

Payments Canada's Automated Clearing Settlement System Highlights of Amendments to Rule H1

This communication is to serve as notice that amendments to Payments Canada's Automated Clearing Settlement System (ACSS) Rule H1, Pre-Authorized Debits (PADs), have been [approved by Payments Canada](#), effective October 3, 2022. Rule H1 outlines the procedures to clear and settle PADs under an ongoing agreement between a Payor and a Payee. The amendments reflect technological and payment advancements, with the goal of making it easier for users to understand their PAD obligations. Payees have until December 31, 2023, to comply with the revised Rule H1. During the transition period for full compliance, both versions of Rule H1 will be applicable. However, after December 31, 2023, if there is a conflict between the provisions of an existing Payor's PAD agreement and the revised Rule H1, the requirements of revised Rule H1 will be applicable.

Clients of PNC Bank Canada Branch (PNC Canada) are bound to comply with and apply all relevant provisions of the Canadian Payments Act (CPA) as they apply to PADs in accordance with CPA Rule H1. Therefore, we strongly urge clients to review the revised amendments, which can be found [here](#). The version prior to October 3, 2022 can be found [here](#). Noteworthy for review is Appendix II to Rule H1, which specifically includes a detailed summary and examples of the mandatory and mandatory by circumstances elements to be included in every PAD agreement. PNC Canada clients are also required to enter into a Payee Letter of Undertaking, which sets forth certain mandatory provisions in compliance with Rule H1. PNC's Letter of Undertaking, updated in conformity with the new Rule H1 amendments, is included in the PNC Bank Canada Branch Treasury Management Services Comprehensive Agreement (Payments Services Terms and Conditions) as provided to clients.

Notable highlights of the amendments include the following:

- The distinction between electronic and PAD agreements has been removed. The PAD onboarding experience is now uniform, regardless of the type of contract, paper or electronic.
- The definition of "One-Time" PADs was created. With the new Rule H1 amendments, a One-Time PAD agreement now automatically terminates once the payment has been completed, and any new subsequent PAD transaction(s) require a new agreement. A Payor's PAD agreement that authorizes One-Time PADs must specify that the agreement supports a One-Time PAD and that the Payor's PAD agreement will no longer be valid once the payment has been fulfilled.
- A Payor's PAD agreement shall include cancellation information to the effect that (a) the Payor may revoke their authorization at any time, subject to providing notice (the Payee shall set out the notice period which shall not exceed 30 days), and (b) the Payee may cease issuing PADS either in accordance with the terms of the Payor PAD agreement or where cancellation is not addressed, in accordance with Rule H1.
- Where the Payor instructs the Payee to cease issuing PADs, or otherwise revokes the Payor's PAD agreement or an authorization to issue PADs, the Payee shall:
 - (i) use best efforts to cancel the PAD in the next business, billing, or processing cycle;
 - (ii) within not more than thirty (30) calendar days from the notice, cease to issue any new PAD against that Payor; and
 - (iii) not issue any further PADs against the Payor without that Payor first providing the Payee with a new Payor's PAD agreement,provided the Payor has made available their instructions or revocation in writing, or orally with proper authorization. Where the Payor and Payee have entered into an agreement (including a Payor's PAD agreement) that clearly sets out a cancellation period that does not exceed thirty (30) calendar days, a cancellation or revocation may become effective at the end of that period.

- A Payee may terminate a Payor's PAD agreement in accordance with the terms of that agreement, or, where the agreement does not address termination by the Payee, by providing at least thirty (30) calendar days written notice to the Payor unless otherwise authorized by the Payor in writing or orally. Where a Payee terminates a Payor's PAD agreement pursuant to authorization from the Payor, the Payee shall provide or make available a written statement specifying the date of the final PAD and the effective termination date of the Payor's PAD agreement within ten (10) calendar days of the final PAD.
- The definitions of "Authorization" and "Commercially Reasonable Methods" have been revised. Rule H1 now allows a Payee to use procedures for verifying a Payor's identity that are reasonable and appropriate, having regard to the circumstances of the PAD and the business between the Payee and Payor. This includes having regard to the methods for verifying identity in general use for similar types of business and payment applications and other commercial circumstances of the Payor and the Payee at the time the verification method is used. The revised definition of Authorization now simply refers to the consent or agreement of a Payor whose identity has been verified by Commercially Reasonable Methods. PNC's Letter of Undertaking with a client includes the client's confirmation that they have read and understand the definition of Commercially Reasonable Methods in Rule H1, and that they have such methods in place for use when entering into Payor's PAD agreements and agree to use Commercially Reasonable Methods when verifying the Payor's identity for a Payor's PAD agreement in accordance with the requirements of Rule H1.
- If a Payee is collecting payments on behalf of an entity that is providing the Payor with goods/services, the PAD agreement must include a statement that describes the arrangement between the Payee and the entity providing the goods/services to the Payor.
- Optional disclosures in PAD agreements are permissible, including:
 - A governing law and choice of forum clause.
 - The impact of termination of an underlying contract for goods and services on the PAD.

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