

**THE COMPETITION TRIBUNAL**

CT-95-02

**IN THE MATTER OF** an application by the Commissioner of Competition under section 79 and 105 of the Competition Act, R.S.C. 1985, c.C-34, as amended;

**IN THE MATTER OF** an abuse of dominant position in the supply of shared electronic network services for consumer-initiated shared electronic financial services;

**IN THE MATTER OF** a Consent Order granted by the Competition Tribunal dated June 20, 1996, varied on March 25, 1998, further varied on September 8, 2000 and varied and restated as a consent agreement on January 10, 2003;

**AND IN THE MATTER OF** an application by Bank of Montreal, et al., under sections 105 and 106(1)(b) of the Competition Act, R.S.C. 1985, c.C-34, as amended, to vary or consent the Amended Consent Agreement made by the Competition Tribunal on January 10, 2003.

B E T W E E N :

Bank of Montreal  
The Bank of Nova Scotia  
Canada Trustco Mortgage Company  
Canadian Imperial Bank of Commerce  
La Confédération des caisses populaires et  
d'économique Desjardins du Québec  
Credit Union Central of Canada  
National Bank of Canada  
Royal Bank of Canada  
The Toronto-Dominion Bank  
Interac Inc.

Applicants

- and -

The Commissioner of Competition

Respondent

COMPETITION TRIBUNAL  
TRIBUNAL DE LA CONCURRENCE

**FILED / PRODUIT**

May 18, 2005  
CT-1995-002

Jos LaRose for / pour  
REGISTRAR / REGISTRAIRE

OTTAWA, ONT

# 0128c

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**AFFIDAVIT OF KIRKLAND MORRIS**

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1. I am the Director, Strategy Policy and Integration of the Interac Association (the "Association") and as such have knowledge of the matters hereinafter deposed, except where I indicate that the matters are given on information and belief.

2. A consent order was granted by the Competition Tribunal on June 20, 1996 in respect of the Association. The Consent Order was varied on March 25, 1998, further varied on September 8, 2000 and varied and restated as an Amended Consent Agreement on January 10, 2003 (the "Amended Consent Order").

3. The Draft Order reflects the agreement of the parties with respect to three substantive changes to the Amended Consent Agreement. *First*, the Draft Order would modify the requirement that the Association's revenues be "entirely" derived from switch fees, such that the Association would be permitted to collect a modest amount of non-switch fee revenue. *Second*, the Draft Order would permit the Association to establish a Minimum Annual Fee that would recover the basic incremental costs of membership in the Association. *Third*, the Draft Order would permit the Association and its Members to recover the same kinds of costs that it is able to recover from new Members (*i.e.*, direct, identifiable administrative and certification costs) from existing Members that fundamentally change their systems. I will deal with the facts underlying each change in turn.

**A. Modification of Switch Fee-Based Revenue from "Entirely" to "Substantially"**

4. This application represents the fourth time that the parties have sought to amend the original Consent Order that was made in 1996. In most cases, the

requirement that the Association's revenue be derived "entirely" from switch fees was a significant driver for the need for an amendment.

5. It is our belief that with the proposed amendment, we could avoid future amendment applications where the impact of the revenue proposal would not have a material effect on the Association, its Members, or potential Members.

**B. Minimum Annual Fees**

6. The Association is a dynamic enterprise. Since the Consent Order was entered into in June of 1996, there have been dramatic changes both in the membership of the Association and in the market place in which the Members compete. Once comprised solely of large financial institutions, today the membership includes non-financial institutions as well as community-based credit unions.

7. This diversity results in a wide divergence in Members' use of the Association's shared services. Some Members are responsible for huge transaction volumes, others account for a very few transactions. Regardless of the Member's actual transaction volume, however, the Association must provide a common bundle of core services to each Member.

8. As noted above, the Amended Consent Agreement states that the Association's revenue must be derived "entirely" from switch fees. The effect of this requirement has been that a number of Members account for such a small volume of transactions that the switch fees that they are responsible for do not cover even the most basic bundle of services that is provided to the membership class to which they belong. Thus, their membership is being subsidized by other Members.

9. There are two groups that are particularly in issue: small volume Members and Direct Connectors. I will deal with each in turn.

**(i) Small Volume Members**

10. Over the past few years, there have been a substantial number of Members joining the Association. Many of these Members generate a small volume of transactions annually, resulting in the payment of very low switch fees. Attached at Exhibit "A" is a chart that sets out the 20 Members of the Association with the smallest annual volume for the 12-month period ended September 30, 2004. The amount of these fees does not cover the cost of servicing the Members, even in the most basic way (*e.g.*, provision of tokens to access the Extranet, preparing and sending correspondence, *etc.*).

11. The effect, therefore, of the switch fees method of payment in this context is that other Members subsidize the cost of membership for small volume Members.

**(ii) Direct Connectors**

12. In 2002, the Association restructured the architecture of the Inter-Member Network ("IMN") to replace the existing bilateral communications systems with a more modern IP infrastructure.

13. Prior to this re-architecture of the IMN, each Direct Connector had to procure the communications lines and equipment required to connect with the other Direct Connectors. With the re-architected structure of the IMN, the Association assumed responsibility (and therefore the cost) for this infrastructure. At present, there are a number of Direct Connectors that do not introduce a sufficient number of transactions

into the system so that their switch fees would cover the costs incurred by the Association in providing this infrastructure. Consequently, these Direct Connectors are being subsidized by other Members.

**(iii) Implementation of Minimum Annual Fee**

14. To remedy the cross-subsidization of certain Members, and to improve fairness in the funding framework for all Members, Association management concluded that a minimum annual fee should be implemented. Management prepared a recommendation for the Association board. A true copy of the recommendation and supporting material is attached at Exhibit "B".

15. At its June 18, 2002 meeting, the Association board considered the report and resolved to implement a minimum fee, subject to an amendment of the Amended Consent Agreement. A true copy of this resolution is attached at Exhibit "C". I am informed and believe that this resolution was adopted unanimously by the Board of the Association (which currently includes 6 Members that are not Respondents).

16. This minimum fee, which would differ for Direct and Indirect Connectors, would act as a floor to switch fees and ensure that each Member pays fees sufficient to cover the incremental cost of the Association resources needed to support its basic participation in the Association.

17. The minimum fee would be based on the marginal or incremental cost of adding an additional Member, with no fixed cost component. The minimum fee would not be affected by the loss or addition of a Member.

18. Based on the Association's current costs, the minimum fee for all Members would be set at \$1,500 per year.

19. An additional minimum fee of \$49,500 would be set for Direct Connectors, reflecting the cost of the basic network equipment provided to them.

20. In both cases, switch fees paid by Members would be applied against the minimum fee to reduce the minimum fee otherwise payable. For Connection Service Providers, credit would also be provided for transactions originating from their Indirect Connectors, where those transactions generate switch fees in an amount that exceeds the minimum fee payable by the Indirect Connector.

**(iv) Circulation of Proposal to Members**

21. The proposal to update the Association's cost recovery framework was summarized and circulated to all Members in a memorandum from Marc-André Lacombe, Corporate Secretary and General Counsel of the Association to all Members on November 20, 2003. This memorandum was reviewed by the Competition Bureau prior to circulation. A true copy of the memorandum is attached at Exhibit "D".

22. Along with the November 20, 2003 memorandum, the Association circulated a detailed consultation document dated November 2003 entitled "Minimum Annual Fee Policy Recommendation". A true copy of this document is attached at Exhibit "E".

23. The November 20, 2003 memorandum specifically invited all Members to direct any concerns they had with respect to the proposals to Marc-André Lacombe in writing, by Friday, December 19, 2003.

