

GENERAL NOTES
ON
Rules & Regulations

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1 Introduction

This document gives general notes on the PIN Rules & Regulations (R&R), which contain the various arrangements regarding all critical activities relating to the PIN payment product.

These notes cover:

- the reasons for developing the PIN Rules & Regulations;
- a description of the PIN payment product;
- the Licence and Certificate structure;
- the content and structure of the document entitled '*PIN Acceptance Regulations*';
- the content and structure of the document entitled '*PIN Rules & Regulations*';
- the content and structure of the document entitled '*General Rules & Regulations – Part II Concepts and Definitions*';
- a brief description of the processes related to the PIN product.

No rights may be derived from these general notes nor do they form part of the PIN Rules & Regulations.



2 Reasons for the PIN Rules & Regulations

PIN B.V. is the owner of the PIN brand and payment product. The company has the task of defining and managing standards applicable to the various roles identified as part of the payment transaction system of the Netherlands relating to the PIN payment product. PIN Rules & Regulations (PIN R&R) have accordingly been drafted for the purpose of regulating and controlling the PIN payment product. The PIN R&R contain descriptions of the various roles and activities which players admitted to the PIN payment transaction market are able to perform and are permitted to perform. These roles and activities are governed by Licences and Certificates issued by PIN B.V.

As owner and operator of the PIN payment product, PIN B.V. guarantees among other things the efficiency, quality (including reliability and image) and integrity of PIN payment transactions. The principal tasks of PIN B.V. are as:

- owner, manager and operator of the PIN payment product;
- regulator, responsible for the drafting, adoption and management of PIN Rules & Regulations;
- issuer of Licences and Certificates;
- overseer of Licensees and Certificate Holders (with the power to impose sanctions);
- coordinator of anti-fraud measures;
- facilitator of consultation structures for PIN users;
- developer of the PIN payment product, including innovations;
- manager of public relations, public affairs, media contacts and brand promotion.

2.1 The PIN payment product

The PIN payment product covers all the roles and activities licensed and certified by PIN B.V. in the payment application chain that enables a Cardholder using a plastic card to make cashless payments to a Merchant. These payments are debited to the Cardholder's account and credited to the Merchant's account. Cardholder authentication involves online validation of the personal identification number (PIN) associated with the card. The PIN is a four-digit numeric code known only to the Cardholder. Payment of the transaction amount is made following authorisation by or on behalf of the card issuer and verification (acceptance) by the Cardholder. A payment instruction verified by the Cardholder using a POS Terminal (by pressing the 'yes' key on the terminal) is irrevocable. A card issuer (referred to as the Issuing Bank) guarantees settlement of the amount thus instructed to be paid to the Merchant's bank (referred to as the Acquiring Bank).

Both PIN cards and either fixed or mobile locations of POS Terminals are identified by means of the PIN logo, which is a registered trademark.



Provided a card bears the PIN logo, it can be used in any POS Terminal in the Netherlands where the PIN logo is displayed, as well as in mobile POS Terminals, regardless of the institution issuing the Cardholder's PIN card and the institution or institutions processing transactions on behalf of the Merchant.



Issuing institutions are also at liberty to use the same card for other applications and other brands (e.g. guest usage/cash withdrawals), provided it has been shown that such applications cannot affect the integrity of the PIN payment product.

2.2 The PIN brand

PIN is a registered trademark of PIN B.V. The PIN brand is used, among other things, to identify the electronic payment medium going by that name both for marketing purposes and in use. The PIN brand may only be used in connection with the related activities and strictly according to the terms of a Licence Agreement entered into with PIN B.V. for that purpose.

2.3 Purpose of the PIN product

The PIN product provides holders of a PIN card with a way of making cashless payments that are debited to the associated current account. For issuing banks, the PIN product means that they can offer their customers a fast and straightforward alternative to cash for any over-the-counter payments, thus avoiding the risks associated with carrying cash. The PIN product allows Merchants to enable their customers to make electronic payments using their PIN card. For acquiring banks, the PIN product means that they can provide Merchants with a way of reducing the risks associated with handling cash using an application that is swift, secure and simple in operation.



