

# CDIC protection application

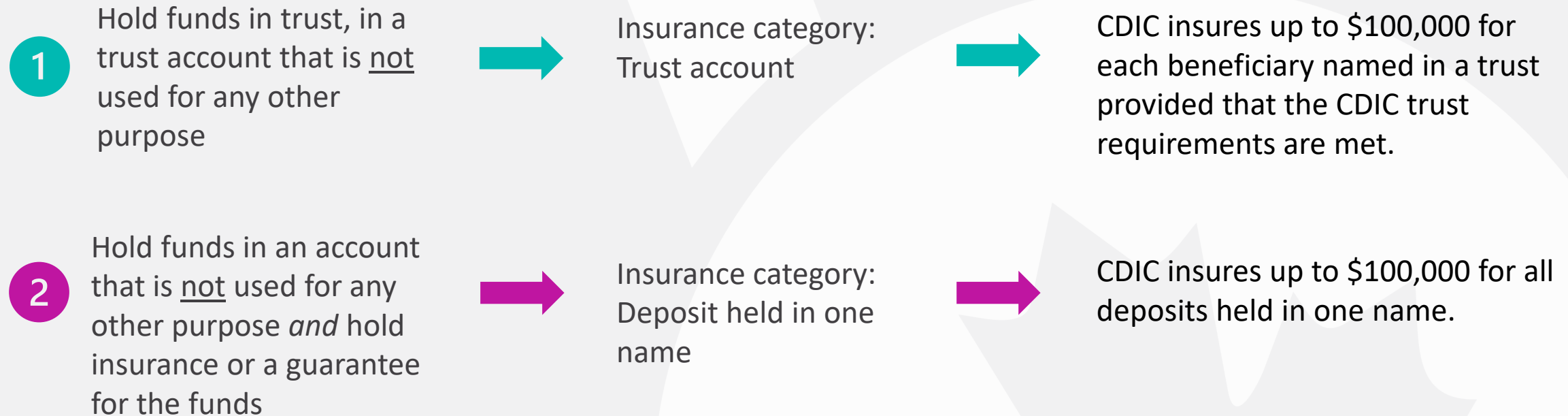
Based on payment service providers' choice of fund safeguarding

# Payment Service Providers (PSPs) holding funds on behalf of end-users under the *Retail Payment Activities Act* (RPAA)

- Paragraph 20(1) of the RPAA requires a payment service provider that performs a retail payment activity that is holding end-user funds until they are withdrawn by the end-user or transferred to another individual or entity, to hold the funds in one of 2 ways:
  - 1) Hold end-user funds in trust in a trust account that is not used for any other purpose
  - 2) Hold end-user funds in an account that is not used for any other purpose and hold insurance or a guarantee in respect of the funds that is an amount equal to or greater than the amount held in the account
- Depending on the choice of safeguarding option, this would have an implication on CDIC deposit insurance if the payment service provider places the funds with a CDIC member.
- **Please note:** CDIC protection applies in the event of the failure of a CDIC member institution, not the payment service provider. The RPAA protects end-users' funds against the failure of the payment service provider.

# Impact of RPAA safeguarding options on CDIC protection

If you hold funds with one of our member institutions, protection will apply in the following ways:



# Option 1: PSP has a trust account at CDIC member

Will deposit insurance apply?

Yes, if:

- ✓ The funds are held **in trust by a trustee for the benefit of the clients**
- ✓ The member identifies the account as a **trust account**
- ✓ The **name and address of the trustee or co-trustees** are on the member's records
- ✓ The **name and address of each beneficiary** (even if there is only one) is on the records of the member
- ✓ The **amount or percentage of each beneficiary's interest** in the trust account is on the member's records

