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REGULATORY

Industry Expresses Concern At IRS Hearing Regarding Foreign-Merchant Aspect Of Proposed Transaction Rule

By Meghan Boyer

Speakers at a recent Internal Revenue Service hearing on proposed transaction-reporting requirements that take effect next January largely focused on the potentially detrimental effects their companies may experience from a foreign-merchant rule contained within the law.

Merchant acquirers will have to report their retailers' credit and debit card transactions to the IRS effective Jan. 1 under the Housing and Economic Recovery Act President George W. Bush signed into law in July 2008.

Elavon Inc. and First Data Corp. were among the

IRS cont'd on page 11 ►

REVENUE

ISOs And Acquirers Feeling Recession's Impact On Compensation, Survey Finds

By Kevin Woodward

A majority of ISO and merchant-acquiring salespeople say the nation's latest recession had an impact on their compensation, the results of the *ISO&Agent* 2010 Compensation Survey show.

Of the 124 ISOs and acquiring salespeople who participated, 56% said the recession "somewhat" affected their compensation. Another 26% said the

IMPACT cont'd on page 12 ►

SMALL-BUSINESS OWNERS' CONFIDENCE DROPS IN MARCH

Small-business owners' confidence in March fell to its lowest level in more than a year, according to data Discover Financial Services released recently.

The Discover Small Business Watch index fell to 75.7 in March, down 9.2 points from 84.9 the previous month. The Watch index fell to as low as 71.9 in February of last year.

The Business Watch has a base index of 100.

Some 53% of small-business owners surveyed in March said they expect to see economic conditions deteriorate for their own businesses during the next six months compared with 37% who said so in February.

Some 52% of respondents said they plan to decrease spending on their businesses, up from 43% who said so in February. [ISO](#)

INSIDE

TJX Hacker Receives Prison Sentences

A U.S. District Court in Massachusetts has sentenced Albert Gonzalez for his role in stealing card data from multiple companies.

See page 3.

Solveras Launches PCI Effort With TrustWave

Solveras Payment Solutions in late February launched a program with Trustwave to increase merchants' compliance with data-security standards.

See page 13.



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>>>TJX Hacker Receives Multiple Sentences For Data Breaches

The **U.S. District Court of Massachusetts** last week sentenced Albert Gonzalez for his role in stealing card data and consumer financial information from multiple companies. Gonzalez received on March 25 a 20-year prison sentence for stealing card and financial data from **TJX Cos., BJ's Wholesale Club, Office Max, Dave & Busters, Barnes & Noble** and a string of other companies. The court on March 26 also sentenced him to 20 years for additional data thefts at **Heartland Payment Systems, Hannaford Bros.** supermarkets and **7-Eleven** convenience stores.

The theft of credit card data cost financial institutions, insurers and cardholders an estimated \$200 million, according to law enforcement.

Most of the hacking by Gonzalez and his accomplices took place in Miami, where they would drive by major retailers and try to penetrate their databases on laptops in the parking lots. When successful, they downloaded to servers in Latvia and the Ukraine, according to court records.

The credit card information eventually was passed on

to master Ukrainian card seller Maksym Yastremskiy, who sold it to thousands of individuals in the online underground or at websites. The stolen data was used to create counterfeit credit cards, which then were used to buy merchandise or withdraw millions of dollars in cash from ATMs.

>>>Visa Forges Alliance With U.S. Hispanic Chamber Of Commerce

Visa Inc. on March 24 announced a strategic alliance with the **U.S. Hispanic Chamber of Commerce** designed to provide Hispanic-owned businesses with educational materials to help them manage cash flow and payments and to provide the "best available" interchange rates.

Visa will work with the chamber to put a special emphasis on smaller merchants, with annual sales of up to \$1 million, "to ensure that they have access to best-available interchange rates," Visa said in a statement.

Visa did not provide a specific interchange rate Hispanic small-business owners may receive through chamber membership. **ISO**



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INDUSTRY NEWS

ACH Payments To Enter Canadian Market

ACH Payments is expanding its payment-processing services to Canada to satisfy its U.S. merchants that have Canadian customers, marking the company's initial foray into Canada.

At first, Albany, N.Y.-based ACH Payments will offer only credit and debit card processing services in Canada, Wayne Akey, company president, tells *ISO&Agent Weekly*. Many ACH Payments merchants use the company's services to manage recurring billing operations.

"This is completely driven by our vertical partners," such as alarm-monitoring services, Akey says. "They have established U.S. presences but have Canadian customers who they want to be able to bill efficiently."

