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## 8.6 Excessive Chargeback Program

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8.6 Excessive Chargeback Program.....	1
8.6.1 Definitions.....	1
8.6.2 Reporting Requirements.....	1
8.6.2.1 Chargeback-Monitored Merchant Reporting Requirements.....	2
8.6.2.1.1 CMM Report Contents.....	2
8.6.2.1.2 Late CMM Report Submission Assessment.....	2
8.6.2.2 Excessive Chargeback Merchant Reporting Requirements.....	2
8.6.2.2.1 ECM Report Contents.....	3
8.6.2.2.2 Late ECM Report Submission Assessment.....	3
8.6.3 Assessments.....	3
8.6.3.1 ECP Assessment Calculation.....	4
8.6.4 Issuer Reimbursement.....	5



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## 8.6 Excessive Chargeback Program

MasterCard designed the Excessive Chargeback Program (ECP) to encourage each acquirer to closely monitor, on an ongoing basis, its chargeback performance at the merchant level and to determine promptly when a merchant has exceeded or is likely to exceed monthly chargeback thresholds.

### 8.6.1 Definitions

The following terms used in the ECP have the meanings set forth below.

- a. A **merchant** is defined as any distinct merchant location, whether a merchant's physical location or a merchant's Internet site or uniform resource locator (URL) that is uniquely identified by the acquirer in the transaction record.
- b. The **chargeback-to-transaction ratio (CTR)** is the number of MasterCard chargebacks received by the acquirer for a merchant in a calendar month divided by the number of the merchant's MasterCard sales transactions in the preceding month acquired by that acquirer. (A CTR of 1% equals 100 basis points.)
- c. A **Chargeback-Monitored Merchant (CMM)** is a merchant that has a CTR in excess of 50 basis points and at least 50 chargebacks in a calendar month.
- d. A merchant is an **Excessive Chargeback Merchant (ECM)** if in each of two consecutive calendar months (the "trigger months"), the merchant has a minimum CTR of 100 basis points and at least 50 chargebacks in each month. This designation is maintained until the ECM's CTR is below 100 basis points for two consecutive months.
- e. The **ECM Claim Period** starts on the first day of the first trigger month and ends when the merchant no longer is an ECM as defined in section 8.6.1.d.

### 8.6.2 Reporting Requirements

It is the acquirer's responsibility on an ongoing basis to monitor each of its merchants in accordance with the Standards, including but not limited to sections 6.2.2, 7.2, and 7.2.3 of this manual.

The ECP requires an acquirer to calculate, for each calendar month, the CTR in basis points for each of its merchants and report to MasterCard any merchant that is a CMM or ECM as defined in section 8.6.1.

MasterCard will assess an acquirer of a CMM or ECM the reporting fees set forth in sections 8.6.2.1.2 and 8.6.2.2.2.

### 8.6.2.1 Chargeback-Monitored Merchant Reporting Requirements

Each calendar month, an acquirer must submit to MasterCard a separate CMM report for each of its merchant(s) that qualifies as a CMM for the previous calendar month. For the purpose of determining if an acquirer is obligated to submit a CMM report, the acquirer must calculate the CTR as set forth in section 8.6.1. The acquirer must submit this report no later than 45 days from the end of the calendar month.

The acquirer must submit the CMM report in a form and manner required by MasterCard. The acquirer also must provide a copy of the CMM report and these ECP Standards to the specific CMM merchant. MasterCard will assess the acquirer a reporting fee of USD 50 for each CMM report submitted.

#### 8.6.2.1.1 CMM Report Contents

The CMM report must include all of the following information:

- a. The name and location of the CMM
- b. The calendar month of CMM qualification being reported
- c. The CTR of the CMM for the reported calendar month
- d. The card acceptor business code/merchant category code (MCC) assigned to the CMM and a description of the nature of the CMM's business
- e. The number and gross dollar volume (GDV) of the CMM's MasterCard sales transactions in the reported calendar month and in the preceding month
- f. The number and GDV of chargebacks of the CMM's MasterCard sales transactions for the reported calendar month
- g. Any additional information as MasterCard may require

#### 8.6.2.1.2 Late CMM Report Submission Assessment

If the acquirer or MasterCard determines that a merchant is a CMM and the acquirer fails to submit a timely CMM report to MasterCard for that merchant, MasterCard may assess the acquirer up to USD 5,000 per month for each month that a specific monthly CMM report is overdue.

### 8.6.2.2 Excessive Chargeback Merchant Reporting Requirements

Within 30 days of the end of the second trigger month, and on a monthly basis thereafter, the acquirer must submit a separate ECM report for each of its ECMs (in lieu of a CMM report) until that ECM's CTR is below 100 basis points for two consecutive months. The acquirer also must provide a copy of the ECM report and these ECP Standards to the specific ECM merchant. MasterCard will assess the acquirer a reporting fee of USD 300 for each ECM report submitted.