3 Licence and Certificate structure

Institutions wishing to enter the PIN payment market must obtain a Licence or a Certificate from PIN B.V. Institutions wishing to perform the role of Issuing Bank and/or Acquiring Bank require a Licence. Institutions wishing to provide support services in upstream markets on behalf of a Licensee in relation to PIN payment transactions may obtain a Certificate, provided they comply with the rules for the activities concerned (see Section 4.4 for a description of the roles). The following section of these general notes (Section 4) explains how to obtain a Licence or Certificate.

PIN B.V. has adopted a uniform set of rules, the PIN Rules & Regulations, which are to be adhered to by every Licensee and Certificate Holder. The PIN R&R contain among other things rules covering all critical activities relating to the PIN payment product. The rules relating to the use of the PIN product are laid down in the Branding Manual. As regards the activities covered by the PIN R&R rules, a distinction is made between the issuing domain and the acquiring domain. The issuing domain briefly comprises all activities relating to the issue of PIN cards, the online authorisation of PIN card payments by an Issuing Bank¹ and the processing of payments on behalf of Cardholders in order to enable a Cardholder to make PIN payments. The acquiring domain comprises all activities relating to the processing of PIN payments by an Acquiring Bank on behalf of a Merchant.

Within each domain, the above critical activities are grouped into separate roles. The PIN R&R itemise the individual roles in each domain and the activities involved in performing those roles.

Licensees are under obligation to conform to all the standards applicable to the acquiring or issuing domain. As already mentioned, there are a number of roles in each domain (as defined in the PIN Rules & Regulations section) and a number of activities are linked to each role. Unless they are directly linked to a Licence, it is necessary to obtain a Certificate in order to perform the various activities (linked to a specific role). If a Licensee performs such activities itself, it is the Licensee's responsibility to obtain a Certificate for those activities. If a Licensee subcontracts those activities, the contracting institution will require a Certificate from PIN B.V. for the role concerned plus the associated activity or activities. Licensees may only subcontract activities to certified Institutions. Certificate Holders can be certified to perform one or more (or all) of the activities associated with a specific role. It is the Licensee's responsibility to ensure that all the activities in a particular domain are covered.

Licensees enter into contracts with Merchants and Cardholders for use of the PIN product on their own terms and conditions. In signing such contracts, however, Merchants and Cardholders also undertake to comply with the agreed conditions for the PIN product.

¹ Individual PIN transactions are cleared by or on behalf of the issuing bank, which therefore guarantees the transaction.



3.1 Acceptance and acceptance regulations

A Licence is obtained by entering into a Licence Agreement with PIN B.V. A Certificate is obtained by entering into a Certificate Agreement with PIN B.V.

To qualify for a Licence Agreement or a Certificate Agreement, an Institution must demonstrate that it satisfies the acceptance standards for the role which it wishes to perform as part of the PIN payment product. This requires the institution to successfully complete the acceptance procedure in accordance with the PIN B.V. acceptance regulations. To begin the acceptance procedure, the institution must sign and return the acceptance regulations, other documents and the associated secrecy agreement to PIN B.V. to show its acceptance thereof. PIN B.V. will then send the institution a documentation set, including the PIN R&R.



4 PIN Rules & Regulations

4.1 General

The '*PIN Rules & Regulations*' lay down all the requirements to be satisfied by Licensees and Certificate Holders relating to the critical activities.