Akey expects to extend check acceptance to Canada after ACH Payments has completed the software to do that. Canada's checking system differs greatly from the U.S. model, requiring more development time, he says. **ISO**

Payment Stock Watch



Company	Symbol	Last Week's Low	Last Week's High	Last Week's Close	% Change From Prior Week's Close
American Express Company	AXP	40.07	41.31	40.33	-1.05
Bank of America	BAC	16.59	17.32	16.82	-0.18
CyberSource	CYBS	18.26	19.06	18.40	-2.33
Diebold	DBD	30.91	31.91	31.17	-0.61
Discover	DFS	14.73	15378.00	15.24	1.80
eBay	EBAY	25.79	27.78	27.19	4.70
FNDS3000 Corp.	FDTC.OB	0.24	0.25	0.02	-4.00
Global Payments	GPN	44.35	46.93	46.02	1.81
Heartland Payments	HPY	17.21	18.00	17.53	0.92
Hypercom	HYC	3.71	3.92	3.77	-3.33
Intuit	INTU	34.28	34.97	34.61	0.00
MasterCard	MA	244.62	251.30	246.30	-1.47
Newtek Business Services	NEWT	1.19	1.35	1.23	-7.46
Optimal Payments	OPMRD	1.59	2.40	2.35	43.29
Payment Data Systems	PYDS.OB	0.02	0.03	0.03	50.00
Pipeline Data	PPDA.PK	0.05	0.05	0.05	0.00
Planet Payment	PLPM.PK	1.70	2.00	1.95	-2.50
Sage	SGE.L	3.70	3.76	3.73	-0.27
Transaction Network Services	TNS	22.45	23.69	22.56	-3.38
TSYS	TSS	14.99	15.40	15.16	0.20
U.S. Bancorp	USB	25.45	26.39	26.14	1.83
VeriFone	PAY	21.14	23.48	21.19	-8.11
Visa	V	88.69	93.15	88.84	-4.73
Wells Fargo & Company	WFC	29.26	30.67	30.38	2.53

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VENDOR BRIEFS

Discover Extends Retailer Pact

Discover Financial Services announced this week it has extended its network agreement with Wal-Mart Stores Inc. through 2015.

Discover has handled transactions for the Wal-Mart Discover card since early 2005. General Electric Co.'s GE Money Bank issues the cards, which are treated as a private label card when used at Wal-Mart stores and as Discover cards elsewhere.

"Our relationship with Discover is important to the success of our Wal-Mart network-branded consumer card program," Jane Thompson, president of Wal-Mart Financial Services, said in a press release.

Before offering a Discover card, Wal-Mart offered a MasterCard Worldwide card issued by JPMorgan Chase & Co., but that deal ended before the Discover deal was announced.

Trustwave Joins Organization


Trustwave, a Chicago-based payment-security company, has become a member of the Forum of Incident Response and Security Teams, an organization for technology incident response companies.

Membership in the organization means the company will be able to share information with other the forum members from around the world, Trustwave says.


The forum is based in Morrisville, N.C..

Terrapin To Distribute Products From Charge Anywhere

Terrapin Financial Services LLC, a Pittsburgh-based ISO, will resell Charge Anywhere LLC's wireless payment services and products, Charge Anywhere says.

South Plainfield, N.J.-based Charge Anywhere sells mobile-payment applications for smartphones and other mobile uses. The company also operates an online payment gateway and offers a card reader that enable card-present transactions with mobile devices. 

People & Promotions

Hypercom Corp. has named **William Rossiter** vice president of marketing. Rossiter's primary focus will be on deploying the company's mobile-payment technology, Scottsdale, Ariz.-based Hypercom says. 

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MARKET TRENDS <<<

KEY EVENTS THAT COULD AFFECT YOUR BUSINESS

>>>VISA MANDATES NEW ZEALAND CHIP-AND-PIN CONVERSION BY 2012

Visa Inc. will move to chip-and-PIN technology for all of its cards in New Zealand over the next four years, the card company announced last week.

Merchants no longer may accept signatures at checkout for domestically issued Visa cards starting in 2012 as part of an effort to cut card fraud, which has increased to nearly 5 cents from about 4 cents per NZ\$100 (US\$70.23) spent on Visa Cards over the past year, according to the statement.

MasterCard Worldwide offers chip-and-PIN technology as an option, but it is not mandatory.

Visa is working with financial institutions and retailers to upgrade more than 2.6 million Visa cards and thousands point-of-sale terminals to meet the deadline, Sean Preston, Visa's country manager for New Zealand, said in the statement.

