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## CHAPTER ONE – ISSUER REQUIREMENTS

### SECTION 1.1 Issuer

Each Issuer shall have primary responsibility and liability for performance of the obligations of an Issuer under these Rules, regardless of whether any such obligations, including the operation of a CAS, are performed by the Issuer or by a third party on behalf of the Issuer. No delegation of duties by an Issuer to a third party shall relieve such Issuer of its liability for performance of such duties hereunder. Each Issuer shall ensure that any activity performed by a third party on its behalf is performed in compliance with these Rules and hereby warrants such compliance to each other Participant. The obligations of each Issuer shall include the following:

- a. **Issuer Agreement.** Each Issuer shall enter into an Issuer Agreement with one or more Government Entities or Prime Contractors pursuant to which the Issuer shall agree to be bound by and comply with these Rules. These Rules do not restrict any other terms or conditions of the Issuer Agreement, provided that such terms and conditions do not conflict with these Rules.
- b. **Issuer Participation Agreement.** Each Issuer shall execute and deliver to NACHA a copy of the form of agreement attached as Appendix II.
- c. **Card Issuance.** Each Issuer shall ensure that its Cards and PINs are issued in accordance with these Rules, regardless of whether the distribution of Cards is performed directly by the Issuer or by a Government Entity, Prime Contractor or other third party.
- d. **Transaction Processing.** Each Issuer shall ensure that its CAS operates in accordance with these Rules.
- e. **Settlement.** Each Issuer is liable for and shall settle all Authorized Transactions in accordance with these Rules, notwithstanding any negligent, wrongful or fraudulent conduct of any Cardholder. *(Amended September 27, 1996)*
- f. **Financial Responsibility.** In order to promote the acceptance of Transactions by Merchants and Acquirers, each Issuer that is not a government entity shall:
  - (i) Provide to the appropriate Government Entities such evidence of the Issuer's ability to fulfill its settlement obligations under these Rules as is required under the Issuer Agreements between the Issuer and Government Entities and Prime Contractors. This evidence may be in the form of financial statements, bonds, guarantees or other assurances; and
  - (ii) Upon request, provide to relevant Acquirers such evidence of the responsibility of a Government Entity for the amount of Authorized Transactions as is provided for in the applicable Issuer or Prime Contractor contract with that Government Entity. This evidence may be in the form of the relevant contract, or commitments, statements or other assurances from the Government Entity. *(Amended November 15, 2001)*
- g. **Acquirer Agreements.** Each Issuer shall enter into Acquirer Agreements or cause its Designated Agent(s) to enter into Acquirer Agreements pursuant to which the Acquirer shall agree to be bound by and comply with these Rules, as such Rules may be amended from time to time. Each Acquirer Agreement shall acknowledge the ownership of the QUEST Mark by NACHA and NACHA's exclusive right to license the use of the QUEST Mark under these Rules. These Rules do not restrict any other terms or conditions of the Acquirer Agreement, provided that such terms and conditions do not conflict with these Rules. Each Issuer and Designated Agent must keep a copy of each of its Acquirer Agreements at its headquarters.



