

Plus ATM Operator Agreement Rules Introduced to Minimize Risks Presented by Nonmember Branded ATMs

Suggested Audience:

ATM Acquirers

RISK MANAGEMENT

Michael E. Smith, Senior Vice President, Corporate Risk Management

In Brief: *Revisions to the Plus System, Inc. and Visa U.S.A. Inc. Operating Regulations are being introduced to clarify Member accountability and oversight of nonmember branded ATMs. The new requirements will enhance Member control mechanisms and mitigate risk to the Plus ATM network. The revisions require Members to have a written agreement with any entity defined as an "ATM Operator" and to ensure that an adequate risk review has been conducted before an ATM Operator may submit transactions into the Plus system. The new regulations will also help ensure that unregistered Independent Sales Organizations do not circumvent Member monitoring efforts. A separate Visa Business Review article has been published concurrently to address changes to the Visa U.S.A. Inc. Operating Regulations.*

- ▶ Safeguard the Plus system from unregistered Independent Sales Organizations or other entities that have not been properly screened for risk

ATM Operator Agreements Effective November 1, 2005

The use of Independent Sales Organizations to deploy nonmember branded ATMs by ATM Acquirers has resulted in a rapid increase in the number of privately owned ATMs operating in the U.S. region. While the growth of additional ATM locations can provide added convenience to cardholders, it can also increase the risk of PIN security breaches if ATM Acquirers fail to conduct adequate due-diligence reviews or fail to maintain business agreements with entities they connect to the Plus system.

To ensure that ATM Acquirers maintain adequate risk controls to manage their ATM programs, Operating Regulations have been revised to clarify Member accountability for controlling nonmember branded ATMs. **Effective November 1, 2005** the *Plus System, Inc. By-Laws and Operating Regulations* will introduce the new defined term "ATM Operator" as:

New Risk Management Controls Introduced For ATM Acquirers

The connection of privately owned (nonmember) ATMs to the Plus network has raised a number of operational and risk management concerns for Plus Members. To address this situation, *Plus System, Inc. By-Laws and Operating Regulations* have been developed to ensure that ATM Acquirers maintain adequate risk controls to safeguard the Plus system. The new rules provide the following benefits to Plus Members:

- ▶ Establish consistent operational and risk management requirements for ATM Acquirers to manage entities that own or operate their own ATMs
- ▶ Ensure that entities connected to the Plus system have been subjected to an adequate due-diligence review
- ▶ Ensure that entities connected to the Plus system have a written agreement with a Member
- ▶ Clearly define Member responsibility for ATM Operators

- ▶ A nonmember entity authorized by a Member or its Agent to originate a Plus transaction through the connection of an ATM to the Plus system, and that displays the Plus symbol. ATM Operators own, operate, or lease ATMs that are connected to the Plus system and may exhibit any of the following characteristics:

- ▶ Receive revenue from the Interchange process or from fees assessed on Plus transactions
- ▶ Manage cryptographic functions or stock ATMs with cash. (Armored car firms and Encryption Service and Support Organizations are not considered to be ATM Operators)

A comprehensive risk framework is also being introduced to ensure that ATM Acquirers properly manage their relationships with Independent Sales Organizations and their ATM Operators.

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Plus ATM Operator Agreement Rules Introduced to Minimize Risks Presented by Nonmember Branded ATMs (Continued)

Effective November 1, 2005, Members that sign new ATM Operators will be required to have a written agreement with the ATM Operator and to ensure that an adequate due diligence review was conducted before the ATM Operator is permitted to connect a device to the Plus system. Members with existing ATM Operators must have an ATM Operator agreement in place and comply with the specified requirements no later than November 1, 2006. Members will note the new requirements governing ATM Operators are consistent with existing *Visa U.S.A. Inc. Operating Regulations* that govern Merchant Agreements and Merchant Qualification Standards. These regulations also clarify that only a Member can permit Plus card acceptance by an ATM Operator.

These new requirements will be published in the August 15, 2005 edition of the *Plus System, Inc. By-Laws and Operating Regulations*. The essential elements of the new requirements are summarized below. An advance copy of the Plus Operating Regulations is included in the attachment. A separate Visa Business Review article has been published to address changes to the *Visa U.S.A. Inc. Operating Regulations*. Members are advised that any Independent Sales Organization that operates its own ATM devices may be classified as an ATM Operator and subject to the following requirements.