"From April 2010, all new Visa credit cards issued in New Zealand will feature secure embedded smart chips," Preston said. "This will be followed by the upgrade of Visa debit and reloadable prepaid cards from April 2012."

New Zealand merchants, however, will continue to accept signatures for cards issued overseas that have magnetic stripes or chips without PINs, according to the statement.

In addition, Visa will work with institutions to ensure that all new ATMs accept chip-and-PIN cards by April 1, 2011, and that all Visa cardholders are enrolled into Verified by Visa, a free service for cardholders that provides a password for secure online shopping, by April 1, 2012.

>>>VERIZON WIRELESS BILLTOMOBILE SERVICE TO BYPASS CARDS FOR PAYMENTS

Verizon Wireless customers soon will be able to charge purchases of digital goods, such as games, to their monthly phone bills, bypassing cards and other payment channels. Verizon had not previously sold its customers any products other than its own offerings, such as ringtones, a Verizon spokesperson says.

Verizon Communications Inc.'s wireless unit on March 22 announced that later this spring it will launch South Korea-based Danal Inc.'s BilltoMobile service, which will enable customers shopping for online games and subscriptions to add the purchase costs to their monthly cell-phone bills. Customers pay no extra fee for the service. Verizon and Danal will split an undisclosed merchant fee.

To purchase games and subscriptions through the service, Verizon Wireless customers must click on the BilltoMobile icon on participating Web sites, then input their mobile telephone number and ZIP codes for authorization. Within 15 seconds, BilltoMobile sends a text message containing a one-time-use passcode to the customer's handset. The customer then inputs the passcode

at checkout on the participating merchant's Web site to access the digital merchandise.

Verizon initially is limiting monthly purchases from BilltoMobile to \$25. "We're not saying this won't change, but initially we are keeping the limit low from a collections standpoint so that in case there is a dispute we can manage it," the spokesperson says.

>>>CREDIT-SCORE FEATURE FOR PREPAID CARDS A 'SIGNIFICANT STEP'

Several observers last year predicted credit-building features might be the next significant add-on for general-purpose reloadable prepaid cards. Recently, a Las Vegas-based technology company unveiled a credit-score feature that reports recurring monthly payments initiated with prepaid cards such as utility bills to the three major credit bureaus and that can affect a cardholder's credit score.

PanAm Payment Systems Inc. is helping Paragon Dynamix LLC bring the credit-building tool to the market. The Prepaid Group International, an Atlanta-based prepaid card manager, is one of the first companies to use the feature for its payroll cards.


The tool's ability to report to the major credit bureaus (Equifax Inc., Experian PLC and TransUnion LLC) is "a significant step in the right direction" for the prepaid card industry, says Rachel Schneider, innovation director for the Center for Financial Services Innovation, a nonprofit arm of Chicago's ShoreBank Corp.

"There are millions of thin-[credit] file and no-[credit] file consumers who don't have traditional credit histories," she says. "There is substantial evidence to indicate that regular bill-pay activity is relevant to assessing credit worthiness."

Paragon did not develop the system on its own but declined to reveal its partner. The tool can help program managers, processors and issuers create additional customer "stickiness" in their prepaid programs, according to president Philip Huston. "[That] impacts long-term portfolio profitability," he says.

College students and first-generation immigrants most likely would benefit the most from reloadable prepaid cards with this feature, says Tom Britz, president and CEO of Whitefish, Mo.-based PanAm.

The Credit Card Accountability, Responsibility and Disclosure Act has made it difficult for consumers under 21 to secure a credit card. Obtaining a co-signer for the card is one option, but Britz contends most college students do not want one because they fail to build a credit file that way.

First-generation immigrants represent a market that extends beyond the traditional Hispanic unbanked and underbanked population, Britz says. "We're talking about people from more than 140 different countries and who work in a lot of different industries," he says. 

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IRS cont'd from page 1

organizations to comment at the March 15 hearing. The U.S. Department of the Treasury and the IRS issued a draft of the proposed regulations Nov. 23 and closed the comment period Jan. 25. The IRS has not indicated when it may release the final regulation.

Under the proposed regulation, a foreign payment-service entity would not be required to report to the IRS payments made to merchants that do not have a U.S. address if that entity neither knows nor has reason to know that the merchant is U.S.-based, Mary Bennett, director of government and industry relations for the Washington, D.C.-based Electronic Transactions Association, tells *ISO&Agent Weekly*. However, service providers in the U.S. must verify that a merchant is a foreign entity.

