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VISA

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GOVERNMENT DEPOSITION EXHIBIT 1039

D-0119

CONFIDENTIAL

VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999
0830-1700

AGENDA

1. **Introductory Matters**
   - a. Welcome of New Director
   - ~~b. Absent Directors~~
   - c. Approval of Minutes (Resolution)
   - d. Executive Committee Report
   - e. CEO Report
2. **Strategic Matters**
   - a. Restructure of Committees (Resolution)

- BREAK

   - b. VisaNet 2 (Resolution)
   - c. Revised Budget 1999 (Resolution)

- LUNCH

   - d. Chip Card – Strategy and Business Case
   - e. Venture Capital (Resolution)
3. **Operating Matters**
   - a. Systems
     - Year 2000 Report
       - ♦ Global Member Risk Policy (Resolution)

- BREAK

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b. Financial Report

c. Risk Report

- Collateral Exemptions

d. Regulatory Report

e. Operating Principles

(1) Internet Domain Names (Resolution)

(2) Miscellaneous Operating Principles (Resolution)

f. Ratification of Acceptance of Member by LAC Region (Resolution)

4. Open Forum

5. Closing Comments

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NOTES TO THE AGENDA

1. Introductory Matters

a. Welcome of New Director. Robert Potts and John Reed will be welcomed to the Board.

b. Absent Directors. Michael Leeming, Les Biller and Wee Ee Cheong send their apologies for being unable to attend the meeting. In addition, Paulo Cesar Ximenes is resigning as Chairman of the Latin America and Caribbean Regional Board and as a director to this Board. In his absence, Egidio Iannella, Vice Chairman of the LAC Regional Board, will be attending the International Board meeting.

c. Approval of Minutes. Minutes of the Board of Directors meeting held on 28 October 1998 are included under separate cover, and a resolution for their approval is included. (TAB 1, Page 1)

- Management Executive Committee minutes for May, July, September, October and November 1998 also are included under separate cover.

d. Executive Committee Report. Peter Ellwood will report on the Executive Committee meeting held in conjunction with the Board meeting. No materials are included.

e. CEO Report. Malcolm Williamson will give a state of the company report and an overview of the Board Agenda. A recent memorandum sent to Visa staff on the President's Projects is included. (TAB 1, Page 2)

2. Strategic Matters

a. Restructure of Committees. The Executive Committee will be restructured to change its authority and reconstituted. The Compensation Committee, currently an ad hoc subcommittee of the Executive Committee, will be formalized as a Board Committee with appropriate authority and reconstituted. In addition, an Audit, Risk and Finance Committee will be formed. An Executive Summary and resolution are included. (TAB 2, Page 1)

b. VisaNet 2. At the June 1998 meeting, the Board unanimously approved the VisaNet 2 Program. Significant progress has been made regarding requirements definition and software methodology enhancements. Activities also have been focused on developing a funding and allocation methodology. A presentation will be made to the Board on need for and benefits of the VisaNet 2 Program, as well as a discussion of funding and allocation. Materials will be sent to the Board under separate cover.

c. Revised Budget 1999. A presentation addressing issues raised at the last Board meeting will be given, including revisions to the current year

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budget. An Executive Summary and resolution are included. (TAB 2, Page 5)

d. Chip Card -- Strategy and Business Case. A business case, including infrastructure migration, will be presented. An Executive Summary is included. (TAB 2, Page 10)

e. Venture Capital. Since 1994, Visa has achieved substantial strategic and financial benefits for Visa Members through a series of equity investments in emerging technologies companies. Management is proposing the formation of an investment fund that can yield greater returns for Visa Members and will provide more discipline and control over Visa's strategic investment activities. The proposed Visa Technology Fund will be a vehicle for interested Members to benefit directly from these investments as well as gain greater insight into technology developments. An Executive Summary and resolution are included under separate cover.

