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For distribution to relevant parties within your firm

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IDA Member Firms Benefit From CPA Rule

The Canadian Payments Association will introduce a new rule, CPA Rule H7, Inter Financial Institution Funds Transfer Debit Rule, effective 1 June 00. This rule will permit member firms to initiate the transfer of client funds from other institutions, notably chartered banks and trust companies, to member firms on instruction from the client. For example, a client will be able to authorize a securities dealer to debit the client's deposit account at a CPA member (bank, trust company, credit union or caisse populaire) to transfer funds to an account in the client's name held at the dealer. Previously, the clients of IDA Member firms were required to contact the financial institution directly to request the transfer of funds to the securities dealer.

Before initiating transactions under Rule H7, the client must first ensure that the CPA member holding the deposit account will permit "funds transfer debits" under Rule H7. The CPA member may charge the client a fee for these transfers. The client will be required to authorize the securities dealer for each fund transfer. Authorization can be given in various ways, including in writing or electronically using a password or secret code. The client and securities dealer must have an underlying agreement to carry out such transactions.

Rule H7 has two specific restrictions. First, the maximum daily amount that can be transferred under Rule H7 is \$13,500. Second, Rule H7 cannot be used to transfer regularly occurring amounts into Registered Education Savings Plans (RESPs) or spousal RSP contributions. These two transactions will continue to be administered under the former rule, Rule H4 Pre-Authorized Debits.

Attached is a Clarification Notice and summary of frequently asked questions on Rule H7 from the Canadian Payments Association regarding CPA Rule H7. For further information, contact the CPA website at www.cdnpay.ca, Ian Russell at the Investment Dealers Association at (416) 865-3036 or Chris Woolcock at the Association (416) 865-3037.

Website References:

<http://www.cdnpay.ca/eng/rules/H7.eng.htm>

<http://www.cdnpay.ca/eng/faq/memrule-h7-e.htm>

<http://www.cdnpay.ca/eng/faq/conrule-h7-e.htm>

<http://www.cdnpay.ca/eng/faq/h7acpt-e.htm>

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CPA Rule H7: Clarification Notice

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Canadian Payments Association
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CPA Rule H7: Clarification Notice

CPA Rule H7, *Inter-Financial Institution Funds Transfer Debit Rule*, provides the clearing framework for funds transfer debits for which the payee and payor are one and the same. Examples of transactions subject to Rule H7 include transfers of funds to registered retirement savings plans, mutual funds, segregated funds, annuities, deposit accounts, cash accounts and investment accounts.

When the Rule came into effect on April 3, 1999, it provided a transition period to allow CPA members and their clients sufficient time to make the administrative and operational changes necessary to migrate existing funds transfer debits to the new Rule. **This transition period will end on June 1, 2000, at which time funds transfer debits for which the payor and payee are one and the same must be processed in accordance with the provisions of Rule H7.**

Of particular note, effective June 1, 2000, all funds transfer debits that meet the H7 criteria must bear AFT transaction code 650. This means that all debits that are currently identified by transaction codes 260 (Investment), 261 (Mutual Funds), 271 (RSP Contribution) and 272 (Retirement Income Fund), and for which the payee and payor are one and the same, must migrate to transaction code 650. In addition, any other debit transactions that satisfy H7 criteria but are currently identified by other codes (e.g. 450 - Miscellaneous Payments) are also required to migrate to transaction code 650.

Regularly recurring Registered Education Savings Plan (RESP) contributions and spousal RSP contributions will continue to be processed under H4, *Pre-Authorized Debits*. In this regard, Rule H4 will be amended to accommodate these two types of items explicitly. The CPA Board will consider a recommendation that two new transaction codes be created to identify spousal RSP contributions (code 265) and RESP contributions (code 266) at its May 25, 2000 meeting. These transactions may continue to be processed under their current codes until such time as the new codes are implemented.

A second key provision of the Rule is that the maximum amount a regulated financial institution initiating funds transfer debits under H7 may draw a maximum from a payor's accounts at any one financial institution is \$13,500 per day.

CPA Rule H7 is available in the Rules section of the CPA Web site (www.cdnpay.ca), under the heading "ACSS Rules". Additional information on Rule H7 is included in the "Frequently Asked Questions" section of the Web site. For questions of an operational nature, organizations initiating these transactions are encouraged to contact their clearing agent.