- h. Issuer as Acquirer.** Each Issuer may act as an Acquirer, including as Acquirer of last resort if required under an Issuer Agreement or Applicable Law, and in such capacity shall be subject to the Rules governing the activities of Acquirers. As an Acquirer for a Full Service Merchant or SNAP Only Merchant, the Issuer shall be responsible for converting to an electronic format each Sales and Credit Draft initiated with a Card issued by another Issuer at such Merchant.
- i. Designated Agent Agreement.** Each Issuer may enter into one or more Designated Agent Agreements, provided that such Issuer shall be liable for the acts and omissions of its Designated Agents pursuant to such Designated Agent Agreements. A Designated Agent may act on behalf of the Issuer to enter into Acquirer Agreements or Merchant Agreements or to enter into Designated Agent Agreements with other Networks. Each Designated Agent Agreement shall require the Designated Agent to comply with these Rules, as such Rules may be amended from time to time. These Rules do not restrict any other terms or conditions of the Designated Agent Agreement, provided that such terms and conditions do not conflict with these Rules. Each Issuer and Designated Agent must keep a copy of each of its Designated Agent Agreements at its headquarters. *(Amended June 13, 1997 and March 12, 2003)*
- j. Processor Agreements.** The Issuer, or a Designated Agent on its behalf, shall enter into an agreement with each Processor directly connected to the CAS or to a Network that is directly connected to the CAS, pursuant to which agreement such Processor shall agree to be bound by and comply with these Rules, as such Rules may be amended from time to time. These Rules do not restrict any other terms or conditions of such agreement, provided that such terms and conditions do not conflict with these Rules. Each Issuer and Designated Agent must keep a copy of each of its Processor Agreements at its headquarters.
- k. Interoperable Transactions.** Each Issuer is responsible for establishing telecommunications links, Transaction switching facilities and any other arrangements with other Issuers necessary for the routing of Interoperable Transactions to such other Issuers, for facilitating the Settlement of such Interoperable Transactions and for facilitating the handling of Correction Requests and Correction Responses. Each Issuer shall use good faith efforts to establish agreements with other Issuers on mutually agreeable terms and conditions for the exchange of Interoperable Transactions under the Rules. If Issuers are unable to reach such agreement through their own good faith efforts, the matter shall be submitted to mediation before a neutral mediator agreed between the parties or appointed by NACHA if the parties are unable to agree. Each Issuer shall absorb all of its own expenses in connection with the mediation and shall pay one half of the fees or costs related to the services of a neutral mediator. One of the more senior executives from each Issuer shall participate in such mediation, which shall take place in such neutral location and shall be of such duration as the parties shall agree in good faith. *(Amended January 30, 1997 and December 1, 2000)*
- l. IIN Files.** Each Issuer shall be responsible for generating, updating and distributing IIN files of all Issuers to each Processor that is directly connected to the CAS.
- m. Surcharge Notification.** Each Issuer that receives a notification from an Acquirer that such Acquirer or its Merchant or Terminal Operator intends to impose a Surcharge shall notify each other Issuer of such fact.
- n. Applicable Law.** Each Issuer shall comply with all Applicable Laws with respect to its activities hereunder.



## **SECTION 1.2 Minimum CAS Performance Standards**

- a. **Availability of a CAS.** Each CAS shall be available 99.9% of the CAS's scheduled up-time under the Issuer Agreement, twenty-four (24) hours per day, seven (7) days per week.
- b. **CAS Processing Time.** Each CAS must process and respond to a Transaction Request within two (2) seconds from the time such request is received by the CAS, 98% of the time, on a monthly average basis. These calculations do not include data transmission time between the CAS and the Acquirer.
- c. **Accuracy Standard.** No more than two (2) in every 10,000 Transactions processed by a CAS may lead to a Correction Request resulting from CAS error. *(Amended December 1, 2000)*
- d. **Interface.** Each CAS shall maintain the necessary computer hardware and software to interface directly with data processing facilities required to accommodate Transaction processing.

## **SECTION 1.3 Message Format**

Each CAS shall use the ISO 8583 message format, modified for EBT, in a version mutually agreed to between the CAS and the party connected, for all Transactions. Each CAS shall process each Transaction as a single message financial Transaction, except for Preauthorized Transactions.

## **SECTION 1.4 Transaction Support**

Each Issuer shall be liable for each Transaction Authorized by it or by a CAS on its behalf and shall settle for the full amount of the Transaction, if the Transaction was initiated in accordance with these Rules, regardless of whether the Issuer receives funding for the Transaction. The Issuer's liability to settle a Preauthorized Transaction is addressed in Section 1.6(e). Each CAS must verify the PIN for each Transaction for which a PIN is required under these Rules. Each Issuer may, if directed by its Government Entity in accordance with its Issuer Agreement, deny all Transaction Requests originating from a specific Acquirer or Merchant, and shall have no liability for such denials.