3. Operating Matters

a. Systems

- Year 2000 Report. The transition to the Year 2000 continues to present many potential risks. While progress is being made in infrastructure, such as power and telecommunications, in many countries, as well as in remediation of banking and bankcard-related systems, it is still highly probable that there will be some failures that will impact Visa and its Members. Meanwhile, Visa International continues to make strong progress in preparation for the year 2000. The Year 2000 Project Office was established in 1995 to ensure that all VisaNet systems are Year 2000 compliant by 31 December 1998, and this milestone has been achieved. The Year 2000 Business Council was established in mid-1998 to address the business risks of the situation, which occur as a result of factors outside of Visa's direct control. A report on these activities is included in the Executive Summary. (TAB 3, Page 1)

- Global Member Risk Policy. The paper included in the Board materials recommends some changes to the existing Member Risk Policy to provide a measure of additional protection as a result of Year 2000 issues on individual Members. Notwithstanding the strength of Members, there will be additional risks in some cases by virtue of the domicile of Members. Some country infrastructure will not be Year 2000 compliant, e.g., telecommunications companies, which will affect the ability of Members fulfilling their obligations through no fault of their own. These issues are both complex and sensitive, particularly where sovereign institutions and utilities are concerned, and resulting sensitivities could affect Visa's current or future ambitions in a country. Work is currently being undertaken to identify those markets and Members which could be affected. The Board will receive an update in June, which will include the result of discussions with Central Banks, regulators, and other pertinent parties. Modifications to the Global Member Risk Policy and a procedure for Principal Member Year 2000 risk management are provided for the Board's approval. An Executive Summary and resolution are included. (TAB 3, Page 6)

b. Financial Report

(1) Financial Report -- 1998 Fiscal Year. Visa International Pre Tax for the 12 months ended 30 September 1998 was U.S. $44 million, favorable to Plan by $10 million. Total Revenue of $1,268 million was favorable by $29 million, while Total Expense of $1,224 million was $19 million unfavorable to Plan. The revenue and expense variances were primarily due to additional project work performed by Headquarters at the request of the Regions, which resulted in both excess revenue and excess expense. Additionally, an investment gain of $14 million was recognized from the sale of Yahoo! Securities. An Executive Summary is included. (TAB 3, Page 21)

(2) Current Financial Statements. Visa International Pre Tax for the two months ended 30 November 1998 was $42 million, favorable to Plan by $42 million. Total Revenue of $235 million was 9 percent favorable to Plan, while Total Expense of $193 million was 11 percent favorable to Plan. The favorable revenue variance was primarily due to the Investment Gain of $14 million recognized from the sale of Verisign Securities and higher-than-planned Data Processing Fees. The expense variance was due to timing of Initiatives projects and other operating expenses. A presentation on the results for the three months ended 31 December 1998 will be given at the Board Meeting. No materials are included.

(3) Performance Report. Quarterly performance for the quarter ended December 1998 for Headquarters and the six Regions is provided in the Performance Reports book.

c. Risk Report. A status report on risk matters will be presented. An Executive Summary on current collateral exemptions is included. (TAB 3, Page 32)

d. Regulatory Report. A status report will be presented on the U.S. Department of Justice investigation and other regulatory matters. No materials are included.

e. Operating Principles

(1) Internet Domain Names. Operating Principles are proposed to establish rules for the use of "visa" domain names on the Internet. Their objectives are to protect the Visa global corporate brand identity and to avoid confusion among consumers. Included are an Executive Summary, Operating Principles, and a resolution. (TAB 3, Page 33)

(2) Miscellaneous Operating Principles. Detailed in an Executive Summary are Operating Principles for proposed changes to the Visa International Operating Regulations relating to Chargeback rights for automated fuel dispensers, the VisaNet Documentation Automation Service, the VisaNet Copy Request and Fulfillment Service, optional expiration date

legend on cards, magnetic-stripe terminals with dual readers, and card design considerations. A resolution also is included. (TAB 3, Page 41)

(3) Ratification of Acceptance of Member by LAC Region. The LAC Region has requested ratification of their acceptance into membership of Financiera Itacua S.A.E.C.A., a Peruvian finance company. An Executive Summary and resolution are included. (TAB 3, Page 48)

4. Open Forum. Time is set aside on the agenda to discuss issues the Board would like to raise, including questions or comments on the following reports provided for your information in the Reports book. There will be no presentations on these reports.

