

# Forms of Payment & Introduction to Payments Canada

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## Today's Agenda:

- Payments Canada
- Cheques
- Certified Cheques
- Bank Draft
- Wire Transfers
- Cheque Scanners
- Questions
- Resources

## But first, what is a Bill of Exchange?

- **Bills of Exchange Act, R.S.C., 1985, c. B-4, Section 16(1):**

A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay, on demand or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or to bearer.

# PAYMENTS CANADA

- Formerly called the Canadian Payments Association, this is the organization that owns, operates and establishes the rules and standards of Canada's payment clearing and settlement infrastructure
- The following images and information are from its website at [www.payments.ca](http://www.payments.ca)

# What is a cheque

- Cheque is a common name for a Bill of Exchange and as such, is an instrument described in the Bills of Exchange Act.
- Despite the journey a cheque takes when it is issued, in the end it is a direction to pay instruction given by an individual or business (**the Payor**) to their financial institution (**the Drawee**) to pay a person or business (**the Payee**) a certain amount of money

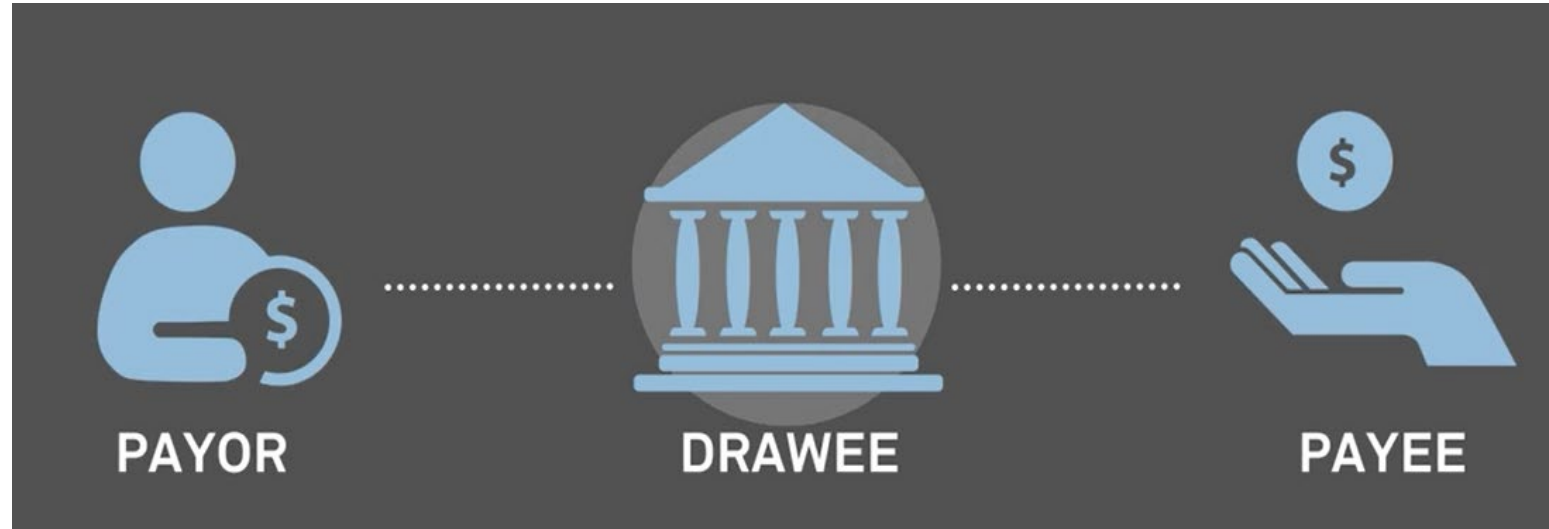
# Cheque Information



The branch transit number and financial institution number are usually left of the bank account number

The bank account number is usually left of ||

# Cheque Journey



# The Journey

- Your client brings you a cheque that you deposit into your account
- Your bank updates your records to show the deposit
- In Canada you get same day **provisional** credit.
- Your Financial Institution (FI) may or may not place a hold on the funds which is a function of your arrangement with it
- Even with the hold, you will start getting interest. But while the hold is in place you cannot touch those specific funds
- Your branch will then send that cheque to a **clearing** centre



# Clearing

- At the clearing centre, cheques are exchanged between FIs
- There are several clearing centres in Canada, one is in Halifax
- When the FI receives it cheques after clearing it totals them and enters the data into a system that tells it what it owes all other FIs
- Then the next step occurs - **Netting**

# Netting

- The clearing information is uploaded to the Bank of Canada and each FI essentially reconciles its accounts.
- If you owe money you remit it to the Bank of Canada. If you are owed money you can either receive it or maintain a credit account at the Bank of Canada
- After the clearing process is completed, in accordance with the Bills of Exchange Act, all cheques are presented for payment. This is called **Presentation**. Simply put, the Drawee physically gets all cheques written on its accounts back

# Presentation

- It is only at this stage that the Drawee institution – the Payor’s FI and branch – receives the cheque and decides if it will be honoured. This is called **the pay or no pay decision**.
- In Canada it typically takes 1 – 3 business days (the average is 2) for the Drawee branch to receive the items
- If the Drawee branch determines that the cheque cannot be honoured (e.g., insufficient funds in the account, stop payment order or forged signature), the cheque will be **returned** to the branch that accepted it – the Payee’s branch (your branch) – with the reason for the return.

