

meeting 2/10/86

P-0348

MD1988-0001

MCI-0614606

ASSOCIATIONS'
COOPERATIVE EFFORTS
STATUS REVIEW

JOINT MEETING OF
EXECUTIVE COMMITTEES
OF THE
BOARDS OF DIRECTORS

DALLAS, TEXAS

JANUARY 9, 1986

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JOINT EXECUTIVE COMMITTEE MEETING

VISA

Mr. Robert H. Potts, Chairman
Mr. Charles T. Russell, CEO

Members of the Executive Committee

Messrs: G. Lee Griffin
Frederick S. Hammer
Robert C. Milsom
Robert R. Mitchell
James B. Wiesler
Thomas R. Williams

Visa Officers

Messrs: Bennett Katz
B. Ray Traweek

MASTERCARD

Mr. Richard M. Rosenberg, Chairman
Mr. Russell E. Hogg, CEO

Members of the Executive Committee

Messrs: John A. Brooks
John F. Curran
Frederick Deane, Jr.
John W. McIntyre
Edward D. Miller
Arthur B. Ziegler

MasterCard Officers

Messrs: F. David Brangaccio
Andrew J. Lynch

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JOINT EXECUTIVE COMMITTEE MEETING

A G E N D A

1. Overview
2. Combined Warning Bulletin
3. Communications Link
4. Common Rules
5. Technology
6. Security Staff Activity
7. Legislative/Washington Presence

JOINT EXECUTIVE COMMITTEE

OVERVIEW

Chronology of Cooperative Efforts

Sept. 1984 - CEO's Announced cooperation in five areas:

- Single card recovery bulletin;
- Anti-counterfeit technology to protect the magnetic stripe;
- One technology for dynamic signature verification;
- Central list of canceled merchants;
- Unified investigative efforts by the security staffs;

Dec. 1984 - Joint Executive Committee met and decided not to proceed with efforts to consolidate "back office", but agreed to expand cooperation to include:

- Communications link between networks;
- Common subset of operating regulations.

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JOINT EXECUTIVE COMMITTEE

Chronology (cont'd)

June. 1985 - Association CEO's agreed to work under an ABA "umbrella" to develop debit card standards.

Oct. 1985 - Association CEO's agreed to explore the idea of sharing "Washington presence" for legislative monitoring.

These efforts are now being managed and reported on in the following groups:

1. Combined Warning Bulletin
2. Communications Link
3. Common Rules
4. Technology
 - Debit Card Standards
 - Card Secure Technology
 - Signature Verification
5. Security
 - Improved Coordination of Security Dep't Activities
 - Combined Terminated Merchant File
6. Legislative Monitoring Function

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JOINT EXECUTIVE COMMITTEE

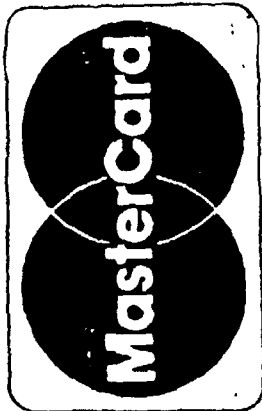
SUMMARY OF STATUS

- The Combined Warning Bulletin became operational on October 26, 1985, and all indications are that it is meeting the intended objectives and working well.
- The Communications Link went "live" on November 18, 1985, and is processing authorization transactions between the two networks.
- A considerable number of tentative agreements on common rules/regulations for interchange processing and charge backs have been reached and will be presented for the Boards' approval in May 1986.
- Common Debit Card standards and operational procedures are in final stages of development and are targeted for publication to the industry in June, 1986.
- The Combined Terminated Merchant File Agreement has been signed, systems and procedures are ready and, upon communication to members in January 1986, will become operational and ready for use.
- Joint Security efforts are underway in vendor inspections, data collection and analysis, and a regional member Steering Committee.
- The associations are talking and exchanging research on card technology.
- The Legislative monitoring project is only in the early stages.

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Combined Warning Bulletin

Effective Saturday, October 26, 1985

Issue 1, Region 2

Disregard All Previous Bulletins

PICK UP ANY CARD LISTED IN THIS BULLETIN
All Cards Are Listed In
Numeric Sequence

If you find a card that is listed:

Stop the transaction.

