

Global Partner Management Notice

Subject: SIGIS Updates and Online Registration Processes for FSA/HRA Debit Card Acceptance

Dated: April 10, 2009

Announcement:
IRS Guidelines

Per the IRS notice 2008-104, Drug Stores and Pharmacies now have an effective date of June 30, 2009 to implement an IIAS solution or register for the 90% rule exception as appropriate for continued acceptance of FSA/HRA cards.

Drug Stores and Pharmacies that intend to implement an IIAS solution should do so as soon as possible to begin auto-substantiation of FSA/HRA transaction and to ensure continued acceptance after June 30, 2009. The SIGIS 90% rule registration process is now available and should be completed by applicable merchants prior to June 30, 2009.

IIAS Process

An IIAS allows a merchant to identify Qualified Healthcare Products (QHP) at the point of sale. The IIAS must identify each QHP within the POS system, flag the items on the customer receipt, and subtotal the QHP amount including tax and discounts on each order purchased with an FSA/HRA card.

The following data must be present in the authorization message to identify purchases on FSA/HRA cards that were appropriately processed within an IIAS:

Field	Status	Description
IIAS Indicator	Required	Signifies that the transaction has been validated by the Merchant's IIAS
MVV/MCID	Required	Indicates that the merchant is SIGIS certified (validated by payment brand)
Auth Amount (includes tax, less discounts)	Required	Total transaction amount
Total QHP Amount (includes tax and shipping, less discounts)	Required	Total amount of the Qualified Healthcare Products <ul style="list-style-type: none"> ▪ Includes all QHP (Over-the-counter, Rx, Vision, Clinic and Dental amounts)
Total Rx Amount (includes tax and shipping, less discounts)	Optional	Total amount of Prescriptions, used to gain access to Rx only purses <ul style="list-style-type: none"> ▪ This amount is included in the Total QHP amount
Total Vision/Optical Amount (includes tax and shipping, less discounts)	Optional (Visa Only)	Total amount of Vision Care Items <ul style="list-style-type: none"> ▪ This amount is included in the Total QHP amount
Total Dental Amount (includes tax and shipping, less discounts)	Optional (Visa Only)	Total amount of Dental Services <ul style="list-style-type: none"> ▪ This amount is included in the Total QHP amount
Total Clinic/Other Medical Amount (includes tax and shipping, less discounts)	Optional (Visa Only)	Total amount of Clinic/Other Medical Services <ul style="list-style-type: none"> ▪ This amount is included in the Total QHP amount

Partial Auth Indicator	Required	Flag used to indicate if partial approvals will be accepted <ul style="list-style-type: none"> ▪ If not supported, the authorization request will either be approved for the full amount or declined ▪ Balances will not be returned on FSA/HRA cards
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The settlement record must include the IIAS Indicator to identify that the transaction is from a POS system that verified qualified healthcare products against an IIAS during the authorization process. The merchant must have a VISA MVV/MasterCard ID on the merchant master file to submit qualified IIAS transactions.

IIAS Registration Process

To obtain the required ID or to modify an existing ID, merchants must be a certified member of the Special Interest Group for IIAS Standards (SIGIS) and successfully complete certification on the applicable FDMS processing platform.

To certify with SIGIS, the merchant must complete a merchant self assessment form and submit the form to SIGIS through the acquirer.

SIGIS uses an automated membership application process with the option to pay annual fees via credit card, or have an invoice sent to applicants upon completion of the application process. Membership privileges and access to SIGIS material will be provided upon receipt of payment for annual membership fees and approval of the application. Merchants that wish to implement an IIAS with the SIGIS standards must join via the online membership application. The membership application is now available on the SIGIS website www.sigis.com

90% Rule Program

According to IRS guidance, after June 30, 2009, health FSA/HRA debit cards may not be used at stores with Drug Stores and Pharmacies merchant category code unless:

1. The store participates in an inventory information approval system (IIAS)
- OR**
2. On a store location by store location basis, 90% of the store's gross receipts during the prior taxable year consisted of items which qualify as medical expenses (including over-the-counter eligible healthcare items) as defined by the IRS

Stakeholder benefits of the 90% rule process:

- Merchants do not have to make any software changes to existing POS systems to accept FSA/HRA cards as they will be deemed as "other medical merchants" by participating issuers

