

Direct Debit in Canada

A guide to PADs

GO CARDLESS

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Chapter 1

Introducing Pre-Authorized Debits

Pre-Authorized Debit (PAD) is the scheme used for collecting Direct Debit payments from customers in Canada. It is administered by Payments Canada.

In 2016, Canada's electronic funds transfer (EFT) payments reached an important milestone. They became the largest payment method in terms of transaction value, making up 45.4% of all payments in the country [according to research from Payments Canada](#). EFT is an umbrella term encompassing electronic bill payments, direct deposits and Pre-Authorized Debits. We'll focus on the latter in this guide.

In this guide, we aim to provide Canadian organisations with a clear walkthrough of the basic rules of Direct Debit, better known in Canada as the Pre-Authorized Debit (PAD) scheme. We'll explain the key features of the PAD scheme, followed by detailed explanations of how to access it and how to choose the most suitable provider for your payment needs.

What is a Pre-Authorized Debit?

In Canada, Pre-Authorized Debit (PAD) is the scheme used for collecting Direct Debit payments from customers. [Payments Canada](#) is the body in charge of administering the scheme. Just like Direct Debit in other countries, PAD is a bank-to-bank system, meaning that all communications take place directly between the banks. This happens by means of the Automated Clearing Settlement System (ACSS), rather than via the credit and debit card networks.

PAD vs AFT Debit

You may also have heard the term AFT Debit being used in the Canadian context, as well as PAD. AFT stands for Automated Funds Transfer. It encompasses a broader range of automated payment types than just PADs, including both Pre-Authorized Debit and Credit transactions. What all these transactions have in common is that they are all submitted to the ACSS via the banks.

In a more general sense, AFTs also include transactions where financial institutions move money electronically between payers and payees. The term AFT comes from the AFT messaging standards used to process transactions in the ACSS system.

Another term you may sometimes read about is the afore-mentioned EFT (Electronic Funds Transfer). This refers to many different types of electronic transfers between bank accounts, but is sometimes used to refer specifically to Pre-Authorized Debit.

Pre-Authorized Debit vs ACH Debit

If you do business across both the US and Canada, you might already know about the US Direct Debit scheme, called ACH (Automated Clearing House) Debit. This is a method for receiving US dollar-denominated payments. The ACH system also works in Canada, allowing you to receive payments in US dollars from clients based in the US.

Your business would need a separate agreement with your bank in order to make this possible. If you choose to take this route, don't forget that PAD and ACH Debit are two completely different schemes, with their own rules and submission requirements. Make sure you research each one in depth, especially for key points such as different pre-notification timings.

Chapter 1

What is BECS Direct Debit?

Pre-Authorized Debit Use Cases

1. **Business PADs.** - Drawn on the account of a business customer for payment of goods or services related to a business or commercial activity of the customer. This might include payments to suppliers or distributors.
2. **Cash Management PADs.** - Drawn on a business account for the purpose of transferring, consolidating or repositioning funds between the account of one entity to another entity (where the accounts are held at different banks). This might be for the same business or closely affiliated businesses. For example, this could be a transfer between a parent company and its subsidiary.
3. **Funds Transfer PADs.** - Here, an individual draws on their account in order to transfer funds from one account to another, where both accounts are held by the same person but at different banks. This could include transfers to registered savings plans, investment accounts, segregated funds, or other types of personal accounts.
4. **Personal PADs** - Finally, personal PADs are drawn on an individual's account, for payments such as utility bills, membership fees, donations, credit card billings, or mortgage payments. Personal PADs are used when the payment does not fit into any of the other types of PAD.

Use cases for Pre-Authorized Debits

There are a wide variety of situations where Pre-Authorized Debit payments are commonly used to take payment from customers. If you're a business or organisation that receives recurring payments from your customers, then using Pre-Authorized Debit can make your life much easier. Common examples of use cases include; utility bill payments, sports clubs and gyms taking subscription fees from their members, accountants or other service firms collecting a monthly retainer fee from their clients, or SaaS (software as a service) companies billing their users monthly for ongoing access to the software.

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Accessing Pre-Authorized Debits

How to access Pre-Authorized Debits

Now that you're familiar with what PADs are, how they compare to similar schemes, and their different types, we'll discuss how to access PADs and get started using them to take payments from your Canadian customers.

To use the Pre-Authorized Debit scheme for taking payments, you can choose between two options:

1. **Direct access** - via your bank.
2. **Indirect access** - via a payment processor like GoCardless.

