

Global Partner Management Notice

Subject: Appropriate Use of VisaNet Transaction Processing Can Maintain Payment System Integrity

Dated: April 8, 2009

Visa has announced several operating regulation modifications regarding the use of the Visa authorization system as well as new processing integrity fees associated with the new rules and guidelines.

Overview

While most authorization and clearing transactions are processed correctly, those that are not can impact a cardholder's open to buy, cause confusion at the point of sale, and impair the effectiveness of automated risk and processing intelligence systems. Visa has revised the *Visa U.S.A. Inc. Operating Regulations* to correct processing behavior. These rule changes, in addition to previously introduced processing integrity fees, will help maintain payment system quality and integrity and reduce potential negative impacts. Fee assessment will be based on effectively matching authorizations to clearing items. The specific matching criteria, as well as processing best practices, are described within this alert.

Operating Regulations Revisions Effective July 1, 2009

Visa recently approved the following Visa U.S.A. Inc. Operating Regulations revisions, effective July 1, 2009.

Approved authorizations must be cleared (or reversed)—All approved and partially approved Visa authorization transactions must be either cleared or reversed (e.g., reversed in the case of a cardholder cancelled sale or an authorization request submitted by the merchant in error).

- Acquirers must ensure that their merchants process authorization reversals for authorizations submitted in error and/or cardholder cancelled card-present transactions within 24 hours. Card-absent merchants are allowed up to 72 hours to process the required partial or full authorization reversals.

Status Checks are limited to select merchants only—Visa will limit use of the \$1.00 Status Check to Automated Fuel Dispensers and approved Prestigious Property lodging merchants. Deferred Payment merchants previously using Status Checks must instead use the Account Number Verification Service.

Issuers must process matched authorization reversals—Issuers must immediately process matched reversal transactions, subject to the issuer's risk or fraud control policies, and release any applicable holds on cardholder available funds.

- A matched reversal is one where the key tracing elements match a previous authorization. This includes, but is not limited to, the following authorization fields: Card Number (Field 2), Authorization Response Identification (Field 38), Retrieval Reference Number (Field 37), and Transaction Identifier (Field 62.2).
- The Reversal Matching Service provides the status of a reversal (matched or unmatched) on all V.I.P.-processed reversal requests. Reversal matching is an optional service provided to issuers that identifies each reversal as being matched or unmatched to a previously processed authorization request.

Issuers must respond to all account number verification requests— a verification request is used by acquirers and merchants to validate card information prior to establishing a deferred payment relationship or performing authorization. The verification message allows the merchant to validate the consumer payment information without requesting authorization, thereby mitigating a "hold on funds" issue that could be present with a traditional authorization.

- An issuer must respond to a verification request with an Approval (00), No Reason to Decline (85) or an appropriate Decline response code.
- An Approval or No Reason to Decline response code indicates to the acquirer that the issuer has validated that the account number has been issued, the account is in good standing, and the requested elements of the transaction (e.g., the address) are valid.
- A decline response indicates that the account number or any of the elements requested are not valid or that the account is not in good standing.

New chargeback rights will be extended under Reason Code 72 (No Authorization)—this chargeback will be valid for any transaction in which an authorization reversal was received but the transaction was subsequently cleared and settled. This change enables issuers to charge back a transaction if a merchant submits an authorization reversal and subsequently deposits the transaction (i.e., issuers are not liable for acquirer-reversed authorization amounts).

Time frame modifications for transaction receipts— the time limits for merchant and acquirer processing of transaction receipts are being reduced from 30 days to 20 days for travel and entertainment (T&E) and those merchants with multiple merchant outlets, and from 12 days to 10 days for all other merchant types. In addition, the credit transaction receipt processing time limits are being reduced to 10 calendar days for T&E and multiple merchant outlet merchants and to 5 days for all other merchants. These time frames, which are calculated from the transaction date, have been modified to reflect current practices.

Recap of Processing Integrity Fees

Fees to incent proper processing behavior were previously announced in the December 16, 2008, *Visa Business Review*, Issue No. 081216. (reference Compliance Alert 0812540) These fees, **effective July 1, 2009**, unless otherwise noted, include the following:

- An Account Number Verification Fee of \$0.025, **effective February 1, 2009**.
- A Misuse of the Authorization System Fee (authorization without clearing) of \$0.045 will be assessed to approved and partially-approved authorization transactions that cannot be matched to a clearing transaction or authorization reversal.

This fee will appear on the Visa Global Member Billing Solutions statement on new billing line 1F4030001 "MISUSE OF AUTHORIZATION SYSTEM (AUTHORIZATION WITH NO MATCHING CLEARING)" and will be assessed to the acquirer identified by the BIN in Field 32 (Acquiring Institution Identification Code) of the authorization transaction.

- A Zero Floor Limit Fee (clearing without authorization) of \$0.10 will be assessed on clearing transactions that cannot be matched to previously approved or partially-approved authorization transactions. (**Note:** Transactions conducted at limited amount terminals without authorization, while allowed, will be subject to the Zero Floor Limit Fee.)

This fee will appear on the Visa Global Member Billing Solutions statement on new billing line 1F4030010 "ZERO FLOOR LIMIT (CLEARING WITH NO MATCHING AUTHORIZATION)" and will be assessed to the acquirer identified by the BIN in positions 28-33 of the TCR 0 in the clearing record. Positions 28-33 are contained in the 23-digit acquire reference number (ARN).