## **SECTION 1.5 ATM Transactions**

Each CAS must support the following ATM Transactions that are initiated and transmitted to the CAS in accordance with these Rules:

- a. **Withdrawal from Cash Account.**
- b. **Balance Inquiry from Cash Account.**

## **SECTION 1.6 POS Cash Transactions**

Each CAS that provides access to Cash Accounts under the QUEST Mark must support the following POS Cash Transactions that are initiated and transmitted to the CAS in accordance with these Rules:

- a. **Purchase Only from Cash Account.**
- b. **Purchase with Cashback from Cash Account.**
- c. **Balance Inquiry from Cash Account.**



**d. Cash Only from Cash Account.**

- e. Preauthorized Transaction from Cash Account.** Each CAS must support Preauthorization requests in an amount of \$40 or less. Each CAS must decline any request for Preauthorization on a SNAP Account; Preauthorized Transactions are not permitted on SNAP Accounts.

Each Issuer shall be liable for and must settle each properly Preauthorized Transaction in the amount of the Completion when the amount of the Completion, including any Surcharge otherwise permitted under these Rules, is less than or equal to the amount of the Preauthorization and the Completion is received by the Issuer's CAS within two hours of the CAS's response to the Preauthorization request. If the amount of the Completion is greater than the amount of the Preauthorization, then the Issuer is liable for and must settle only the amount of the Preauthorization. An Issuer is not liable for and is not required to settle any Transaction for which the Completion is not received in a timely manner. Notwithstanding the foregoing, each Issuer may, at its sole option and as permitted under its Issuer Agreement and Applicable Law, determine to pay a Transaction even if the Completion is received later than two hours after receipt of the Preauthorization request or for an amount greater than the amount of the Preauthorization if funds are available in the Cardholder's Account. The payment of one or more such Completion messages shall not create any obligation in the Issuer to pay any other such Completion that is not communicated in accordance with the requirements of these Rules.

- f. Key entry of PAN Transactions.** Except as otherwise provided by these Rules, each CAS shall treat POS Cash Transactions for which the PAN is key-entered at the POS Terminal the same as other POS Cash Transactions. *(Amended January 9, 1998)*
- g. Cash Merchandise Refunds.** A CAS must support Cash Merchandise Refunds only if support for such Transaction is required by the Issuer Agreement for a Government Entity's specific EBT Program. Upon Authorization of a Cash Merchandise Refund request, each CAS shall transmit a response communicating the Available Balance in the Cardholder's Cash Account including the credit for the amount of the Cash Merchandise Refund. A CAS may credit a Cash Merchandise Refund only to the Cardholder's Cash Account. *(Amended September 26, 2014)*
- h. Store and Forward Cash Transactions.** A CAS must support Store and Forward Cash Transactions that are initiated and transmitted to the CAS in accordance with these Rules. If support for Partially Authorized Transactions is required by the Issuer Agreement for a Government Entity's specific EBT Program and a Cash Account has a positive balance but does not have sufficient funds to satisfy a Store and Forward Cash Transaction, the CAS shall Authorize the Transaction in the amount of the available balance in the Account. *(Amended September 26, 2014)*
- i. Resubmission of Denied Store and Forward Cash Transactions.** If the CAS denies a Store and Forward Cash Transaction due to an error in message format, the CAS shall support the Resubmission of such Transaction during the same calendar month in which the Transaction was originally initiated. The CAS shall not accept the Resubmission of a Transaction denied for any other reason. The CAS shall not accept Resubmission of a Partially Authorized Transaction. *(Amended September 26, 2014)*

## **SECTION 1.7 SNAP Transactions**

Each CAS that provides access to SNAP Accounts under the QUEST Mark must support the following SNAP Transactions that are initiated and transmitted to the CAS in accordance with these Rules:

- a. SNAP Purchase.** If a CAS denies a SNAP Purchase because there are insufficient funds available in the Cardholder's Account, the CAS must indicate that the Transaction was denied due to insufficient funds.
- b. Balance Inquiry from SNAP Account.**