4.2 Starting points

The individual requirements laid down in the PIN R&R have the following starting points:

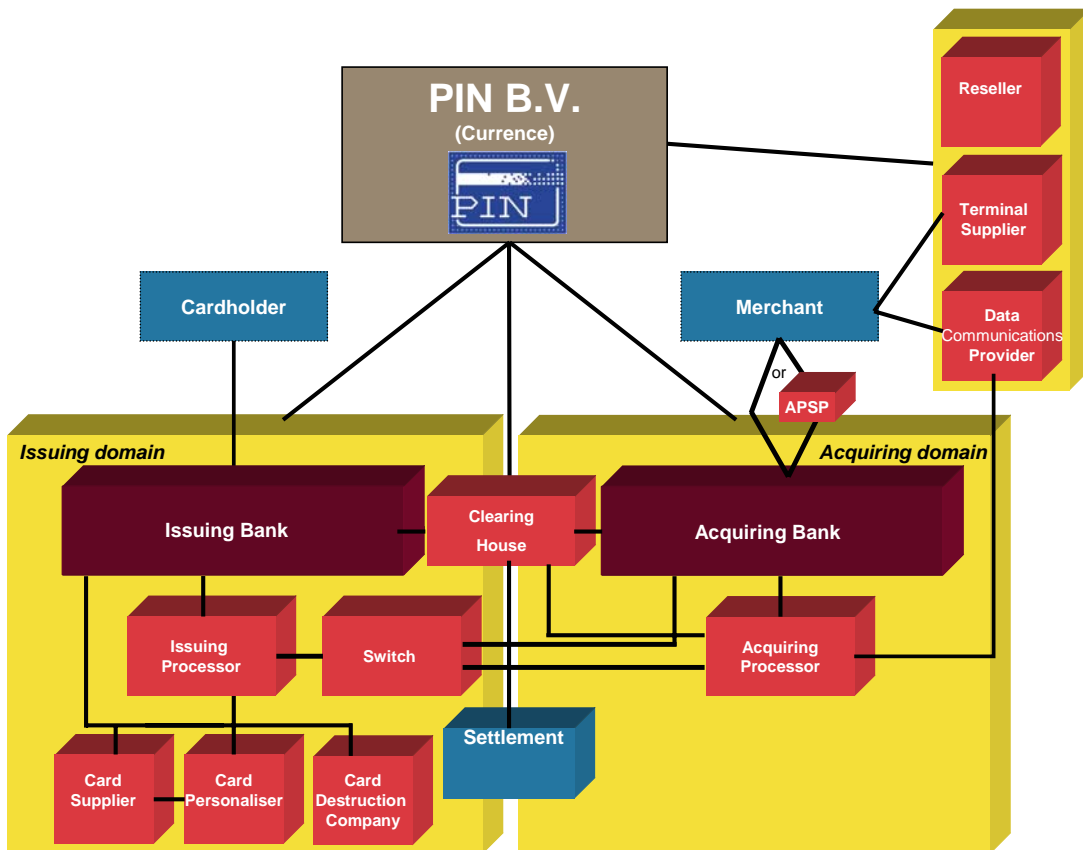
- the legislation based on the European Payment Services Directive of 13 November 2007;
- rulings by the Nederlandsche Bank (DNB), in particular the 'controlled operations' requirement pursuant to the Financial Supervision Act (WFT), as contained in the Order-in-Council (AMvB) under Part 3 of the WFT entitled 'Decree on Prudential Rules for Financial Undertakings' (AMvB 5), Bulletin of Acts, Orders and Decrees 2006,519' and supervision standards;
- the Core Principles for Systemically Important Payment Systems (CPSS), containing standards drawn up by the G-10 countries and adopted by the European Central Bank in January 2001;
- independent and objective analysis of the PIN R&R, including market consultation, as part of the formal ratification of these R&R.



4.3 Roles

Underpinning the PIN R&R is the system of separate roles developed by PIN B.V. This is the system used in the Dutch market for over-the-counter payment transactions using PIN. The following diagram shows how the roles are organised.

The diagram shows the various roles involved in PIN payment transactions, for which these PIN R&R lay down specific requirements. The PIN R&R also contain a description of the individual roles and their interrelationships. The following section provides a brief description to explain the system. No rights may be derived from this brief description.