# Reversal

- If the item is **dishonoured**, the item is reversed through the clearing system, a process that takes about the same amount of time as it did to get the item to the Drawee branch.
- The reversal is reflected in a following Bank of Canada reconciliation
- The Payee's FI may only become aware of the no pay decision when the item is physically returned to it
- The Payee's FI then has one day on receipt of the dishonoured item to decide if it will be returned or not. If returned to your branch (thus to you), that process has to be initiated by the next business day. But this rule is only for the amount of time the FI has to initiate the return process. It does not deal with, and there is no rule for, the amount of time it will take for the cheque to be physically returned to branch that accepted it (the Payee's (your) branch)

## Exceptions to the next Day Rule

- There are some exceptions to the next day decision on whether to return the item or not.
- In the case of a forged endorsement, the Payee's FI has 6 years from the date of receipt to initiate return
- For material alteration, the Payee's FI has 90 days to initiate return

# Cheque Volumes in Canada

- In 1985, 97% of all items cleared were paper cheques
- Today, 14% of cleared items are paper cheques and 86% of cleared items are electronic fund transfers

# Canadian Cheque Clearing Centres

## Regional Clearing Centre

Geographical area containing a city in which clearing takes place (a regional exchange point)

**Halifax, Montreal, Toronto, Winnipeg, Calgary, and Vancouver**

# Stale Dated Cheques

- A Cheque is considered “Stale Dated” after six months from the date of the cheque, unless it is a certified cheque.
- Depositing a cheque that is more than 6 months old will see the cheque returned.
- Note:
  - Federal Government Items do not Stale Date as they are not drawn on a financial institution but rather are issued by the Government
  - Provincial Government Items do Stale Date after six months



# Certified Cheques

- A certified cheque is **a form of cheque for which the FI verifies that sufficient funds exist in the account to cover the cheque,** and so certifies, at the time the cheque is written.
- Those funds are then set aside in the FI's internal account until the cheque is cashed or returned by the Payee.
- A certified cheque does not go Stale Dated as the funds have been set aside and promised to this cheque in a future clearing process.
- Each FI has its own process and requirements for certified cheques
- Under the clearing rules, certified items can only be returned in three situations – forged endorsement, intended payee not paid or the item was altered in a material way after certification

# Bank Drafts

- A bank draft is a negotiable instrument where payment is guaranteed by the issuing FI.
- FI's verify and withdraw funds from the requester's account and deposit them into an internal account to cover the amount of the draft.
- Bank Drafts do not go Stale Dated.

50977655 5-516  
DATE 2014-09-24  
YIA M M DJ  
\$7,500.00  
CANADIAN DOLLARS CANADIENS

Royal Bank of Canada  
Banque Royale du Canada  
1309 CARLING AVE  
OTTAWA, ON

PAY TO THE ORDER OF / PAYEZ À L'ORDRE DE Melvin Terry Kinden

EXACTLY \$7,500.00

RE/OBJET Settlement HR70 F-1e 2012-12852-E

PURCHASER NAME Rachraff  
PURCHASER ADDRESS 2280 St. Laurent Blvd. Unit 201  
Ottawa ont  
K1G 4K1

NOM DE L'ACHETEUR  
ADRESSE DE L'ACHETEUR

AUTHORIZED SIGNATURE / SIGNATURE AUTORISÉE  
K. Luchini / K. Luchini

COUNTERSIGNED / CONTRESIGNE  
D. Luchini

SIGNATURE STAMP  
TIMBRE DE SIGNATURE  
222655

FORM 16516 (05-2010)  
DETACH BEFORE CASHING  
DÉTACHER AVANT D'ENCAISSER

50977655 01326003 0990135

# Wire Transfers

- A wire transfer facilitates money transfers electronically across a network of FI's or transfer agencies around the world.
- Senders pay for the transaction at the remitting bank and provide the recipient's name, bank account number and the amount to be transferred.
- Wire transfers can take as long as two business days to process.
- All transfers go through a domestic Automatic Clearing House before they are settled.
- International wire payments are monitored by the Office of Foreign Assets Control to ensure the money isn't being wired to terrorist groups or for money laundering purposes.

# Wire Transfers

- Wire Transfers are guaranteed funds
- They allow for critical time sensitive payments to be made efficiently and safely

# Benefits of Cheque Scanners

- Many FIs are now using cheque imaging to clear cheques improving efficiencies in the clearing process.
- You can request a cheque scanning unit from your FI and deposit items in your law office without going to the branch to make the deposit. If you move in this direction, there are processing rules you will have to know about and comply with.
- There is a fee for the unit, typically less than \$1,000.
- But it will shorten the clearing process as there is no longer a need to sort and deliver physical items



# Cheques Drawn on Foreign FIs

- For an item drawn on a foreign FI, the rules described here do not apply unless the item is exchanged between two Canadian FIs as part of its journey
- Cross border clearing is handled through corresponding banking relationships that Canadian FIs maintain with the foreign institution

Annual  
Payments  
Volume

In 2020, Payments Canada  
systems cleared and settled

**\$107 trillion**

**\$420 billion**  
each business day

Thank you.

Questions?





# Resources



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## Payment Academy

We created Payments Academy as a way for Canadians whether working in the financial industry or just curious about how financial systems work to learn more about the exciting world of payments. Payments Academy is organized in to several videos each dealing with a specific topic such as modernization. Check back as more videos get added to the series.

### [Payments Modernization 101](#)

# MODERNIZATION