- c. **SNAP Merchandise Refunds.** Upon Authorization of a SNAP Merchandise Refund request, each CAS shall transmit a response communicating the Available Balance in the Cardholder's SNAP Account including the credit for the amount of the SNAP Merchandise Refund. A CAS may credit a SNAP Merchandise Refund only to the Cardholder's SNAP Account.
- d. **Manual SNAP Transactions.**
- (i) **Voice Authorization System.** Each CAS must provide a telephone authorization system available to SNAP Merchants and Full Service Merchants twenty-four (24) hours per day, seven (7) days per week for the receipt of requests for Telephone Authorizations. If a Manual SNAP Transaction is Authorized pursuant to such system, the CAS shall provide to the Merchant a Telephone Authorization Code to place on the Sales or Credit Draft. If Telephone Authorization is provided within twenty-four (24) hours after a Merchant accepts a Manual SNAP Transaction without such Authorization, the Issuer shall treat such Transaction as Authorized. Notwithstanding the Authorization of a Manual SNAP Transaction, the CAS may return such Transaction when it is received if the Sales and Credit Draft or electronically converted message is not properly completed.
  - (ii) **Manual Sales and Credit Drafts.** If a CAS acts as the Acquirer with respect to a Manual Only Merchant, the CAS must support the processing and Settlement of Sales and Credit Drafts that are initiated and transmitted to the CAS in paper form by such Merchant in accordance with these Rules. *(Amended January 30, 1997)*
  - (iii) **Electronically Converted Sales and Credit Drafts.** Each CAS must support the processing and Settlement of Sales and Credit Drafts that have been converted to an electronic format acceptable to the CAS and that are initiated and transmitted to the CAS in accordance with these Rules. These Transactions are also known as “voucher clear” transactions. *(Amended September 26, 2014)*
  - (iv) **Manual Transactions without Authorization.** Each CAS must support Sales and Credit Drafts that are initiated and transmitted to the CAS in accordance with these Rules and for which a Telephone Authorization was not obtained by the SNAP Only Merchant or Full Service Merchant due to the Merchant's inability to contact the CAS. Each CAS shall communicate to the Merchant its Authorization or denial of the Transaction, and if the Transaction is Authorized, the Issuer shall settle the Transaction in accordance with these Rules.
- e. **Store and Forward SNAP Transactions.** Each CAS must support Store and Forward SNAP Transactions that are initiated and transmitted to the CAS in accordance with these Rules. If support for Partially Authorized Transactions is required by the Issuer Agreement for a Government Entity's specific EBT Program and a SNAP Account has a positive balance but does not have sufficient funds to satisfy a Store and Forward SNAP Transaction, the CAS shall Authorize the Transaction in the amount of the available balance in the Account. *(Amended September 26, 2014)*
- f. **Resubmission of Denied Manual SNAP Transactions and Store and Forward SNAP Transactions.** If the CAS denies a Manual SNAP Transaction or a Store and Forward SNAP Transaction due to an error in message format, the CAS shall support the Resubmission of such Transaction during the same calendar month in which the Transaction was originally initiated. The CAS shall not accept the Resubmission of a Transaction denied for any other reason. The CAS shall not accept Resubmission of a Partially Authorized Transaction. *(Amended September 26, 2014)*
- g. **Key Entry of PAN Transactions.** Except as otherwise provided in these Rules, each CAS shall treat SNAP Transactions for which the PAN is key-entered at the POS Terminal the same as other SNAP Transactions.
- h. **SNAP and Full Service Merchants.** Each CAS shall authorize a SNAP Purchase only if it originated from a Merchant whose FSMC appears on the FSMC table provided by FCS. The CAS shall retain documentation evidencing its compliance with this provision. Each Issuer shall have no duty or obligation to determine the eligibility of items purchased by the Cardholder under the SNAP Program.



### **SECTION 1.8 Available Balance Return**

Each CAS must include in its Transaction Response the Available Balance in the Cardholder's Account for each of the following:

- a. ***Authorized Withdrawal from Cash Account;***
- b. ***Cash Merchandise Refund (Amended September 26, 2014)***
- c. ***Authorized SNAP Purchase;***
- d. ***SNAP Merchandise Refund; and***
- e. ***Denial of a SNAP Purchase due to insufficient funds.***

Each CAS may, at its option, also include the Available Balance in the Transaction Response for other Transactions. If a Transaction is Authorized, the remaining Available Balance communicated shall include the effect of the debit or credit to the Cardholder's Account from the Transaction, including any Transaction fee to be charged to the Cardholder's Account.