4.4 Role descriptions

PIN B.V.

PIN B.V. is owner of the PIN payment product and registered user of the PIN trademark and, in that capacity, lays down standards for the PIN product. PIN B.V.'s responsibilities have already been described in Section 2.

Issuing Bank

This is the role which an Institution whose business it is to acquire redeemable funds outside a restricted circle from other than professional market parties and to grant credit for its own account and which has obtained a licence in accordance with the statutory and other rules and regulations currently in force is able to perform (when duly licensed). The role involves responsibility for the entire issuing domain with regard to PIN payment transaction activities relating to PIN cards issued by said bank. The Issuing Bank is responsible for the guaranteed transfer of funds to an Acquiring Bank in respect of payments made by a Cardholder (customer of the Issuing Bank) to a Merchant (customer of the Acquiring Bank concerned). The Issuing Bank enters into agreements with the Cardholder concerning PIN card issue, use and authorisation of PIN card transactions. As regards the processing of payments (clearing) between Issuing Bank and Acquiring Bank, it is up to the institutions concerned to arrive at mutual agreements. They may employ the services of a Clearing House for this purpose. For all other operating activities in the issuing domain not performed by Licensees themselves, Issuing Banks are required to enter into agreements with institutions performing the other issuing domain roles, as described below and in the manner stipulated in the R&R.

Issuing Processor

This is the role which an institution is able to perform that is responsible on behalf of a Licensee (Issuing Bank) for those issuing domain activities connected with operations that are not the specific responsibility of the Licensee itself and are not the responsibility of the Card Supplier, Card Personaliser or Card Destruction Company (see below) (when in possession of the appropriate Certificate).

Card Supplier

This is the role which an institution is able to perform that is responsible on behalf of a Licensee (Issuing Bank) for producing cards to the Licensee's design (when in possession of the appropriate Certificate).

Card Personaliser

This is the role which an institution is able to perform that is responsible on behalf of a Licensee (Issuing Bank) for adding details supplied by an Issuing Processor to a PIN card (when in possession of the appropriate Certificate). The Card Personaliser is also responsible for adding visual personalisation details.

Card Destruction Company

This is the role which an institution is able to perform that is responsible on behalf of a Licensee (Issuing Bank) for destroying cards (when in possession of the appropriate Certificate).



Cardholder

A Cardholder is a person to whom an Issuing Bank has issued a PIN card to use. PIN B.V. does not impose any requirements with respect to Cardholders.

Acquiring Bank

This is the role which an Institution whose business it is to acquire redeemable funds outside a restricted circle from other than professional market parties and to grant credit for its own account and which has obtained a licence in accordance with the statutory and other rules and regulations currently in force is able to perform (when duly licensed). The role involves responsibility for the entire acquiring domain with regard to PIN payment transaction activities relating to Merchants served by said bank. The Acquiring Bank is responsible for the guaranteed transfer of funds to a Merchant in respect of payments made by a Cardholder to a Merchant (customer of the Acquiring Bank concerned). The Acquiring Bank enters into agreements with the Merchant concerning the processing of PIN payment transactions on the Merchant's behalf. As regards the processing of payments (clearing) between Acquiring Bank and Issuing Bank, it is up to the institutions concerned to arrive at mutual agreements. They may employ the services of a Clearing House for this purpose. For all other operating activities in the acquiring domain not performed by Licensees themselves, Acquiring Banks are required to enter into agreements with institutions performing the other acquiring domain roles, as described below and in the manner stipulated in the R&R.

Acquiring Processor

This is the role which an institution is able to perform that is responsible on behalf of a Licensee (Acquiring Bank) for those acquiring domain host activities connected with operations that are concerned with processing payment transactions (when in possession of the appropriate Certificate). 'Host activities' refers to transferring and processing transaction details between a terminal and the Acquiring Processor's host system and their onward transmission to the Switch.

