

New developments in regulation for digital payments

New regulations will require companies providing payment services to end users in Canada to register with the Bank of Canada

The digital payment landscape is rapidly evolving, with technology driving new ways to move money and payment service providers (PSPs) playing a significant role in these transactions. Despite the importance of safe and reliable payment systems to our economies, many PSPs aren't regulated in Canada, particularly when it comes to operational risks and protecting end-user funds.

That reality is about to change. Under the [Retail Payment Activities Act](#), the Bank of Canada (the Bank)—Canada's central bank—will be responsible for [supervising](#) a variety of entities that perform electronic payment functions, such as payment processors, digital wallets, money transfer services and other payment technology companies that offer retail payment services. This will have implications for PSPs operating in Canada, including those based in the Asia-Pacific region, even if a PSP doesn't have a physical presence in Canada. The Act requires PSPs to register with the Bank, manage operational risks and safeguard their end-users' funds. The aim is to build confidence in the safety and reliability of their services while protecting end users from specific risks.

These changes will bolster confidence within the payment ecosystem itself by introducing a base level of supervision for new players. This should allow PSPs to interact more easily with banks, credit unions and other players in the financial sector who, in turn, will be reassured that risk is being properly managed. Additionally, this new regime is expected to facilitate potential access to real time rail (RTR) – when launched.

The Ministry of Finance Canada is responsible for developing regulations that will help clarify the details of the Act. In February, the government published draft regulation in Part 1 of the Canada Gazette. These regulations are important – they will carry the force of law. Final regulations are expected later this year. PSPs can look at the legislation and the regulations and start to think about what they will need to do to comply with the Act.

Once the regulations are finalized, the Bank will start publishing guidance for the industry, outlining how registration, risk monitoring, and enforcement activities will be carried out.

The Bank currently expects to start registering PSPs in late 2024 and launch its risk monitoring and end-user fund safeguarding compliance work in 2025. Businesses can consult the Bank's supervisory policy on registration criteria and self-assessment questionnaire (to be released later this year) to determine if they fall under this new regulation and need to register with the Bank.

A public consultation is scheduled for early 2024 seeking input on guidelines for PSPs on managing operational risks, safeguarding end-user funds, and reporting incidents in their business operations.

The Bank will be present at the Singapore Fintech Festival 2023 to raise awareness of this new development and answer industry questions. Visit booth 5E20 to hear from experts about how this new development could impact your business and how to prepare for compliance with Canadian law and regulations.

Subscribe to the Bank's [retail payments supervision newsletter](#) to receive updates about this new development.