Member Responsibilities

A Member must:

- ▶ Prior to entering into an ATM Operator agreement, determine that a prospective ATM Operator does not have any significant derogatory background information about any of its principal owners
- ▶ Collect certain ATM Operator information for all ATM Operators and Agents and make this information available to Plus upon request
- ▶ Have a written ATM Operator agreement with each of its ATM Operators
- ▶ Only process Plus transactions from an ATM Operator with which it has a valid ATM Operator agreement
- ▶ Ensure that the ATM Operator complies with the substance of the applicable sections of the *Plus System, Inc. By-Laws and Operating Regulations*

- ▶ Ensure that applicable amendments to the *Plus System, Inc. By-Laws and Operating Regulations* are incorporated into its ATM Operator agreements and ensure adequate communication of these changes to their ATM Operators
- ▶ Ensure that its ATM Operators and Agents maintain the integrity and safety of PIN data in conformity with the PIN Management Requirements Documents
- ▶ Comply with the liability and indemnification requirements as specified in the *Plus System, Inc. By-Laws and Operating Regulations*

A Member may allow its Agents to execute ATM Operator agreements on its behalf and/or conduct due diligence reviews. In those cases, the Member must:

- ▶ Maintain documented policies and procedures to manage its Agent programs
- ▶ Validate its Agent's compliance with the Member's solicitation and qualification standards on a quarterly basis

ATM Operator Agreement Requirements

Each ATM Operator agreement must:

- ▶ Clearly state the Member's name, location, and contact information in letter size consistent with the rest of the ATM Operator agreement printing, and in a manner that makes the Member's name readily discernible to the ATM Operator. Tri-party agreements (Member, Agent, ATM Operator) are permitted.
- ▶ State that the ATM Operator may potentially be terminated for failure to comply with the ATM Operator agreement, which includes provisions required by the *Plus System, Inc. By-Laws and Operating Regulations*.
- ▶ Be made available to Plus upon request. ATM Operator agreements provided to Plus must not contain contractual details regarding pricing arrangements.

Availability and Security Requirements

An ATM Operator or an Agent must take all reasonable action to ensure that its ATMs and PIN pads operated at the ATM Operator's outlet(s):

- ▶ Are available for use by all Plus cardholders for transactions

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Plus ATM Operator Agreement Rules Introduced to Minimize Risks Presented by Nonmember Branded ATMs (Continued)

- ▶ Function reliably
- ▶ Comply with the PIN Management Requirements Documents

Enforcement Provisions

A Member that fails to comply with the ATM Operator agreement requirements is subject to the following fines within a rolling 12-month period.

- ▶ First violation \$5,000 per ATM Operator
- ▶ Second violation \$10,000 per ATM Operator
- ▶ Three or more violations \$15,000 per ATM Operator

A Member that has been assessed a fine for an infraction, as described above, may be assessed an additional fine of \$10,000 for each 30-calendar-day period or portion thereof, during which the Member fails to correct the violation.

Plus may permanently prohibit a Member from permitting an ATM Operator access to the Plus system for good cause. In addition, Plus or its designees may conduct financial or

procedural audits and/or reviews of Members at any time to validate compliance with these requirements.

These requirements become **effective November 1, 2005** for new ATM Operators participating in the Plus system. Members with existing ATM Operators must have an ATM Operator agreement in place and comply with the specified requirements **no later than November 1, 2006**.

Attachment

Extract from the *Plus System, Inc. By-Laws and Operating Regulations*—ATM Operator requirements

For More Information

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Extract from the *Plus U.S.A. Inc. By-Laws and Operating Regulations—Plus ATM Operator Requirements*

These regulations will be published in the August edition of the Plus Systems, Inc. Operating Regulations. The exact sections and chapters are subject to change prior to publication.

2.17 Minimum Cash Withdrawal

2.19 ATM Operator Standards

2.17 Minimum Cash Withdrawal

An ATM must be able to make cash withdrawals of at least \$200 per day per account number.

2.18 Anti-Money Laundering Program

An Acquirer must comply with the Anti-Money Laundering Program requirements, as specified in *Section 1.18*.