a. Euro Report. A status report on introduction of the euro is included. (REPORTS TAB 4, Page 1)

b. Marketing Report. The marketing report reviews Visa's brand performance, including market share. Activities to leverage the VISA brand to support Member business objectives also are reviewed. An Executive Summary is included (REPORTS TAB 4, Page 4), as well as a paper on the Olympics (REPORTS TAB 4, Page 9).

c. Litigation Report. A summary of the current status of litigation, regulatory and trademark matters is included. (REPORTS TAB 4, Page 14)

d. Human Resources Report. The worldwide staffing report is included. (REPORTS TAB 4, Page 19)

e. Membership Report. The report on current numbers and types of Members worldwide is included. (REPORTS TAB 4, Page 20)

f. Peak Season Report. There was 100 percent availability for the Visa Integrated Payment System ("V.I.P.") for all Regions. BASE II also achieved 100 percent settlement. On 24 December 1998, the peak message rate reached 2,702 messages per second, a 12.8 percent increase over last year's peak message rate. On that same day, Visa processed 64,167,029 transactions, a 24 percent growth over last year's peak volume day. Overall, Visa experienced a 23.8 percent growth in cumulative peak period transaction volume. On 21 December, BASE II experienced the peak day with U.S. $3.3 billion dollars, a 12.4 percent growth over last year's peak dollar day. Overall, there was a growth of 14.6 percent in cumulative peak period BASE II total dollar volume. No materials are included.

g. Bankruptcy Prediction Service. A report on the commercialization of credit risk prediction services is included. (REPORTS TAB 4, Page 22)

5. Closing Comments. The next International Board meeting will be held in Philadelphia, Pennsylvania on 4 June 1999.

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

APPROVAL OF MINUTES

In order to approve the minutes of the 28 October 1998 International Board of Directors meeting, after discussion, and upon motion duly made, seconded and unanimously carried, it was

> **RESOLVED**, that the minutes of the International Board of Directors meeting of 28 October 1998 are hereby approved.

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING
Foster City, California
23 February 1999

MEMORANDUM

TO: All Visa Staff

DATE: January 12, 1999

FROM: Malcolm Williamson

SUBJECT: The President's Projects

Since joining Visa, I have been reviewing our situation and starting to pinpoint the most important challenges facing us in 1999 and after. My review has reconfirmed my initial opinion that Visa has been, and continues to be, a highly successful organization, one in which we can all take great pride. I offer my congratulations to all of you for your achievements over recent years.

I have also formed the view that we face considerable opportunities and challenges in the years ahead. The demand for our services from member banks and cardholders will multiply. There may be advantage in widening our membership base. Moreover, there are very likely to be opportunities to introduce new forms of payment system which employ new technologies. At the same time, I expect to see competition intensify with new types of competitors emerging, some with the capabilities and resources to make life more difficult for us if we do not act to frustrate their moves. And, reflecting the commercial pressures affecting our members, we shall need to provide our services ever more cost-effectively.

To ensure that we are at the forefront in taking advantage of the opportunities and dealing with the threats, I have decided to launch three important and linked projects in 1999. Because they are of particular importance to me, I call them the President's Projects. The purpose of this memorandum is to tell you about these and invite your contributions.

Cost/Income Project

The first project will examine ways in which Visa International can increase its income and improve cost-effectiveness in the short term. It will start immediately. For 2 to 3 months, the focus of this work will be on the Center of Visa International: Global Support Services and the Group Support Functions. Later in the year, the work will broaden to include the Regions.

To improve cost-effectiveness, ideas for cutting costs in absolute terms are likely to emerge. Our preference will be to cut non-personnel costs by, for example, reducing fees paid to outside vendors, negotiating central discounts on services provided to several parts of the organization, planning travel and meetings to reduce fares and hotel expenses, increasing the sharing of office equipment, rationalizing the use of space and by being economical in all that we do. To the extent that we can find savings in these ways, it will be less necessary to consider reducing personnel costs so I invite you to make as many suggestions as possible for cutting non-personnel costs.