Here, we'll discuss each option in more depth and provide some pointers on how you can choose the right one for your business, based on its size and requirements.

1. Direct Access

If your business is large, you may prefer to manage Pre-Authorized Debit collections in-house. To do so, you'll need to arrange the process via your business bank. The bank is known as a 'Member', which submits directly into the ACSS network.

Once you've spoken to your bank and been approved, the next step is to sign a written agreement, called a 'Payee Letter of Undertaking', between your business and the bank. This outlines your responsibilities under the scheme, along with your agreement to comply with the Pre-Authorized Debit rules.

After signing the agreement, you will need to decide how to conduct your collections. You can either use a direct integration with your bank, or use accounting software that has already been integrated with the bank. Alternatively, you could avoid the complexities of managing the payment process with the bank, by deciding to access PADs through a third-party payment processor - we call this 'indirect access'. We explore these in more detail below.

Direct integration with the bank

If you choose this option, your bank will normally provide you with its implementation guides. You'll also need a strong technical team to get the integration up and running, including setting up the logic for collecting and storing payment information.

Some banks allow you to avoid the technical implementation by using an online portal to input payment requests, although this may produce a payment collection process that's overly manual and requires additional time and resources.

2. Indirect access via a payment processor

Another way to avoid dealing with the complicated PAD submission process is to let a payment provider handle it on your behalf. If you choose this route you won't need a Letter of Undertaking from your bank, as you can just use the payment provider's own agreement.

Payment providers offer varying levels of service and ease of use, so it's a good idea to do your homework before selecting one. What's more, many providers don't publish their pricing. They often charge initial setup fees, either for the service itself, or per customer, in addition to fees for transactions and failed payments.

Indirect access through GoCardless

GoCardless is an online payment provider specializing in PADs that manages the entire collection process on your behalf. With GoCardless, your business can manage all payments either using an online dashboard, via a pre-built partner integration such as Quickbooks, Sage and Xero, or by creating your own integration using the GoCardless API. You don't need an agreement with your bank, or any expensive software to submit PAD payments with GoCardless.

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Another benefit of using GoCardless is that your customers can set up Pre-Authorized Debit payments to you online, instead of filling in paper authorization forms. Once the authorization is in place, you can start automatically collecting PADs from your customers, either on a one off or recurring basis. In addition, GoCardless offers simple and transparent pricing. For more information on collecting Pre-Authorized Debit payments with GoCardless, sign up today for free.

Using Originator Numbers

Another important part of collecting payment by Pre-Authorized Debit is knowing how to use originator identification numbers. Here, we delve into this topic in further detail.

What are originator identification numbers?

They act as unique identifiers for organisations collecting Pre-Authorized Debit payments. They will be included on the payment requests you submit to your bank, and stored to create records of the transactions. Your customer will see a reference of your originator identifier on their bank statement when you collect a payment from them.

How do I get an originator identification number for my organisation?

All Canadian banks that are part of ACSS can issue originator identification numbers. Every bank has its own process for accessing Pre-Authorized Debit, but all will require your organisation to meet the following points (although banks make sponsorship decisions at their own discretion and can also impose additional requirements):

- Having sufficient management expertise to enforce system rules, minimise submission errors, and maintain system reputation.
- Having sufficient contractual capacity to indemnify the sponsor bank against any reimbursements made. The sponsor bank is required to obtain a 'Payee Letter of Undertaking', which must include mandatory provisions set out by the ACSS rules.

Using GoCardless' originator identification number

If you decide to use GoCardless to take customer payments, you can benefit from the extra convenience of using an originator identification number that's owned by GoCardless.

In this case, you won't need to go through a bank to access the Pre-Authorized Debit system, as GoCardless satisfies all scheme requirements as part of its service. As all payments are collected under a single banking agreement, GoCardless is able to attract scale benefits, which it then passes on to its customers.

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Pre-Authorized Debit agreements

Before you can start taking any payments from a customer, you'll need to get a Pre-Authorized Debit agreement. This is an authorisation from your customer to collect future payments from their bank account. There are two types of Pre-Authorized Debit Agreements: one for recurring payments taken at set intervals (such as weekly or monthly) and another for sporadic payments.

