

CITIBANK®

~~PAYMENT SYSTEMS~~

INTERNAL DISCUSSION DOCUMENT
2/4/98

P-0156 R

GOVERNMENT
DEPOSITION
EXHIBIT
693

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N.A. CARDS

Options

- (1) Association Rule/By-Law Changes ("Cirrusize VISA")
 - Two major themes:
 - ▲ Expand member options
 - ▲ Unbundle Association services
- (2) Unilateral Action ("Go It Alone")
 - Introduce new brand independent of VISA/MC
- (3) U.S. Coalition of Major Banks to Restructure Today's Payment System ("NPO")
- (4) MasterCard Initiative (default from (1)) ("Weak Sister")
- (5) "Explorer"

Options (cont'd)

(1) Association Rule/By-Law Changes ("Cirrusize VISA")

Current Association Position

- ◆ Primary product brand
- ◆ Prominent position on cards (front of card)
- ◆ Issuer use of acceptance mark as primary product brand
- ◆ Heavy advertising and promotion
- ◆ Acceptance mark competition (Association vs. Association)
- ◆ Large expenditures on member incentives
- ◆ Developing products to compete with issuer-developed products
- ◆ Scale benefits diverted to spend programs
- ◆ Board/committee voting power limited to one per institution
- ◆ Territorial Issuing & Acquiring privileges
- ◆ Retard member breakout strategies to launch own brand
 - By controlling BINs
 - Forcing conversion
- ◆ Issuers vs. Acquirers Structure
- ◆ Combined delivery with acceptance mark
- ◆ Prohibits direct send arrangements
- ◆ Line of business restrictions

Desired Association Position

- ◆ Neutral acceptance mark
- ◆ Prohibit use of marks as product brand of individual issuers
- ◆ Prohibit use of marks as product brand of individual issuers
- ◆ Advertising and promotion for acceptance only
- ◆ Member brand competition (Member vs. Member)
- ◆ No member incentives
- ◆ Limit product development to information exchange services
- ◆ Return scale benefits to members—no surplus
- ◆ Board/committee voting power based on contribution
- ◆ Global Issuing & Acquiring privileges
- ◆ Facilitate member breakout strategies
 - By controlling BINs
 - Through processing services contracts
- ◆ Issuers and Acquirers structure
- ◆ Separate delivery services from acceptance mark license
- ◆ Permit direct send arrangements
- ◆ Eliminate line of business restrictions

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Options (cont'd)

(1) Association Rule/By-Law Changes ("Cirrusize VISA") (cont'd)

- Pros
 - ▲ Continuity for customers
 - ▲ No conversion
 - ▲ Retains domestic and global acceptance
 - ▲ Initiates potential for brand breakout
 - ▲ Yields rapid results in the short term
 - ▲ Prepares stage for fuller "Brand X" at minimal cost (evolutionary vs. revolutionary)
 - ▲ Most likely to gain acceptance from other participants (perceived path of least resistance)

- Cons
 - ▲ It is still "VISA and MasterCard"
 - ▲ New rules could be undermined over time

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Options (cont'd)

(2) Unilateral Action ("Go It Alone")

- Pros
 - ▲ Full brand control ("No Negotiating")
 - ▲ If successful, best long-term solution
 - ▲ Independent market pricing (potential premium), product development, POS procedures
 - ▲ Could possibly "rent" to others
 - ▲ Could easily support DCI and other proprietary brands
- Cons
 - ▲ Requires the highest level of investment (time, money, energy)
 - ▲ Conversion may cause significant attrition (possibly up to 20-25%)
 - ▲ Requires new, individual acceptance contracts at 14.0MM locations worldwide
 - ▲ May cause merchant discounting compression (negative premium)
 - ▲ Not easy to reverse a false start
 - ▲ Takes serious time (years) before a credible new acceptance network can be put in place.

Options (cont'd)

(3) U.S. Coalition of Major Banks to Restructure Today's Payment System ("NPO")

– Pros

- ▲ Streamlines U.S. payments process
- ▲ Could significantly reduce cost for users vs. today
- ▲ Reestablishes bank control of the payment system
- ▲ Could provide an equity interest and return

– Cons

- ▲ U.S.-centric view
- ▲ Likely to have a slow build
- ▲ Effort may not result in dominant share in volume and banks
- ▲ Requires group consensus for decision

Options (cont'd)

(4) MasterCard ("Weak Sister")

- Fall back to (1)

Options (cont'd)

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Options (cont'd)

(5) "Explorer"

- Joint venture global acquiring business
 - ▲ Citibank, Discover cards

- Pros
 - ▲ Establishes U.S. acceptance network for Brand X
 - ▲ Solves Diners Club domestic acceptance issue
 - ▲ Eliminate Association control
 - ▲ Provides an equity opportunity

- Cons
 - ▲ Strengthens Discover brand dramatically
 - ▲ Enables Discover international acceptance
 - ▲ Potential risk to Association memberships
 - ▲ Creates international acceptance issue
 - ▲ Could be slow turnaround

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Options (cont'd) (2/98-12/00)

OBJECTIVES

- Brand Competitive Frame
- Stake and Control
- Broad Acceptance
- Multiple Payment Functionality
- Lowest Cost
- Quality Service, Continuity
- Best Merchant Value
- Consumer Choice
- Industry Prospects

OVERALL (2/98-12/00)

OVERALL—LONG TERM

"CIRRUSIZE VISA" "GO.IT ALONE" "NPO" "WEAK SISTER" "EXPLORER"

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