Jack Levine and Randy Fong will lead the Cost/Income Project. During January and February, they and their team members will be in touch with many of you to share opinions about how income and cost-effectiveness could be improved. In the meantime, feel free to write to Jack with any ideas, big or small, you may have. Please reflect on these challenges, think commercially and make as many suggestions as possible, and share your ideas freely with Jack, Randy and their team. Any suggestions, however radical, will be much appreciated.

Global Strategy Project

When the Cost/Income Project is underway, the second will start. Its role will be to develop a long term strategy and vision for governing the development of our business over the next 5-10 years. I expect this work to clarify the most important strategic issues which must be resolved, to define the main opportunities and threats facing us, to make proposals for dealing with them and to suggest priorities for management attention and future investment. This project will finalize its proposals for consideration by the Board in October 99 but will prepare a stream of position papers before then.

As with the Cost/Income Project, arrangements will be made for many of you to share your own views on future strategy with the team carrying out the work. I shall announce the leadership of this project over the coming weeks.

Reorganization Project

It is very likely that the preceding projects will highlight ways in which the organization structure of Visa could be improved to advantage. Accordingly, the third project will concentrate on designing and helping to introduce a new organization structure, to the extent that one is needed. We may, for example, want to reorganize to ensure that key management functions are given suitable organizational prominence. Consideration also needs to be given to how the Center and Regions could be restructured to strengthen our coordination of such things as planning and budgeting, product management, marketing, member relationship management, financial control, risk management, operations, human resources management, information technology management and internal audit. We also need to introduce a

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flatter, less bureaucratic structure, to facilitate communication and increase cost-effectiveness.

This Reorganization Project will be described in more detail in a few months time, after the Cost/Income and Strategy Projects have started to make their initial proposals.

I shall be closely involved in guiding the President's Projects and finalizing recommendations to the Board. To help me, I have asked Chris Batt to coordinate the various project efforts. Between us, we shall keep you informed about developments and decisions taken by me, my senior colleagues and the Board.

One key aim of the President's Projects is to ensure that Visa is always managed in the same commercially-minded way that is commonplace among our member banks who must strive to deliver excellent performance whilst facing increasingly stiff competition. As their servant, we should expect no less of ourselves in the years ahead. For this reason, we need to intensify our income generating activities, increase cost-effectiveness, sharpen our strategic focus and adopt best-practice organizational structures.

Evidently, the President's Projects are fundamental to our future success. I trust that you will contribute to them and look forward to reviewing progress with you during 1999.

Let me take this opportunity to wish you a happy, healthy and prosperous New Year.

Malcolm

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

Restructure of Committees

In order to revise the Terms of Reference for the Executive Committee and reconstitute such Committee, and to constitute a Compensation Committee and an Audit, Risk and Finance Committee of the Board with appropriate Terms of Reference, upon motion duly made, seconded and unanimously carried, it was

RESOLVED, that the Terms of Reference of the Executive Committee are hereby changed as follows:

The Executive Committee has the following authority:

(1) have and exercise~~, if it is impractical to bring an urgent matter to the full Board,~~ at any time the Board is not in session and subject at all times to the control of the Board, all of the powers and authority of the Board ~~with respect to that matter~~in the management of the business and affairs of the corporation, except (a) as otherwise provided by applicable law or the Corporation's Certificate of Incorporation, (b) the power to amend the Corporation's By-Laws, (c) change the eligibility requirements for membership, (d) establish service fees, (e) determine the qualification of directors, (f) fill vacancies on the Board, (g) elect or remove officers of the Corporation, or (h) take any other action which requires more than a majority vote of the Board, except where it is impractical to bring such other action, when it is urgent, to the full Board.

(2) provide a sounding board with feedback to management for formulation of key strategies and budgets prior to submission to the full Board for approval;

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~~(3) establish compensation and personnel policies;~~

~~(4) review the scope and results of the corporation's audit and adequacy of the corporation's accounting, financial and operating controls;~~

~~(5) establish risk and security policies and review implementation; and~~

~~(6) performance review.~~

And be it further

RESOLVED, that the members of the Executive Committee shall be:

______________________________ (Chairman)

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And be it further

RESOLVED, that a Compensation Committee is hereby constituted with the following Terms of Reference:

The Compensation Committee, subject at all times to the control of the Executive Committee, shall have the power and authority to review and establish compensation, incentive programs and fringe benefits of the employees of the Corporation, as well as appoint officers of the Corporation, other than the President and CEO. This Committee shall report all of its actions to the Executive Committee;

And be it further

RESOLVED, that the members of the Compensation Committee shall be:

_______________________________ (Chairman)

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And be it further

RESOLVED, that an Audit, Risk and Finance Committee is hereby constituted with the following Terms of Reference:

The Audit, Risk and Finance Committee shall have the power and authority to:

(1) Audit

(a) review and approve the internal audit plan and progress with respect thereto;

(b) review audit findings and corrective actions to be taken and progress with respect thereto;

(c) approve appointment of external auditors and scope of services; and

(d) review recommendations for improving controls and operating efficiencies and progress on actions taken with respect thereto;

(2) Risk

(a) review and establish Member and country risk policies, including approving exceptions to the policies and compliance;

(b) review product and system risks and establish policies with respect thereto;

(c) review and establish fraud and counterfeit protection policies; and

(d) review and establish treasury policies, including investments, funding, borrowing and other financial policies;

(3) Financial Results

(a) receive quarterly reports, including variances from budget; and

(b) receive and approve annual financial statements.

This Committee shall report all of its actions to the Executive Committee or the full Board;

And be it further

RESOLVED, that the members of the Audit, Risk and Finance Committee shall be:

______________________________ (Chairman)

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And be it further

RESOLVED, that a quorum of each Committee shall be a majority of its members, the required vote for approval shall be a majority of a quorum unless the By-Laws require a different percentage if it were to go before the full Board; in which case, it shall require that same percentage and notice shall be required for its meetings in the same manner as required for meetings of the Board of Directors.

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

EXECUTIVE SUMMARY

Current Year Budget – Update

In October the Board approved the Association's budget for the current financial year. This approved budget reflected the guidance from the Executive Committee at its meeting in September that management should strive to reduce the overall cost budgets. The intention that management shared with the Board was that savings would be identified on a worldwide basis, and that this task would be undertaken by Regional management and reviewed by them with the Regional Boards as well as the Center. However, Visa International (the headquarters functions) did commit to U.S. $30 million of savings; and whilst the details had to be worked out, that commitment was incorporated into the Budget that the Board approved in Buenos Aires. These potential savings were then passed back to the Regions, and remain available to the Regions in their considerations as to how they wish to fund their allocated contribution to VisaNet 2.

Since the last Board meeting, the details behind the budget savings have been identified and action plans are in place. None of the savings will impact core programs, with most of the savings resulting from re-deploying existing staff, thereby aggressively reducing the need for external contractors, consultants, and new hires. This lower headcount also has enabled a recast of the premises configuration by reducing some short-term space requirements.

In addition, a "President's Project" has been initiated, the remit of which is to examine every opportunity for cost reduction. The team is already engaged on the detailed analysis of a very large number of suggestions for cuts, but it is too early to quantify the numbers, not least of all because of the impact of the cost of any employee separation program. Whilst it is anticipated that savings will be made, and we will benefit from them in this current year, the process is in its early stages and management intends to incorporate those savings in the 1999/2000 budget cycle.

In giving their approval to the budget, the Board made the following two observations:

- They were uncomfortable with the concept of a contingency fund.
- The anticipated gains from the planned sale of Yahoo! stock should not be included in the budget.

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These two points have been incorporated into the budget revision, which also includes the following:

1. Contingency Fund. This has been removed. The original intention was to provide potential funding for unforeseen events from what was viewed to be an uncertain world economic climate, two examples being the possibility of further devaluations in South East Asia and Year 2000. The Asian devaluations in 1998 had been funded by a successful cost containment program in the Region. A fall in revenue of the same magnitude could not be funded in the same way. We are taking the view that further Asia devaluations, whilst possible, now seem less likely than six months ago.