2.19 ATM Operator Standards

The requirements specified in this section are:

- Effective November 1, 2005, for new ATM Operator agreements
- Effective no later than November 1, 2006, for existing ATM Operator agreements

2.19.A ATM Operator Agreement

- 2.19.A.1** An Acquirer must have a written ATM Operator agreement with each of its ATM Operators.
- 2.19.A.2** An Acquirer may **only** process Electronic Banking Transactions from an ATM Operator with which it has a valid ATM Operator agreement.
- 2.19.A.3** The Acquirer must ensure that the ATM Operator complies with the substance of the applicable sections of the *Plus System, Inc. Operating Regulations*.

2.19.B ATM Operator Agreement Format and Content

- 2.19.B.1** The form, content, and appearance of an ATM Operator agreement is at the discretion of the Acquirer, except as specified in the *Plus System, Inc. Operating Regulations*.
- 2.19.B.2** An Acquirer may include other provisions in its ATM Operator agreement if they are consistent with the *Plus System, Inc. Operating Regulations*.
- 2.19.B.3** Each ATM Operator agreement must:
- Clearly state the Acquirer's name, location, and contact information in letter size consistent with the rest of the ATM Operator agreement printing, and in a manner that makes the Acquirer's name readily discernible by the ATM Operator. Tri-party agreements (Acquirer, Agent, ATM Operator) are permitted.
 - State that the ATM Operator may potentially be terminated for failure to comply with the ATM Operator agreement which includes the substance of the provisions required by the *Plus System, Inc. Operating Regulations*
 - Be made available to Plus upon request¹

¹ ATM Operator agreements provided to Plus must **not** contain contractual details regarding pricing arrangements.

August 15, 2005

Plus System, Inc. Operating Regulations 2-11

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Extract from the *Plus U.S.A. Inc. By-Laws and Operating Regulations—Plus ATM Operator Requirements* (Continued)

These regulations will be published in the August edition of the Plus Systems, Inc. Operating Regulations. The exact sections and chapters are subject to change prior to publication.

Chapter 2: Duties and Responsibilities of Acquirers

2.19 ATM Operator Standards

2.19 ATM Operator Standards

2.19.B.4 The Plus System, Inc. Operating Regulations may be amended from time to time and each Acquirer is responsible for making corresponding amendments to its ATM Operator agreements.

2.19.C ATM Operator Qualification Standards

Prior to entering into an ATM Operator agreement, an Acquirer must determine that a prospective ATM Operator does not have any significant derogatory background information about any of its principals. The Acquirer may obtain this information through the following:

- Credit reports
- Background investigations (e.g., criminal, civil)
- Personal and business financial statements
- Other information lawfully available to the Acquirer

2.19.D Qualification Monitoring Requirements

2.19.D.1 An Acquirer may allow its Agents to execute ATM Operator agreements on its behalf and/or conduct due diligence reviews. In those cases, the Acquirer must:

- Maintain documented policies and procedures to manage its Agent programs and
- Validate its Agent's compliance with the Acquirer's solicitation and qualification standards on a quarterly basis

2.19.D.2 Plus or its designees may conduct financial and procedural audits and/or reviews of Acquirers at any time.

2.19.E Required Information for All ATM Operators

2.19.E.1 An Acquirer must collect the ATM Operator information specified in Section 2.19.E.2 for all ATM Operators and Agents.

2.19.E.2 Information collected by the Acquirer must include all of the following:

- "Doing Business As" (DBA) name
- ATM Operator legal name
- ATM Operator outlet location, including street address, city, state, and ZIP code
- Federal "Taxpayer Identification Number (TIN)," "Federal Employer Identification Number (FEIN)," or the "Social Security Number (SNN)" of all principals
- Full first and last name, including middle initial of principals (e.g., corporations, partnerships, sole proprietors)
- Incorporation status (e.g., corporation, partnership, sole proprietor, non-profit, other)

Extract from the *Plus U.S.A. Inc. By-Laws and Operating Regulations—Plus ATM Operator Requirements* (Continued)

These regulations will be published in the August edition of the Plus Systems, Inc. Operating Regulations. The exact sections and chapters are subject to change prior to publication.

