

A Cheat Sheet for Distinguishing Payment Processing Models

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The table below summarizes the major differences between Independent Sales Organizations, Merchants of Record, Payment Facilitators, Marketplaces, Payments as a Service (PaaS) providers, and Staged Digital Wallet Operators. Contact us to understand how to meet regulatory compliance requirements and structure agreements and risk management policies to fit the model that you use.

	Independent Sales Organization (ISO)	Merchant of Record (MOR)	Payment Facilitator (PF)	Marketplace (Visa Only)	Payments as a Service (PaaS)	Staged Digital Wallet Operator (SDWO)
Basic Description	<p>Independent Sales Organizations (ISOs) are registered with the Card Brands to engage in merchant solicitation, sales, customer service, and similar activities.</p> <p>ISOs operate as agents of their sponsor banks. ISOs do not process transactions, receive settlement funds, or have access to the merchant's data.</p>	<p>"Merchant of Record" or "MOR" is an industry term that describes arrangements in which a seller of goods ("merchant-customer") contracts with a service provider (the MOR) to process sales for the merchant-customer.</p> <p>MORs often operate on a "reseller" or "flash title" basis where the MOR facilitates a cardholder's purchase from a merchant-customer's website through an instantaneous resale transaction (e.g., the MOR "buys" the goods from the merchant-customer and immediately "resells" the goods to the cardholder). MORs take the position that they are the "merchant" for purposes of processing the sale.</p> <p>MORs often offer a package of services for merchant-customers that includes card processing; gateway services; sales tax calculation and remittance; and fulfillment and logistics.</p>	<p>A Payment Facilitator (PF) is a company that is registered with the Card Brands to sign up and process for "sub-merchants" or "sponsored merchants." The PF is a type of merchant aggregator that processes sales transactions for a group of identified sub-merchants through its own merchant account.</p> <p>PFs often offer a package of services for merchant-customers that includes card processing; gateway services; sales tax calculation and remittance; and fulfillment and logistics, among others.</p> <p>Some PFs focus on specific industry verticals, while others provide processing services to a broad range of merchants.</p>	<p>A Marketplace is a company that is registered with Visa and (1) provides an electronic commerce website or app to bring buyers and retailers together; and (2) manages payments on behalf of the retailers on the Marketplace by processing them through its own merchant account.</p> <p>A Marketplace may work with retailers in a single industry or provide services to retailers that sell a variety of goods and services.</p>	<p>For Payments as a Service, a PF or a sponsor bank provides a suite of services that involves integration with an e-commerce platform or software provider ("platforms") for purposes of processing the card transactions of the platform's customers and merchants. The PF or sponsor bank executes an agreement to integrate with the platform and then executes a direct agreement with each merchant that operates on the platform for purposes of establishing the card-processing relationship.</p>	<p>A Staged Digital Wallet Operator (SDWO) is a company that provides digital wallet services involving (1) a funding transaction paid by debit or credit card to the SDWO and that is processed through its merchant account; and (2) a separate payment transaction from the SDWO to the merchant from which the cardholder wants to make a purchase that does not involve the use of the card.</p>

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Network Registration	Yes. A sponsor bank registers an ISO with the Card Brands after performing due diligence on the ISO.	Unclear. The “merchant of record” model is not recognized by the Card Brands. A “merchant” is not required to be registered with the Networks as a payment services provider. However, an entity that aggregates merchant transactions is required to register as a PF or a Marketplace.	Yes. A sponsor bank registers a PF with the Card Brands after performing comprehensive due diligence on the PF, including a review of policies and procedures for AML and merchant diligence, the PF’s sub-merchant agreement, its financial status, etc.	Yes. A sponsor bank registers a Marketplace with the Card Brands after performing comprehensive due diligence on the Marketplace, including review of its policies and procedures for AML and merchant diligence, the Marketplace’s customer agreement, its financial status, etc.	It depends. A sponsor bank may provide PaaS services directly to platforms. A PF that provides PaaS services must be registered per standard Card Brand requirements.	Yes. The SDWO must be registered as a third-party agent.
Software Platform	No specific software platform required.	No specific software platform required, although the MOR will need to integrate at some level with the merchant-customer’s website to process the cardholder transactions. Business model may require a marketplace-like platform for selling goods and services. Business model may require numerous software functions for authorization, settlement, and reconciliation.	No specific software platform required. Business model may require numerous software functions for authorization, settlement, and reconciliation.	No specific software platform required but typically offers a software platform that brings together cardholders and retailers through an e-commerce website or mobile app. Business model may require numerous software functions for authorization, settlement, and reconciliation.	No specific software platform required but PF or sponsor bank will typically integrate with platform via APIs or other methods in order to provide a seamless onboarding and card processing experience. Business model may require numerous software functions for authorization, settlement, and reconciliation.	No specific software platform required. Business model requires a complex software platform for interfacing with cardholders, accepting load transactions, and making distributions to consumer or commercial recipients.