2. Year 2000. Funds were originally budgeted to operate a forward-dated Member test system throughout the year and provide basic systems interfacing testing, and also to analyze the telecommunications facilities and infrastructure on a global basis. A Year 2000 Business Council was established to monitor Regional programs. Whilst Visa's own systems are compliant, management considered it critical to extend our procedures to those outside parties who interconnect with Visa's programs. An additional funding was required for this broadening of the project. Specifically the following additional assignments are being undertaken:

   - Integration testing with outside providers such as settlement providers, telecommunications providers, and other card networks.
   - Systems recovery and contingency planning specific to Year 2000.
   - Business recovery and contingency planning, including establishing Central and Regional command centers with standard procedures and recovery playbooks.
   - Augmenting the Year 2000 Business Council to establish global standards.
   - Endpoint and country infrastructure readiness assessments.
   - Acquiring and merchant awareness programs.
   - Card acceptance contingencies, including increased voice authorization capacity.
   - Communications office to establish and coordinate global messages and public relations activities.

   An additional $17.4 million has been allocated to fund this considerably enhanced program.

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3. Internal Audit. The function is not resourced sufficiently to provide management and the Board with reports on, specifically, systems development. $0.5 million has been allocated to fund the necessary increase in headcount.

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5. Financial Systems. There has been no significant investment in the financial systems during a period of growing complexity in Visa's business. The existing systems are not integrated either by function or with the Regions, nor do they provide adequate management information to manage the system and product development project work. In the (Board approved) budget, $2 million was allocated to develop the business case and to scope the project; a further $5 million has been allocated to initiate the project during the second half of the current financial year.

6. Promotion. Visa is sponsoring the 1999 Rugby World Cup at a total cost of $2.9 million. There is a shortfall of $0.4 million in the funding which needs to be funded by Central in the current year.

Summary

The contingency fund and the assumed contribution from the planned sale of Yahoo! stock have both been eliminated from the budget. However, a gain of $14 million has been realised on the partial sale of Verisign stock. $25.4 million of expenditure, primarily relating to Year 2000, has been incorporated within this budget revision.

	Original Budget (September 1998)	Board Approved Budget (October 1998)	($ in millions) This Revision (February 1999)
Headquarters			
Revenues	815	785	785
Operating Expenses	601	601	579
Initiatives	181	181	198
"Targeted" Expense Reductions	-	(30)	-
Contingency	30	30	-
Total Expense	812	782	777
Pre-tax	3	3	8

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Management's commitment to the Board to take costs out of the Association has progressed on two fronts. First, the $30 million of cost reduction incorporated into the Board approved budget in October has been developed into action plans to achieve those savings in the current financial year; and, second, a President's Project has been initiated to address a full array of cost reduction opportunities which will be reflected in the budget for the next financial year, although some actual savings are anticipated in 1999.

Ray Barnes

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

VISA INTERNATIONAL REVISED CONSOLIDATED FINANCIAL PLAN FOR FISCAL YEAR 1998/99

The Board reviewed the revised Plan for Headquarters and Visa International for fiscal year 1998/99. Upon motion duly made, seconded and unanimously carried, it was

> **RESOLVED**, that the Plan for Visa International for fiscal year 1998/99, as revised in the Executive Summary which the Secretary is directed to attach to the minutes of this meeting as Exhibit ____, is hereby approved.

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

EXECUTIVE SUMMARY

Chip Card – Strategy and Business Case

The Infrastructure Migration Strategy is a set of milestones for enhancing the global payment service infrastructure and extending its value for Members in the next decade. The overall strategy was reviewed with the International Board at its meeting in Buenos Aires, and is intended to achieve the following end vision:

- All VISA cards will be chip cards and VISA point-of-transaction devices will be able to read them.
- All VISA cards and devices will be EMV-compliant and interoperable.
- All VISA point-of-transaction chip devices will support enhanced cardholder verification methods (PIN as the near term global standard until biometrics evolve).
- VISA account numbers will contain up to 19 digits.
- Clearing times for electronic transactions will be a maximum of three days.
- The quality of authorization data will be substantially improved.
- Authorization and clearing transactions will be matched.

A financial analysis of the migration strategy costs and benefits has been prepared and will be shared with the Board. This analysis is based upon three key categories of business drivers and related actions:

Baseline: Enhancements to the payment service to reduce fraud, achieve operating efficiencies, and expand usage. These include implementation of chip, Issuer optional use of PIN as an enhanced Cardholder Verification Method (CVM), reduced clearing windows, and data quality improvements.