24. In addition, the details of the minimum fee proposal were presented at the Association's annual Member Information Session in November 2003, to which all Members of the Association were invited. A true copy of the slide presentation made at the session is attached at Exhibit "F".

25. In light of the possibility that Members may have been reticent to share any concerns with the Association directly, Members were also invited to communicate with the Competition Bureau directly by contacting Richard Robicheau, Competition Law Officer.

26. The Association received feedback from two Members:

(a) One Member (a Direct Connector that is not a Respondent) voiced strong support for the proposal and queried why the proposal needed to be phased-in over such a long period of time.

(b) One Member (also a Direct Connector that is not a Respondent) understood the need for the minimum fees, but requested either a delay in implementation or reduced minimum fee in the first year.

27. To the best of my knowledge and belief, no other concerns were expressed by Members either to the Association directly or to the Competition Bureau.

**C. Cost Recovery from Existing Members for Substantial Systems Changes**

28. The Revised Consent Agreement allows the Association and existing Members to recover direct identifiable administrative and certification costs incurred during the course of admitting a new Member into the Association. Thus, new

Members must bear the full costs of their membership, and cannot externalize those costs to their competitors.

29. A prospective new Member applies, is admitted and is certified to:
- (a) operate in a specified Shared Service (the Member may apply to operate in both Shared Services);
  - (b) carry out one or more functions (e.g., Issuer, Acquirer, Connection Service Provider) in the Shared Service(s);
  - (c) use a specified Settlement Agent (determined by the prospective Member); and
  - (d) if the prospective Member intends to be an Indirect Connector, to use a specified Connection Service Provider (once again, determined by the particular Member).

30. If the Member chooses to change any of the elements set out in paragraphs 29(a) to (d), the membership is deemed to be terminated and it is required to reapply and recertify under the changed circumstances. To the extent that the Association or Direct Connector Members incur administrative or certification costs to accommodate the desired changes, the new Member must reimburse those costs. Thus, the Member bears the full financial consequences of its decisions and is not able to free ride by externalizing its costs to the other Members.

31. A gap exists where an existing Direct Connector does not change its membership status, but makes significant systems changes that fundamentally



impact the way that it interacts with other Direct Connectors over the IMN. These changes often force the Association and other Members to incur significant administrative, testing and certification costs to ensure that the altered system operates properly. For example, an existing Direct Connector may decide to add a new node to the IMN (a node is an access port or gateway to the network). This new node must be tested with some (or all) of the other Direct Connectors to ensure that it works. Moreover, the implementation of a new node consumes considerable time and resources at the Association to ensure that there is no Service disruption.

32. Because the Amended Consent Agreement only permits cost recovery from new Members, and otherwise requires that all of the Association's revenues be derived from switch fees, it is my understanding that the Association cannot seek reimbursement for costs incurred in connection with a substantial systems change at any existing Member.

33. The effect then, is that in these circumstances, existing Members are able to externalize certain costs associated with their systems changes. Other Members (many of whom are competitors) end up subsidizing those costs through the payment of switch fees.

34. For a number of years, no costs were recovered even though cost recovery was permitted. By 2002, however, it became apparent that the connection of new entrants was consuming significant time and resources. Accordingly, Association staff undertook a study to evaluate a number of process-oriented issues, including whether the costs should be recovered.

35. The study was completed by May 2002. It was presented to the Service Delivery Advisory Group, which is a committee comprised of representatives from the Members that appoint Board representatives, and a summary was presented to the Board. A true copy of the study is attached at Exhibit "G".

36. The study recommended that costs should be recovered in the following three circumstances:

- (a) when a new Member is directly connected;
- (b) when an existing Member establishes a new node on the IMN; and
- (c) when a Member fundamentally alters its existing system, but does not add a node.


37. Management recommended that the Board approve and implement the study's recommendations, and the Board did so unanimously. Since the third element requires amendment of the Amended Consent Agreement, its approval was expressly subject to the amendment of the Amended Consent Agreement.

38. Even though this initiative only affects Direct Connectors, all Members (including both direct Connectors and Indirect Connectors) were made aware of it. In particular, the initiative was described in a letter to all Members dated August 16, 2002. A true copy of this letter is attached at Exhibit "H". To my knowledge, no complaints have been received about the initiative.

**D. Consultation with the Competition Bureau**

39. The Association has consulted extensively and fully with the Competition Bureau in connection with the proposed amendments contemplated in this application. These consultations included written submissions, face-to-face meetings and responding to a voluntary information request prepared by the Competition Bureau.

SWORN BEFORE ME at the City of Toronto, in the Province of Ontario, on May 5, 2005.

  
Commissioner for taking affidavits

  
Kirkland Morris

**MARGARET CLAIRE FRITH, a  
Commissioner, etc., Province of Ontario,  
while a student-at-law.  
Expires April 10, 2008.**

**THE COMPETITION TRIBUNAL**

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**IN THE MATTER OF** an application by the Commissioner of Competition under section 79 and 105 of the Competition Act, R.S.C. 1985, c.C-34, as amended;

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**B E T W E E N :**

Bank of Montreal, The Bank of Nova Scotia Canada, Trustco Mortgage Company  
Canadian Imperial Bank of Commerce, La Confédération des caisses populaires et  
d'économie Desjardins du Québec, Credit Union Central of Canada,  
National Bank of Canada, Royal Bank of Canada, The Toronto-Dominion Bank, Interac Inc.

Applicants

and

The Commissioner of Competition

Respondent

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**AFFIDAVIT OF KIRKLAND MORRIS**

Sworn May 5, 2005

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**Mark J. Nicholson**

**Emily Larose**

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2100 Scotia Plaza

40 King Street West

Toronto, Ontario M5H 3C2

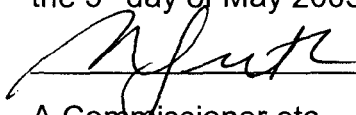
Phone: 416.860.6513

Fax: 416.642.7168

Counsel for the Applicants

**Confidential exhibit (see 0128f)**

This is "Exhibit A" to the Affidavit of  
**KIRKLAND MORRIS** sworn before me  
the 5<sup>th</sup> day of May 2005.

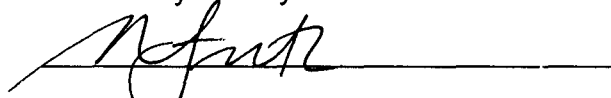


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A Commissioner etc.

**MARGARET CLAIRE FRITH, a  
Commissioner, etc., Province of Ontario,  
while a student-at-law.  
Expires April 10, 2006.**

This is "Exhibit B" to the Affidavit of  
**KIRKLAND MORRIS** sworn before me  
the 5<sup>th</sup> day of May 2005.

A handwritten signature in black ink, appearing to read "M. Frith", is written over a solid horizontal line.

A Commissioner etc.

**MARGARET CLAIRE FRITH, a**  
Commissioner, etc., **Province of Ontario,**  
while a student-at-law.  
Expires April 10, 2006.

## Membership Project Update (Agenda Item IIe)

### Introduction

At the February 2002 meeting, Management introduced to the Board a significant new policy initiative called the Membership Project. The project is being undertaken as a follow-up to the Changing Marketplace Project as the Association continues to update its legal and operating frameworks to remain relevant and effective in a changing environment.

In this light, the purpose of the Membership Project is to ensure that Interac Association's programs and processes are designed, managed and funded in a way that is effective, fair and appropriate to a growing and evolving membership. At the February Board meeting, Management informed the Board that work on the Project will be divided into three phases, each aligning with a unique stage in the membership cycle. The three phases are:

- (1) **new Member processes**, from the time an organization first seeks information about joining the Association to the time it is approved as a Member;
- (2) the **process for IMN/IP implementation**, through which a new Member begins to perform a function(s), or an existing Member begins to perform a new function(s) in one or both of the Shared Services; and
- (3) **on-going Member processes**, including regular Association programs and activities, as well as on-going changes initiated by Members themselves.