Maintaining Authorization and Clearing Integrity

Authorization is Required

The April 2007 adoption of zero floor limits for all U.S.-acquired transactions created the requirement that all Visa transactions be properly authorized.

- All U.S.-acquired clearing transactions (TC05 or 0220) must be preceded by a corresponding approved authorization (or partial authorization), with the exception of transactions conducted at limited-amount terminals.

Approved Authorizations must be Cleared (or Reversed)

Effective July 1, 2009, new Operating Regulations will require all Visa authorizations to be cleared or reversed.

- All U.S.-acquired approved authorizations (0100) must be followed by a corresponding clearing item or authorization reversal (0400/0420).

Matching of Authorizations and Clearings

Visa will validate that a clearing transaction was correctly authorized, and that an approved authorization was properly cleared, based on the matching of Transaction Identifiers. Visa assigns a Transaction Identifier to all authorized transactions processed through the V.I.P. System. The Transaction Identifier assigned at authorization must be submitted in all subsequent clearing transactions, regardless of Custom Payment Service (CPS) qualifications, in order to avoid the Zero Floor Limit and Misuse of Authorization System fees.

- The authorization Transaction Identifier—Field 62.2 in V.I.P.—will be matched to the corresponding fields in subsequent authorization reversal or clearing transactions. In order to be correctly matched, authorization reversals must contain the same Transaction Identifier value in Field 62.2, and clearing transactions must contain the Transaction Identifier in BASE II TCR 5, positions 5-19.
- A single authorization transaction cannot be matched by the Transaction Identifier to multiple clearing items unless the transaction is properly identified with a Multiple Clearing Sequence Number and is submitted by a merchant that is approved by Visa to use this capability.
- To be properly matched, authorization reversals for cancelled transactions (and other authorization errors) should be processed immediately, and must be processed no later than 24 hours following the original authorization, or 72 hours for card-absent authorizations. A matching reversal contains key data elements from the original authorization, which includes Fields 2, 38, 37, and 62.2.
- For successful matching, and to avoid the Misuse of the Authorization System Fee, clearing must occur within 10 days of authorization for all merchant categories, with the exception of T&E segments, which must clear transactions within 20 days of authorization, regardless of the transaction date.

Special Authorization and Clearing Considerations

- **Account Verifications**—Merchants that require only the verification of the card account number, address verification (through the Address Verification Service) or Card Verification Value 2 (CVV2) should use the Account Number Verification Service.

Note: Account number verification requests require zeros in Field 4 (Amount) and "51" in Field 25 (Point-of-Service Condition Code). Effective with the April 2009 Business Enhancements release, Visa will reject all other authorization transactions that contain a zero value with a reject code of 0009 (Invalid Value). Account verifications are subject to account verification fees. The Misuse of Authorization System Fee does not apply to these requests.

- **Status Checks**—Visa will limit use of the \$1.00 Status Check to Automated Fuel Dispensers and approved Prestigious Property lodging merchants.

Note: Approved Status Check transactions that are not followed by a clearing or reversal transaction with a matching Transaction Identifier will be subject to the Misuse of Authorization System Fee.

- **Authorization Reversal Levels**—Visa will monitor authorization reversals and, if abnormal patterns of activity are observed, may require the acquirer to take corrective measures. Monitoring of authorization reversal levels will be used to identify improper use of authorization transactions (e.g., non-zero dollar transactions being authorized and reversed for account verification purposes).
- **Cancelled Transactions**—Cardholder cancelled sales and merchant authorizations submitted in error that received an approval response must be reversed in order to avoid the Misuse of Authorization System Fee. Note: These requirements also apply to \$1.00 Status Check transactions.
- **Merchandise Returns/Credit Vouchers**—In order to maintain transaction processing integrity, credits to a Visa account should be processed following the same steps as a normal purchase transaction. A return authorization (0100 message with Processing Code of 20) should be submitted, followed by a return clearing transaction (TC06). Note: Unmatched return clearings are not currently subject to the Zero Floor Limit Fee. *First Data does not currently support authorizations on return transactions.*
- **Partial Reversals**—To improve the accuracy and effectiveness of authorizations, partial reversals should be used to correct the approved authorization amount as necessary to reflect updated purchase information (e.g., out of stock catalog purchase, early car rental return). Alternatively, the original authorization can be reversed and a new authorization obtained for the correct amount. Note: *Visa U.S.A. Inc. Operating Regulations* require that the authorization and clearing amounts be equal for most types of transactions.
- **Incremental Authorizations**—multiple authorizations typically used by hotels and car rentals to update authorization amounts will be matched to a single clearing by the Transaction Identifier. The Misuse of Authorization System Fee will not apply to properly processed incremental authorizations submitted by merchants that have obtained Visa approval to do so.

- **Multiple Clearings**—Specific merchant segments (e.g., airlines) are required under certain circumstances to submit multiple clearing transactions for a single authorization. Visa-approved merchants that submit multiple clearing transactions that can be matched to an authorization by a Transaction Identifier and a Multiple Clearing Sequence Number will not be subject to the Zero Floor Limit Fee

Best Regards,

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