

Card Schemes Compliance Programs

Table of Contents

1. Purpose	3
2. MasterCard Compliance Programs.....	3
2.1 GMAP: Global Merchant Audit Program	3
2.1 CMM & ECM: Chargeback Monitoring Merchant & Excessive Chargeback Merchant	4
3. VISA Compliance Programs	7
3.1 VFMP: VISA Fraud Monitoring Program	7
3.2 VCMP: VISA Chargeback Monitoring Program	9
3.3 Non-Compliance Assessments and Program Fees for VFMP and VCMP	11
3.4 Excessive Authorisation Monitoring Program	12

1. Purpose

The purpose of this document is to provide a guidance about the card scheme's compliance programs that a merchant must abide to not to breach and become in compliance resulting in fines. Both MasterCard and VISA has created several programs covering both fraud and chargebacks to help minimise risk and effectively be able to monitor and analyse the root of causing problems.

2. MasterCard Compliance Programs

2.1 GMAP: Global Merchant Audit Program

The global Merchant Audit Program is a compliance program that identifies merchants that meet or exceed an established level of fraud in any one month based on program criteria using a **rolling period of six months' fraud data**. The purpose of this program is to:

- Preserve the integrity of the MasterCard brand
- Inform acquirers of merchants identified in the program
- Monitor merchant progress to reduce fraud
- Communicate viable tools and solutions

✓ Program Criteria

Tiers	Thresholds
Tier 1	<ul style="list-style-type: none"> • 3 Fraud Transactions • \$3,000 Fraud Amount • Fraud-to-Ratio between 3% and 4.99%
Tier 2	<ul style="list-style-type: none"> • 4 Fraud Transactions • \$4,000 Fraud Amount • Fraud-to-Sales Ratio between 5% and 7.99%
Tier 3	<ul style="list-style-type: none"> • 5 Fraud Transactions • \$5,000 Fraud Amount • Fraud-to-Sales more than 8%

If a merchant location is identified in multiple tiers during the 6-month period, GMAP takes into consideration the highest tier. GMAP identifications are provided for information purposes and a response is necessary only if a merchant has been identified in Tier 3 in case MasterCard initiates a Tier 3 Special merchant audit. If fraud issues persist in the long-term, MasterCard will open up a 6-month window and possibly revoke the right for the merchant to accept MasterCard payments. Breaches of GMAP may implicate fines imposed at MasterCard's discretion and may be subject to termination at the Acquirer's discretion and listed on MATCH.

✓ Program Logic Methodology

The program runs on a 6-month fraudulent data reported through SAFE based on transaction date. This means that if a transaction effected on 1st July has been reported as fraud in September, the transaction is allocated to the month of July, when the transaction took place.

The fraud to Sales ratio (%) is calculated as follows:

$$\text{Previous month fraudulent data} \div \text{Previous month Sales volume through MasterCard}$$

2.1 CMM & ECM: Chargeback Monitoring Merchant & Excessive Chargeback Merchant

The Chargeback monitoring program is a combination of 2 programs running consequently to immediately alert and monitor a merchant with a high chargeback performance. If high performance continues, a determined breach is confirmed. This occurs when a merchant has then exceeded the monthly chargeback to transaction ratio (CTR) allowance.

✓ Program Criteria

Program Name	Thresholds
CMM	<ul style="list-style-type: none"> CTR of 1% or more 100 chargebacks or more in 1 calendar month
ECM	<ul style="list-style-type: none"> CTR of 1.5% for 2 consecutive months 100 chargebacks or more in 1 calendar month

To exit the ECM program, a merchant must maintain a CTR below 1.5% for 2 consecutive months. However, the merchant must strive to become compliant below 1% to avoid further compliance assessments. In case a merchant has failed to exit the program within a 12-month period, the Acquirer may be deemed to be in violation of MasterCard rule 5.11.7. In addition to the standard ECM issuer reimbursement and violation assessments, the acquirer may be subject to a noncompliance assessment of up to USD 50,000 per month until the twelfth month that the merchant remains an ECM. These fines will subsequently be incurred by the merchant and may be subject to termination at the Acquirer's discretion and listed on MATCH.

Within the category of Excessive Chargeback Merchant, there are two additional distinctions.