Given the timing of the IMN Re-architecture Project and the roll-out of the IMN/IP, it was decided that network integration issues – item (2) above – would be addressed as the first priority. This report provides an update on the work presently underway, and an overview of planned changes in this area.

At the February Board meeting, Management indicated that in seeking to address issues as part of the Membership Project, the Association must be cognizant of the boundaries created by its overall legal framework, including the Consent Order. All planned policy changes for the current phase of work, as summarized below, have been examined in the context of the Association By-law and the Consent Order. This examination has revealed that amendments to the Order may be necessary to permit the policy changes as planned. These are discussed in detail below.

### The Current Phase of Work: IMN/IP Implementation

As indicated above, work is underway to review the process for IMN/IP implementation -- that is, when new Members bring their systems on-line in the Shared Services, or when existing Members make significant system changes.

Working with the Service Delivery Advisory Group (SDAG), Management has identified the need for changes to a number of existing processes. These enhancements fall into three categories:

- enhancements to **program management disciplines**, including enhancements to the Operating Regulations to more clearly address Member requirements and responsibilities;
- enhancements to **communications** provided to new and existing Members before and during the process of IMN/IP implementation; and
- enhancements to the **framework for cost recovery** for these network-related activities.

The planned framework enhancements are outlined in detail below, along with their rationale and guiding principles.

#### Program Management

##### *(i) Planning and Pre-requisites*

Experience with past node implementations has shown that Association staff has, at times, been asked to provide considerable guidance and support to Members during their work to develop and certify their systems and software, and throughout their efforts to bring their systems on-line in the Shared Services. In some instances, Members may have set unrealistic work plans and schedules, leading to deadlines and milestones not being met, with resulting resource and planning implications for the Association and for other Members.

While the Association plays a facilitator role at the centre of these network processes, staff is not in a position to provide detailed guidance to individual Members in managing the work and commitments needed to successfully complete certification and node implementation. While communication of responsibilities by the Association is critical, it must be left to individual Members to ensure that these responsibilities are satisfied.

In its facilitator role, Association staff is required to:

- review and approve materials at milestone stages;
- provide basic interpretations of the Operating Regulations, certification requirements and other policies;
- provide high-level project management and escalation as needed; and



- manage elements of inter-Member coordination throughout the process.

Where Members require additional support beyond these bounds, Association staff may also assist in identifying an appropriate third-party resource for the assistance they require. Support beyond this role, however, should be considered a Member responsibility.

In light of past experience, Management plans to proceed with a series of Operating Regulation changes to clarify the Association's role and to promote effective planning on the part of Members, including changes to:

- clearly define the steps to completing certification and node implementation, and the requirements and pre-requisites that Members must satisfy at each significant stage;
- formally require prospective Direct Connectors to provide the Association with detailed project plans and to document resource and other commitments; and
- provide the Association with the flexibility to establish reasonable guidelines for concurrent network activity, including:
  - concurrent Direct Connector node implementations; and
  - concurrent Indirect Connector implementations behind the same Connection Service Provider,

to ensure that work loads and timelines are kept manageable for the Association and for other Members who must support these activities.

*(ii) Member Certification and Re-certification*

Today, Association policy calls for certification to be completed prior to a prospective Direct Connector beginning activities associated with node implementation. However, this requirement has been difficult to consistently apply in practice, and exceptions have been made in the face of time and other pressures facing Members. As a result, there have been situations where new Members have progressed with planning and activities related to node implementation without their systems being fully certified as meeting all necessary requirements. In some cases, subsequent systems difficulties have resulted in delays and rescheduling, impacting both the new Member's timelines and resources as well as the day-to-day operations of the Association and other Members.

In addition to requiring certification to be completed by new Members, the Operating Regulations also address the general circumstances under which existing Members must re-certify their systems and/or software. In these instances, the same disciplines are needed to ensure efficiency and minimize the likelihood of operational difficulties impacting on other Members.

With regard to the process of certification itself, the Association has traditionally not taken an active role in validating that certification agents satisfy required minimum standards, relying on Member self-compliance in choosing a satisfactory agent. Moving forward, Management believes the Association should play a more formal role in approving the selection of certification agents and ensuring they meet the minimum standards established in the Regulations.

To address these issues, Management plans to proceed with Operating Regulation changes to:

- specify the minimum standards under which certification shall be carried out;
- clarify that certification (including all aspects of functional, settlement/reconciliation and IMNCC testing) must be successfully completed before a Member is permitted to begin activities related to node implementation;
- clarify the general conditions under which re-certification must be undertaken (i.e., when a Member begins to perform a new function, changes its Settlement Agent, Connection Service Provider or Service Bureau, or makes significant changes to its systems environment);
- clarify the minimum proficiency requirements that certification agents must satisfy; and
- require the Association to verify the requirements and approve the selection of a certification agent by a new or existing Direct Connector.

*(iii) Node Implementation and Inter-Member Testing*

One of the key steps involved in node implementation is the execution of inter-Member testing. Not only does this testing provide a second opportunity to identify systems problems (certification provides the first), but it also provides assurances to both the new and existing Members that their systems will work together successfully.

While the Association mandates the minimum set of tests that must be carried out between Members, these requirements and the process for inter-Member testing are not addressed in the Operating Regulations.

To remedy this gap, Management plans to proceed with Operating Regulation changes to:

- clarify that all existing Direct Connectors are required to carry out inter-Member testing with the new Direct Connector (and vice-versa) unless they have a valid reason not to participate in such testing; and
- specify the process through which inter-Member testing shall be executed, including the process for designating a lead Member for testing.

### Communications

A significant factor in determining the effectiveness of the program management and funding enhancements planned for the Membership Project will be communications – that is, the effective communications to new and existing Members of the process and requirements for IMN/IP implementation. As noted in the program management enhancements above, experience with past node implementations has shown that some Members may not be fully aware of the extent of the IMN/IP implementation process in terms of:

- resource and time requirements;
- completion of pre-requisites at significant stages of the implementation process;
- understanding of the role of Association staff;
- engagement of necessary third-party support; and
- the level of co-ordination with existing Members to complete inter-Member testing.

For example, lack of understanding about the time necessary to co-ordinate node implementation activities with existing Members has resulted in some Members making commitments they could not keep.

Past experience has also shown that some Members may not be fully aware of the ongoing level of commitment necessary to continue to perform one or both of the Shared Services after completion of IMN/IP implementation. For example, there is ongoing security compliance, network activity reporting, 24/7 monitoring and trouble-shooting, active participation in Association advisory groups, ongoing participation in node implementation activities, etc.

These issues apply to new and existing Members and to Direct and Indirect Connectors. To address these issues, Management plans to enhance upfront communications to new and existing Members. For this particular phase of work, a new guide will be developed to better inform Members of the process, requirements and obligations of becoming a Direct or Indirect Connector with the Association. This new guide will become part of the package Members receive as they contemplate and plan for IMN/IP implementation.

### Cost Recovery

In managing the processes for Direct and Indirect Connectors to certify and implement their systems in the Shared Services, the Association bears a number of costs. For Indirect Connectors, these relate primarily to the staff time needed to review and approve certification results and to facilitate transaction routing changes if needed. For Direct Connectors, the costs include substantially more staff involvement throughout the node implementation exercise, as well as funds payable to CGI in their role as network supplier (e.g., for work to establish network connections and provide training to new Members on the network environment).