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Eligible Transactions	ISOs do not process transactions.	<p>A merchant is expected to process only its own transactions and sell products under its own name and brand.</p> <p>A merchant is the entity that (i) represents itself as selling the goods or services to the cardholder; (ii) uses its name primarily on the retail store, app, or website; and (iii) provides recourse to the cardholder for disputes. Other factors include if the entity's name appears on the card statement; it owns or takes possession of the goods or services; books the sale as revenue; and provides customer service and handles returns.</p> <p>MORs often attempt to meet the definition of a "merchant" by purchasing products from sellers and reselling them to cardholders through instantaneous flash title arrangements. However, the Card Brands have issued guidance that flash title sales do not qualify an entity as the merchant.</p>	Only sales transactions entered into between a cardholder and a sub-merchant that has an agreement with the PF.	<p>Only sales transactions entered into between a cardholder and a sub-merchant that has an agreement with the Marketplace.</p> <p>Marketplaces may not process for travel agents, certain high-risk retailers, or franchisees without express permission of franchisor.</p>	<p>Only sales transactions entered into between a cardholder and the merchant that has an agreement with the PaaS provider.</p> <p>If the PaaS is provided by a sponsor bank, the bank will execute a traditional merchant agreement with the merchants. Otherwise, if the PaaS is provided by a PF, the standard PF rules will apply.</p>	No specific requirements, but merchant must agree to accept payment from the SDWO.
Settlement	ISOs do not settle funds to merchants.	Funds settle to the MOR's merchant account, and the MOR is responsible for distributing funds to the merchant-customer.	Under Card Brand rules, the PF may receive settlement funds into its merchant account for distribution to sub-merchants <u>or</u> have the settlement funds settled to an account owned and operated by the sponsor bank for direct settlement to sub-merchants.	Under the Visa rules, the Marketplace must receive settlement on behalf of its platform retailers and distribute funds to them.	If the PaaS is provided by a sponsor bank, the bank will manage settlement of funds to the merchants. Otherwise, if the PaaS is provided by a PF, the standard PF rules will apply.	Card transactions settle to the SDWO's accounts. The SDWO may promptly distribute to an identified merchant or hold funds for future transactions.

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Money Transmission / MSB Issues	N/A - ISOs do not settle funds to merchants.	<p>Depends on the structure. If the MOR's argument that it qualifies as the "merchant" is accepted, then it might be argued that the MOR's purchase of goods from a merchant-customer and immediate resale to a cardholder does not involve money transmission.</p> <p>However, if the MOR is not viewed as the "merchant," then the model may involve money transmission because the MOR receives funds and then distributes them to merchant-customers. Note that some states have an agent of payee exemption to state money transmission licensing requirements.</p>	<p>Depends on the structure. If the PF receives funds and distributes them to sub-merchants, it likely engages in money transmission. Note that some states have an agent of payee exemption to money transmission licensing.</p> <p>Not likely if the PF works with a sponsor bank to manage the receipt and transfer of funds on behalf of the PF (such as through an FBO account).</p>	<p>Yes, because the Marketplace is required to receive funds for distribution to retailers. Note that some states have an agent of payee exemption to state money transmission licensing requirements.</p>	<p>If services are provided directly by a sponsor bank, the bank is exempt from money transmission licensing.</p> <p>For PFs, money transmission risk depends on if the PF receives and transmits funds to sub-merchants.</p>	<p>Yes, high risk due to fund transfers and stored value activities.</p>
Size Restriction / Direct Agreement Requirements	N/A	<p>No specific requirements because the MOR model is not expressly recognized by the Card Brands.</p>	<p>PF's sub-merchants must sign a direct agreement with the sponsor bank under certain circumstances.</p>	<p>No platform retailer may (1) have more than \$10 million in Visa volume through the Marketplace; or (2) represent more than 10% of the Marketplace's annual Visa volume. No specific requirement for retailers to enter a direct agreement with the sponsor bank.</p>	<p>If services are provided directly by a sponsor bank, there are no size restrictions.</p> <p>PF's sub-merchants must sign an agreement with the sponsor bank under certain circumstances.</p>	<p>No specific requirements.</p>

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Liability for Transactions / Dispute Resolution	As between the ISO and an acquiring bank, ISOs may take on liability for merchant chargebacks under a wholesale ISO arrangement where the ISO takes on more responsibility and risk. The ISO will typically push liability to the merchant-customers.	<p>Since the MOR has the merchant account, the MOR is responsible to the sponsor bank for chargebacks. The MOR may seek to push this liability to the merchant-customers.</p> <p>In some models, the MOR sets terms and conditions for transactions and is sometimes responsible to the cardholder for returns, refunds, and dispute resolution.</p> <p>Many MOR models attempt to disclaim the MOR responsibility or liability for the goods or services themselves – an argument that may limit the MOR’s liability to cardholders but may also undercut the argument that the MOR is the “merchant.”</p>	Sub-merchants are primarily liable for their transactions; PF may have residual liability to sponsor bank for liabilities that are not covered by sub-merchants.	Marketplace is financially liable for and must resolve disputes between cardholders and retailers by providing (1) a decision that binds both cardholders and retailers; or (2) a money-back guarantee funded by the Marketplace.	<p>Merchants are primarily liable for their transactions; PF or sponsor bank may have residual liability for liabilities that are not covered by sub-merchants.</p> <p>Some degree of liability may be accepted by the platform receiving the PaaS.</p>	<p>No specific requirements.</p> <p>However, as the consumer-facing entity, the SDWO is responsible for resolving disputes concerning its own services.</p>

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