"The foreign situation is the primary concern," says Bennett.

Processors and acquirers with international customers under the proposed rules would be required to obtain an official W8 form from every foreign merchant they service to establish the merchant is exempt from the reporting requirements, says Bennett.

COMPETITION IN JEOPARDY

The foreign merchant-acquiring business for U.S. companies and their foreign subsidiaries could be harmed "if the IRS adopts the additional documentation approach to foreign entities in its final regulations," says a First Data spokesperson.

"Most foreign entities do not possess U.S. taxpayer identification numbers required on these IRS forms. Additionally, in certain cultures, merchants would loathe having to supply the information required on these U.S.-based forms, as it would be considered an invasion of privacy," says the spokesperson.

The difficulty in obtaining timely and valid documentation from foreign merchants may result in backup withholding on payments to foreign merchants, "which would further strain these customer relationships," says the spokesperson.

"As a result, foreign merchants would likely find an acquirer/processor that is native to that country, severely hampering the ability of U.S. companies and their foreign subsidiaries to compete in this marketplace," says the spokesperson.

The proposed rule "instantly just cuts out the competitiveness of any U.S. company in the international market," agrees Bennett. U.S.-based providers would have to obtain information from existing clients and require all new clients to supply documentation, she says.

"Who can sign a new foreign client if they will require this paperwork up front and a local processor won't require that?" Bennett asks. "It shuts down the possibility to acquire new clients and jeopardizes existing ones."

In his comments during the hearing, Stuart Harvey, Elavon CEO, gave an example of a dry cleaner in Ireland having to supply additional information to its U.S. processor, says

Bennett. "Will [the merchant] provide that or just switch to an Irish processor" to avoid the hassle? she asks.

An Elavon representative was unavailable for comment by deadline.

The proposed rule "instantly just cuts out the competitiveness of any U.S. company in the international market."

Mary Bennett,
Director, Government
Relations,
Electronic Transactions
Association

ISOS MUST EDUCATE MERCHANTS

ISOs likely would have to educate their merchant clients about the regulation and potentially would have to work with processors to gather accurate merchant data for reporting, industry insiders say.

"I could see a couple of changes having to be made in the industry during the account-boarding process," says Henry Helgeson, co-CEO of Merchant Warehouse Inc., a Boston-based ISO. ISOs may need to alter their merchant applications to ensure they are collecting necessary information that will meet IRS

requirements.

Additionally, "ISOs are going to have to educate merchants," Helgeson says.

"ISOs need to educate themselves and their merchants," agrees Bennett. "The merchants don't have a solid sense of what this means."

Indeed, most ISOs are unaware of the regulations, says Helgeson.

Merchant-service providers today should be verifying their clients' taxpayer identification numbers with the IRS. They "need to get their current clients done as quickly as they can," says Bennett. As the deadline draws near, more verifications will flood the agency and slow the process, she notes.

"The IRS system is not state of the art," she says. "It's not built to take the volume of this." 

IMPACT cont'd from page 1

recession “very much” or “drastically” altered their compensation, while 19% reported no effect.

Indeed, there were subtle shifts within reported income levels. Just as in last year’s survey reflecting 2008 compensation, 11% of respondents said they made \$50,000 or less in 2009. However, 31% reported they earned between \$50,001 and \$100,000 last year, up from 33% who said so the previous year. Also, 5% of participants reported earning between \$150,001 and \$175,000 last year, down from 8% who did in 2008. The 2010 survey also found that 11% of respondents reported making \$300,001 or more last year, down from 16% who said so a year earlier.

Full survey results appear in the April issue of *ISO&Agent* magazine.

Some big earners have moved on and left the industry for various reasons, and that may have helped cause the decrease at the top of the compensation scale, suggests David Fish, senior research analyst at Mercator Advisory Group Inc., a Maynard, Mass.-based consulting and research firm.

The compensation shifts also reflect the dearth last year of big bonuses—payouts as big as \$50,000 or more in 2008, says Curt Hensley, president of CSH Consulting Inc., a Phoenix-based payment-recruiting firm. “In general, a lot of the really high-end salespeople who were making over \$300,000 have dropped into lower brackets,” Hensley tells *ISO&Agent Weekly*. “There are a lot of high-end earners who have been put out of positions.”

That partly could explain why fewer industry members reported making more than \$300,000 in this year’s survey, he says. Another factor may have been that senior-level people in good positions chose to stay in them instead of move to another firm, Hensley says.