- A merchant is a **Tier 1** Excessive Chargeback Merchant during months one through six.
- If the merchant is still categorised as an Excessive Chargeback Merchant after the sixth month, the next distinction is **Tier 2** for months seven through twelve.

If a merchant reaches Tier 2 of the Excessive Chargeback Merchant category, MasterCard may:

- 1) Advise the acquirer to create an action plan or implement other strategies to reduce the merchant's chargeback-to-transaction ratio.
- 2) Require the acquirer to undergo a Global Risk Management Program Customer Risk Review.

✓ Program Logic Methodology

The program is based on post data to extract the CTR as follows:

$$\text{Current month chargeback counts} \div \text{previous month sales transaction count}$$

*It is important to note that chargeback thresholds are only impacted by **first chargeback**. Second chargebacks (Also known as pre-arbitration chargebacks) do not affect the chargeback ratio*

✓ Assessment Calculation and Fees

MasterCard calculates the Issuer reimbursement fees in the following steps 1, 2, and 3 while calculates the violation assessment in step 4.

- 1) Calculate the CTR for each calendar month that the ECM exceeded a CTR of 150 basis points (1.5% or 0.015).
- 2) From the total number of chargebacks in the above CTR calculation, subtract the number of chargebacks that account for the first 150 basis points of the CTR. This amount is equivalent to 1.5 percent of the number of monthly sales Transactions used to calculate the CTR. The result is the number of chargebacks above the threshold of 150 basis points.
- 3) Multiply the result from step 2 by USD 25. This is the Issuer reimbursement.
- 4) Adjust the result in step 3 to reflect the extent that the Acquirer has exceeded the 150 basis points threshold by multiplying the value in step 3 by the CTR (basis points). Divide this result by 100. This amount is the violation assessment.
- 5) Repeat steps 1–4 for each calendar month (other than the first trigger month) that the ECM exceeded a CTR of 150 basis points or 1.5 percent.

Example:

The Acquirer for Merchant ABC acquired MasterCard sales transactions and chargebacks over a six-month period as follows:

	January	February	March	April	May	June	July	August	September
Sales Trnx count	95,665	95,460	95,561	95,867	95,255	94,950	95,889	95,758	95,800
Chargebacks count	1,050	1,467	1,635	1,556	1,495	1,450	1,052	985	800
CTR: Basis Points	0	153	171	163	156	153	110	103	83

ECM Tier 1 begins on first (pointing to February)

ECM Tier 2 begins on (pointing to July)

Trigger Months (pointing to February and March)

Two consecutive months below 150 (pointing to July and August)

February and March are known as the trigger months, as these are two consecutive months where the CTR exceeded 150 basis points. At the end of July, Merchant ABC was no longer an ECM as its CTR was below 150 basis points for two consecutive months.

MasterCard calculates assessments and Issuer reimbursements for each of the months March through July.

- 1) The CTR = April chargebacks/March sales Transactions = $1,556/95,561 = 0.01628$ or 163 basis points (rounded)
- 2) The number of chargebacks in excess of the 150 basis points is determined by subtracting 1.5 percent of the March sales Transactions from the number of April chargebacks. 1.5 percent of the March sales Transactions ($95,561 \times 0.015$) is 1,433. $1,556 - 1,433 = 123$ chargebacks

- 3) The Issuer reimbursement for April is $123 \times \text{USD } 25 = \text{USD } 3,075$
- 4) The violation assessment is $(\text{USD } 3,075 \times 163)/100$ or $501,225/100 = \text{USD } 5,012.25$

3. VISA Compliance Programs

VISA has created two compliance programs to help merchants and acquirers mitigate risk and losses. To do so, Visa has qualified two different qualifications according to the MCC. As such, both VFMP and VCMF have 2 different parameters that one needs to abide too as follows:

The high risk program timeline applies to merchant outlets that:

- High Risk merchants are categorized according to the following MCCs: 5122, 5912, 5962, 5966, 5967, 5993, 7995
- Are moved from standard timeline to the high risk timeline based on VISA Europe's determination that the merchant outlets cause undue harm to the VISA Payment system; or
- Meet or exceed the program's "excessive thresholds" of VCMF or VFMP (High Risk)

The Standard program remains unaffected and contains all other MCCs which are not considered high risk.