Switch

This is the role which an institution is able to perform that is responsible on behalf of a Licensee (Issuing Bank) for switching operations between acquiring domain and issuing domain (when in possession of the appropriate Certificate). Switching operations refers to the routing of interbank transaction details from the host system of the Acquiring Processor and the authorisation system of the Issuing Processor. It is up to Acquiring Banks to enter into the appropriate agreements with the Switch institution.

Terminal Supplier

This is the role concerned with the production of certified terminals conforming to the specifications of an Acquiring Processor and satisfying the PIN B.V.'s generic standards (when in possession of the appropriate Certificate).

Reseller

A Reseller refers to a company (such as an installer or supplier of cash register systems) which is responsible on behalf of a Merchant for the connection and/or maintenance of physical POS Terminals and for linking them to a cash register, if applicable, in conformity with PIN B.V. requirements (having entered into a Reseller Agreement).



Data Communications Provider

This is the role which an institution is able to perform that is responsible on behalf of a Merchant for providing facilities for data communication between the Merchant's POS Terminal and the host system of the Acquiring Processor (when in possession of the appropriate Certificate).

Merchant

A Merchant is an institution having a POS Terminal for accepting payments using a Cardholder's PIN card for products and/or services supplied by the Merchant. The Merchant's terminal, provided by a Terminal Supplier, is connected to the Acquiring Processor via a data communication connection provided by a Data Communications Provider. PIN B.V. does not impose any requirements with respect to Merchants, although the Acquiring Processor and Acquiring Bank are under obligation to ensure that Merchants affiliated to them operate with certified terminals and observe security standards with regard to the installation of said terminals, among other things. The Merchant is a customer of an Acquiring Bank and has an account with the Acquiring Bank or is a customer of a Payment Service Provider that looks after the processing of PIN payments on behalf of the Merchant.

Payment Service Provider

PSP is the role which an institution is able to perform whose business is the independent provision of professional services connected with the settlement of PIN payments made to a Merchant, thus performing the role of intermediary between Merchant and the Merchant's bank (when in possession of the appropriate Certificate). A PSP can also – acting as intermediary – provide other services (whether requiring a Certificate or otherwise) relating to PIN payments, such as providing POS Terminals and network services, payment administration services etc. Not included are institutions serving Merchants within their own group or a particular store format (they are treated as Merchants). PSPs should have a 'Processing Contract for Transfer and Processing of Data for PIN and/or Chipknip Transactions' with an Acquiring Bank licensed by PIN B.V.

Clearing House

This role can either be performed bilaterally between an Acquiring Bank and an Issuing Bank or entrusted to an institution looking after the clearing of transactions on behalf of various Acquiring Banks and Issuing Banks. The Clearing House role is defined as the role which an institution is able to perform that is responsible on behalf of Licensees (in both issuing and acquiring domains) for collecting and redistributing transaction details between Acquiring Bank and Issuing Bank, leading to the financial settlement of transactions (when in possession of the appropriate Certificate). Intragroup transactions do not involve clearing (and therefore do not use the Clearing House role) if Acquiring Bank and Issuing Bank are one and the same. The Clearing House is also responsible for the preparation and submission of transaction details for settlement via the DNB organisation.

4.5 Structure

The R&R follow the same structure as the system of roles, with a set of requirements defined for each separate role. These requirements are divided into requirements of a general organisational nature and requirements relating to the process involved in the specific role. This process comprises the various critical activities together making up the complete role. The process-related requirements are in turn



divided into quality requirements and, where necessary, additional detail requirements of a more operational nature.

All the requirements are specifically identified in the documentation and explanatory notes are included where appropriate.



5 Definitions

The Licence Agreement and the Certificate Agreement (of which the Rules & Regulations form an integral part) make use of numerous terms with defined meanings. For a proper understanding of the contracts, it is important to be familiar with the definitions of these terms. The 'General Rules & Regulations Part II' of both the Licence Agreement and the Certificate Agreement contain the definitions, in alphabetical order.