Set-interval Pre-Authorized Debit Agreements

Each agreement will include the following points:

- Future payments are authorized, so you can collect set or variable amounts from your customer according to the timing specified in the agreement.
- 'Set-interval' means occurring at set or predictable times, or upon the occurrence of certain events set out in the agreement (for example, triggered by the customer's use of the service). Set-interval doesn't necessarily mean that payment must be taken on the same day every month. A payment could be triggered by the customer's use of a utility, with payment date depending on the billing period.

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- You must notify your customer about payments of varying amounts or timings before they are collected.
- All payments are covered by the Payments Canada rules, which protect customers from payments taken in error. Agreements can be written in English and/or French.

Sporadic Pre-Authorized Agreements

- For sporadic payments (i.e. not collected on weekly, monthly, bi-monthly basis), the agreement must include provision for sporadic payments, in addition to the details for set-interval payments.
- You will need authorisation from the customer before every Pre-Authorized Debit payment. In the initial agreement, the customer must be informed that the organisation taking payment is required to obtain this authorisation under the Pre-Authorized Debit rules.

If your organisation uses a payment processor to collect Pre-Authorized Debit payments, then this should be stated on the agreement along with the provider's name.

The Pre-Authorized Debit rules and the rules of Payments Canada help protect the customer from payments taken in error or fraudulently. All payments must be taken in accordance with the customer's PAD agreement.

Setting up a Pre-Authorized Debit agreement

Your customer must complete a Pre-Authorized Debit agreement form, either via a paper form, or electronically. If using the latter, customer details can be collected online, by email, or by phone. Phone agreements will require use of a bank approved script, with verbal rather than signed authorization

Mandatory Agreement Contents

Pre-Authorized Debit agreement forms are flexible in their layout and content, but the following details are mandatory:

- Date of agreement
- Customer signature
- Authorisation to debit a specific bank account
- PAD category (personal, business, funds transfer)
- Amount and timing of payment
- Information on how cancel the agreement
- Contact information for the merchant (your organisation)
- Recourse statement (informs the customer of their rights if a debit payment is not compliant, and directs them to further information through their bank or at payments.ca)

Managing your agreements

Once you've drafted the agreement, your sponsoring bank must approve its format, to ensure it complies with ACSS rules. Your bank must also approve your procedures for verifying a customer's identity when entering an electronic agreement.

Once a customer has completed an agreement form and returned it to you, you'll need to check the details then retain the form as proof that your customer has authorized a Pre-Authorized Debit. You must retain your customer's Pre-Authorized Debit agreement for a minimum of 12 months following the last Pre-Authorized Debit payment processed.

Updating customer bank details

If a customer wants to update their bank details, we recommend that you ask them to complete a new agreement. This is a precaution to help you avoid potential difficulties if the customer later disputes a payment and you only have the agreement with their old banking information.

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Pre-Authorized Debit payments

Notifying your customer of payments

You must give the customer "Pre-Notification" before collecting a Pre-Authorized Debit payment. The PAD rules require you to inform your customers of each payment before it leaves their account.

Pre-Authorized Debits at set intervals

For paper PAD agreements:

- If payments are for a fixed amount, then you must give written notification of the amount to be debited and the date(s) of payment, at least 10 calendar days before the due date of the first Pre-Authorized Debit payment. The confirmation period can be reduced or waived, but this must be agreed with the customer first.
- If the payments are for variable amounts, then you must give customer written notification at least 10 calendar days before the due date of each and every Pre-Authorized Debit payment. This confirmation period can be reduced or waived, as above.
- Before changing agreed amounts or payment dates, you must give written notice of any change at least 10 calendar days before taking the next payment.

For fixed amounts taken at set intervals, such as subscriptions, you only need to send notification prior to the first PAD payment. Despite this, it's a good idea to remind customers when payments will be taken from their account.

For electronic agreements:

- If payments are a fixed amount, you must give written confirmation of the agreement at least 15 calendar days before the due date of the first Pre-Authorized Debit payment. This confirmation period can be reduced to a minimum of 3 calendar days, if the payee verifies the identity of the Payor. Verification must use information known only to the Payor and the Payee.
- If payments are a variable amount, customers must receive written confirmation of the agreement at least 15 calendar days before the first PAD payment is due. You must also give customers written notification at least 10 days before the due date of each subsequent payment.
- Before changing the agreed amount or payment dates, you must give the customer written notice at least 10 calendar days before taking the next payment.

Exceptions

The pre-notification period for changes to variable amount debits is 10 calendar days by default (for both paper and electronic agreements), except in the following cases:

- the customer and merchant mutually agree to specifically reduce or waive this period
- the customer directly instructs you to change the amount.