Hold the card, using reasonable and peaceful means.

Call your Authorization Center.

Ask for further instructions.

REWARDS

For LISTED cards, a minimum reward of \$50.00 will be paid to any merchant who recovers an unexpired card.

If you are SUSPICIOUS of a card that is not listed, call your Authorization Center, ask for a CODE 10 authorization and wait for instructions. If you are instructed to recover a card that is not listed in this bulletin, you will receive a minimum reward of \$100.00.

No inference should be drawn regarding a cardholder's credit rating due to a card's appearance on this list. The information in this bulletin is

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JOINT EXECUTIVE COMMITTEE

COMBINED WARNING BULLETIN

- The objectives were to simplify procedures for members, reduce the costs of producing the bulletin and to pass those savings to the members.
- Key Milestones:
 - October 1984 - First Joint Project Meeting;
 - December 1984 - Joint Member Advisory Group Meeting;
 - March 1985 - Agreement Signed;
 - May 1985 - Joint Regional Member Meetings;
 - October 1985 - First Combined Bulletin Published;
 - March/April 1986 - Joint Member Advisors To Review Procedures/Fee Structure.

JOINT EXECUTIVE COMMITTEE

COMBINED WARNING BULLETIN

- Member procedures were simplified by:
 - Establishing a common set of regions for account listing and bulletin publication;
 - Standardizing rules such as effective dates, "pick up" requirements and rewards;
 - Acquirers now only send the merchant file to one Association instead of sending the same file to both Associations.

- The member fee structure, which was materially different in concept, was standardized;

- Fees were lowered;

- Essentially, what was previously two separate biweekly printing and distribution runs of 2.2 million bulletins has been consolidated into a single bulletin operation, thus cutting costs by 20-25%.

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COMBINED WARNING BULLETIN

FEE STRUCTURE

	<u>VISA</u>	<u>MC**</u>	<u>CWB</u>
<u>ACCOUNT FEES</u>			
1ST LISTING	\$.50	\$.60	\$.50
2ND LISTING	\$2.50/12.50	\$22.60/2.60	\$3.50
3RD LISTING & MORE	\$12.50	\$22.60/2.60	\$12.50
EXCESS LISTING	\$5.00	N/A	\$6.00
<u>BULLETIN FEES</u>	\$.15	\$.16	\$.27

** ASSUMING FIRST LISTING IN REGION OF DOMICILE.

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JOINT EXECUTIVE COMMITTEE
COMBINED WARNING BULLETIN
1986 FINANCIAL IMPACT
(projected by outside consultants)

• Production And Distribution Savings:

MasterCard	\$ 3.9M
Visa	<u>4.3</u>
	\$ 8.2

• Savings Passed To Members:

Issuers	\$ 3.8M
Acquirers	<u>1.8</u>
	\$ 5.6

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JOINT EXECUTIVE COMMITTEE

COMMON RULES

- The objective is to enable dual members to reduce costs through:
 - Reduced errors caused by confusing differences;
 - Ease of training/education;
 - Some staff reduction in larger shops;
 - Some economies in system maintenance.

- The rules, or operating regulations, govern virtually every aspect of the credit card transaction flow from card issuance, use at the point of sale, authorization, and settlement.

- The effort is proceeding smoothly, but more slowly than expected:
 - Staff is finding it easy to work together and reach agreement; but
 - Research, review and approval process is time consuming; and
 - Staff resources are the constraint.