Traditionally, these costs have been funded out of common Association resources. However, Management believes it is inappropriate to ask all Members to pay for these activities, which reflect services provided to an individual competitor in the network.

Consistent with the provisions of the Consent Order, Interac Association By-law No. 1 provides the flexibility for the Association to recover "all out-of-pocket and identifiable administrative and certification costs incurred during the course of admitting a new Member into a Service." Moving forward, Management plans to proceed with changes to put this existing principle into practice.

Based on staff estimates of the time required to manage these processes, this could result in a charge-back to new Direct Connectors of costs on the order of \$50,000-\$100,000, including both the internal staff and network supplier cost components, and to Indirect Connectors of approximately \$1,000-\$1,500.

While the policy was developed to address the needs of a new Member joining the Association, the same principles of fairness in cost recovery should also apply to existing Members, when they add a new node, begin to participate in a new Service or to perform a new function, or make other significant systems changes requiring work to be undertaken on their behalf by Association staff.

It should be noted that the language of the Consent Order is not sufficiently broad to allow the cost recovery policy to be applied consistently to both new and existing Members. As a result, Management is seeking the Board's approval to pursue discussions on this issue with the Competition Bureau, to either reach agreement that the current wording provides the flexibility needed, or to negotiate an amendment to resolve this issue.

### The Consent Order and Future Project Phases

At the February meeting, Management apprised the Board that certain of the policy changes being pursued under the Membership Project – particularly in the area of cost recovery – could require amendments to the Consent Order. The first of these issues was discussed in the previous section, in the context of our work on the current phase of the Project. However, plans for future Project phases also include issues on which the Consent Order will be relevant.

As stated earlier, a primary objective of the Membership Project is to ensure that the Association's programs and processes are not only designed and managed effectively, but also funded in a manner that is fair and appropriate to all Members. Management believes that, in addition to the changes discussed above, revisions to the funding framework are needed in two further areas: (i) to address issues related to small Members; and (ii) to provide flexibility in funding innovations or new Services.

### Members with Low Transaction Volume

As the Board is aware, the Association's operating budget today is funded almost entirely through transaction switch fees. When the Consent Order was negotiated, such a formula was felt to be an equitable means of dividing the costs of running the Association on a user-pay basis among the Members. In other words, it was felt that the larger the number of transactions generated by a Member, the larger its benefit from the Association and the larger amount of Association resources it would consume.

The rationale for the user-pay principle is still of relevance today. However, in practice, as the Association's membership has grown and evolved over time – particularly with the addition of many Members with very low transaction volumes – we have reached a situation in which the strict switch-fee funding formula has come to undermine the original principles of fairness to all Members.

Specifically, there are a number of Members today who do not pay switch fees sufficient to cover the costs of their basic participation in the Association and the Shared Services, resulting in cross-subsidization between competitors in the network. For example, in the first quarter of the current fiscal year, 39 Members paid less than \$100.00 each in switch fees, in fact one Member paid only \$0.30. Together these Members paid a total of \$1,730.72 of the nearly \$6 million in total collected by the Association. To address this inequity, an amendment to the Consent Order will be required.

### Innovations and New Services

The user-pay principle works well in the context of an existing Service, since the Members who pay are those who arguably derive the most benefit. However, the current funding formula requires participants in the existing Shared Services to fund new Services or innovations, regardless of whether they will participate or benefit in the enhancement.

At present, the Consent Order prohibits all forms of alternative funding formulae. Thus, even where a group of Members wished to develop a new Service or an innovation to an existing Service through a capital investment, they would be bound in the funding of that innovation by the switch fee formula. Management believes that this is an unintended outcome of the original language of the Consent Order. To remedy this, an amendment to the Consent Order will be needed to provide the Board the discretion to adopt alternative funding formulae to fund the development of innovations or new Shared Services.

Recommendation

In February, Management indicated an intention to hold preliminary discussions with Competition Bureau officials to assess their willingness to entertain possible changes to the Association's cost recovery practices. The initial response of the Bureau to these discussions has been positive. In order to allow discussions with the Bureau to proceed efficiently, Management is seeking the Board's approval to pursue not only the amendments needed to allow for consistent cost recovery in certification and node implementation, but also to lay the groundwork for efforts in future phases of the Membership Project as discussed in this section.

Consequently, the Board will be asked to vote on the following motion at the June 18<sup>th</sup> meeting:

**BE IT MOVED THAT** Management be directed to proceed with such work as is necessary to negotiate amendments to the Consent Order with the Competition Bureau to allow for:

- the direct recovery of administrative and certification costs incurred in facilitating the establishment of a new node by an existing Member or the significant alteration of an existing system by an existing Member;
- the establishment of a minimum annual fee for all Association Members, reflective of the basic costs of maintaining a Member in the Association; and
- the flexibility for the Board to establish special funding formulae to address new service development or major service enhancements.

### Conclusion and Next Steps


This update has addressed in detail the policy work underway as part of the current phase of the Membership Project, as well as the groundwork that is being laid for subsequent phases of effort.

As the Board was apprised in February, Management has been working to implement changes to the processes for IMN/IP integration to align with the completion of migration to the new network infrastructure and the wind-down of the IMN Re-architecture Project. This will allow the Association to move forward with both new technical and business processes in one clean stride. As such, Management will be seeking to bring into effect the Operating Regulation and other changes discussed in this report in the period immediately following the Board's meeting in June.

With regard to the on-going work involving the Competition Bureau, with the Board's agreement, Management will continue its discussions with Bureau officials with the intent of negotiating the amendments needed to provide the cost recovery flexibility discussed earlier.

Moving forward, Management will continue to keep the Board apprised of its progress in these efforts.

This is "Exhibit C" to the Affidavit of  
**KIRKLAND MORRIS** sworn before me  
the 5<sup>th</sup> day of May 2005.



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A Commissioner etc.

**MARGARET CLAIRE FRITH, a  
Commissioner, etc., Province of Ontario,  
while a student-at-law.  
Expires April 10, 2006.**




Exhibit "C"

Minutes of the meeting of the Board of Interac Association  
- L'Association Interac held at 9:00 a.m. at the Hôtel  
Dominion, 126 Saint-Pierre St., Quebec, Quebec, on the 18<sup>th</sup>  
of June, 2002.

**Membership Project**

ON MOTION DULY MADE, SECONDED AND CARRIED  
UNANIMOUSLY, it was RESOLVED that Management be directed to  
proceed with such work as is necessary to negotiate  
amendments to the Consent Order with the Competition Bureau  
to allow for: the direct recovery of administrative and  
certification costs incurred in facilitating the  
establishment of a new node by an existing Member or the  
significant alteration of an existing system by an existing  
Member; the establishment of a minimum annual fee for all  
Association Members, reflective of the basic costs of  
maintaining a Member in the Association; and the  
flexibility for the Board to establish alternative funding  
formulae to address new service development or major  
service enhancements.

This is "Exhibit D" to the Affidavit of  
**KIRKLAND MORRIS** sworn before me  
the 5<sup>th</sup> day of May 2005.



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A Commissioner etc.

**MARGARET CLAIRE FRITH, a  
Commissioner, etc., Province of Ontario,  
while a student-at-law.  
Expires April 10, 2006.**

# MEMO

*Interac Association, 121 King Street West, Suite 1905, Box 109, Toronto, Ontario, M5H 3T9.*



**To:** All Interac Association Members  
**From:** Marc-André Lacombe  
Corporate Secretary and General Counsel  
**Date:** November 20, 2003  
**Subject:** **Proposed Updates to Interac Association's Cost Recovery Framework**

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Interac Association is a dynamic, ever-changing enterprise. Since the Consent Order was entered into in June of 1996, there have been dramatic changes both in the membership of the Association and in the marketplace in which Members compete. We are continually monitoring these changes to assess whether and how they impact the Association.

