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## M&D Alert

# What the October 1, 2015 Credit Card Processing Upgrade Means for Retailers



Consumers are rightly alarmed at the level of theft of credit and debit card information from retailers in recent years. Target, Walmart, TJX, and Home Depot, as well as many other retailers and businesses have suffered these attacks, and 80% of credit card fraud is estimated to be the result of counterfeiting using such stolen card information.

Much of the risk of data theft could be alleviated with a switch from the current magnetic stripe swiping technology to the use of EMV technology. EMV, which stands for Europay, MasterCard and Visa, is a global, technical standard for smart-payment cards equipped with microchips and technology for “chip-pin” and “chip-signature” enabled cards. EMV is more secure than the magnetic stripe cards currently used in the U.S. EMV “chip-pin” technology is more secure than “chip-signature” technology, yet more expensive to implement by merchants. Merchants and some card issuers have been reluctant to adopt EMV technology because of the added expense while, at present, the vast majority of card issuers are issuing the less costly EMV enabled “chip-signature” cards.

To address this situation, the major U.S. card issuers have decided that after October 1, 2015 the liability for credit or debit card fraud will fall on the party who is least compliant with the latest EMV technology – usually the merchant. Previously, the cost of fraudulent card transactions was borne by either the payment processor or issuing company. With the current high levels of card fraud, the merchants’ liability could be significant if they did not adopt the EMV technology on October 1, 2015.

It is expected that over the next few years, the card industry will move to the more secure EMV “chip-pin” technology after the initial phase of EMV “chip-signature” cards are accepted by the industry and the consumers.

Recent studies in the U.S. have found that, of the small business owners that accept card transactions, only 49% were aware of the October 1, 2015 deadline, only 27% are able to process the new EMV chip-enabled cards and 60% of card holders do not have EMV chip-enabled cards. The card industry is currently moving rapidly towards wider awareness, acceptance and use of EMV chip-enabled cards and expects much higher rates of acceptance and usage by December 31, 2015.

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The U.S. is the last major market to implement EMV technology, primarily due to cost. Many European countries moved to EMV years ago to address the high rate of card fraud.

The new EMV cards also require a user to “dip” their card in a reader and wait for it to process the transaction instead of just swiping the card. This is expected to take additional transaction processing time, but the added security and reduced incidents of fraud are considered worth the wait.

EMV enabled cards will not eliminate data theft altogether, but is expected to significantly reduce card fraud in the U.S. by making it much more difficult for criminals to profit from stolen card information. In recent years, the alarming increase in the rate, costs and consumer discontent associated with card data theft has prompted the card industry to address this situation and move as fast as possible to a more secure type of card technology.

For more information contact:

**Stuart Nussbaum, CPA**

Partner

212.375.6828

[Stuart.Nussbaum@WeiserMazars.com](mailto:Stuart.Nussbaum@WeiserMazars.com)

**Michael Susman, CPA**

Senior Manager

212.375.6664

[Michael.Susman@WeiserMazars.com](mailto:Michael.Susman@WeiserMazars.com)

Visit us on [www.weisermazars.com](http://www.weisermazars.com)

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