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JOINT EXECUTIVE COMMITTEE MEETING

COMMON RULES (CONT'D)

- Three groups of rules were identified for our initial work efforts:

1. Settlement Processing

Processing Cycles

Time Periods

Retrieval Procedures

Documentation Requirements

Charge back processing

Compliance/Arbitration

- Tentative Agreements Reached
- Board approval - May 1986
- Implementation - 6-18 months

2. Merchant and POS Procedures

Qualification standards)

Merchant procedures)

Authorization procedures)

Floor limits)

Deposit requirements)

Cash advance procedures)

- Staff work to begin in 1986

3. Security and Fraud Control

Security Standards)

Recovery of cards/rewards)

Fraud reporting)

Counterfeit cards)

Rewards for arrest and conviction)

Terminated Merchant File)

Merchant Fraud Control)

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JOINT EXECUTIVE COMMITTEE

COMMON RULES (CONT'D)

- Guiding Principles for Commonality
 1. Certain rules to be aligned, but those deemed proprietary will not.
 2. Common rule must make business sense.
 3. Non U.S. rules approached differently by Associations.
 4. Rules reviewed/approved in functional groups.
 5. Alignment to include definitions, forms, record formats, file content.
 6. Implementation will consider system changes, member needs.
 7. Each Association will follow existing approval process.
 8. Continued commonality desirable, but not mandatory.

Examples of common rules being established

- Charge Back Processing
 - Rights/liability of issuers and acquirers.
 - Fees and penalties.
 - Conditions under which items can be charged back.
 - Procedures and documentation.
- Time limit (# of days) for first presentment
- How days are counted

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JOINT EXECUTIVE COMMITTEE

COMMUNICATIONS LINK

Objectives

- The primary objective of the link is to facilitate the efficient processing of authorization transactions for both cards that originate from POS terminals directly into the Visa or MasterCard network;
- Without the link, each Association receiving the other's transactions, has to route them via an intermediate and inefficient linkage;
- With the link, those, and any other transactions, can be sent directly to the other network for processing to issuers, saving both time and cost.

Key Milestones

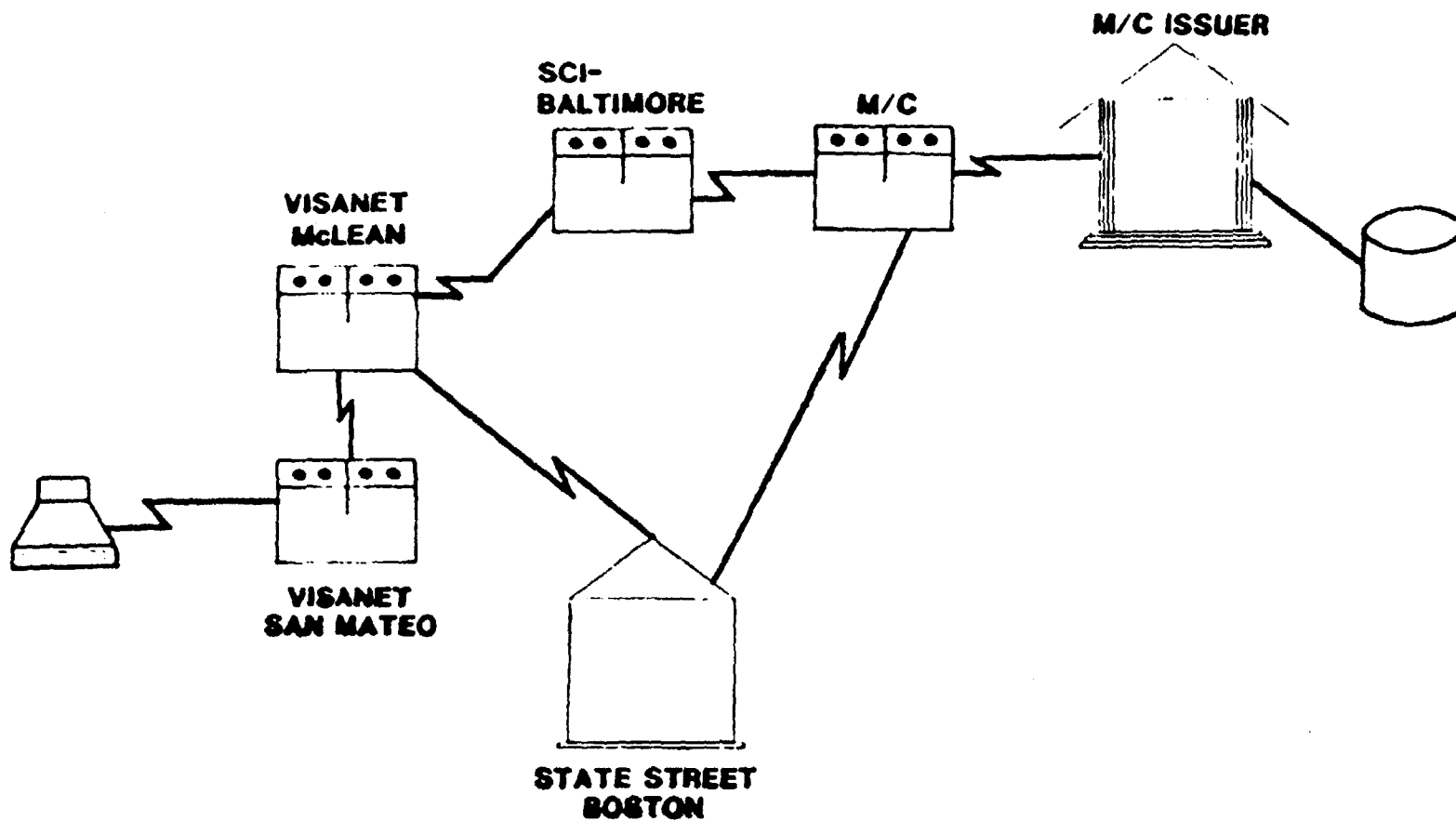
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|----------------|---|
| January 1985 | - First Joint Project Meeting; |
| March 1985 | - Mutual Orders For MIP's/Telephone Lines; |
| August 1985 | - Equipment Installed And Certification Testing Begins; |
| November 1985 | - Authorization Link Becomes Operational |
| April/May 1986 | - Batch Settlement Link Targeted |