As you know, we have been examining the funding framework within the Association to ensure that it is current, fair and appropriate. The Consent Order established parameters for funding in the Association by requiring that the Associations' costs are to be recovered through the payment of switch fees. This requirement is based on the "user pay" principle – i.e., those who use the Associations' facilities should be required to pay for their use. This avoids cross-subsidization of competitors.

This funding formula operated reasonably well for a number of years, with no obvious disparities or inequities. A couple of relatively recent developments, however, have created inequities by in effect requiring cross-subsidization of certain Members. In particular:

1. Small Volume Members – over the last two or three years, there have been a fairly substantial number of Members join the Association. Many of these members generate a small volume of transactions annually, resulting in the payment of very low switch fees. The amount of these fees, in many cases, does not cover the cost of servicing the Member in the most basic way (e.g., provision of tokens to access the Extranet, preparing and sending correspondence, etc.). Consequently, they must be subsidized by other Members.
2. Director Connectors – prior to the IMN Re-Architecture Project, each Direct Connector had to procure the communications equipment and lines needed to connect to the other Direct Connectors. With the re-architected structure of the network, the Association is now responsible for this infrastructure. At present, however, there are a number of Direct Connectors who do not introduce a sufficient number of transactions into the system to cover the costs incurred by the Association in providing this equipment. Consequently, they too are being subsidized by other Members.

To remedy these situations, and to improve fairness in the funding framework for all Members, we are proposing to implement a minimum annual fee. This minimum fee, which would differ for Direct and Indirect Connectors, would act as a floor to switch fees and ensure that each

Member pays fees sufficient to cover the marginal cost of the Association resources needed to support its basic participation in the Association.

We are proposing to set the minimum fee for all Members at \$1,500 per year, based on a series of cost estimates prepared by the Association. We are further proposing that an additional fee of \$49,500 be set for Direct Connectors, reflecting the cost of the basic network equipment described above. Switch fees paid by Members would be applied against the minimum fee to reduce the minimum fee otherwise payable. For Connection Service Providers, credit would also be provided for transactions originating from their Indirect Connectors, where those transactions are over and above those needed to satisfy the Indirect Connectors' minimum fee obligations.

The following table shows the number of transactions in each Service that would be needed to cover the proposed minimum fees:

	<b>Approx. Transactions to Cover Indirect Connector Fee</b>	<b>Approx. Transactions to Cover Total Direct Connector Fee</b>
<b>Shared Cash Dispensing</b>	190,000	6,400,000
<b>INTERAC Direct Payment</b>	340,000	11,500,000

What this means is that, depending upon the breakdown of their transactions in each Service, Indirect Connectors whose total annual volumes are smaller than 340,000 transactions, and Direct Connectors with less than 11.5 million annual transactions, could be affected by the minimum fee.


As part of our work on this proposal, we have prepared a study which summarizes our analysis of the current cost recovery framework and outlines the minimum fee proposal in some detail. This report is attached for your information and review.

We have approached the Competition Bureau to seek their consent to amend the Consent Agreement (the new name of the Consent Order) to permit the implementation of the recommendations contained in the study.

If you have any concerns with respect to the study or any of the proposals made in the study, please feel free to contact me. If you would rather communicate with the Competition Bureau directly, please feel free to contact Richard Robicheau, Competition Law Officer, at (819) 994-7703. We ask that you express any comments or concerns that you might have in writing by Friday, December 19, 2003.

Confidential exhibit (see 0128f)

This is "Exhibit E" to the Affidavit of  
**KIRKLAND MORRIS** sworn before me  
the 5<sup>th</sup> day of May 2005.

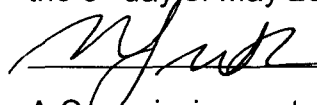


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A Commissioner etc.

**MARGARET CLAIRE FRITH, a  
Commissioner, etc., Province of Ontario,  
while a student-at-law.  
Expires April 10, 2006.**

This is "Exhibit F" to the Affidavit of  
**KIRKLAND MORRIS** sworn before me  
the 5<sup>th</sup> day of May 2005.

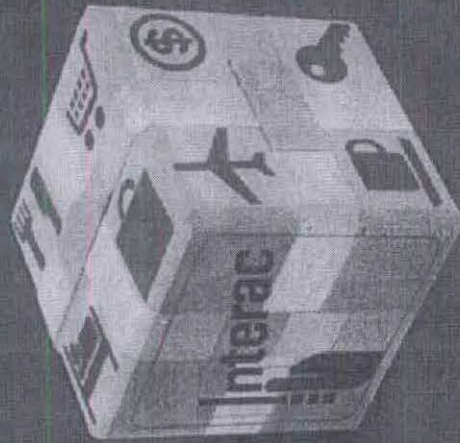
  
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A Commissioner etc.

**MARGARET CLAIRE FRITH, a  
Commissioner, etc., Province of Ontario,  
while a student-at-law.  
Expires April 10, 2006.**



# Membership Project Update



Member Information Session  
November 24, 2003



# Membership Project Overview

- Multi-phased initiative
  - To examine, and update as necessary, business processes, communications and cost recovery

- Three phases of work







## Membership Project Overview

- **Phase I completed on June 1st, 2003**
  - Updates to the new Member process
- **Phase II completed in Fall 2002**
  - Enhancements to framework for Direct and Indirect Connector Implementation
- **Phase III currently underway**
  - Examining funding framework to ensure it is current, fair and appropriate





## Phase III Objectives

- **Update Association's funding framework**
  - Improve fairness and reduce cross-subsidization
- **Introduce minimum annual fee**
  - Act as a floor to switch fees
  - Ensure each Member generates fees at least sufficient to cover incremental cost of its membership





## Minimum Fee Model

- Each Member should be required to cover the incremental costs it creates
  - The “user pay” principle
- Includes activities relating to
  - Accounting
  - Compliance and enforcement
  - Extranet
  - Statistics collection
  - Member communications and correspondence
  - Basic network equipment and related services (Direct Connectors only)





## Minimum Fee Model

- Determine number of hours of staff time consumed annually by a basic Member for each activity or service
- Determine direct expenses
- Apply the following formula:

*Cost of resources consumed =*  
[Annual staff hours x staff rate including overhead] + direct expenses





## Proposed Minimum Fee

- Proposed minimum fee for all Members is \$1,500
- Derivation of fee:

Accounting		3	\$137.50
Compliance & Enforcement		4.5	\$432.50
Statistics Collection		2	\$92
Communications/ Correspondence	\$48	1	\$142
Extranet	\$400	2	\$664





## Additional Fee for DCs

- Additional costs incurred in providing DCs with IMN equipment and support

Annual line charges	2 production circuits 1 test circuit	\$12,000 \$5,400
Annual bandwidth charges	Assume 75% of bandwidth per production circuit	\$2,040
Annual router charges	2 production routers 1 test router	\$11,472 \$2,700
Monthly support & maintenance	3 routers	\$15,840





## Application of Fee for Connection Service Providers (CSPs)

- Fees charged to CSPs would be adjusted to reflect transactions generated by their Indirect Connectors
  - Credit for switch fees exceeding each Indirect Connector's minimum fee





## Proposed Minimum Fee

- Propose phase-in over three years

	Indirect Connectors	Direct Connectors
Year 1	\$500	\$17,000
Year 2	\$1,000	\$34,000
Year 3	\$1,500	\$51,000







## Who is Impacted?

- Indirect Connectors with switch fee billings < \$1,500 impacted
  - 76 Indirect Connectors fell below threshold in fiscal 2002
- Direct Connectors with switch fee billings < \$51,000 impacted
  - 2 of 13 Direct Connectors impacted according to fiscal 2002 billings





## Process Overview

- **Consent Agreement amendment required**
  - Have approached Competition Bureau to seek their consent
- **Policy document provided to all Members for review**
  - Request for written comments on or before December 19, 2003

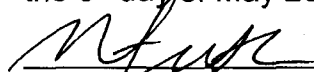


24

# Questions?



This is "Exhibit G" to the Affidavit of  
**KIRKLAND MORRIS** sworn before me  
the 5<sup>th</sup> day of May 2005.