6 Process descriptions

The following paragraphs provide a brief description of the processes associated with the roles defined in the R&R. It is, of course, possible for a given institution to perform one or more roles, as indicated in the R&R. Similarly, a given role may be performed by one or more institutions. These descriptions do not pretend to be in any way exhaustive and serve only to give the basic picture.

6.1 Card production, personalisation and distribution

Before Cardholders can make PIN payments, they have to have a PIN card. This card is issued to the Cardholder by an Issuing Bank with which the Cardholder has a current account. The card has to be produced, personalised and distributed on behalf of the Issuing Bank. Cards are ordered (in bulk) by the Issuing Bank from a certified Card Supplier. The Card Supplier produces the cards to the Issuing Bank's design, adding the necessary logos to the card. In addition to ordering production of the card, the Issuing Bank sends a card preparation request to a certified Issuing Processor. The Issuing Processor, acting on the card preparation request, generates a PIN and PIN mailer and sends a personalisation instruction to a certified Card Personaliser (designated by the Issuing Bank). The Card Personaliser personalises the card received from the Card Supplier. The personalised card is either returned to the Issuing Bank or sent directly to the Cardholder on behalf of the Issuing Bank. The PIN mailer is sent to the Cardholder by the Issuing Processor on behalf of the Issuing Bank. Prepared cards not satisfying all the requirements are destroyed in bulk by a certified Card Destruction Company.

6.2 Terminal production, supply and connection

For Cardholders to be able to perform PIN payment transactions involving a Merchant, the Merchant has to have a Point-Of-Sale Terminal. A POS terminal will be supplied to the Merchant by a certified Terminal Supplier or accredited Reseller. The Terminal Supplier is required to build a POS Terminal according to detailed terminal specifications drawn up by the Acquiring Processor. The Acquiring Processor is the institution that will process all the transactions originating from the POS Terminal on behalf of the Merchant's Acquiring Bank. The detailed terminal specifications satisfy the PIN B.V. generic standards with respect to security, presentation and functionality.

To connect the POS Terminal to the Acquiring Processor's host system, the Merchant has to have a data communication connection provided by a certified Data Communications Provider.

6.3 PIN payment

A Cardholder wishing to pay a Merchant for products or services using a PIN card swipes the card through the Merchant's certified POS Terminal. When the PIN code has been entered by the Cardholder and the amount of the transaction has been entered by the Merchant, the POS Terminal requests the Cardholder to confirm the transaction (by pressing the 'YES' key). The POS Terminal then sends an authorisation request for the payment to the Acquiring Processor. The Acquiring Processor checks the authorisation request syntax and forwards the message to the certified Switch. In cases where the authorisation request originates from a Cardholder who is a customer of the same bank for which the Acquiring Processor operates, the authorisation request can instead be processed directly by the Acquiring Processor, with the Acquiring Processor thus performing the role of Issuing Processor for that instant. This is referred to as an



'on us' transaction. Even with 'on us' transactions, however, the Switch may also be used if the Acquiring Processor does not also perform the role of Issuing Processor.

The Switch is linked to all the authorisation systems of the various Issuing Banks (the operation of which will be the responsibility of their respective Issuing Processors), which will therefore include the authorisation system for the bank of the Cardholder making the payment. After authorisation of the transaction, the authorisation request plus reply returns to the POS Terminal by the same route (generating the message 'Payments successful'). The POS Terminal sends the details of the successful payment to the Acquiring Processor, which submits all the transactions to the Clearing House on a daily basis. The Clearing House collects and redistributes the received transaction details (clearing operation) between Acquiring Bank and Issuing Bank, leading to the financial settlement of transactions. The Issuing Bank debits the Cardholder's account and the Acquiring Bank of PSP credits the Merchant's account. Settlement between Issuing Bank and Acquiring Bank is accomplished via the DNB organisation on the basis of the transaction details supplied by the Clearing House.