

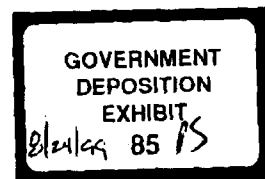
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Minutes of the Meeting of the
U.S. Region Board of Directors of
MasterCard International Incorporated
London, England
June 28, 1996



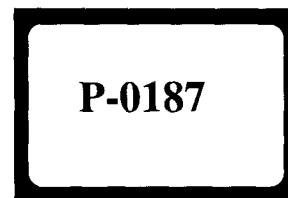
A meeting of the U.S. Region Board of Directors (hereinafter referred to as the "Board") of MasterCard International Incorporated (hereinafter referred to as "MasterCard") was held, commencing at 8:00 A.M., local time, on Friday, June 28, 1996, at The Berkeley Hotel in London, England. The following directors were present: Ms. Brady-Smith, Messrs. Cochran, Fairbank, Field, Garcia, Greenawalt, Hartnack, Heuer, Hunt, Johnson, Lockhart, McDonald, McGuinn and Mehta, Ms. Rahe, and Messrs. Saunders, Schauer, Schmitz, Wall, Walsh, Willumstad, Wright and Zebeck, thereby constituting a quorum. The following staff members participated in all or a portion of the meeting: Messrs. Abrams, Brennan, Flood and Gore, Ms. Hackett, Messrs. Hanft, Hogan, Jacobs, McElhatton, and Norton, Ms. Scarry, Messrs. Thom and Timko, Ms. Tsairis, and Messrs. Utton, Verdi and Williams. Mr. Peter Dunn of Edgar, Dunn & Company also participated in a portion of the meeting. Mr. Field, Chairman of the Board, chaired the meeting, and Mr. Hanft, Secretary of the Board, kept the Minutes thereof.

Opening Remarks by Chairman and Approval of Minutes

Mr. Field called the meeting to order and welcomed Mr. McDonald, Ms. Rahe and Mr. Willumstad to their first Board meeting. He then requested that the minutes of the March 20, 1996 Board meeting be approved. See Agenda Item 1. Upon motion duly made and seconded, the following resolution was unanimously approved.

RESOLUTION OF THE U.S. BOARD OF DIRECTORS:

RESOLVED, that the minutes of the March 20, 1996 U.S. Board of Directors meeting be, and hereby are, approved.



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President's Report

Mr. Field asked Mr. Heuer to report on U.S. Region year-to-date performance versus 1996 objectives. See Agenda Item 2. Mr. Heuer reported that, through May, gross dollar revenue for the region was \$3 million favorable to budget. He reported that expenses were \$1 million over budget, primarily due to timing issues, but that pre-tax profit was \$2 million favorable to budget due to higher than anticipated transaction volume. He reported that gross revenue, excluding member incentives, and regional expenses are forecasted to be on budget for the year.

Mr. Heuer reported that the region has made progress towards achieving its primary 1996 goal of reversing the credit card dollar volume share loss experience of the past two years. He said that the progress is in large part due to commitments for additional mail share from a number of large issuers. He reported that three large new co-branding deals will launch in the next few months, and that each of the deals are for multiple years on a MasterCard-exclusive basis. He reported that the new brand positioning of "Secure Access" and the new Premium Card product are expected to positively impact MasterCard credit card share in the longer run, and he stated that a report on the Premium Card product development would be provided later in the meeting.

Mr. Heuer also reported progress with regard to the other top 1996 U.S. Region priorities, deposit access and commercial products, and that the region had gained share in both areas. With regard to deposit access, he reported that the region had received commitments from several key players. He reported 23 million live Maestro cards in the U.S., with another 7 million cards committed. In response to a question, Mr. Heuer stated that he believes U.S. debit growth is primarily due to consumer shifting from cash and check payment, and not due to cannibalization of credit. He then reported on several other significant region developments, including commercial products co-branded deals, member action plans to improve quality ratings, Gold MasterCard card benefit development, new petroleum category commitments, and new advertising. For each performance category Mr. Heuer identified key issues and discussed additional opportunities.

Mr. Heuer introduced Nicholas Utton as the new senior vice president of Marketing for the U.S. Region. Mr. Heuer reported that Mr. Utton will be responsible for directing all U.S. Region advertising, sponsorship, and promotions and for ensuring synergism in those areas with Global Marketing. Mr. Utton then briefly addressed the Board, describing his background and experience and his view as to the opportunities available to MasterCard in the future.

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Proposed Membership and Licensing Actions

Mr. Field requested that the Board approve the proposed membership and licensing actions set forth in the Attachment to Agenda Item 3.A. Upon motion duly made and seconded, the following resolution was unanimously approved and adopted.

RESOLUTION OF THE U.S. BOARD OF DIRECTORS:

RESOLVED, that, the membership and licensing actions recommended in the attachment to Agenda Item 3.A be, and hereby are, approved.

1997 U.S. Interchange Fees

Mr. Field requested that the Board consider the 1997 U.S. Region intraregional interchange program. See Agenda Item 3.B. Ms. Tsairis stated that she would present the U.S. rate recommendations, and that Mr. Dunn would present the proposed new commercial card interchange rate structure.

