SPOTLIGHT ON SAFEGUARDING OF FUNDS

Safeguarding Your End-User Funds under the Canada RPAA

A Spotlight on Bank of Canada's guidelines on the framework, requirements and application of safeguarding of end-user funds under the Retail Payment Activities Act (RPAA)

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Who Must Safeguard End-User Funds?

Under the RPAA and its associated regulations, a payment service providers (PSP) that performs the payment function of holding funds on an end-user's behalf until the end-user withdraws or transfers the funds to another individual or entity, must establish, implement and maintain a framework that supports meeting the objectives and requirements of safeguarding end-user funds. As such, the requirement to safeguard end-user funds only apply to funds that are considered held by the PSP who holds the funds.

WHEN ARE FUNDS HELD?

- You keep a payer or payee's funds at rest, which is available for a transfer or withdrawal in the future.
- The end-user's funds are at rest and there is no instruction for an immediate transfer.
- You maintain funds placed with you by an end-user to be transferred or withdrawn at a later time.
- You received end-user funds into an account you own.

WHEN ARE FUNDS NOT HELD?

- Funds which are in transit or are being processed by other PSPs, financial institutions or payment systems.
- Funds received which includes concurrent instructions to be immediately transferred.
- Immediate fund transfers experiencing processing delays due to post cut-off or overnight processing or compliance reasons such as money laundering or fraud risk.

NOTE: For more information on the requirements and definitions under the Canada RPAA, you can go to our Canada RPAA Spotlight.

Safeguarding Framework and Requirements

The safeguarding of funds framework ensures that end-users always have ready and reliable access to funds held by the PSP, and that end-users are protected against financial loss in the unlikely event of the PSP's insolvency. Additionally, the framework must be in written form, accessible to its intended audience, kept up-to-date, and approved by a senior officer and by the Board of Directors (Board) at least annually, or following any material changes. To achieve such objectives, the framework must address the following requirements:

Funds must be held in a trust account or by using insurance or a guarantee.

End-user funds must be dedicated and kept separate from all other funds of the PSP.

Employ identification and investigation measures for instances where incorrect amounts are safeguarded.

Perform an independent review at least every three (3) years to evaluate compliance.

Retain documentation to demonstrate compliance.

Establish, implement and maintain a safeguarding framework with systems, controls, policies and procedures.

Discover what Stratis Advisory can do for you

FINTRAC MSB Registration

Prior to engaging as a MSB in Canada, whether domestic or foreign, a company must be registered with FINTRAC. For more than 10 years, Stratis has helped startups to Fortune-ranked companies of different business models in North America, inclusive of Canada and the Province of Quebec, and abroad, to launch, scale, and optimize regulated business operations. Stratis can help you prepare, process, and submit your MSB Registration with FINTRAC, and develop your PCMLTFA required compliance programs.

Safeguarding of End-User Funds Framework Independent Review

An independent review at least every three (3) years, to ensure effectiveness and to identify gaps and weaknesses in your safeguarding end-user funds framework, forms part of the compliance requirements of the RPAA. With our regulatory insights and experience in Canada, Stratis can assess your framework, evaluate your compliance with the RPAA, and to advise and support you with the enhancement or continuous improvement of your retail payment risk management practices.

Retail Payments Ongoing Compliance

When offering retail payment services in Canada, you may fall under the scope of the RPAA, Canada's federal retail payment framework. Apart from a sound compliance framework, the RPAA includes other requirements such as operational risk and incident response, registration, recordkeeping and Bank reporting, among others. Stratis can help you develop, execute, monitor and maintain compliance to regulatory requirements in Canada, commensurate to your risk tolerance and business goals. Additionally, Stratis can also provide advise and consultative services to ensure your funds flows are clearly mapped and that end-user funds are clearly identified throughout your products, services, as well as legal entities associated to your company.

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