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**MASTERCARD CARD USED IN
VISA SPONSORED POS TERMINAL
- PRIOR TO DIRECT LINK -**



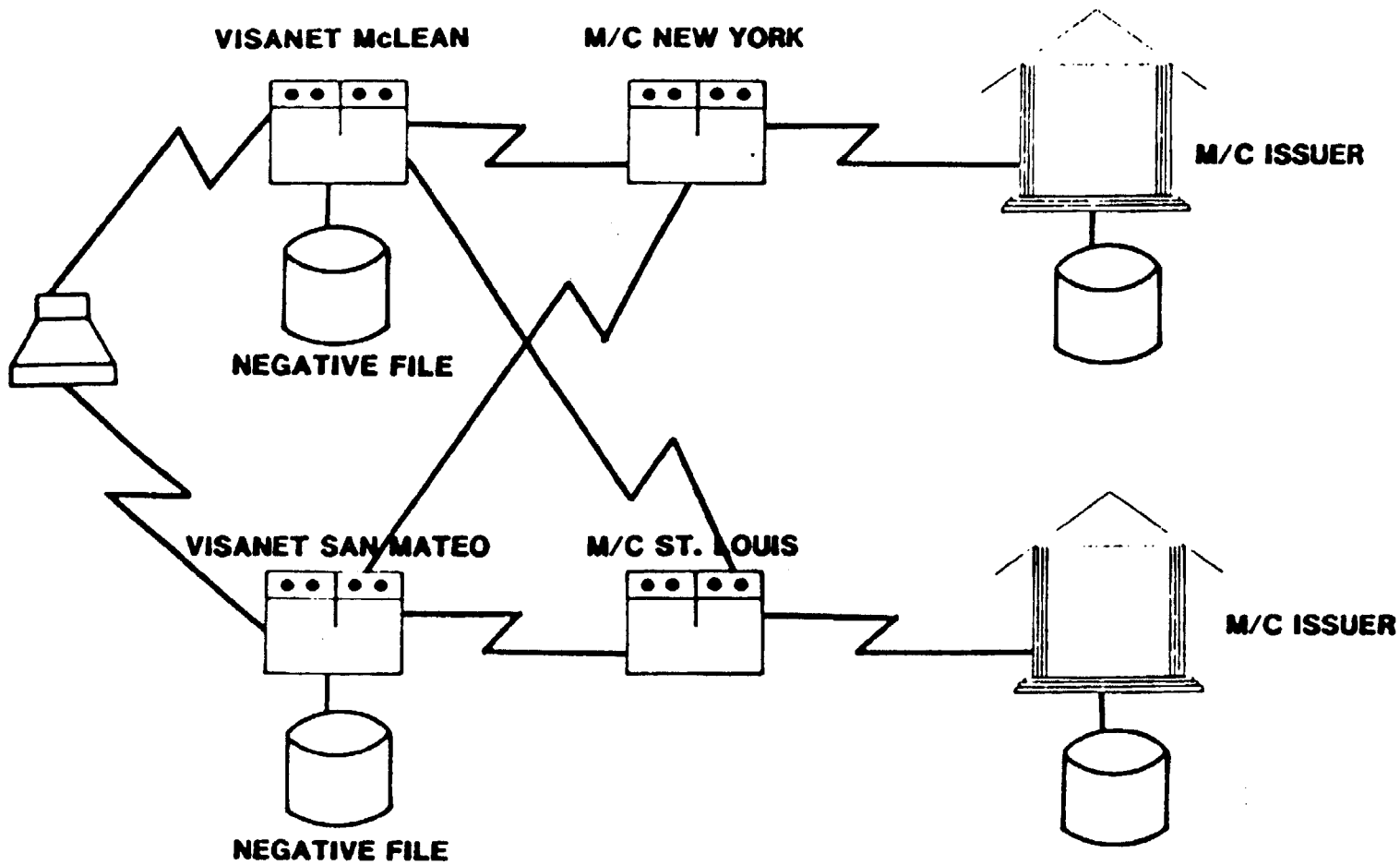
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LINK BETWEEN THE SYSTEMS