If you include a clause to reduce or waive the confirmation period or the standard 10 day pre-notification period in the Pre-Authorized Debit agreement, it must be prominent to ensure the customer is aware of it. Authorization to reduce or waive the standard periods may also be obtained by a separate waiver.

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Submitting payment requests to the banks

After your customer has signed the PAD agreement, you can collect payment by notifying the customer and submitting a payment request to ACSS via your bank. Your bank will credit your account on the day payment is due, while your customer's bank debits theirs at the same time. The two banks will then settle up between themselves.

Post-submission

For successful payments, your bank will credit your account. But if a payment fails, then you'll receive a message from ACSS with details of the failure.

Payment failure notifications

If a payment fails due to non-sufficient funds, the bank will notify you by sending a file. Once you receive the file, you'll then need to reconcile it against the payments requests you've already submitted. You can retry failed payments only once within the 30 days following the return of the original payment. The second payment can only be retried for the same amount as the original payment.

Collecting payment when no agreement exists

You must always set up a Pre-Authorized Debit agreement with your customer before collecting any payments. In addition, you must wait 10 calendar days for a paper agreement and 15 calendar days for an electronic agreement before submitting the first payment request. These waiting times can be reduced in certain circumstances.

Submitting Pre-Authorized Debit payments

If you choose direct access to Pre-Authorized Debit through a bank, you will need to learn about how to submit PAD payments that you collect for processing.

Accessing Pre-Authorized through a payment provider normally means they will take on the submission process for you.

The submission process

You can submit payment requests to your bank by creating and uploading an Automated Funds Transfer (AFT) file, using the following process:

- Create an AFT file with the required structure (details provided in next section)
- Upload file to your bank according to their procedures
- Wait for bank's initial check to ensure required information is included before sending file to ACSS
- Bank processes AFT file contents
- Your bank will generally provide you with the required format to create the file. It's still useful to understand its structure, so we'll explain this in more detail here.

Using the AFT file to submit payments

The AFT file contains payment instructions, in a format specified by your sponsor bank. We've outlined the main points below for Pre-Authorized Debit payments. Your bank may also have proprietary standards for file submissions, so we recommend you check these with them before submitting any files.

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Each file will include at least 3 records:

- Header record. Contains identifying information of the originator and date of file
- Payment record. Lists pre-authorized debit payment item data
- Trailer record. Provides totals for the preceding records in the file

Each payment item has a transaction code. Located on the customer statement line, these codes help identify what the payment is for. Transaction codes have no formal requirements, with most Pre-Authorized Debit payments using the 'Miscellaneous' code.

Here are some of the most commonly used transaction codes:

Code	Name	Description
700	Business PAD	For B2B payments (i.e. to suppliers)
701-749	Commercial bill payment	For the payment of bills by businesses (e.g. utilities or taxes)
430-450	Bill payments	For bill payments by individuals (e.g. utilities or taxes)
470	Fees/Dues	For payments from individuals to associations or other organisations (e.g. sports clubs)
480	Donations	For payments from individuals to charities or non-profit associations

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Bank messages

Bank files sent through ACSS will contain notifications about circumstances such as payment failures. For example, you could receive a notification when a Pre-Authorized Debit is dishonoured, or to let you know about a Notice of Change (NOC). The latter provides updated information on a customer's account details, so the originator can adjust records for future payments.

Your bank will forward any messages to you each working day. For returned or dishonoured items, you'll be able to identify the reason by looking at the transaction code. Here are some of the most commonly used transaction codes for returned or dishonoured payments, and for customer initiated returns:

Transaction Codes for returned or dishonoured payments

Code	Description
901	Non-sufficient funds
903	Payment stopped/recalled
905	Account Closed
907	No Debit Allowed
908	Funds not cleared
910	Payer deceased
911	Account Frozen
912	Invalid/Incorrect Account No.
914	Incorrect Payer name

Transaction Codes for Customer Initiated Returns

Code	Description
915	No Agreement Existed
916	Not According to Agreement - personal
917	Agreement Revoked - personal
918	No Confirmation/Pre-notification - personal
919	Not According to Agreement - business
920	Agreement revoked - business
921	No Confirmation/Pre-notification - business

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Customer recourse and refunds

Under ACSS rules, customers can request a refund for Pre-Authorized Debit payments in certain circumstances. It's important to understand this process, although in reality only a very low percentage of payments receive refund requests.