2.19 ATM Operator Standards

2.19 ATM Operator Standards

2.19.F Availability

An ATM Operator must take all reasonable actions to ensure that its ATMs and PIN pads at the ATM Operator's outlet(s):

- Are available for use by all Customers for Electronic Banking Transactions
- Function reliably
- Comply with the PIN Management Requirements Documents

2.19.G PIN Security

An Acquirer must ensure that its Agents and ATM Operators maintain the integrity and safety of PIN data, as specified in the PIN Management Requirements Documents.

2.19.H Prohibitions

Plus may permanently prohibit an ATM Operator from providing services with respect to Plus products for good cause, such as:

- Fraudulent activity
- Activity that causes the Acquirer to repeatedly violate the *Plus System, Inc. Operating Regulations*
- Activity that violates applicable law
- Operating in an unsound, unsafe manner
- Any other activity that may result in undue economic hardship or damage to the goodwill of the Plus system

2.19.I Fines and Penalties

An Acquirer that fails to comply with the requirements of *Section 2.19.A* and *Section 2.19.E* is subject to the fines and penalties specified in *Section 6.9*.

2.19.J Member Liability for ATM Operator Activities

A Member is liable for all Plus program activities undertaken or conducted by virtue of, or as a result of, its membership, whether performed directly or indirectly by the Member or any third-party nonmember, including, but not limited to, ensuring that settlement duly owed to ATM Operators is paid.

August 15, 2005

Plus System, Inc. Operating Regulations 2-13

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Extract from the *Plus U.S.A. Inc. By-Laws and Operating Regulations—Plus ATM Operator Requirements* (Continued)

These regulations will be published in the August edition of the Plus Systems, Inc. Operating Regulations. The exact sections and chapters are subject to change prior to publication.

6.8 Penalties Related to Agreements with Independent Sales Organizations and Encryption and Support Organizations

Table 6-2: Fines Related to Agreements with ATM Operators

6.8 Penalties Related to Agreements with Independent Sales Organizations and Encryption and Support Organizations

A Member that fails to comply with *Section 1.20* and *Section 1.21* is assessed a fine, as specified in *Table 6-1*:

Table 6-1: Fines Related to Agreements with Independent Sales Organizations and encryption and support organizations

Violation	Fine
First occurrence	\$10,000
Second occurrence in a rolling 60-month period	\$25,000
Third occurrence in a rolling 60-month period	\$50,000
Four or more occurrences in a rolling 60-month period	\$100,000

Plus assesses an additional fine of \$20,000 for each 30-calendar-day period, or portion thereof, during which the Member fails to:

- Register the Independent Sales Organization or encryption and support organization, as specified in *Section 1.20* and *Section 1.21* **or**
- Notify Plus of a change, as specified in *Section 1.20.C*

6.9 Penalties Related to Agreements with ATM Operators (Effective November 1, 2005)

A Member that fails to comply with *Section 2.19* is assessed a fine, as specified in *Table 6-2*.

Table 6-2: Fines Related to Agreements with ATM Operators

Violation	Fine
<u>First violation in a rolling 12-month period</u>	<u>\$5,000 per ATM Operator</u>
<u>Second violation in a rolling 12-month period</u>	<u>\$10,000 per ATM Operator</u>
<u>Three or more violations in a rolling 12-month period</u>	<u>\$15,000 per ATM Operator</u>

Plus may assess an additional fine of \$10,000 for each 30-calendar-day period, or portion thereof, during which the Member fails to correct the violation(s) specified in this section.

Extract from the *Plus U.S.A. Inc. By-Laws and Operating Regulations—Plus ATM Operator Requirements* (Continued)

These regulations will be published in the August edition of the Plus Systems, Inc. Operating Regulations. The exact sections and chapters are subject to change prior to publication.

A

Definitions

Except as the context may otherwise indicate, the following definitions shall apply to and govern the construction of the Operating Regulations in their entirety:

A

Access Fee—A fee that is imposed by an ATM Acquirer for eligible transactions by a cardholder whose card was not issued by that Acquirer.

Acquirer—Any Acquirer (or, for purposes of these Operating Regulations, ATM Licensee) that owns, operates or controls a Qualified ATM.

Agent—Any contractor, including Independent Sales Organizations, Third-Party Servicers, Encryption and Support Organizations, and Agent Processors, whether a Member or nonmember, engaged by a Member to provide services or act on its behalf in connection with the Plus system.