3.1 VFMP: VISA Fraud Monitoring Program

Similar to the MasterCard Fraud program, Visa Fraud Monitoring program identifies merchant in breach of high fraud performance on an Intra and Inter transactional level other than domestic.

✓ Program Logic Methodology

VFMP reviews the previous month's fraud transactions ÷ that month's sales transactions. The data is set using post data fraudulent transaction.

Parameters	Thresholds
Standard	<ul style="list-style-type: none"> • \$75,000 of fraud amount (€64,250) • Fraud to Sales ratio (dollar) 1% in any month
High Risk	<ul style="list-style-type: none"> • \$250,000 of fraud amount (€217,500) • Fraud to Sales ratio (dollar) 2% in any month

The breach comes into effect as of the 1st month of notification while the acquire becomes immediately liable for chargeback reason codes 93¹ immediately. If a High Risk merchant is identified in the program, a rolling incremental fee of €8,750 every 3 months is assigned. The following tables provides a full understanding of the program Timelines accordingly:

¹ Reason Code 93 chargeback liability applies to fraud transactions associated with the respective program month identification in VFMP. Reason Code 93 chargeback liability does not apply to program months 1-4 in the standard timeline.

Table 1: VFMP Standard Timeline

Program Status	Acquirer Actions / Provisions
Month 1 Notification	Merchant notified and activity is reviewed
Month 2-4 Workout Period	Merchant should implement plans to reduce fraud levels and such plans must be provided to VISA Europe for review
Month 5-11 Enforcement Period	<ul style="list-style-type: none"> Continuation of reduction and adjusting it as necessary to reduce chargebacks Merchants may be disqualified from using the VISA Enterprise if they remain in the program Merchant becomes liable for reason code 93 chargebacks from month 5 onwards
Month 12 (and subsequent months) Enforcement Period	Merchant may be disqualified from using the VISA Enterprise

Table 2: VFMP High-Risk Timeline

Program Status	Acquirer Actions / Provisions
Month 1 Enforcement Period	<ul style="list-style-type: none"> Merchant notified and activity is reviewed Merchant should implement plans to reduce fraud levels and such plans may be provided to VISA Europe for review upon request Fees are applicable and will be processed in accordance with Table 5
Month 2-5 Enforcement Period	<ul style="list-style-type: none"> Merchant should implement plans to reduce fraud and such plans may be provided to VISA Europe for review upon request Fees are applicable and will be processed in accordance with Table 5
Month 6-11 Enforcement Period	<ul style="list-style-type: none"> Reduction plan is still into effect and upon VISA's request, may provide updates accordingly Merchants may be disqualified from using the VISA Enterprise if they remain in the program Fees continue to be applicable and will be processed in accordance with Table 5
Month 12 (and subsequent months) Enforcement Period	<ul style="list-style-type: none"> Merchant may be disqualified from using the VISA Enterprise Fees continue to be applicable and will be processed in accordance with Table 5

3.2 VCMP: VISA Chargeback Monitoring Program

Visa Chargeback Monitoring program identifies merchant in breach of high chargebacks performance on an Intra and Inter transactional level other than domestic.

✓ **Program Logic Methodology**

VCMP reviews the previous month's fraud transactions ÷ that month's sales transactions. The data is set using post data fraudulent transaction.

Parameters	Thresholds
Standard	<ul style="list-style-type: none"> • 100 Chargebacks • Chargebacks to Sales ratio 1%
High Risk	<ul style="list-style-type: none"> • 500 Chargebacks • Chargebacks to Sales ratio 2%

Table 3: VCMP Standard Timeline

Program Status	Acquirer Actions / Provisions
Month 1 Notification	<ul style="list-style-type: none"> • Merchant notified and activity is reviewed
Month 2-4 Workout Period	<ul style="list-style-type: none"> • Merchant should implement plans to reduce chargebacks levels and such plans must be provided to VISA Europe for review
Month 5-11 Enforcement Period	<ul style="list-style-type: none"> • Continuation of reduction and adjusting it as necessary to reduce chargebacks • Merchants may be disqualified from using the VISA Enterprise if they remain in the program • Fees are applicable and will be processed in accordance with Table 6
Month 12 (and subsequent months) Enforcement Period	<ul style="list-style-type: none"> • Merchant may be disqualified from using the VISA Enterprise • Program fees and non-compliance assessments still applicable