Stakeholder disadvantages to the 90% rule process:

- Merchant's customers may need to submit receipts for all FSA/HRA card transactions as the transaction will not be substantiated at the POS
- Merchants will be identified separately on the SIGIS website as not having an IIAS in place
- The prescription amount is not provided as a separate amount within the transaction thus not enabling access to a cardholders prescription only funds
- Issuer participation in the 90% Rule program is optional, therefore some FSA/HRA cards may not be approved at pharmacies that do not participate in IIAS

The SIGIS Association has created a process to support drug stores and pharmacies that meet IRS requirements, on a store location by store location basis, where 90% of the store's gross receipts during the prior taxable year consisted of items which qualify as medical expenses (including over-the-counter eligible healthcare items).

90% Rule Registration Process

To register as a 90% Rule merchant, merchants must first be a SIGIS member in good standing and have paid membership fees. The merchant will then be able to access the Members-Only area of the SIGIS website to complete the 90% Rule registration for each of the merchant's eligible store locations.

To register as a 90% Rule Merchant for the SIGIS 90% Rule Program, the following requirements apply:

1. **SIGIS Membership Required.** Registration as a 90% rule pharmacy merchant requires SIGIS membership including payment of fees. Merchants can join at www.sigis.com. Membership payments can also be made online.
2. **90% Rule Program Registration.** Merchants that operate store locations that meet the IRS requirements register these stores via an online registration capability at www.sigis.com.

Note: It is essential that 90% Rule merchants communicate with their Acquirer/Acquirer Processor or POS/Merchant Servicer Company to obtain the required information and data elements used in payment card authorization processing. Failure to provide the exact data elements used in card authorization processing will cause a delay in the merchant's participation as a 90% Rule merchant and may result in declines of FSA/HRA card transactions. Participating merchants should review this form and have all necessary information before attempting to register. Incomplete applications will not be accepted and the merchant will have to start over on the next registration attempt.

3. **Limited to Drug Stores and Pharmacies.** Only drug stores and pharmacies may register for the SIGIS 90% Rule Program. These merchants use the MCC 5912 or MCC 5122. Other types of merchants are not eligible to register for the 90% Rule Program.

The types of drug stores and pharmacies that may meet the IRS requirements for the 90% Rule include pharmacies operating in hospitals/medical buildings or mail order/Internet pharmacies that mostly fill prescriptions and have a very limited availability of other merchandise. Additionally, there are specialty pharmacies, such as compounding pharmacies, which primarily sell prescriptions/Rx and may qualify. But in all cases, the drug store or pharmacy must be able to certify that 90% of the gross sales of the store are from prescriptions/Rx and/or healthcare products on the SIGIS Eligible Products List.

4. **Store Level Qualification.** The IRS requirement is that only stores whose gross sales are at least 90% from prescriptions/Rx and over-the-counter Eligible Healthcare Products can be certified as qualifying for the 90% Rule. If a merchant has other stores that do not meet the 90% Rule, the merchant will need to implement IIAS capabilities in order for FSA/HRA card transactions to be approved after January 1, 2009. A merchant is also not permitted to average its total sales results over several stores.
5. **Terminal Level Qualification Not Permitted.** The IRS requirement is that drug stores and pharmacies must qualify based on sales at the store level. A merchant is not permitted to qualify, on a stand-alone basis a terminal or area of the store, such as the Pharmacy counter in the store.
6. **Qualifying Sales Only from Prescriptions/Rx and Eligible Healthcare Products.** The IRS has specified that "on a store location by store location basis, 90% of the store's gross receipts during the prior taxable year consisted of items which qualify as expenses for medical care under § 213(d) (including nonprescription medications as described in Rev. Rul. 2003-102, 2003-2 C.B. 559)." To determine which over-the-counter healthcare products meet the 213 (d) requirements, it is expected that 90% Rule merchants, that sell non-prescription/Rx items, will evaluate their store-level product sales using the Eligible Product List available to SIGIS members.
7. **No POS or Data Retention Requirements.** There are no POS changes required for a merchant that is eligible to qualify stores under the IRS's 90% Rule requirements and there is no need to support a list of FSA/HRA card BINs. The merchant completes registration at the SIGIS website. SIGIS will communicate the Store ID/Card Acceptor ID to participating Issuer Processors. 90% Rule merchants continue to accept payment cards in accordance with their current processes. There are no data retention requirements for 90% Rule Program merchants.