Agent Processor—A processing organization which performs any act or discharges any duty, obligation or responsibility required by the Operating Regulations on behalf of a Member or ATM Licensee.

Agent Reference File—A historical file maintained by Plus, which contains company names, addresses, principal information, and quarterly activity information for Independent Sales Organizations.

Agreement—Any lawful Agreement relating to Membership or participation in Plus.

Alternative Media Purchase—Any medium of value, receipt, or document that is not coin, currency or travelers checks or that may not be exchanged for coin, currency or equivalents, e.g., stamps, transportation passes, event tickets, prepaid phone cards, etc., dispensed from a Qualified ATM.

Anti-Money Laundering Program—A program that a Member implements and maintains to prevent money laundering and terrorist financing.

Automated Teller Machine (ATM)—A Customer-activated electronic device programmed to dispense cash or alternative media directly to the Customer, and that enables the Customer, through the use of a Qualified Card, to perform Electronic Banking Transactions.

August 15, 2005

Plus System, Inc. Operating Regulations A-1

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Extract from the *Plus U.S.A. Inc. By-Laws and Operating Regulations—Plus ATM Operator Requirements* (Continued)

These regulations will be published in the August edition of the Plus Systems, Inc. Operating Regulations. The exact sections and chapters are subject to change prior to publication.

Appendix A — Definitions

ATM Operator

Corporation

ATM Operator—An entity¹ authorized by a Member or the Member's Agent to originate an Electronic Banking Transaction through the connection of an ATM to the Plus system, and that displays the Plus symbol. ATM Operators own, operate, or lease ATMs that are connected to the Plus system and may exhibit any or all of the following characteristics:

- À Receive revenue from the Interchange process or from fees assessed with Electronic Banking Transactions
- À Manage cryptographic functions or stock ATMs with cash

ATM Licensee—A qualified organization that is participating as a Member of a national competing network of shared ATMs as defined in the Corporation's Bylaws and that participates in the Corporation only for the purpose of acquiring Plus transactions. Unless specifically provided otherwise, references to "ATM Licensee(s)" shall be deemed to apply to both Licensees A and Licensees B as defined herein.

Authorization—The process by which transactions are approved or declined (1) by an Issuer by means of Interface, or (2) by the PLUS Switch by reference to Parameter Files and Criteria Files provided to Plus.

B

Bank Identifier Number (BIN)—A set of numbers, as defined by the ABA and ISO, which appears in the Primary Access Number and identifies one or more Members for purposes of Interchange.

Business Day—A day on which a Member or ATM Licensee is open to the public for carrying on substantially all its business functions.

Bylaws—The *Plus System, Inc. By-Laws*.

C

Certificate of Incorporation—The Plus Certificate of Incorporation.

Certification—The process by which a Principal Member, Processor Member or Licensee A is declared by Plus to be qualified to Interface with the PLUS Switch as set forth in the Technical Specifications.

Chargeback—The reversal of all or a portion of an amount previously posted to a Customer's account.

Competing Network—A shared ATM network identified by the Plus Board pursuant to *Section 2.5* of the Corporation's Bylaws.

Corporation—Plus System, Inc.

¹ Entities that rent or lease space to Independent Sales Organizations to operate ATMs on property they own or control are not considered to be ATM Operators. Rather, the Independent Sales Organization leasing or renting space from another entity to deploy and operate their own ATMs would be considered the ATM Operator. Armored car firms that provide cash replenishment and Encryption and Support Organizations that manage encryption keys or service ATMs are not classified as ATM Operators.

Extract from the *Plus U.S.A. Inc. By-Laws and Operating Regulations—Plus ATM Operator Requirements* (Continued)

These regulations will be published in the August edition of the Plus Systems, Inc. Operating Regulations. The exact sections and chapters are subject to change prior to publication.

ATM Operator Agreement

Members that use agents (e.g., Independent Sales Organizations) to perform services on their behalf are required to register them directly with Plus before transaction or solicitation activity may begin. Members are required to have a contract with their agent and with any Merchant solicited by the agent. These provisions mitigate the risk of harm to the Plus brand and maintain the integrity of the Plus system.

