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**TO:** Chuck Russell, Bennett Katz, Wes Tallman, Bob Heller

**FROM:** Bill Powar *B. J.*

**DATE:** February 20, 1991

**SUBJECT:** Meeting 2/19/91

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This summarizes yesterday's meeting. Please let me know if you have anything to modify or add.

We will continue to target a special Board meeting for April 19. Material should be sent in advance on Monday April 8. Early meetings with selected key Board members are probably worthwhile. It was viewed desirable to have something in their hands prior to those meetings as well, suggesting that a preliminary write-up be available early in the week of March 25 to support meetings the week of April 1.

The material and the meetings will focus on defining principles for and a summary of the high level implications of the 2 options that came out of the last Board meeting:

1. Retain open membership and modify pricing and ownership rules.
  - This approach will be defined to be competitive with MasterCard.
  - The current strategy of two-tiered pricing (new Members vs. old) will be maintained, but with different pricing. No explicit return will be provided to owners.
  - New Members will be eligible for voting and equity rights. Current calculations of equity will be adjusted to reflect inflation and the stage of system development. Voting will not be changed.
  
2. Close Visa membership and implement a prospective prohibition of duality. Bennett Katz will prepare a definition of what this means, but the following "guidelines" were developed:
  - Visa Members cannot solicit any new MasterCard accounts across the entire card issuing product line.
  - All current MasterCards issued by Visa Members are grandfathered as are Visa cards issued by current Members who "drop" their Membership. Although we may not want to discourage future conversions to Visa from Members who initially choose MasterCard, rules will be developed to stop banks from "flip-flopping" between Visa and MasterCard.
  - This will apply only to issuer duality. Acquirer duality will be addressed later, when and if the issuer side ban is implemented.
  - Implementation of the issuer ban will depend on Visa getting sufficient commitments from current issuers to choose Visa.

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- **Open Issue:** Does "limiting Membership" imply closing Membership completely (either by rule or pricing) or precluding future Membership of depository institutions owned by entities not themselves eligible for Membership?

- Katz will address the legal risks.
- Tallman will address the impacts on debit products.

Key to the decision between the two will be the results of research of current AT&T cardholders to determine the relative importance of the Visa brand vs. the specifics of the AT&T offer. That research will be fielded next week. Topline results will be available the third week in March. If that research suggests that the success of major new entrants will not be reduced if their cards are exclusively MasterCard, the recommendation will be to continue open Membership. If the results show that a the portion of cardholders who would not take a card if it was offered only as a MasterCard is material, Option 2 will be proposed.

It was decided that involving Members in an analysis of the operational impacts of the duality ban would be premature until the research is in and the Board has endorsed the direction. Therefore, if Option 2 is proposed, it will be conditional on a review with key Members (between April and June) of its practical feasibility. If that review "proves" that the cost implications outweigh the benefits, we will fall back to Option 1 at the June meeting.

Implementation would also be subject to a Member commitment process. If a super-majority of current Visa issuers (at least equal to Visa's current 63% market share) do not commit to stay with the future non-dual Visa, we would also implement Option 1. It was recognized that all decisions made between April and the end of the commitment period would likely go MasterCard's way.

#### Next Steps

1. Market research.
2. Research MasterCard rules on pass-throughs to asset management accounts, voting, "equity" and application of new Member pricing to debit cards.
3. Document recent credit card trends among Members by type:
  - "traditional" issuers with national programs
  - "traditional" issuers with regional programs
  - credit card banks or "non-bank" banks owned by non-banks
4. Develop principles of both options and outline of Board material in parallel, for review and speedy turnaround when results of market research are available.

cc: Greg Bjorndahl

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