



Pre-authorized Debits

What **Billers** Need to Know

Pre-authorized debits (PADs) are an efficient means of payment for both billers and their customers. As a biller using PADs to collect from your customers, you have a number of important responsibilities and obligations under the clearing rules for these payments. These are set out in the Canadian Payments Association's Rule H1 – Pre-Authorized Debits. Billers are called Payees in this rule.

A revised version of Rule H1 setting out new requirements was published in June 2008. You must adopt the changes by **February 28, 2010**. The following summary includes previous provisions that remain in effect and billers' new obligations.

Your Responsibilities in Initiating PADs

Getting Started

Contract with Your Financial Institution (FI) Required

As a biller, before offering the PAD payment option to your clients, you must first sign a contractual agreement (called a Payee Letter of Undertaking in Rule H1) with the financial institution that will process PADs on your behalf. In your contract, you agree to follow the terms of Rule H1 and other CPA Rules as they apply to PADs. If you had an existing contract prior to June 2008, your financial institution will be updating it to include the new requirements in Rule H1.

Customer Authorization: Payor's PAD Agreement

You must have the authorization of your customer (called the Payor in Rule H1) before you initiate any PADs to withdraw funds from his/her account. This is obtained through a Payor's PAD Agreement, which may be in paper or electronic format.

NOTE: Mandatory requirements for the Payor's PAD Agreement were published in June 2008 and apply to both paper and electronic PAD Agreements. You must update your forms and/or processes to include these elements by **February 28, 2010**. Payor's PAD Agreements in effect before February 2010 are grandfathered, so updating them is optional. Model Payor's PAD Agreements are available in Appendix II of Rule H1 and on the CPA's web site.

Template Agreements Pre-Approved by your FI

Prior to using them, you must provide to your financial institution, for its review and approval, a copy of your paper Payor's PAD Agreement and/or the electronic forms or description of the processes that you will use for this

purpose, including the "commercially reasonable" process you will use to verify the customer's identity for electronic agreements, if applicable.

Availability of PAD Terms to Payors

You must make the terms and conditions of the Payor's PAD Agreement available to each Payor. Where possible, you should provide a copy of the signed agreement to the customer.

Written Confirmation of Electronic PAD Agreements

At least 15 days before the first PAD under an electronic agreement, you must send a written Confirmation to the Payor. The Confirmation must include all the mandatory elements in the template Confirmation provided in Appendix IV of Rule H1.

*Note: If the Payor and Payee mutually agree, the standard 15-day period for advance delivery of the written Confirmation may be reduced, but it may never be less than three days. **The written Confirmation may not be waived.***

Sporadic PADs: Additional Authorization

If you intend to use PADs for sporadic payments by the Payor (i.e. PADs for

which the intervals are not defined), the Payor's PAD Agreement must include provision for them. In addition, you must obtain authorization from the Payor for each sporadic PAD. For example, recording a telephone call in which the Payor authorizes the PAD with a password or secret code could serve this purpose, provided that the signed agreement is already in place.

Pre-Notification Requirements

If the PADs are for variable amounts, or if you plan to adjust the amount specified in the Payor's PAD Agreement, you must notify the Payor, in writing, at least 10 days prior to the date of withdrawal, unless (1) the Payor has agreed, either in the Payor's PAD Agreement or through a separate authorization, to reduce or waive this pre-notification period, or (2) the Payor directly instructs you to change the amount.

Exception: Pre-notification is not required in the event of a change in the PAD amount due to a reduction in a federal, provincial/territorial or municipal tax.

Retention of PAD Agreements and

NOTE: If a clause to reduce or waive the standard 10-day pre-notification period is included in the Payor's PAD Agreement, it must be prominent (e.g. bold, underlined or highlighted) to ensure that the Payor is aware of it.

Authorizations

You must retain a copy of each Payor's PAD Agreement, whether authorized by a signature or through an electronic method, while it is in effect and for at least one year thereafter. Any further authorizations, including those for sporadic PADs, must also be retained.

Cancellation Provisions for Payors

You must provide Payors with information on how to cancel their PAD arrangement in your Payor's PAD

Agreement, and you must act on Payor's instructions to cancel their PADs in a timely manner. PADs should be cancelled before the next scheduled withdrawal, provided that the request was received with enough lead time (normally a few days) to allow you to do so. You must ensure all PAD cancellations are put into effect within 30 days of receiving them.

Note: Although the Payor may cancel the PAD Agreement at any time, doing so does not affect any ongoing financial obligations that the Payor has to the Payee under a broader contract, such as a lease.

Notice to Customers if Payee Changes Name

If you, as the Payee, change your organization's name, you must provide written notice to each Payor a minimum of 10 days before the next PAD.

Transferring PAD Agreements to Another Payee

You may not transfer any of your contractual arrangements with Payors for PADs to another organization (for example, through the sale of the company or a business unit, or to a collection agency where this is otherwise permitted) unless you have provided to Payors full details of the transfer, including the name and contact information of the new Payee, at least 10 days in advance of the first PAD being issued in the proposed new Payee's name. Further, you may not transfer your Payee Letter of Undertaking or equivalent contract with your financial institution to another party without your financial institution's written consent.

Responsibility for Payor Reimbursement Claims

In the event that a Payor disputes the validity of a PAD within 90 days* and makes a claim that it was not drawn in accordance with his/her instructions,

the Payor's financial institution is required, under CPA Rules, to reimburse the funds. The PAD will then be returned through the clearings, and your financial institution will charge it back to you.

** For business PADs, this recourse period is 90 calendar days if the Payor claims that there is no agreement and 10 business days for other discrepancies.*

Limitations on Re-issuing Returned PADs

If a PAD is returned due to insufficient funds, you may re-issue the PAD only once, and this must be done within 30 days of the original transaction date.

If you re-issue the PAD, it must be for exactly the same amount as the original transaction.

FI Notices of Change to Customers' Banking Information

If you receive from your financial institution a "Notice of Change" advising you of a change to a Payor's branch transit number or account number that does not involve a customer changing his/her financial institution, you must update your files to reflect the new information so that your PADs can continue to be routed efficiently to the correct account.

For additional information, please contact your financial institution, or visit the Canadian Payments Association's web site at www.cdnpay.ca. You may also contact:



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