
The Act of Creation

The Key Idea

When the Canadian Payments Association Act was proclaimed on 1 December 1980, the federal government established a mechanism for addressing the principal concern outlined in the last section; namely, the need for equitable competition in the provision of payments services in a rapidly changing environment requiring major investments in computers and telecommunications devices. John Roberts, the General Manager of the CPA for its first decade, put it very well:¹

“As far as we know, this approach to developing the payments system of the future is the first of its kind in the world. Its uniqueness lies in the fact that this mandate has been entrusted, not to a central government authority or crown corporation, nor to a regulated monopoly or oligopoly such as the banks, but to a private association of all types of interested financial institution, some of them private companies, some cooperatives and some government entities.”

Objectives and Powers

The two objectives of the CPA were stated in the 1980 Act as follows: “The Association shall establish and operate a national clearings and settlements system, and shall plan the evolution of the national payments system.” One objective was practical and focused; the other, future-oriented and multi-faceted.

The first of these two mandates entailed bringing the non-bank deposit-taking institutions into partnership with the banks in the management of Canada’s payment clearing and settlement system. The Act provided that the CPA could arrange for the exchange of payment items at appropriate places in Canada, make by-laws governing such clearing arrangements and also the

1. J.S. Roberts, “The 1980 banking legislation; implications for the payments system in Canada.” Address to a meeting of foreign diplomats (Ottawa: 25 November, 1981).



John Roberts, General Manager of the Canadian Payments Association, 1980–90.

settlement procedures for the obligations determined in the clearing process. The by-laws passed by the CPA Board would become effective only when approved by Order-in-Council; i.e., by the Cabinet of the federal government.

The second mandate, to plan the evolution of the national payments system, was stated succinctly in those few words in the Act; there were no additional sections suggesting what (or whom) the planning process might involve. There were no sections on the modalities to be used, and no reference to technical standards. Consequently, there was no guidance giving concrete form to the somewhat paradoxical idea of *planning an evolution*. What the Board and the Association in due course did to fulfill this future-oriented mandate is the subject of the following chapters.

But first it is necessary to list the players. Who had access to membership in the Association? The principal criterion for membership was accepting deposits transferable by order to third parties—in 1980, this meant being in the chequing business. The institutions that met this criterion fell into classes. First, all banks (whether domestic or the subsidiaries of foreign institutions) were automatically members. Second, there were trust and mortgage loan companies, some of which were provincially incorporated. Third, there were “centrals;” i.e., the provincial or regional groupings of credit unions or *caisses populaires*, together with their three over-arching organizations—the Canadian Cooperative Credit Society, *La Confédération des caisses populaires et d'économie Desjardins du Québec*, and *La Caisse centrale Desjardins du Québec*. Fourth, there were “other” deposit-taking institutions, including government savings organizations, such as the Province of Alberta Treasury Branches and independent credit unions (in Ontario), that had chosen not to join a central. Membership was voluntary for the second, third, and fourth classes. Fifth and last, the Bank of Canada was required by the Act to be a member.

It is worth noting that the very broad sectoral representation of the standards-oriented CPSSG described in Chapter 1 was not repeated in the CPA Act. Access to membership in the Association was defined solely from the supply side of the equation; namely, the financial institutions that, together, provided Canadians with the payments services they needed to conduct their affairs. Computer manufacturers, telecommunications companies, life insurance companies, and the many categories of users of payments services were not mentioned in the Act.² Some of the ways in

2. This was a carefully considered decision on the part of the federal officials preparing the Act, according to William A. Kennett, who was on the staff of the 1964 Porter Commission, then a director in the Department of Finance in the early 1970s, and who was Inspector General of Banks when the CPA Act was passed in 1980. (From a conversation with the author, 6 July 2001.)



Serge Vachon, Chair of the Board of Directors of the Canadian Payments Association, 1980–2000.

which the CPA drew these other players into the planning processes are described in Chapter 6 in the context of electronic payments at the point of sale—EFT/POS.

In addition to the fact that each member of the CPA provided payments services to Canadian consumers, corporations, financial institutions, or governments, the membership of the Association reflected a sensitivity on the part of the federal authorities to the requirement that a national payments system should be sound. In other words, the system should be stable and maintain its integrity in both calm and turbulent times. This consideration required that each CPA member (other than the central bank) be a regulated, supervised, deposit-taking institution whose liabilities were covered by a federal or provincial deposit-insurance arrangement or equivalent guarantee. In addition, certain revisions to the Bank of Canada Act (which were proclaimed simultaneously with the CPA Act on 1 December 1980) broadened the powers of the central bank, allowing it to make loans to any member of the CPA that had an account at the Bank. In practical terms, this meant that the central bank could lend to any CPA member institution—if the circumstances warranted such support.

Governance: The Board of Directors

The composition of the Board of the Canadian Payments Association reflected the desire to bring the banks and the non-bank deposit-taking institutions together to manage the payments system. The eleven seats on the Board consisted of five elected by banks, five elected from the various classes of non-bank institutions, and the final seat, that of the chairperson, filled by a senior officer of the Bank of Canada, appointed by the central bank. The equal number of bank and non-bank seats was intended to give the institutions that were competing against the banks a meaningful voice in Board deliberations. The chairperson from the central bank, or in his/her absence, the deputy chair, held a second vote to be used in the event of a tie vote on any matter before the Board. Serge Vachon, Chairman of the CPA during the Association's first 20 years, worked diligently to achieve consensus on all issues and never found it necessary to use his second vote.

The Board had the authority to make by-laws covering (in addition to the clearing and settlement by-laws already mentioned) the administrative requirements for membership in the Association, the conduct of meetings, and the management of the business of the CPA, including the payment of dues and the establishment of penalties to be paid by members for failing to comply with the by-laws (and the detailed rules created pursuant to the by-laws). Were a question to arise at a meeting of the Board as to whether or not a proposed rule conformed with the by-laws, the chair had the power to decide, and the decision would be final. The use of this additional power

never proved necessary. (Of course, the directors either knew the power existed, or could be reminded of the power by the chair, an event that occurred just once in 20 years.)

Voting at meetings of the Board was, without exception, by a show of hands, reflecting the fact that each director had one vote. Voting at the Annual Meeting, and at any other meeting of the members of the Association, was potentially more complicated. Most importantly, the votes held by each member institution, to be used for either budgetary questions or for the election of the directors, corresponded to the number of payment items received from and delivered to the clearings by that institution in the most recent fiscal year. In this manner, the major banks and other large institutions, which accounted for the bulk of payments processed via the CPA, had significant power, and each had the ability to elect a director, or at least an alternate director who could act in the absence of a director. Moreover, the directors and alternate directors representing banks regularly met prior to each CPA Board meeting.

The international reception of the newly created Canadian Payments Association was particularly positive in the discussions and publications concerning payment matters that occurred outside Canada in subsequent years. For example, the Bank for International Settlements, in its 1986 reference book, *Payment Systems in Eleven Developed Countries*, suggested that “the need for increased co-operation in the development of (payments system) infrastructures has led a growing number of countries, both within and outside the Group of Ten, to follow the Canadian example and establish permanent public co-ordinating bodies for this purpose.”³

3. Bank for International Settlements, *Payment Systems in Eleven Developed Countries* (Basel: BIS, 1986), 3.