### **SECTION 1.9 Error Correction**

Each CAS shall support Correction Requests and Correction Responses in accordance with these Rules. *(Amended December 1, 2000)*

### **SECTION 1.10 Reversal**

Each CAS shall support full Reversals from an ATM or POS Terminal and partial Reversals from an ATM that are initiated and transmitted in accordance with these Rules.

### **SECTION 1.11 Stand-In Authorization**

Each Issuer, at its option, may arrange for a third party to provide Stand-In Processing for the Issuer's CAS during periods that the CAS is not operating. Each Issuer shall be liable for and shall settle each Transaction Authorized through Stand-In Processing to the same extent as if the Transaction had been directly Authorized by the CAS.

### **SECTION 1.12 Maintenance of Records**

Each CAS shall maintain a record of all information communicated to it pertaining to its Cardholders' Transactions for a period of at least two (2) years or longer if required by Applicable Law or the Issuer Agreement. Each CAS must maintain records of SNAP Transactions for at least (3) three years or any longer period required by Applicable Law. These Rules do not require any specific mode or format for record keeping.

### **SECTION 1.13 Third Party Service Provider Registration Program**

Each Issuer using the services of a Third Party Service Provider (a) must enter into a Third Party Provider Agreement with such Third Party Service Provider pursuant to which the Third Party Service Provider agrees to be bound by and comply with these Rules, as such Rules may be amended from time to time, and (b) must comply with the provisions of Chapter 7.



### **SECTION 1.14 Investigation and Audit**

If NACHA has reasonable cause to question the accuracy, timeliness, completeness or reliability of any activities undertaken by or on behalf of an Issuer under these Rules, or the compliance of the Issuer with these Rules, such Issuer shall provide to NACHA full and free access to all records and systems related to the issuance of Cards and the authorization, routing, processing and Settlement of Transactions, including records and systems of the Issuer's Third Party Service Providers, for the purpose of examination or auditing such performance and compliance. At NACHA's discretion, such examination or audit may be conducted, at the Issuer's expense, by (a) an outside auditor of the Issuer's choosing, (b) NACHA or (c) a third party retained by NACHA. If such examination or audit reveals any exception to the Issuer's compliance with these Rules, the Issuer shall promptly remedy such exception. To the extent feasible, NACHA shall coordinate any such examination or audit with and rely upon any comparable examination or audit performed by a Network. These Rules shall not limit the authority of a Government Entity to audit a Participant under any agreement or Applicable Law. The agreements between Participants that are required by these Rules may provide for additional audit requirements between such Participants.

### **SECTION 1.15 Disaster Contingency Information**

Upon request, each CAS shall release to each Participant information reasonably necessary to allow such Participant to develop a disaster contingency plan which will work in concert with the disaster contingency plan of the CAS.

### **SECTION 1.16 PIN Issuance and Management**

- a. ***PIN Issuance.*** Each Issuer shall ensure that a PIN is issued to each of its Cardholders for use in connection with his or her Card in accordance with the requirements of Chapter 9. Each PIN shall be made up of alphanumeric characters from four (4) to six (6) digits. The Issuer shall ensure that appropriate procedures are utilized to preserve the security and integrity of Cards and PINs during the process of physical issuance.
- b. ***DES.*** Each CAS shall use DES encryption for data communication purposes to protect a Cardholder's PIN.
- c. ***Implementation of Cryptography.*** Each CAS must implement cryptography for its PIN management operations so as to render the PIN unintelligible during transmission to anyone not possessing the encryption keys. The CAS shall translate and decrypt PINs for Transactions within a physically secure TRSM.

The CAS must ensure that all keys by which PINs are encrypted are generated in a secure manner. The management of encryption keys must meet the standards set by the ANSI X9.8-1982; X9.24-1992; X3.92-1987. At a minimum, all encryption keys must be subject to dual control, i.e., no single person shall have control over all parts of an encryption key.

If there is a known or suspected compromise of an encryption key, internal escalation procedures must be followed and the encryption key must immediately be changed.