---

A Commissioner etc.

**MARGARET CLAIRE FRITH, a  
Commissioner, etc., Province of Ontario,  
while a student-at-law.  
Expires April 10, 2008.**

**Interac Association  
Membership Project**



**IMN/IP Implementation for  
Direct and Indirect Connectors  
Recommendations for Change**

**FOR CONSULTATION WITH SDAG**

**MAY 2002**

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## Introduction

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Members of the Service Delivery Advisory Group (SDAG) were introduced to the Membership Project at their meeting on March 20, 2002. As members will recall, work on the Project has been divided into three phases, each aligning with a particular stage in the membership cycle. Specifically, the Project is intended to address:

- **new Member processes**, from the time an organization first seeks information about joining the Association to the time it is approved as a Member;
- **the process for IMN/IP implementation**, through which a new Member begins to perform a function(s), or an existing Member begins to perform a new function(s), in one or both of the Shared Services; and
- **on-going Member processes**, including regular Association programs and activities, as well as on-going changes initiated by Members themselves.

Because of the timing of the IMN Re-architecture Project, and migration to the new IMN/IP, tasks relating to network implementation are being addressed as the first priority. The processes for integrating Members into the network – hereafter referred to as Direct Connector Implementation (DCI) and Indirect Connector Implementation (ICI) – have created challenges in the past for the Association and for Members. The current phase of work is intended to enhance existing frameworks and processes to ensure a more efficient and effective implementation for both new and existing Members.

Within this phase of work, we are seeking to address two separate, though related, sets of issues:

- The first set includes issues related to **program management**, including: clearly defining the roles and responsibilities of the Association and Members; clearly articulating the pre-requisites that new or existing Members must satisfy before they can begin work on certification and node implementation; and enhancing general project management disciplines at various stages in the DCI and ICI processes.
- The second set focuses on **costs and funding** – in particular, the recovery from Members of relevant costs incurred by the Association in facilitating the processes of certification and node implementation.

The remainder of this document addresses these two sets of issues, and provides a number of recommendations for consideration.

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## Establishing New Member Expectations

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### Background

Interac Association does not provide detailed guidance to Members on the processes and commitments (e.g., time, financial and other resources) required to successfully complete the process of certification and node implementation. In the past, there have been situations where Members (particularly prospective Direct Connectors) may have set unrealistic work plans and schedules, and deployed insufficient resources to the implementation exercise. In some cases, this has led to deadlines and milestones not being met, with the resulting resource and planning implications for the Association and for other Members.

The process for integrating a new node into the IMN/IP network can only be expected to work smoothly if Association staff clearly communicates from the outset the nature and level of commitments that will need to be made by the Member. Clear and effective documentation is a key tool to facilitate this communication, and to foster Member understanding.

Because of the complexity of the work involved in network integration and the requirement for coordination across a large number of Members, time commitments cannot be established unilaterally, but require considerable planning and negotiation with other Direct Connectors and the Association. As part of the planning process, both the Association and the Member should include realistic contingencies to address unexpected situations as they arise.

---

### Recommendations

The Operating Regulations should be amended to:

- clarify the scope of GR 6, which addresses Member certification requirements, to recognize the end-to-end DCI and ICI processes and to address pre-requisites and requirements related to node implementation;
- require prospective Direct Connectors to provide the Association with detailed project plans and to document resource and other commitments as needed for a successful implementation, before receiving approval to proceed.

Association project management guidelines should reflect the requirement for comprehensive planning, and for resource and other commitments to be articulated by prospective Direct Connectors, before Association staff engage in detailed work as part of the integration process.

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**Recommendations**  
(continued)

Communications materials provided to prospective Direct Connectors should:

- be enhanced through the addition of a new “Guide to Becoming a Direct Connector,” which would clearly outline the requirements and resources needed for implementation and on-going operations, timelines for implementation, cost commitments, advisory group and other Association participation requirements. It would also provide a description of the Association’s role, the areas in which staff can provide assistance and those in which outside help may be required. This document should be provided to new or existing Members as soon as they indicate an interest in becoming a Direct Connector, to ensure that they have the information needed to make a sound business decision, and to undertake appropriate planning for the integration exercise.
- be reviewed in detail as part of the next phase of the Membership Project, to ensure that the range of materials provided to Members (e.g., application materials, Member Reference Handbook) include adequate and consistent information about the framework and requirements for IMN/IP integration and about the commitments required of Association Members.

Association staff should communicate to the IMN software vendors that they have an opportunity to play a key role in preparing and educating new Members for the implementation exercise.

---

## Defining the Role of Association Staff

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### Background

Experience with past node implementations has shown that Association staff has, at times, provided considerable guidance and support to Members during their work to develop and certify their systems and software. In its project management role, it is not appropriate for the Association to provide detailed support to individual Members. Rather, the staff role is one of:

- reviewing and approving materials at milestone stages;
- providing basic interpretations of the Operating Regulations, certification requirements and other policies;
- providing high-level project management and escalation as needed; and
- managing elements of inter-Member coordination throughout the process.

Where Members require support beyond these bounds, Association staff may also play a role in helping to identify an appropriate resource for the assistance they require.

These responsibilities should be clearly defined and articulated to Members.

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### Recommendations

Association project management guidelines should reflect the scope of the role of Association staff as described above.

Communications materials provided to Members should more clearly address the role of Association staff, including providing specific details about what assistance and support the Association can provide, and other areas where individual Members may require outside help.

Association staff should communicate with IMN software vendors and certification agents to clearly explain the role of Association staff throughout the process of certification and node implementation, and to establish consistent expectations among all stakeholders.

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## Certification Completion and Results

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### Background

Today, Association policy calls for functional certification to be completed prior to a prospective Direct Connector beginning activities associated with node implementation (this principle is outlined in the NIT Project Charter). However, this requirement has been difficult to consistently apply in practice.

There have been situations where Members have progressed with planning and activities related to node implementation without their systems being fully certified as meeting all necessary requirements. In some cases, subsequent systems difficulties have resulted in delays and rescheduling, impacting both the integrating Member's timelines as well as the day-to-day operations of the Association and other Direct Connectors who must accommodate such changes.

To permit activities to be carried out smoothly, Member certification must be successfully completed before a prospective Direct Connector is permitted to proceed with any node implementation activities. The Certification Guide used for this purpose is presently being updated to reflect changes in the IMN/IP environment and to address other outstanding issues with the test cases. Moving forward, Members should be expected to successfully execute all of the updated test scripts as part of the certification process, with any exceptions requiring strong justification by the Member and its certification agent.

Finally, the Association has, historically, not taken an active role in validating that certification agents for new Direct Connectors satisfy required minimum standards (for Indirect Connectors, the Regulations stipulate that functional certification must be completed by the Connection Service Provider and settlement and reconciliation testing by the Settlement Agent). Moving forward, additional checks and balances are needed in this area, with the Association playing a more formal role in approving the selection of certification agents and ensuring that they meet the minimum standards established in the Regulations.

