

## **Discover® Network Cards Overview**

The following is an overview of relevant terms regarding the master agreement the State of North Carolina entered into with DFS Services LLC. The terms of the master agreement prevail over any inconsistent terms in this overview.

### **Is there a policy regarding the acceptance of Discover Network Cards?**

On December 15, 2006, OSC issued a policy entitled, “Types of Merchant Cards Accepted.” The policy addresses the types of cards that may be accepted, to include proprietary cards. Discover Network Cards are considered a proprietary card under the policy. The policy can be viewed at: [http://www.ncosc.net/SECP/SECP\\_Policies.html](http://www.ncosc.net/SECP/SECP_Policies.html)

### **Does the State have a master agreement to accept Discover Network Cards?**

On February 1, 2008, OSC entered into a master agreement with DFS Services LLC (“DFS”), allowing electing participants to accept Discover Network Cards.

### **Does an entity desiring to accept Discover Network Cards have to execute an Agency Participation Agreement?**

Yes, participants desiring to accept Discover Network Cards must execute a separate Agency Participation Agreement with DFS Services LLC (Exhibit C). .

### **What is the effect of the master agreement with DFS on participants already accepting Discover Network Cards?**

Participants that currently have a direct agreement with DFS can convert to the OSC master agreement, thereby taking advantage of the enhanced pricing and the negotiated terms. All state participants that are subject to the State Cash Management Law that elect to accept Discover Network Cards are not permitted to contract directly with DFS, unless an exemption is granted by the State Controller. Local units of government participants can contract directly with DFS if desired.

### **Are there any additional forms needed to be completed to enroll with DFS?**

In addition to the Agency Participation Agreement, an entity should complete the appropriate enrollment forms:

- (The enrollment forms are currently being developed.)

### **What is the primary difference between the Discover Network Card and Visa/MasterCard?**

The primary difference is when settlement of the transaction will occur. In the case of Visa and MasterCard, if either Wachovia Bank or SunTrust Bank is the depository, the funds are received the next banking day after the transaction is authorized. In the case of Discover Network, as well as American Express, regardless of the depository bank used, the funds are generally received two banking days after the transaction is authorized.

### **How does the delay in the receipt of funds for Discover Network Cards affect reconciliation?**

In most cases, each participant has a settlement bank account, for which the net of all transactions that post to the account on a given day are swept to a main bank account. Transactions that post to the account on a given day could therefore be from three sources:

- 1) Visa and MasterCard settlement from STMS – for transactions authorized the previous day
- 2) American Express settlement – for transactions authorized two banking days prior

3) Discover Network Card settlement – for transactions authorized two banking days prior

This would be in addition to any chargebacks that may post that day. In the case of State agencies, the net amount transferred from the ZBA settlement account (from all sources), as viewed on Wachovia Connection, is the amount that should be certified on CMCS.

**What involvement does SunTrust Merchant Services play?**

All authorizations are routed through STMS. However, STMS is not involved in the settlement of the funds, as the funds are received directly from Discover Network via ACH credit. The authorizations and batch transactions appear on STMS's ClientLine.

**Does DFS provide an online reporting system?**

Various reporting is available through Discover Network Merchant Account Center. This online reporting can be used in addition to the reporting available through STMS's ClientLine. See the following link for information. <http://www.discovernetwork.com/home/data/index.html>

**What is the cutoff time to transmit batch transactions to Discover Network in order to receive funds on the second banking day?**

Batched transactions containing Discover Network Card transactions must be received by Discover Network at or before 7:00 p.m. of your local time on a banking day. If this deadline is missed, settlement would be three days instead of two days. It is possible for a participant to bypass STMS and transmit both authorizations and batches directly to Discover Network. However, this requires POS terminals with split-dialing capabilities. These transactions would not appear on STMS's ClientLine, but could be viewed through Discover Network's online system.

**Does Discover Network assign a chain number and outlet numbers?**

Discover Network will assign each participant a unique chain number, as well as assigning an outlet (establishment) number to each outlet. These Discover Network-assigned numbers are different than the chain and merchant numbers assigned by STMS. STMS will associate the Discover Network assigned outlet number to the outlet number assigned by STMS. OSC will convey the Discover Network outlet number to STMS as each outlet is enrolled with Discover Network.