MASTERCARD CARD USED IN VISA SPONSORED POS TERMINAL



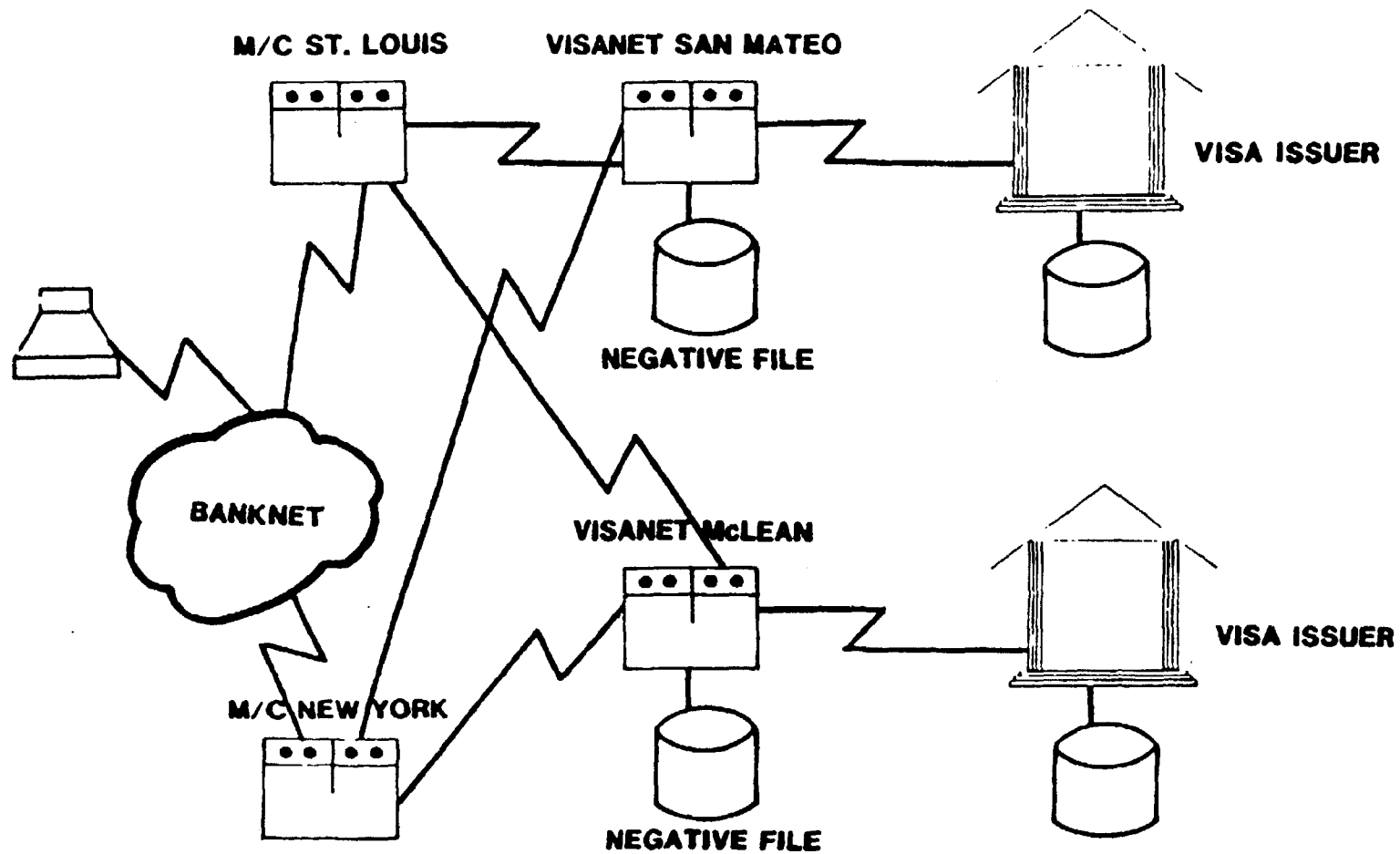
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LINK BETWEEN THE SYSTEMS