The breach comes into effect as of the 1st month of notification while the acquire becomes immediately liable for chargebacks with applicable fines depending which parameter is breached as per non-compliance assessments and program fees tables. The following tables provides a full understanding of the program Timelines accordingly:

Table 4: VCMP High-Risk Timeline

Program Status	Acquirer Actions / Provisions
Month 1 Enforcement Period	<ul style="list-style-type: none"> • Merchant notified and activity is reviewed • Merchant should implement plans to reduce fraud levels and such plans may be provided to VISA Europe for review upon request • Fees are applicable and will be processed in accordance with Table 6
Month 2-5 Enforcement Period	<ul style="list-style-type: none"> • Merchant should implement plans to reduce fraud and such plans may be provided to VISA Europe for review upon request • Fees are applicable and will be processed in accordance with Table 6
Month 6-11 Enforcement Period	<ul style="list-style-type: none"> • Reduction plan is still into effect and upon VISA's request, may provide updates accordingly • Merchants may be disqualified from using the VISA Enterprise if they remain in the program • Fees continue to be applicable and will be processed in accordance with Table 6
Month 12 (and subsequent months) Enforcement Period	<ul style="list-style-type: none"> • Merchant may be for disqualified from using the VISA Enterprise • Fees continue to be applicable and will be processed in accordance with Table 6

3.3 Non-Compliance Assessments and Program Fees for VFMP and VCMP

Merchants that fail to adequately manage their chargebacks and fraud activity may face program fees or non-compliance assessments during VCMP and VFMP enforcement period as shown in below. VISA Europe may impose additional corporate risk reduction measures for poor management in case a merchant is placed in the VCMP high risk program.

Table 5: VFMP Fees, Liability and Non-Compliance Assessments

Program Month	Standard Timeline	High Risk Timeline
1-3	No non-compliance assessments	€8,750 per merchant case; Reason Code 93 chargeback liability applies from Month 1 onwards
4-6	No non-compliance assessments; Reason Code 93 chargeback liability applies from Month 5 onwards	€21,750 per merchant case; Reason Code 93 chargeback liability applies
7-9	No non-compliance assessments; Reason Code 93 chargeback liability applies from Month 5 onwards	€43,500 per merchant case; Reason Code 93 chargeback liability applies
10-12 (and subsequent months)	No non-compliance assessments; Reason Code 93 chargeback liability applies from Month 5 onwards	€65,250 per merchant case; Reason Code 93 chargeback liability applies

Table 6: VCMP Fees, Liability and Non-Compliance Assessments

Program Month	Standard Timeline	High Risk Timeline
1-4	No non-compliance assessments or program fees	€85 per chargeback
5-6	€45 per chargeback	€85 per chargeback
7	€45 per chargeback	€85 per chargeback plus €21,750 review fee
8-9	€85 per chargeback	€85 per chargeback plus €21,750 review fee

3.4 Excessive Authorisation Monitoring Program

This program monitors authorization levels to identify any merchants that are generating excessive levels of authorization requests through the Visa Europe system. The monthly program thresholds are defined as follows:

Parameter
Minimum authorization request volume: 20,000; AND
Authorization request volume is greater than 8 times the approval volume

The following example has been put together to illustrate how the programme will identify merchants who are in breach of the programme thresholds.

Last month, Merchant ABC submitted 100,000 authorisation requests via its acquirer to Visa Europe. Of the 100,000 authorisation requests, only 10,000 were approved. Using the threshold above, this merchant has qualified for the first part of the threshold (i.e. 100,000 authorisation requests exceeds the threshold of 20, 000). The second part of the threshold also requires that the merchant's total authorisation request volume (100, 000) is more than 8 times the approval volume (8 x 10, 000 = 80,000). Since 100,000 exceeds 80,000, the second part of the threshold is also satisfied.

Merchants who are in breach of said program are notified immediately and requested to present an action and implementation plan to reduce high declines. The penalty schedule for the breaching of the program is as follows:

1. First violation: \$500
2. Second violation: \$5,000
3. Third violation: \$10,000
4. Fourth violation: \$25,000
5. Fifth violation: At Visa's discretion
6. If no rectification is applied: Additional fine equal to all fines levied during that 12-month period.

The violations need to occur within a 12-month period in order for the above penalty schedule to take place.