Ms. Tsairis reported that, as in prior years, MasterCard conducted a full review of its interchange pricing, which included a cost study conducted by Edgar, Dunn & Company. She described the components of the 1996 cost study, and reported the computed 1996 rate is slightly higher than in 1995, primarily due to an increase in credit losses. She presented management's recommendations for the 1997-98 interchange year by category, including a new consumer products key entered rate to accommodate magnetic stripe failures at the point of sale. Ms. Tsairis requested that the Board approve the rate schedule and provide the U.S. Region president with the authority to raise incentive rates up to 5 basis points, if necessary for competitive factors. The Board discussed the rate recommendations, competitive pressures, as well as the proposed resolutions. After discussion, upon motion duly made and seconded, the following resolutions were unanimously approved and adopted.

RESOLUTIONS OF THE U.S. BOARD OF DIRECTORS

RESOLVED, that, effective on or about April 1, 1997, the following interchange rates be, and hereby are, approved for implementation in the U.S. Region:

<u>Category</u>	<u>Interchange Rate</u>
Standard	2.15% + 10¢
Merit I	1.61% + 10¢
Merit III	1.32%
Supermarket	1.10%
Warehouse	1.10%

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Petroleum/CATS	1.35% + 5¢
Travel Premier	1.35% + 5¢
Key Entered	1.41% + 10¢
Commercial T&E	2.00% + 10¢

RESOLVED FURTHER, that, effective immediately and continuing through November 12, 1996, the president of the U.S. Region be, and hereby is, authorized to increase one or more of the above-specified incentive category interchange fee rates by up to 5 basis points if, in his judgment, such an increase is appropriate.

Mr. Dunn then described the rationale for the proposed new commercial card interchange rate recommendations. He reported that the interchange rates that currently apply to these products have different business dynamics because they were to apply to consumer transactions. He described the variety of product types that are aggregated under the commercial card classification and discussed why the purchasing card business dynamics varies from the traditional MasterCard consumer model.

After discussion, upon motion duly made and seconded, the following resolution was unanimously approved and adopted.

RESOLUTION OF THE U.S. BOARD OF DIRECTORS:

RESOLVED, that, effective on or about April 1, 1997, the following commercial card product interchange rate structure, as further described in Agenda Item 3.B, be, and hereby are, approved for implementation in the U.S. Region:

<u>Category</u>	<u>Interchange Fee</u>
Non-T&E, Non-Face-to-Face	0.75% + \$30.00, not to exceed: <ul style="list-style-type: none">• 1.75% if Level 1 information• 1.65% if Level 2 information• 1.55% if Level 3 information
Commercial Face-to-Face	1.32%
Commercial Standard	2.25%
Commercial T&E	2.00% + 10¢

1997 U.S. Region Pricing Changes

Ms. Tsairis requested that the Board approve recommended changes to the U.S. Region pricing program. See Agenda Item 3.C. Ms. Tsairis reported that the three primary 1997 pricing objectives are to reward and incent members for incremental volume; improve price competitiveness; and continue the user-pay philosophy. She then reported on several price reduction proposals, including the reduction of issuer

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assessments, the reduction of warning bulletin listing fees, and the elimination of the operations/development fee now applied to MasterMoney transactions. Ms. Tsairis reported that, consistent with the user-pay doctrine, management was proposing that four new fees be implemented and five existing fees be increased. She detailed the proposed new and increased fees and reported that the increased fees would result in an incremental \$3.3 million in revenue. Ms. Tsairis also described the budget impact of the proposed price reductions and increases, and reported that the net impact would be a reduction in revenue of \$5.4 million.

After discussion, upon motion duly made and seconded, the following resolution was unanimously approved and adopted.

RESOLUTION OF THE U.S. BOARD OF DIRECTORS:

RESOLVED, that, effective January 1, 1997, the U.S. Region Pricing Program presented to the U.S. Board at the June 28, 1996 meeting be, and hereby is, approved as presented.

Election of Maestro U.S.A. Directors

Mr. Field directed the Board's attention to Agenda Item 3.E, and Mr. Heuer requested that the Board elect the Board of Directors of Maestro U.S.A., Inc. After discussion, upon motion duly made and seconded, the following resolutions were unanimously approved and adopted.

RESOLUTIONS OF THE U.S. BOARD OF DIRECTORS:

RESOLVED, that, the persons whose names appear in Attachment 1 to Agenda Item 3.E be, and hereby are, elected as directors of Maestro U.S.A., Inc., a subsidiary of MasterCard International Incorporated; and

RESOLVED FURTHER, that, the President and Chief Executive Officer of MasterCard International Incorporated, or his designee, be, and hereby is, authorized and directed to take any further action necessary to effectuate the foregoing.

Competitive Programs

Mr. Heuer requested that the Board consider the issue of U.S. members participating in competing general purpose card programs. Mr. Heuer reported that MasterCard management supported adoption of the policy set forth in Agenda Item 3.D. He stated that management believed it was in MasterCard's best interest to have members dedicated to supporting the MasterCard brand.