### 8.6.2.2.1 ECM Report Contents

The ECM report must include all of the information required for the CMM report, and the following additional information:

- a. A description of the acquirer's chargeback controls in place to monitor the ECM's activities
- b. An evaluation of the practices that caused the ECM to exceed the ECP Standard
- c. An acquirer action plan to reduce the ECM's CTR
- d. An electronic file that contains chargeback transaction detail for each chargeback received by the acquirer for the ECM in the calendar month
- e. Any additional information as MasterCard may require from time to time

MasterCard will assess the acquirer a reporting fee of USD 300 for each ECM report submitted.

### 8.6.2.2.2 Late ECM Report Submission Assessment

If the acquirer or MasterCard determines that a merchant is an ECM and the acquirer fails to submit a timely ECM report to MasterCard for that ECM, MasterCard may assess the acquirer up to USD 500 per day for each of the first 15 days that the ECM report for that an ECM is overdue and up to USD 1,000 per day thereafter until the delinquent ECM report is submitted.

## 8.6.3 Assessments

In addition to any applicable assessments for CMM reports, ECM reports, or late report submissions, MasterCard may assess the acquirer for issuer reimbursement fees and violation assessments for excessive chargebacks arising from an ECM. MasterCard calculates the issuer reimbursement fees and assessments as described in [section 8.6.3.1](#) and they apply in each calendar month that the ECM exceeds a CTR of 100 basis points, including the two trigger months. For the purposes of calculating issuer reimbursement fees and assessments only (and not for the purpose of satisfying the reporting requirements contained herein), an acquirer may offer an alternative CTR calculation that more accurately "maps back" or links the chargebacks to the relevant sales transactions.

### 8.6.3.1 ECP Assessment Calculation

MasterCard determines an acquirer's liability for the monthly issuer reimbursement fees and assessments for each ECM as set forth below. MasterCard calculates the issuer reimbursement fees in the following steps 1, 2, and 3, and calculates the violation assessment in step 4.

1. Calculate the CTR for each calendar month that the ECM exceeded a CTR of 100 basis points (which may also be expressed as 1% or 0.01).
2. From the total number of chargebacks in the above CTR calculation, subtract the number of chargebacks that account for the first 100 basis points of the CTR. (This amount is equivalent to 1% of the number of monthly sales transactions used to calculate the CTR.) The result is the number of chargebacks above the threshold of 100 basis points.
3. Multiply the result from step 2 by USD 25. This is the issuer reimbursement.
4. Adjust the result in step 3 to reflect the extent that the acquirer has exceeded the 100 basis points threshold by multiplying the value in step 3 by the CTR (expressed as basis points). Divide this result by 100. This amount is the violation assessment.

Repeat steps 1–4 for each calendar month that the ECM exceeded a CTR of 100 basis points or 1%.

**Example:** The acquirer for merchant ABC acquired MasterCard sales transactions and chargebacks over a six-month period as follows:

Month	January	February	March	April	May	June	July
Sales Transaction	95,665	95,460	95,561	95,867	95,255	95,889	95,758
Chargebacks	720	1003	1301	1256	1175	923	824
CTR in basis points	—	105	136	131	123	97	86

February and March are the trigger months, as these are two consecutive months where the CTR exceeded 100 basis points. At the end of July, merchant ABC was no longer an ECM as its CTR was below 100 basis points for two consecutive months. MasterCard calculates assessments and issuer reimbursements for each ECM month (February through July).

For example, the assessment for April, (using March sales transactions and April chargeback volumes) is calculated as follows:

- The CTR = April chargebacks/March sales transactions =  $1,256/95,561 = 0.01314$  or 131 basis points (rounded)

- The number of chargebacks in excess of the 100 basis points is determined by subtracting 1% of the March sales transactions from the number of April chargebacks. One percent of the March sales transactions [95,561 x 0.01] is 956.  $1256 - 956 = 300$  chargebacks
- The issuer reimbursement for April is  $300 \times \text{USD } 25 = \text{USD } 7,500$
- The violation assessment is  $(\text{USD } 7,500 \times 131)/100$  or  $985500/100 = \text{USD } 9,825$

Using this methodology for each ECM month, the issuer reimbursement fees and assessments for the acquirer for merchant ABC are as follows:

Month	Issuer Reimbursement	Assessment	Total
February	USD 1,150	USD 1,208	USD 2,358
March	USD 8,650	USD 11,764	USD 20,414
April	USD 7,500	USD 9,825	USD 17,325
May	USD 5,400	USD 6,642	USD 12,042
June	0	0	0
July	0	0	0
Total	USD 22,700	USD 29,439	USD 52,139

### 8.6.4 Issuer Reimbursement

MasterCard will remit issuer reimbursement fees to issuers through MCBS. Actual reimbursements will vary depending on the extent and duration of the violation and the number of chargebacks processed by each issuer, and will be paid out of the amounts collected for the issuer reimbursement fees described in section 8.6.3.1 on a pro rata basis.