VISA CARDS USED IN MASTERCARD SPONSORED POS TERMINAL



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JOINT EXECUTIVE COMMITTEE

DEBIT CARD STANDARDS

- An Ad Hoc Committee was formed under an "umbrella" of the ABA Retail Payment Task Force.
- Committee representatives are from Plus, Cirrus, MasterCard and Visa.
- They have met seven times between July - December 1985
- Their objective is to:
 - "Develop specific guidelines for the implementation of existing and emerging standards (from ANSI & ISO) for debit card use as a payment mechanism at the point of sale": so that
 - The industry can avoid potential future costs and confusion that could occur if national and regional organizations develop and invest in incompatible operating systems/procedures for interchange transactions.
- Significant progress has been made and a comprehensive standards document is to be published to the industry in June 1986.

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JOINT EXECUTIVE COMMITTEE

DEBIT CARD STANDARDS

- The scope of the standards development is broad. It covers technical, system and procedural matters dealing with:
 - Responsibilities of card issuers;
 - Responsibilities of terminal deployment;
 - Transaction support;
 - Security;
 - Settlement;
 - EFT error resolution.

- The guiding principles for the work are:
 - Competition must be facilitated rather than restricted;
 - Results must allow for easy interchange of data;
 - Define capability between merchants and cardholders and issuers and acquirers;
 - Use the existing check clearing system as a model;
 - Results to provide working basis for hardware manufacturers, card issuers, acquirers and merchants to structure their systems and procedures;
 - Interpret the existing ANSI and ISO standards;
 - Highlight any needs for enhancement of the existing standards.

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JOINT EXECUTIVE COMMITTEE

DEBIT CARD STANDARDS

Examples of the matters addressed are:

- Physical Card Characteristics - Size, shape, mag stripe encoding, embossing, signature panel, etc.
- Customer Identification - Use of Primary Account Number (PAN), Personal Identification Number (PIN), check digit validation, etc.
- Terminal Hardware Requirements - All transactions to be on-line, issuer approved, zero floor limit, real-time data capture, etc.
- Documentation of Transactions - Customers must be provided with receipt meeting requirements of Reg E, no signature is required (being replaced by PIN), etc.

MD1988-0021

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JOINT EXECUTIVE COMMITTEE

CARD SECURE TECHNOLOGY

The objective was to work toward the endorsement of a single technology to secure the magnetic stripe against counterfeit.