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Protect: Member issuance of multifunction relationship cards that leverage the baseline infrastructure and help protect banks' payment franchise from incursions by non-bank competitors.

Extend: Introduction of value-added services that drive increased card usage.

The financial analysis of the Infrastructure Migration Strategy assesses worldwide aggregate costs and benefits over a ten-year period, from the year 2000 through 2009. Two analyses have been prepared, based on a five-year versus a ten-year conversion period. The five-year conversion involves higher overall expenses for POS terminals that must be replaced before the end of their useful life and additional costs for a larger average number of chip cards during the period. These expenses are more than offset by increased benefits from more chip-based transactions over the full ten-year period of the analysis.

Costs and benefits are included for the major participants in the payment service -- Issuers, Acquirers, and merchants -- for their Visa and MasterCard programs. The financial analysis focuses primarily on the Baseline enhancements, although the potential benefits of the Protect and Extend categories also have been estimated. Assumptions supporting the business case are based on available quantitative data, the input of content experts, and feedback from Members that have implemented similar infrastructure changes. Attachment A summarizes the business case assumptions.

The analysis suggests that Visa Members may achieve a net benefit from the Baseline enhancements alone, with significant additional potential in the Protect and Extend categories. However, merchants will incur a net cost for the Baseline changes.

Baseline Business Case

Total combined Member and merchant costs for the Baseline enhancements over the ten-year period are U.S. $25.7-$31.7 billion, depending upon a five- or ten-year conversion period.

Member costs to implement the baseline debit and credit payment service are driven by changes to cards, systems and ATMs. Total Member costs to make the Baseline enhancements are significant, ranging from $15.6 billion to $20.3 billion, depending upon the timeframe for conversion. To put these figures in perspective, the total Issuer and Acquirer investment expense over the ten-year period is $4.45-$5.68 per chip card in the market in 2009.

Member benefits exceed costs, ranging from $18.6 billion to $34.8 billion, depending on future fraud growth and the speed of conversion. Member benefits include reduced skimmed counterfeit losses, avoidance of lost and stolen card fraud, increased operating efficiencies from off-line transactions, and expanded usage at additional points of convenience. Operational and data quality enhancements also will help Members to better manage available balances and risk, improve customer service, and reduce exception items. Because investments generally precede benefits, the Member net present value (NPV) of the Infrastructure Migration Strategy ranges from ($0.7) billion to $3.4 billion. Attachment B summarizes Member costs and benefits by year.

The net impact to merchants to make baseline debit and credit enhancements is between ($3.6) billion and ($3.5) billion NPV, depending upon the conversion period. Merchant costs are related to conversion of acceptance devices and systems, while benefits include throughput and telecommunications savings from off-line transactions (under the assumption that merchants generally incur these expenses).

Protecting the Payment Franchise

Members can derive additional benefit from their investment in the Baseline changes by issuing multifunction cards to protect the payment service franchise from non-bank competitors by being first to market. An income reduction of just 3 percent of card net income for the years 2000-2009 amounts to $9 billion net present value to Members worldwide.

Extending Services

Members also can add services to baseline payment services that drive increased card usage. A 10 percent increase in Visa payment service transactions generated by associated value-added services can result in a potential benefit of $5-$8 billion NPV or more.

Conclusions

These results support the following conclusions:

- The Baseline enhancements represent a reasonable investment to improve the payment service and to establish a foundation for protecting and extending Members' payment franchise. The benefits in the Protect and Extend categories could far exceed the net investment in Baseline changes.

  An imbalance in net benefits between Members and merchants may need to be at least partially offset to encourage merchants to establish the necessary chip acceptance infrastructure. This also raises the issue of free riding by Visa competitors on the infrastructure funded by Visa Members.

- It is prudent to initiate the Infrastructure Migration. The migration strategy establishes a global framework for movement to chip that ensures interoperability and acceptance for VISA cardholders, complementing domestic market actions and timing.

In addition, the benefits of other infrastructure changes, such as enhanced Cardholder Verification Methods, data quality improvements, and reduced clearing windows can be achieved at lower impact if completed in conjunction with the implementation of chip.