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### Recommendations

The Operating Regulations should be amended to:

- specify that certification must be carried out in accordance with minimum standards set by the Association and articulated in the Certification Guide;
- explicitly require the completion of certification (including all aspects of functional, settlement/reconciliation and IMNCC testing) before a Member is permitted to begin activities related to node implementation;
- require that the Association formally approve the selection of a certification agent by a prospective Direct Connector;
- stipulate the basic proficiency requirements that must be satisfied for an organization to be approved as a certification agent.

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**Recommendations**  
(continued)

Association project management guidelines should include a standard process through which the Association will verify the requirements and approve the selection of certification agents.

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## Settlement and Reconciliation Testing

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### Background

Today, not all certification agents have, as part of their test environments, the capabilities to perform settlement and reconciliation testing during the functional certification they conduct with a prospective Direct Connector. In the past, the Association has not addressed settlement and reconciliation testing with sufficient rigour, resulting in experiences with systems difficulties being detected during node implementation activities.

Successful completion of all elements of settlement and reconciliation testing must be considered a mandatory element of certification for all prospective Direct Connectors, and must be carried out by a qualified agent (regardless of whether this agent is the same as, or different from, the primary certification agent). The enhanced checks and balances discussed in the previous section, including a requirement for Association approval, should also apply to settlement and reconciliation testing.

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### Recommendations

The Operating Regulations should be amended to:

- require that the Association formally approve a prospective Direct Connector's selection of an agent to perform settlement and reconciliation testing;
- permit any qualified and capable organization to perform settlement and reconciliation testing (similar to the requirements to perform functional certification), including IMN software vendors.

As part of the update to the Certification Guide, the Association should review existing requirements for settlement and reconciliation testing with a view to ensuring that uniform testing standards and processes are used by all organizations.

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## Inter-Member Testing

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### Background

One of the key steps involved in node implementation is the execution of inter-Member testing. Current Association documentation (e.g., the NIT Project Charter) establishes the objective that a prospective Direct Connector should conduct inter-Member testing with all other Direct Connectors in the network. In practice, freeze periods and other constraints make it difficult to implement this principle in all instances. While deviations have been made in the past, minimum testing requirements are not well defined at present.

It is important to continue to require a minimum level of inter-Member testing. Not only does this testing provide a second opportunity to identify systems difficulties (certification provides the first), but it also provides assurances to other Direct Connectors that the new node is capable of interfacing with their existing systems.

As a result, the Association should continue to recommend that all Direct Connectors carry out testing with the new node. In situations where this is not practical, flexibility should be provided for existing Direct Connectors to be excused from this testing. At a very minimum, however, prospective Direct Connectors should be required to complete testing with at least one partner from each IMN software platform.

On a related note, while the Association specifies the set of test scripts to be used in inter-Member testing, some Members ask that additional testing be carried out. Such requests are appropriately left to negotiation between the new and existing Direct Connector in question.

---

### Recommendations

The Operating Regulations should be amended to:

- specify that inter-Member testing must be carried out in accordance with minimum standards set by the Association, and using a set of mandated test scripts;
- recommend that each existing Direct Connector conduct testing with the new Direct Connector, but provide for any existing Direct Connector to be excused from such testing if they so choose;
- require the new Direct Connector to accommodate any such request made by an existing Direct Connector to conduct inter-Member testing using the mandated test scripts;
- establish a minimum requirement for a new Direct Connector to conduct inter-Member testing with at least one existing Direct Connector operating with each of the IMN software platforms, provided that at least one Direct Connector of each platform is technically capable of performing such testing;

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**Recommendations**  
(continued)

The Operating Regulations should be amended to:

- in the absence of volunteers, provide for the use of random selection among the pool of available candidates in assigning a designated testing partner for each software platform under the above policy, and stipulate that the designated partner must conduct testing with the new Direct Connector;
  - require successful completion of all inter-Member testing activities with the designated testing partners before requests for testing from other Direct Connectors may be accommodated;
  - in the absence of agreement among the new Direct Connector, the designated testing partners and the Association, provide for the use of random selection in determining the order in which the new Direct Connector tests with each designated testing partner (i.e., in assigning a lead Member for testing);
  - specify that any additional testing beyond the mandated test scripts shall be left to independent negotiation between the new and existing Direct Connectors.
-

## Concurrent Network Activity

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### Background

The decision for an organization to become a Direct Connector, or for an existing Direct Connector to add a new node, a new Service or make other significant systems changes, is a proprietary one for each individual Member. It is possible (particularly as the network expands) that a number of new and/or existing Members may decide to make changes that occur at the same time. The need to support significant amounts of concurrent activity may have implications for workloads and resourcing, both for the Association and for other Direct Connectors who must accommodate these events.

Similarly, there may be cases in which a number of new Indirect Connectors may wish to bring systems on-line behind the same Connection Service Provider, all at or around the same time, creating a rush of certification approvals for the Association and IIN change requests for other Members if some or all of the Indirect Connectors are Issuers.

With the possibility of such demands on the Association and Members, care must be taken when establishing timelines, work plans and commitments related to network activity. While it may not be possible (or make business sense) to articulate rigid scheduling rules, the Association needs some flexibility to limit the amount of concurrent activity to levels that can be reasonably accommodated. This can be done with more or less formality.

In this light, a suggestion has been made that the Association consider establishing formal "windows" for node implementations (e.g., one Spring and one Fall window). Under this approach, all new Direct Connectors (or existing Direct Connectors adding new nodes, etc.) would be required to undertake their node implementations during one of these pre-defined windows, and all existing Direct Connectors would be required to accommodate node implementations during these periods (e.g., no freezes). This approach could resolve some scheduling issues, and would allow concurrent implementations to be managed with some common processes and milestones.

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### Recommendations

The Operating Regulations should be amended to provide the Association with the flexibility to establish reasonable guidelines for concurrent network activity, including:

- concurrent Direct Connector node implementations; and
- concurrent Indirect Connector implementations behind the same Connection Service Provider.

Association project management guidelines should establish that staff will not address specific date/time commitments with new Direct Connectors until a detailed node implementation plan and schedule has been established and agreed by all Direct Connectors.

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**Recommendations**  
(continued)

The Association should explore with Members the feasibility and desirability of adopting a structured annual calendar for node implementations and related activities. If supported, this framework should be developed and implemented for all node implementations beginning in the 2003 Fiscal Year.

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## Recovery of Association Costs

### Background

In managing the processes for Direct and Indirect Connector implementations, the Association bears a number of costs. For Indirect Connectors, these relate primarily to the staff time needed to review and approve certification results and facilitate the IIN change process if needed. For Direct Connectors, the costs include substantially more staff involvement (e.g., in node implementation and related activities), as well as funds payable to CGI in their role as network supplier (i.e., for work to establish network connections and provide new Direct Connectors with some training and orientation on the network environment).

Based on past experience, and on the recommendations made elsewhere in this document, general estimates of the time required to manage the necessary activities at each step are outlined in the tables below (estimates are also being prepared for the CGI activities). While experience has shown that actual time requirements may be dependent upon the circumstances of a particular implementation, the estimates provided are intended to cover a typical case. They further assume that the new Direct or Indirect Connector in question is fully meeting its responsibilities at each step, and that Association staff time will not be committed to the project unless this is the case (e.g., project planning activities will not be undertaken until pre-requisites are met).