8. **Cardholder Receipt Requirements.** Unlike an IIAS merchant where FSA/HRA purchases are auto-substantiated to Issuers, the IRS 90% Rule indicates that stores qualifying as 90% locations can be viewed as “healthcare merchants.” This means that plan administrators will apply their standard substantiation processes to transactions at these locations – and the customer may be asked to submit a sales receipt to document that the items purchased were prescriptions/Rx or Eligible Healthcare Products. Thus, it is likely that customers using a FSA/HRA card will be asked by their plan administrator to submit a sales receipt.
9. **Annual Re-Registration.** The IRS requires a 90% Rule merchant to register annually for each store location. SIGIS will support online annual re-registration. A 90% Rule merchant must complete re-registration within 120 days of the end of the merchant’s taxable year. If the re-registration has not been completed, SIGIS will automatically remove the merchant’s Store IDs/Card Acceptor IDs from the 90% Rule List published to Issuer Processors.

SAMPLE Merchant Registration Form

Legal Company Name:

Parent/Merchant Name First Data Corporation
Address (line 1) 7305 Pacific Street
Address (line 2)
City Omaha
State NE
ZIP Code 68114

For changes to the above information, please contact help@sig-is.org

Merchant Contact Detail:

Web Site: optional
Contact person First: Last:
Contact Phone number nnn-xxx-xxxx
Contact Fax number nnn-xxx-xxxx optional
Contact Email

Taxable Year End mm dd

Merchant's Acquirer or Acquiring Processor Company:

Company Name
Address (line 1)
Address (line 2) optional
City
State
ZIP Code
Contact person First: Last:
Contact Phone number nnn-xxx-xxxx
Contact Email

Merchant needs accurate values

Acquirer ID used in payment card authorizations:

MasterCard ICA 6 digits
Visa BIN 6 digits

SAMPLE Merchant Registration Form (cont.)

Initial Store Location Qualifying under the 90% Rule (Additional Store Locations may be added later):

Note: Please enter your Store Location details accurately and exactly as you want it to appear on the publicly displayed lists. SIGIS will be publishing Store locations registered under the 90% Rule on its website.

Store Location Name	<input type="text"/>
Address (line 1)	<input type="text"/>
Address (line 2)	<input type="text"/> optional
City	<input type="text"/>
State	*Select* <input type="button" value="v"/>
ZIP Code	<input type="text"/>
MCC (DE/Field 18)	<input type="text"/> 4 digits

Merchant needs accurate values

MasterCard Authorization Requests:

Card Acceptor ID (DE 42) - Authorization	<input type="text"/>	9-15 digits
Card Acceptor ID - Settlement	<input type="text"/>	9-15 digits

Visa Authorization Requests:

Card Acceptor ID (Field 42) - Authorization	<input type="text"/>	9-15 digits
Card Acceptor ID - Settlement	<input type="text"/>	9-15 digits

% of Gross Receipts In Most Recently Ended Tax Year From Sale of Healthcare Eligible Products (as defined by Section 213(d) of the Internal Revenue Code). (To qualify, Gross Receipts must be 90% or more.):

<input type="text"/>	90 - 100
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Third Party Servicer Process

Third Party Servicers (TPS) are entities to which merchants outsource a significant portion of their IAS processes. Merchant clients of a TPS may be certified by SIGIS for IAS through a streamlined process. To qualify as a TPS, the TPS must provide and operate the following services/systems on behalf of its merchant clients

- Inventory management
- Cash register/POS transaction processing
- Payment card processing

The TPS must have an established relationship with an acquiring processor to certify the POS payment card processing system. If the TPS's software allows the merchant to make changes that will affect IAS processing, its merchant clients who use that software will not be able to use streamlined certification.

The merchant may certify using the standard SIGIS merchant certification process.

Merchant clients of a certified TPS listed below must contact their TPS to determine if their system/service version is included in the SIGIS TPS certification

- Bypass Platform
 - Emporos Systems Corporation
- North Platform
 - Freedom Data
 - Tempus Technologies
 - nSoftware

Best Regards,

Global Partner Management Team

First Data Corporation

Email: Gpm@firstdata.com

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