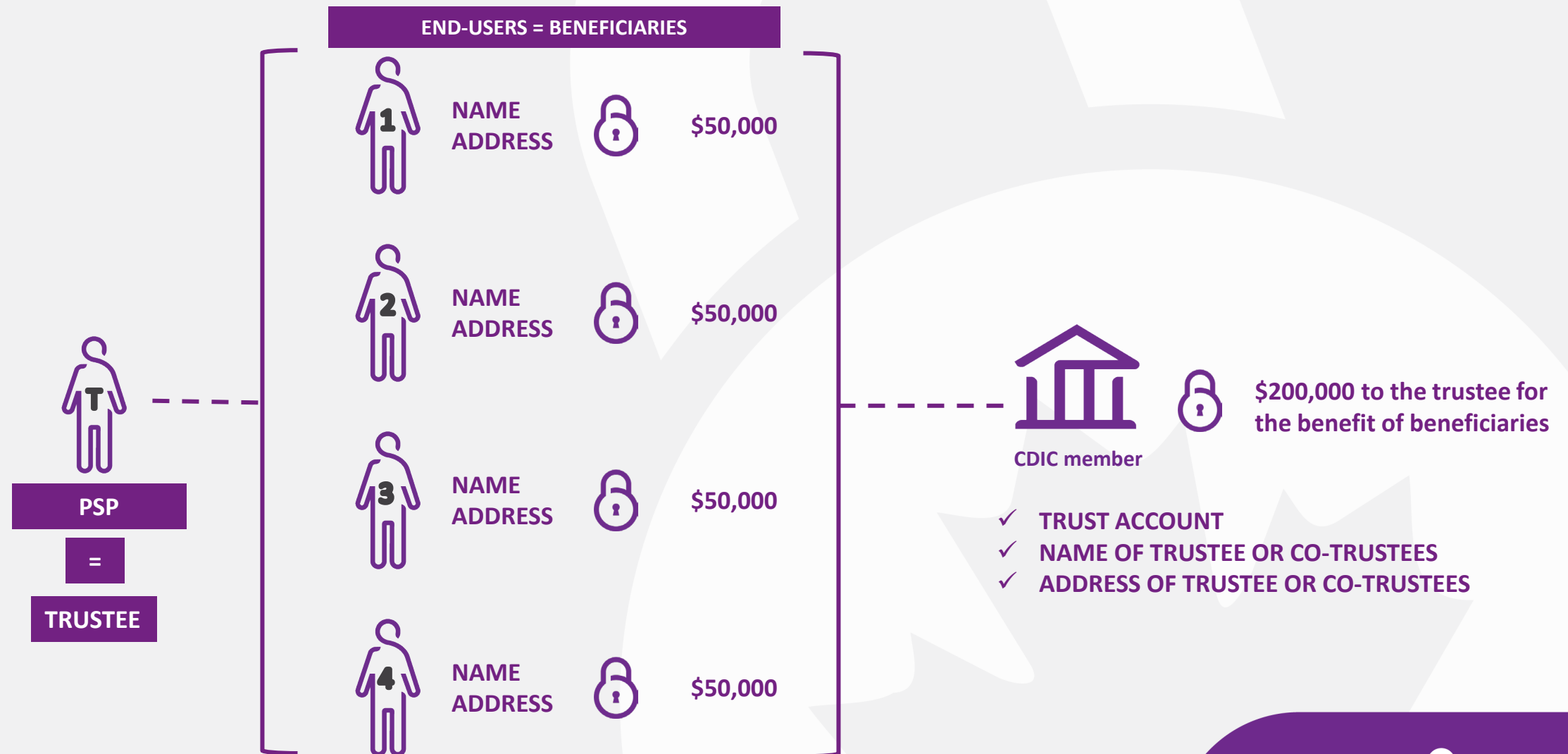
How will deposit insurance apply?

- ✓ CDIC will insure each beneficiary's interest in the trust up to \$100,000

How will CDIC pay?

- ✓ In the event of a member's failure, CDIC would make payment to the trustee (the trustee may decide to open a trust account with another financial institution and deposit the funds received or reimburse the beneficiaries)

# Illustration of option 1



# Option 1: key takeaways

Required information on the members' records:

- Indication that the **deposits are held in trust**
- Name and address of the person(s) **acting as trustee**.
- Name and address of **each beneficiary**
- **Amount or percentage of interest** of each beneficiary

The trustee must keep the information about their beneficiaries **up to date on the member's records**.

If the information is not there, then coverage can be limited to \$100,000 in the name of the trustee.



## PROFESSIONAL TRUSTEE FRAMEWORK

- Registered PSPs acting as trustees for the safeguarding of their end-users' funds will be eligible for the professional trustee framework under the amended *CDIC Act*. This will allow for lighter beneficiary reporting requirements.
- The amendment to the Act will come into force on September 8, 2025.
- Registered PSPs wishing to designate their trust accounts as professional trustee accounts can start preparations before September 8, 2025, but CDIC members cannot flag them as such until then.
- For more information about the professional trustee framework and related requirements, please visit: <https://www.cdic.ca/financial-community/for-trustees/>
- **Note:** If a PSP believes they already qualify for the professional trustee framework under its current definition, they do not need to wait to be registered under the RPAA to designate their accounts as such. For more information, PSPs should consult their legal counsel.

## Option 2: PSP has an account in its own name at CDIC member

Will deposit insurance apply?

No

- ✓ Even if the funds are in a segregated account at a CDIC member
- ✓ The funds will be aggregated with any other funds that the PSP has with the CDIC member in the same insurance category

How will deposit insurance apply?

- ✓ CDIC will insure the PSP up to \$100,000 for all deposits in the same insurance category

How will CDIC pay?

- ✓ In the event of the member's failure, CDIC would make payment to the PSP

# Illustration of option 2

