

On March 28, 2023, Canada's Deputy Prime Minister and Minister of Finance Chrystia Freeland introduced the 2023 Federal Budget. Entitled "[A Made In Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future](#)", Freeland's third Budget signals restraint, but sees deficits increase over projections in the November Fiscal and Economic Statement.

## Overview

With economic growth slowing and inflation still high, the new Budget aims to position the Canadian economy for a clean, green future. A focus on green investment to keep pace with the US Inflation Reduction Act has been paired with targeted income-support measures and what the government hopes will be popular measures to control rising household costs, including so-called "junk fees". It also features further commitments to make good on the government's supply and confidence agreement with the NDP, including a significant new commitment on dental care that will allow the government to maintain NDP support and continue governing through 2023.

## Key Commitments for Prepaid

This year's Budget introduces a wide range of commitments which could have a substantial impact on the prepaid industry, as well as some noticeably absent commitments on policy initiatives such as payments modernization and open banking.

Most significantly, the topic of money laundering and terrorist financing continues to feature heavily in the minds of policy makers, with a commitment to modernize Canada's Anti-Money Laundering and Terrorist Financing Regime that could implicate our industry. Consumer protection is also a key area of focus, with pledges to crack down on so called "junk fees" creating the risk that prepaid product regulations could come under renewed scrutiny from regulators. Finally, the announcement that negotiations with the card networks had culminated in a successful agreement to reduce acceptance costs should put to bed discussion over the regulation of interchange rates that could have had an impact on prepaid products.

Here is more on what you need to know about Canada's 2023 Federal Budget:

- 1) Cracking Down on Junk Fees:** The government plans to work with regulatory agencies, provinces, and territories to reduce junk fees for Canadians. The Budget cites higher telecom roaming charges, event and concert fees, excessive baggage fees, and unjustified shipping and freight fees as legislative priorities. While prepaid is not mentioned, CPPO will be engaged closely to ensure that members are well informed of any potential new consumer protection regulations that could be considered as part of the government's efforts to limit consumer fees.
- 2) Combatting Money Laundering and Terrorist Financing:** The Budget commits to a parliamentary review of PCMLTFA this year. The review will include a public consultation that will examine ways to improve the regime, as well as examine how different orders of government can collaborate more closely. Greater cooperation between government agencies on intelligence sharing as well as introducing legislative amendments to the PCMLTFA) have been identified as key tools in the fight against money laundering and terrorist financing in this year's Budget. It is also viewed as a top priority for the Government, as evidenced by the release of three key documents that outline Canada's strategy and assessment of risks in the financial sector when it comes to money laundering and terrorist financing. Overall, they seek to deal with the growing use of virtual currencies and other forms of digital payments – including prepaid - which offer enhanced anonymity, especially when these payment methods are linked to crime.

- 3) Lowering Credit Card Transaction Fees for Small Businesses:** The government has announced that it has secured new commitments from Visa and Mastercard to lower fees for small businesses, while also protecting reward points for Canadian consumers offered by Canada's large banks. More than 90 per cent of credit card-accepting businesses will see their interchange fees reduced by up to 27 per cent from the existing weighted average rate. These reductions are expected to save eligible small businesses in Canada approximately \$1 billion over five years. The government also expects other credit card companies to take similar actions to lower fees for small businesses. More details, including eligible businesses, will be released in the coming weeks.
- 4) Canadian Financial Crimes Agency:** The government is expected to provide an update on the structure and mandate of the yet-to-be launched Canada Financial Crimes Agency (CFCA) by the 2023 fall economic and fiscal update. The CFAC will take the lead on combatting financial crime and address the key operational challenges identified in both domestic and international reviews of Canada's AML/ATF Regime, with Public Safety Canada currently engaged in developing options for the design of the CFCA.
- 5) Modernizing Financial Sector Oversight to Address Emerging Risks:** The federal government considers foreign interference in Canada's financial industry to be a huge threat to undermining public trust in all federally regulated financial institutions. As a result, they have outlined their intention to amend the *Bank Act*, the *Insurance Companies Act*, the *Trust and Loan Companies Act*, the *Office of the Superintendent of Financial Institutions Act*, and the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* to ensure that the federal regulatory framework takes into account the new and emerging geopolitical/economic realities around the world. These legislative amendments are expected to give new powers to agencies such as FINTRAC and Office of the Superintendent of Financial Institutions (OSFI) to impose higher levels of compliance, disclosures, information sharing, risk management and due diligence requirements on all regulated entities.
- 6) A Fairer External Complaints Handling System for Banking:** The government plans to introduce targeted legislative measures to strengthen the external complaints handling system for banks and to designate a single, not-for-profit, body corporate to be the sole external complaints body, following a selection process led by the Financial Consumer Agency of Canada. This measure would reverse previous legislative changes that allowed FRFIs to select their own dispute resolution body.

### **CPPO's Response**

While these commitments are not unexpected, the commitments on AML and "junk fees" will require our sector to respond to ensure we are mitigating new regulatory burdens to the greatest extent possible. In response to the Budget, CPPO will be engaging with relevant policy makers to better understand the implications of these commitments for our industry and respond accordingly. If you would like to help us respond and participate in shaping our government relations agenda, please don't hesitate to reach out.