Each Pre-Authorized Debit agreement must include a recourse statement. This tells the customer about their recourse rights if a payment is not compliant.

A customer can claim reimbursement under the following circumstances:

1. Payment was not taken in accordance with the agreement
2. The customer revoked the Pre-Authorized Debit agreement
3. The customer did not receive appropriate confirmation or notification before payment was taken
4. The reimbursement rules differ depending on whether the claim is coming from a business customers or an individual. If the former, they must claim within 10 business days. If the latter, they must claim within 90 calendar days of the date the payment left their account.

In addition, the customer's bank may require them to submit a reimbursement claim. Under ACSS rules, the customer's bank must reimburse the customer for the amount of the claim and return the Pre-Authorized Debit. If your organisation disputes the claim, both you and the customer will need to address the issue outside of ACSS rules.

For Cash Management PADs and Funds Transfer PADs, banks aren't required to provide recourse, except where a PAD agreement doesn't exist. Despite this, the customer's bank may choose to provide recourse anyway.

Pre-Authorized Debit timings

Please note timings below are industry standard for Canadian Pre-Authorized Debits. To view PAD payment timings with GoCardless please visit our [support centre](#).

It's also important to note that Pre-Authorized Debit is not an instant payment method. Payments will always take at least one working day from the collection date to arrive in your bank account

Advance Notice

You must notify your customer before submitting a Pre-Authorized Debit payment. By default, the notice period is 10 calendar days, which can be reduced if agreed with your customer.

Exceptions can be made for fixed payment schedules where a customer has already been notified. For example, you've previously told them that \$100 would be collected on the 1st of every month). Changing this amount or date requires 10 days' advance notice, unless the customer has directly asked for the change.

For electronic agreements, you must give confirmation at least 15 calendar days before taking the first payment. This can be reduced to a minimum of 3 calendar days, provided you've got appropriate identity verification procedures in place, and have informed the customer.

ACSS payment submission deadlines

Submission deadlines will differ according to your sponsor bank. In general, you'll need to submit your files the day before or the morning when the payment is due. Your bank may only submit payment requests on the payment due date (or the next business day if the due date falls on a weekend or holiday).

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Successful payments will show on your bank statement within 1 day of the collection date. It's important to remember that there are no notifications for unsuccessful payments, only for returned ones.

What's more, return notifications may not be received until day 1 or 2 after the attempted collection date. Due to these rules, it can take up to 3 days for you to confirm that a Pre-Authorized Debit payment has been successfully processed.

Here's a handy timeline of the Pre-Authorized Debit collection process:

- 10 calendar days before collection - This is the last day you can send a notification of payment to your customer. (Timing can be reduced in agreement with customer) the advanced notification period for Pre-Authorized Debit through GoCardless is only 3 calendar days as standard.
- 1 business day before collection/Day of collection (morning) - This is the day you can send a payment instruction to your bank
Day of collection - Day on which the payer's bank attempts to debit the customer's account.
1-3 business days after collection - You will be notified via ACSS if the transaction has failed
30 days after collection - This is the last day you can retry a payment if it failed due to non-sufficient funds. A payment can only be retried once.

Non-working days

No submissions can be made on non-working days, as the banks won't process any Pre-Authorized Debit payments on these days.

Payment timings using GoCardless

Using GoCardless to manage your Pre-Authorized Debits takes away the complexity of the processes we've explained in the sections above. We process Canadian payments according to Eastern Standard Time (EST) on Canadian business days only (any day other than a Saturday, Sunday or federal statutory holiday). With GoCardless, there's a three-day confirmation period after the customer completes the electronic mandate, after which the payment can be submitted. The payment will be credited to your account on the same evening of the day it is submitted. [Learn more here.](#)

Transferring Pre-Authorized Debit agreements to GoCardless

There's a simple way to transfer your existing Pre-Authorized Debits to GoCardless, if you'd like to use our service to manage customer payments. You'll need to use the agreement amendment process, which we can help you with free of charge. In this final section, we briefly explain what's involved in making the switch.

How to transfer to GoCardless

Under the Pre-Authorized Debit scheme, it's possible to transfer agreements to another provider. To do so, you must notify your customers with full details of the transfer, at least 10 days before the first Pre-Authorized Debit payment is issued under the new agreement. There's no need for customers to provide consent, or set up a new Pre-Authorized Debit agreement. Authorisation under the existing agreement is enough.