Plus has become aware that many Acquirers are not performing adequate due diligence reviews of entities permitted to connect non-Member branded ATMs to the Plus system. Acquirers rely heavily on agents to determine whether an entity is eligible to connect a device to the Plus system and often fail to establish contracts with such entities. As a result, there is concern that fraud rings may circumvent agent controls and PIN and magnetic-stripe data may be exposed. Further, the existence of unregistered agents operating ATMs that have not been adequately risk-screened by Members may increase that exposure.

To support efforts to reduce risk to the Plus membership and brand and to align with the *Visa U.S.A. Inc. Operating Regulations*, Operating Regulation revisions are proposed to increase Member accountability for controlling non-Member branded ATMs and enhance control mechanisms to mitigate the risk to the Plus system. The revisions introduce the defined term, "ATM Operator" as a non-Member entity authorized by a Member or its agent to originate a Plus electronic banking transaction through the connection of an ATM to the Plus system, and that displays the Plus symbol. ATM operators own, operate, or lease ATMs that are connected to the Plus system and may exhibit any or all of the following characteristics:

- Receive revenue from the interchange process or from fees assessed with Plus electronic banking transactions
- Manage cryptographic functions or stock ATMs with cash

Member Responsibilities

A Member must:

- Prior to entering into an ATM operator agreement, determine that a prospective ATM operator does not have any significant derogatory background information about any of its principal owners
- Collect certain ATM operator information for all ATM operators and agents and make this information available to Plus upon request
- Have a written ATM operator agreement with each of its ATM operators

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These regulations will be published in the August edition of the Plus Systems, Inc. Operating Regulations. The exact sections and chapters are subject to change prior to publication.

- Only process Plus electronic banking transactions from an ATM operator with which it has a valid ATM operator agreement
- Ensure that the ATM operator complies with the substance of the applicable sections of the *Plus System, Inc. Operating Regulations*
- Ensure that applicable amendments to the *Plus System, Inc. Operating Regulations* are incorporated into its ATM operator agreements and ensure adequate communication of these changes to their ATM operators
- Ensure that its ATM operators and agents maintain the integrity and safety of PIN data in conformity with the PIN Management Requirements Documents
- Comply with the liabilities and indemnification requirements as specified in the *Plus System, Inc. Operating Regulations*

A Member may allow its agents to execute ATM operator agreements on its behalf and/or conduct due diligence reviews. In those cases, the Member must:

- Maintain documented policies and procedures to manage its agent programs
- Validate its agent's compliance with the Member's solicitation and qualification standards on a quarterly basis

ATM Operator Agreement Requirements

Each ATM operator agreement must:

- Clearly state the Member's name, location, and contact information in letter size consistent with the rest of the ATM operator agreement printing, and in a manner that makes the Member's name readily discernible to the ATM operator. Tri-party agreements (Member, agent, ATM operator) are permitted.
- State that the ATM operator may potentially be terminated for failure to comply with the ATM operator agreement, which includes provisions required by the *Plus System, Inc. Operating Regulations*
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Availability Requirements

An ATM operator or an agent must take all reasonable action to ensure that its ATMs and PIN pads operated at the ATM operator's outlet(s):

- Are available for use by all customers for electronic banking transactions
- Function reliably
- Comply with the PIN Management Requirements Documents

Enforcement Provisions

A Member that fails to comply with the ATM operator agreement requirements is subject to the following fines within a rolling 12-month period.

- First violation \$5,000 per ATM operator
- Second violation \$10,000 per ATM operator
- Three or more violations \$15,000 per ATM operator

A Member that has been assessed a fine for an infraction, as described above, may be assessed an additional fine of \$10,000 for each 30-calendar-day period or portion thereof, during which the Member fails to correct the violation.

Plus may permanently prohibit a Member from extending network access privileges to an ATM operator with respect to Plus products for good cause. In addition, Plus or its designees may conduct financial or procedural audits and/or reviews of Members at any time.

Definitions

In addition to the new definition for "ATM Operator," a revision is proposed to include a definition for "Agent" which is defined as any contractor, including Independent Sales Organizations, Third Party Servicers, Encryption and Support Organizations, and Processors, whether a Member or non-Member, engaged by a Member to provide services or acts on its behalf in connection with the Plus system.

It is proposed that these revisions become effective November 1, 2005 for new ATM operators participating in the Plus system. Members with existing ATM operators must have an ATM operator agreement with the specified requirements no later than November 1, 2006.