While these resource estimates continue to be refined, the following provides a high-level summary of estimates of Association staff time for the DCI and ICI processes based on work done to date:

**Table I: DCI Staff Time Estimates**

Activity	Estimate (hrs.)
Preliminary activities	56.5 – 59.0
New Member systems development and certification	26.0 – 30.5
Node implementation kick-off and planning	21.0 - 43.0
Preparation and execution of inter-Member testing	10.0 - 19.0
Key exchange (production keys)	7.0 – 9.0
Planning and execution of implementation/cut-over	7.0 - 11.0
Post-implementation monitoring	20.0
On-going project management activities	152.0 – 356.0
<b>Total</b>	<b>299.5–547.5 hrs.</b> ≅ 40-73 days

**Table II: ICI Staff Time Estimates**

Activity	Estimate (hrs.)
Preliminary activities	3.0
New Member systems development, certification and connection	7.5
<b>Total</b>	<b>10.5 hrs.</b> ≅ 1.5 days

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**Background**  
(continued)

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Recovery by the Association of the costs it incurs in facilitating Direct and Indirect Connector implementations could be done in a number of ways. Traditionally, the costs discussed above have been funded out of common resources. However, it may be inappropriate to ask all Members to pay for these activities, which reflect services provided to an individual competitor in the network. On this basis, the Association is recommending the adoption of a new cost recovery framework for the DCI and ICI processes.

For a new Member joining the Association, By-law No. 1 today provides the flexibility to recover "all out-of-pocket and identifiable administrative and certification costs incurred during the course of admitting a new Member into a Service." For an existing Member implementing a new node or making other major systems changes, an amendment will need to be sought to the Consent Order to provide the same flexibility and allow the policy to be implemented consistently for all Members.

The framework recommended below would allocate all such costs directly to the Member in question. Because accurate cost recovery is the ultimate goal, and because the cost of individual implementations may vary, the recommended approach is to bill Members based on actual time spent, rather than attempting to define a fixed price for these activities. Such a framework would require that internal processes be established to track and monitor time spent and to prepare and issue invoices for billing.

---

**Recommendations**

The Operating Regulations should be amended to:

- address explicitly, in a manner consistent with the provisions of the By-law, the recovery by the Association of the costs it incurs in carrying out its role and responsibilities during the DCI and ICI processes, including both staff costs and any funds payable to the network supplier (CGI) for work done for the benefit of new Direct Connectors;
- specify that these costs shall be calculated on the basis of actual time spent by Association staff, or actual amounts billed by the network supplier.

The Association should pursue the necessary housekeeping amendment to the Consent Order to allow this cost recovery policy to be implemented consistently for both new and existing Members.

Association project management guidelines should be designed to ensure that staff limit activity to the agreed scope of their role and that pre-requisites and other project management disciplines are enforced to prevent unnecessary work and billing to Members.

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## Applicability of Recommendations to New and Existing Members

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### Background

The recommendations and processes discussed in this document are clearly applicable to new Members, as they join the Association and become integrated into the network environment as a new Direct or Indirect Connector. The same principles should also apply to an existing Member when it undertakes similar changes – that is, when a Member:

- begins to perform a function in a Service in which it does not already participate, or a new function in a Service in which it already participates;
- changes its Settlement Agent, Connection Service Provider or Service Bureau; or
- makes significant changes to its systems environment.

The Operating Regulations today address the range of circumstances in which an existing Member must re-certify its system. These existing rules should be reviewed to ensure that they are clear, and processes should be established to ensure that they are applied consistently in practice.

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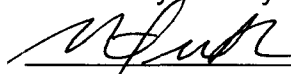
### Recommendations

The Operating Regulations should be reviewed and amended as needed to specify the general conditions (as outlined above) under which Members must re-certify their systems and/or software (and, if relevant, complete inter-Member testing).

The Association should, in consultation with Members, develop clear guidelines addressing conditions for re-certification and inter-Member testing by existing Members (e.g., to provide guidance as to what constitutes a significant systems change).

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This is "Exhibit H" to the Affidavit of  
**KIRKLAND MORRIS** sworn before me  
the 5<sup>th</sup> day of May 2005.



---

A Commissioner etc.

**MARGARET CLAIRE FRITH, a  
Commissioner, etc., Province of Ontario,  
while a student-at-law.  
Expires April 10, 2006.**

## **Interac Association**

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To: All Interac Association Members

Dear Member;

**Re: Changes to Interac Association Operating Regulations with respect to  
Direct and Indirect Connector Implementation  
and Release of Revised Certification Guide**

I am writing to inform you about important changes to the Interac Association Operating Regulations. These changes address the requirements and responsibilities of Direct and Indirect Connectors as they relate to certification and systems implementation. They also seek to clarify the circumstances under which Members are required to re-certify their systems and/or software when significant changes are made.

Following the recent launch of the new IMN/IP network, the Association is updating a number of its traditional network processes. As part of these changes, we have more clearly defined the process through which Members certify and bring their systems on-line in the Shared Services, and their requirements and responsibilities with respect to these activities. The changes, which are contained in Chapter 6 of the General Regulations, address the required steps in the implementation process, including:

- up-front planning and pre-requisites;
- Member certification and re-certification;
- the process and requirements for inter-Member testing and related activities (for Direct Connectors); and
- preparing for and connecting to the Shared Services.

The new Regulations more clearly articulate the process for these activities, and specify the series of approvals that Direct and Indirect Connectors must receive from the Association before connecting to the Services. The changes seek to accomplish a number of objectives, which are discussed more fully below.

### *Improving Planning, Pre-requisites and Process*

Enhancements in the area of planning and pre-requisites place greater emphasis on the preparation needed for certification and systems implementation, and the pre-requisites that will be enforced by the Association before and during the implementation process. The new Chapter 6 more clearly defines the Association's and Members' responsibilities, so as to ensure that processes work smoothly and that activities involving other Members result in minimal disruption to all involved. In addition to addressing certification and connection for new Members in the Association, the new Chapter 6 also clarifies the circumstances under which existing Members must re-certify their systems and/or software following significant changes. In these cases, the Association will enforce the same planning and pre-requisites that will apply to new Members.

### *Updating the Certification Guide*

In conjunction with improvements to the certification process, the Association has published a revised *Certification Guide*. Specifying the range of tests that must be performed as part of certification or re-certification, the *Certification Guide* has been updated to reflect the new network environment, and to more clearly articulate the tests themselves. The new *Certification Guide* is available to all Members on the INTERAC Insider Extranet.

### *Recovering Association Costs*

Accompanying the implementation of the above enhancements, the Association will also be making important changes to the framework for cost recovery in respect of these activities. In managing the process for new Members to certify and implement their systems in the Shared Services, the Association bears a number of costs. For Indirect Connectors, these arise from the staff time needed to review and approve certification results and to facilitate transaction routing changes if needed. For Direct Connectors, there is substantially more involvement in project planning and management, co-ordination of inter-Member activities, and the installation of network hardware to connect the new node. Moving forward, the Association will be allocating these costs directly to the Member for whom they are incurred. Each new Member will be provided with estimates of the relevant costs during the initial planning of their certification and implementation activities. As a reminder, Interac Association By-law No. 1 also permits other Direct Connectors to recover certain administrative and certification costs from the new Member.

These same cost recovery practices will also be applied to existing Members who undertake significant systems changes prompting re-certification, once work with the federal government has been completed to amend the Consent Order to allow for this.

### *Enhancing Communications*

Finally, the above changes will be supplemented by enhanced communications to Members before and during the certification and connection process. The Association has prepared a new *Guide to Becoming a Direct Connector* to complement existing materials. Containing important information about the process, resources and commitments required, this Guide will be available to new and existing Members considering the decision to become a Direct Connector in the INTERAC Shared Services.

In closing, the new Chapter 6 of the General Regulations is being published presently to the INTERAC Insider Extranet, and will take effect on September 9, 2002. Please take the time to review these Regulations. Should you have any questions about these changes, please contact Kirkland Morris, Senior Manager, Policy & Regulation Development, at (416) 869-5061 or [kmorris@interac.org](mailto:kmorris@interac.org).

Yours truly,

\* ORIGINAL SIGNED BY \*

Fred J. Harris  
on behalf of Judith Wolfson