Mr. Lockhart reported that, the following day, the Global Board would consider the matter and determine whether to delegate authority to the MasterCard regional boards as to whether or not they wanted to institute a rule or policy addressing this issue. He stated that the effectiveness of any rule or policy approved by the U.S. Board would therefore necessarily be conditioned upon the delegation of authority by the Global Board to the regions.

Mr. Hanft reported on a recent meeting with representatives of the U.S. Justice Department. The directors then discussed the adoption of a regional policy, as well as whether to accept or act upon a delegation of authority with respect to the matter by the Global Board. Following such discussion, upon motion duly made and seconded, the following resolution was approved and adopted by a vote of 17 in favor and Messrs. Garcia, Greenawalt, Hartnack, Hunt, Schauer and Zebeck opposed.

RESOLUTIONS OF THE BOARD OF DIRECTORS:

RESOLVED, that, it is the position of the U.S. Board that it should be authorized by the Global Board to take whatever action it deems appropriate with respect to the issue of members participating in competing general purpose card programs in the United States;

RESOLVED FURTHER, that, the U.S. Board adopts the statement of principle and policy set forth in Agenda Item 3.D. Such policy shall be effective if, and at such time, as the Global Board authorizes the U.S. Board to address this issue.

MasterCard/Europay Alliance Agreement

Mr. Lockhart provided a brief update on the negotiations between the respective managements of MasterCard International and Europay International for the purpose of entering into a new alliance agreement. See Agenda Item 4.A. He reported that MasterCard management strongly supported approval of the new agreement and that the Global Board would be asked to approve it at its meeting two days later.

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Mr. Lockhart reported that the senior managers of the associations had not yet been successful in resolving Maestro governance issues and were recommending that debit issues be addressed in a subsequent agreement. He reported that the overall purpose of the agreement is for the associations to cooperate for their mutual benefit, and that Europay would be obligated to make continuous efforts to improve acceptance, brand awareness, and technical support of MasterCard.

Mondex International Acquisition Update

Mr. Field asked Mr. Lockhart to report on management's evaluation of Mondex and analysis of the advantages and disadvantages of participating in the Mondex scheme. See Agenda Item 4.B. Mr. Lockhart indicated that the update by Messrs. Hogan and McElhatton distributed to the directors the previous day depicted the current status of the evaluation and analysis. He reported that a significant additional investment would be required if MasterCard's stored value product is to have multiple application capability, and that MasterCard is now evaluating a "buy versus build" strategy. He reported that Mondex participation is a possible approach if a "buy" strategy is undertaken and he described each of the four major components of Mondex: security; stored value; a multiple application operating system; and a platform for other non-financial value meter applications. He reported that MasterCard had outside consultants perform a technical assessment and that the results show Mondex to be an excellent operating system and technology platform.

Mr. Lockhart identified eight outstanding issues that must be resolved for MasterCard to participate in a Mondex scheme, including the right of all MasterCard members globally to participate in the scheme and majority ownership of Mondex International by MasterCard. Mr. Lockhart reported that MasterCard will continue negotiating with National Westminster Bank, the owner of Mondex, and will complete the "build versus buy" analysis.

Premium Card Product Framework

Mr. Flood presented an update on the status of the Premium Card development effort. See Agenda Item 4.C. Mr. Flood reported that the composition of the new card evolved from 1995 Member Quality Survey follow-ups, as the majority of issuers interviewed expressed interest in a Premium Card offering. He said that the target market was approximately 15 million high-income or high-asset U.S. households, and the results demonstrated that this segment feels gold bank cards are not meeting their value expectations. Based on issuer input and consumer research, Mr. Flood reported that the construct for the new card is to offer targeted households financial flexibility with the option of revolving, no pre-set spending limit, special care and handling and exceptional travel rewards.

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Mr. Flood reported that consumer feedback has been extremely positive, with three-quarters of those interviewed rating the proposed Premium Card a 4 or 5 on a scale of 1 to 5. As to next steps, he stated that MasterCard needs to complete the assessment of research findings, complete the product design, complete vendor negotiations and financial analysis, and design a pilot program. He reported that several issuers are expected to pilot the introduction this fall, and that it is intended that those issuers will bear most of the expenses of the program.

The Board discussed Mr. Flood's report and expressed support for the effort.

Bankruptcy Initiatives

Mr. Brennan briefly reviewed MasterCard's plans and programs designed to respond to significant increases in bankruptcy filings. He reported on several legislative and educational initiatives underway and others being considered. He reported that MasterCard staff had met twice with Visa U.S.A. staff concerning initiatives and it appears likely that coordinated efforts will be undertaken by the end of 1996. He reported that MasterCard initiatives will focus on consumer education, and that a print campaign has already started. Mr. Brennan reported that MasterCard has arranged for bankruptcy research to be conducted at Purdue University.

Closing Remarks and Adjournment

Mr. Field stated that, due to time constraints, there would not be a presentation regarding Agenda Item 4.E, 1995 U.S. Member Survey Highlights, and Mr. Heuer stated that a written report would be forwarded to the directors. There being no further business to come before the meeting, upon motion duly made and seconded, the meeting was adjourned.



Noah J. Hanft
Secretary