Chronology of Events

- Nov 1984 - Feb 1985
 - A joint staff team assisted by A.D. Little evaluated anti-counterfeit stripe technologies, including watermark and others;
 - They concluded that use of watermark, while technically justifiable, was not cost effective as an anti-counterfeit deterrent alone;
 - Visa staff presented the idea of expanding use of the stripe in the authorization process, showing that the capability of truncating authorizations at POS, would generate significant cost savings (MCAS concept);
 - MasterCard was reluctant to endorse MCAS for the industry without fully exploring Chip Card development as a better alternative;
- A joint management meeting was held in early March, but was inconclusive;
- MasterCard decided to proceed with a Chip test and has invited Visa to participate on the Steering Committee.
- Visa announced Super Chip and MCAS and invited MasterCard to share in research.

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JOINT EXECUTIVE COMMITTEE

SIGNATURE VERIFICATION

- In early 1985, Visa had decided to "shelve" further research;
- MasterCard has continued testing the DeLa Rue system;
- Both parties agree to share results of tests;
- Reviews/discussions will take place when appropriate;
- Not a high priority/active work effort at this time.

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JOINT EXECUTIVE COMMITTEE

SECURITY

At a June 1985 Management Meeting we agreed to the following priorities, in addition to the Combined Terminated Merchant File:

- Assist law enforcement agencies to develop common data base of investigative and loss information (GIIN);
- Establish a Joint Regional Steering Committee to address fraud and counterfeit in the New York area;
- Establish common counterfeit reporting standards;
- Establish common fraud control rules;
- Work toward standardized training for law enforcement agencies and members;
- Implement a joint/shared program for plastics vendor inspections and certification.

JOINT EXECUTIVE COMMITTEE

SECURITY

Status

- Combined Terminated Merchant File is operational and available for use by Visa members:
 - Visa has adopted similar rules as MasterCard;
 - MasterCard will operate the system;
 - Members can access through either Visa or MasterCard;
 - The Associations will share costs.

- Law enforcement data base (GIIN) proceeding. *see how it works first*
 - Secret service has set information standards for the U.S.;
 - Visa, MasterCard, Amex, Diners to participate in the U.S.;
 - Interpol and agencies in other countries are supportive of expanding this concept outside of the U.S.;
 - Visa supports the idea of GIIN worldwide, but is limiting its active participation in the U.S. until the concept is further defined.

JOINT EXECUTIVE COMMITTEE

SECURITY STATUS (CONT'D)

- The following will participate on our New York Regional Steering Committee. *(Admin. on bank increase (after year) (Bob Scully))*
Bank of New York
Chemical
Citicorp
Chase
European American
First Card (First Chicago)
Manufacturers Hanover
Marine Midland
Nabanco
National Westminster
- Common reporting and rules will be addressed as part of the rules project in early 1986.
- Standard training has been addressed. *(file)*
- The joint vendor inspection program is underway.

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JOINT EXECUTIVE COMMITTEE

LEGISLATIVE MONITORING

- The objective is to serve our members' interest in a unified manner by having timely knowledge of pending relevant legislation and to make the industry's position on such matters known to the lawmakers. The role of the Associations should also be pro-active as well as reactive.

- The specific functions to be accomplished are:
 - Monitor legislative and regulatory developments, relative to the Associations and their members;
 - Analyze the impact of pending legislation, develop the industry's position, set strategy for modifying proposals and/or ensuring passage, and move on these matters in a coordinated way on behalf of the industry;
 - Draft legislation and regulatory comments and provide testimony;
 - Act as a legislative liaison and be an information source for the industry.

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JOINT EXECUTIVE COMMITTEE

LEGISLATIVE MONITORING

- MasterCard and Visa are exploring two alternative approaches to accomplishing the objective:
 1. Hire or put in place a small dedicated firm that would work exclusively for Visa and MasterCard;
 2. Retain a large firm with multiple resources to provide a full range of services.
- We expect to pursue these options in the coming weeks and to present recommendations for Board approval.

* * * * *

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Joint Executive Committee

In conclusion, the cooperative efforts are working, and in the opinion of the joint staffs, meeting the intended objectives. At this point, there does not appear to be other areas to be explored, although work in each of the defined areas is expected to continue for the foreseeable future.

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