, including the Service.
- CIO Forum includes the CIOs (or equivalent) from a number of major Participants. The forum's mandate is to drive awareness of Interac's technology strategy and direction with key CIO partners.



All Participants have two other avenues through which to provide direct feedback to Interac: i) their assigned Client Manager, who is directly responsible for their relationship with Interac and ii) annual Client Experience Program (CXP) survey of Participants where Interac gauges customer satisfaction.

Interac also measures its efficiency and effectiveness related to its operations and risk management against established targets and Interac's risk appetite thresholds. The results are routinely reported to the MRC, BRC and the Bank of Canada, as appropriate.

## Standard 16: Communication Procedures and Standards

*A PPS should use communication procedures and standards that meet common industry practices and use or accommodate relevant internationally accepted communication procedures and standards to facilitate efficient payment clearing, settlement, and recording.*

The Service employs a proprietary message standard that is being replaced over time for Participants to transmit remittance data. The timing of this change differs by product. *Interac* e-Transfer for Business, which is the newest enhancement that went live in August 2021, is on the latest ISO standard in its entirety, while some Legacy *Interac* e-Transfer products use of both ISO and non-ISO standards, varying by message types and/or Participant sometimes.

The Service's obligations for settlement require Interac to calculate the settlements for each of the Participants. Participants are responsible for settlement payments with other Participants. These settlement totals are contained in the Settlement File that is prepared for each Participant at the end of each settlement period. The Settlement File, as well as the Reconciliation File that captures individual transactions, are provided in XML-based formats, one of the global industry data standards and default for many office-productivity tools.

## Standard 17: Disclosure of Rules, Key Procedures, and Market Data

*A PPS should have clear and comprehensive rules and procedures and should provide sufficient information to enable Participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the PPS. All relevant rules and key procedures should be publicly disclosed.*

*Interac* e-Transfer services are governed by Operating Regulations and related documents such as the Rules for Network Payment that reference and provide insight into Interac's proprietary fraud management system, security, and technology; the liability framework as between service participants where fraudulent transactions are concerned; and Interac's patented Q&A messaging system.

Interac's policies, fees, rules, procedures, and regulations for the Service are fully disclosed and available on Interac's extranet site to Participants. Parties interested in joining the Service can access the documents under NDA once they have filed an application.

The aforementioned documents are not made publicly available; however, a high-level description on the fee structures for both financial institutions and end-user customers are outlined on Interac's corporate website. Interac does not disclose the full fee structure and governance documents for the Service to the general public in order to protect Interac's intellectual property and competitive interests, and to prevent fraudulent scams and threats to the Service.



Interac provides disclosure on the Service's transaction volumes and values to the general public in a variety of forms, including through its newsroom, media articles and market interviews. On the Interac website, specific information on the Service's volumes, fraud losses prevented, and other information is available.

## Standard 18: Recovery Plans

*A PPS is expected to identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. This entails preparing appropriate plans for its recovery or orderly wind-down based on the results of that assessment.*

Interac has a technology resiliency and operational plan to ensure that its critical services and operations are maintained during periods of stress.

Interac maintains business continuity and disaster recovery procedures which ensure appropriate service level-agreements are maintained in coordination with its downstream vendors to address an unexpected event.

For liquidity management, Interac holds cash and cash equivalents to address financial needs that may arise given an unexpected stress. If further financing is required, Interac's governance structure allows for generation of funding by way of debt securities and/or share issuance.

The ultimate objective for recovery planning is to enable Interac to continue its critical services supporting the PPS system when the company is facing a going concern in terms of viability. All Interac's current plans implicitly assume that Interac maintains operations on an ongoing basis and Interac currently does not have a comprehensive Recovery Plan which assesses and documents options, which would be available to Interac in severe stress situations when Interac's viability is threatened and recovery or orderly wind-down may need to be enacted.

Interac will complete an analysis to identify the scenarios that would trigger a Recovery and Resolution Plan; including identifying the steps to be followed to maintain its critical operations on a going concern basis or to enact an orderly wind down. A fulsome Recovery and Resolution Plan will be developed and approved by the Board of Directors to meet the requirements of this Standard.

## Appendix

ABM	Automated Banking Machine
ACSS	Automated Clearing Settlement System
BOD	Board of Directors
BRC	Board Risk Committee
C&S	Clearing & Settlement
CGI	CGI Information Systems and Management Consultants Inc., a vendor to Interac Corp.
CIO	Chief Information Officer
CRO	Chief Risk Officer
CXP	Client Experience Program
ERMF	Enterprise Risk Management Framework
ET	Eastern Time
EUF	Enhanced User Features
FI	Financial Institution
FMI	Financial Market Infrastructure
IOC	Integrated Operations Center
ISO	International Organization for Standardization
IT	Information Technology
LVTS	Large Value Transfer System
MRC	Management Risk Committee
MSA	Master Services Agreements
NDA	Non-Disclosure Agreement
OSFI	Office of the Superintendent of Financial Institutions
PA	Participation Agreement
PAAA	PA Amending Agreement
PPS	Prominent Payment System
Q&A	Question & Answer
RAS	Risk Appetite Statements
RMSC	Risk Management Standing Committee
RTR	Real Time Rail
SLT	Service Level Targets
USA	Unanimous Shareholder Agreement
XML	Extensible Markup Language PPS