The nation’s financial crisis swelled, business retreated and hiring slowed beginning in October 2008, Hensley says. A year later, however, conditions began to improve as businesses started hiring again last October, he says, predicting hiring should pick up this year.

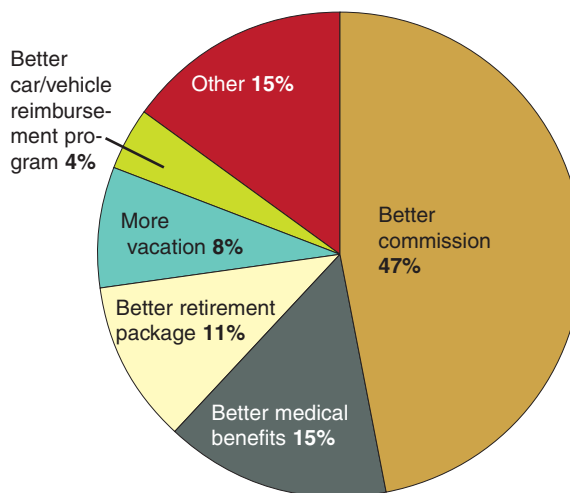
Compensation during the recession also took a hit from reduced bonuses and commission changes, says Mike McCormack, president of Palma Advisors LLC, a Fort Lauderdale, Fla.-based payments consultancy.

The decline in same-store sales, an increase in small-business failures and a reduced number of small-business start-ups all have affected ISO compensation, McCormack says. The result is that many ISOs have reduced the size of sales bonuses, he says.

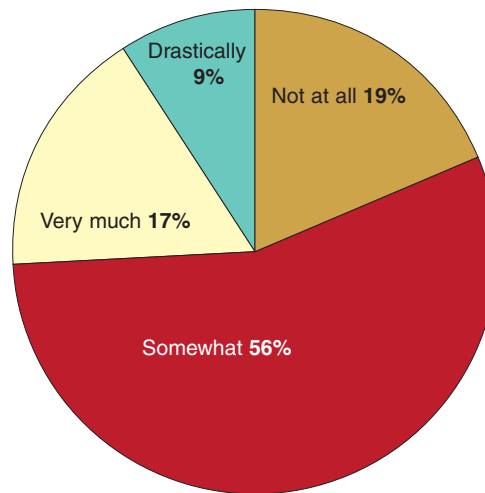
Some ISOs also may have altered how much they pay sales agents based on the quality of the merchant. One ISO McCormack works with pays less commission if the merchant has a lower quality credit rating, especially if the merchant leases equipment.

SURVEY RESULTS

Given the choice, how would you improve your pay-and-benefit package?



To what degree has the recession affected your compensation?



Source: *ISO&Agent 2010 Compensation Survey*

“It makes the lease technically risky,” McCormack says. A lease held by merchant with a lower-quality credit rating does not garner as much value as a merchant with better credit, he says.

Echoing Hensley, McCormack sees general economic improvement in 2010. “It will be a very gradual rise,” he says.

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SECURITY

Solveras Launches New PCI Compliance Effort

About 20% of approximately 15,000 merchants in the Solveras Payment Solutions portfolio thus far have been notified as part of a program designed to bring them into compliance with Payment Card Industry Data Security Standard, the Arlington, Va.-based ISO says. The initiative began in late February.

Solveras is working with Trustwave, a Chicago-based payment-security company that has set up a Web site the merchants may use to provide information about their payment card practices. The information will help Trustwave produce an assessment of their PCI-compliance status and advise them on steps to become fully compliant, says Brian Bickel, Solveras vice president of sales.

"We are sending [merchants] notices and enrolling them into the Trustwave [site]," says Bickel. Solveras is sending notices to groups of merchants to ensure each is properly enrolled, Bickel says.

The program has three phases, Bickel says. The first involves notifying the pool of small and midsize merchants about the compliance initiative. The second gives merchants the ability to attest their compliance, and that is followed by the final phase in which Solveras and Trustwave instruct them on ways to stay compliant.

Merchants pay between \$6 and \$10 per month for the service, depending on the complexity of their payment networks, Bickel says. Solveras' nearly 30 inside salespeople do not receive commissions when merchants sign up for the program, he says. "We're trying to pass through the cost," Bickel says.

PCI compliance among Level 4 merchants—those with less than 1 million annual card or 20,000 annual e-commerce transactions—can be difficult because they often lack the technology or financial resources that larger retailers do.

Trustwave says it is managing "dozens" of Level 4 programs that reach more than 1 million merchants. 

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