**What are the fees charged by DFS?**

The fee is based upon the type of Discover Network Card processed. The discount fee is calculated using the fee for the "credit card sales" as a base, which fee is currently 1.60%. For example, the fee for "commercial card sales" would be 130% of the base fee, while the fee for "prepaid card sales" and "debit card sales" would be 80% of the base fee. See Exhibit B for a complete schedule of the fees levied by DFS. The fee levied by DFS is in addition to the \$.04 per transaction charged by STMS. See item below regarding a special fee DFS levies if the Address Verification Service (AVS) is not provided for card-not-present transactions.

**What are the effective fee rates of the various cards?**

American Express and DFS both charge a discount fee, while Visa and MasterCard charge both an interchange and an assessment fee. STMS levies a \$.04 fee for each transaction, regardless of the card type. Assuming a transaction qualifies for the best government rate from Visa or MasterCard, on a typical \$100 transaction the "effective fee rate" for each would be as follows: Visa – \$1.61; MasterCard – \$1.79; American Express – \$2.19; DFS - \$1.60. The effective rate for Visa, MasterCard, and DFS would be higher if the transaction does not qualify for the best

interchange rate (e.g., commercial card). The effective rate would be lower if the transaction was for a debit card.

**Who determines if an entity will accept Discover Network Cards?**

Each participant makes its own determination as to which cards it will accept (i.e., Visa, MasterCard, American Express, Discover Network Cards). Guidelines contained in the OSC Policy entitled, “Types of Merchant Cards Accepted” should be used in making the determination.

**Can a participant be selective as to what types of receipts it will accept for Discover Network Cards?**

Yes, the participant may accept Discover Network Cards for only certain types of receipts, and where it accepts other payment cards, taking into consideration the nature of the receipt, including:

- Beneficiary of the receipts
- Requirement of the funds to be settled within one banking day
- Ability to fund the cost of the fees

**Can any one card brand be preferred over another card brand?**

No. If a particular card is accepted for a particular type of receipt, the entity must not promote any one card over the other, or do anything that discriminates against either card.

**What is the retention requirement for Discover Network Card transactions?**

While each card company has different retention requirements, OSC policy requires the transactions for all types of cards to be kept for 18 months.

**Does DFS have a guide for authorization procedures?**

Yes. Exhibit A of the master agreement should be referenced.

**Does DFS have a guide for chargeback and dispute procedures?**

Yes. Exhibit A1 of the master agreement should be referenced.

**Does DFS require merchants to comply with the PCI Data Security Standard?** Yes, per the Discover Network Merchant Operating Regulations, Discover Network merchants are required to comply with the Security Requirements at all times. The Security Requirements are currently defined as the Payment Card Industry Data Security Standard (as the same may be amended and supplemented from time to time). Section 13 (“Data Security”) of Exhibit A of the master agreement entitled, “Discover Network Merchant Operating Regulations” should be referenced, along with Appendix 3 of the Operating Regulations (“Security Requirements”). Note that Discover Network discloses its policies relating to fees associated with non-compliance with security requirements and security breaches more prominently than the other card brands.

**Does DFS have a convenience fee policy?**

Yes, Sections 2.2 and 2.3 of the “Discover Network Merchant Operating Regulations” (Exhibit A) should be referenced. DFS’s policy is similar to that of MasterCard and American Express, in that a convenience fee can be based as a percentage of the transaction amount, and not limited to being a flat fee, as required by Visa.

**Does DFS have any special requirements for Card-Not-Present Transactions?**

Yes, merchants participating in the Discover Network Card contract should be aware that Discover requires Address Verification Services (AVS) to be utilized for all card-not-present transactions (both numeric billing street address and zip code), or be charged an additional fee if not used. The fee charged for not capturing the required AVS data is \$.50 per transaction. For Discover, the security code (CID) service is optional. See OSC document describing Fraud Detection Services at: [http://www.ncosc.net/SECP/SECP\\_MerchantCard\\_Program.html](http://www.ncosc.net/SECP/SECP_MerchantCard_Program.html)

**Can governmental entities not participating in the State Controller’s MSA with SunTrust Merchant Services participate in the master agreement with DFS?**

No. In order to participate in the master agreement with DFS, the governmental entity must be a participant in the MSA with STMS. DFS may or may not elect to offer the same pricing structure to local units of government, but under agreements directly with the government in either case.