As a next step, it is proposed that worldwide milestones be established for those actions which require the longest lead time for implementation. The goal would be to impact the next purchase decision for acceptance devices, so that multiple replacement costs are avoided and benefits are derived more quickly. At a minimum, these initial steps would include the following requirements:

- All existing VISA chip cards and devices to be fully EMV compliant.
- All new point-of-sale devices to be capable of being upgraded to support chip and enhanced cardholder verification.
- All new ATMs to support chip and magnetic stripe cards.

Consideration also will be given to (1) interchange reimbursement fee structure modifications, which reduce the incentive for magnetic stripe terminals in favor of chip terminals; and (2) support for PIN entry capability in conjunction with chip implementation.

A proposal on these actions will be brought to the Board at the June meeting.

Stephen Schapp
Una Somerville

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Attachment A

Business Case Assumptions

This attachment summarizes the business case assumptions for the Baseline, Protect and Extend categories of business drivers and related actions.

Baseline Assumptions

Counterfeit

- Skimming fraud will increase significantly without chip. The following table shows the assumptions for the percent of skimming growth per year without chip. As a point of reference, the global average growth in total counterfeit, including skimming, was 44 percent in 1997 and approximately 35 percent in 1998. It is believed that skimming growth rates exceeded these figures.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Low Skimming Growth Scenario	30%	25%	22%	14%	14%	14%	14%	14%	14%	14%
High Skimming Growth Scenario	44%	44%	35%	22%	22%	14%	14%	14%	14%	14%

- Skimming and other counterfeit fraud will be reduced by 70-90 percent for chip transactions, depending upon whether the transaction is authorized on-line or off-line, and whether the results of chip authentication are passed to the Issuer.

Lost/Stolen Fraud

- Chip/PIN transactions will have 90 percent lower lost/stolen fraud.
- 80 percent of VISA Debit/Electron programs will migrate to PIN at the time of chip conversion.
- 25 percent of VISA credit programs will migrate to PIN at the time of chip conversion.
- Chip devices will support PIN entry.

Operating Efficiencies

- 40 percent of chip card transactions will be conducted off-line in 2000, growing to 60 percent of chip card transactions conducted off-line in 2009 as a higher share of cash and check transactions are captured.

- Off-line transactions are less costly than on-line transactions.

  ◊ Merchants will achieve $U.S. 20 per hour labor and labor-related cost savings for incremental chip off-line transactions, which are assumed to be 10 seconds faster than on-line transactions.

  ◊ Issuer and Acquirer processing costs will be reduced by $0.046 each per off-line chip transaction.

Expanded Usage

- Internet purchases will increase by 10 percent due to chip access security and portability.

Reduced Clearing Windows and Data Quality Improvements

- Incremental systems conversion costs will be low if concurrent with chip conversion.

- POS decline rates, referral rates and duplicate authorizations will be reduced by 7.5 percent. Eighty percent of markets requiring longer messages for data quality improvements will incur 5 percent additional telecommunications costs.

Infrastructure Costs

- Chip card costs, including personalization, will decline from $3.00 in 2000 to $2.00 by 2009 for a small capacity chip.

• POS Devices:	$120 incremental cost for normal replacement $400 incremental for accelerated replacement
• Issuer and Acquirer Systems:	$15 million for each of largest 40 $5 million for each of next 100 $1 million for each of remaining 2,000 $0.05 million for each of remaining 5,000
• Merchant Systems:	$1.25 million for each of largest 10% $0.25 million for each of next 30% $0.1 million for each of remaining 60%

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Protecting the Payment Franchise

Projected Card Net Income (Pre-Tax NPV)	$303 billion
Income reduction at 1% decline	$ 3 billion
Income reduction at 3% decline	$ 9 billion
Income reduction at 10% decline	$ 30 billion

Extending Services

- Multifunction cards will account for 80 percent of card volume by 2009.
- Value-added services on multifunction chip cards will drive a 10 percent increase in Visa payment transaction volume.
- The cost of extended services is at least covered by additional revenue.

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Attachment B

Summary Member Analysis By Year

The tables below summarize Member costs and benefits of the Baseline implementation, assuming low counterfeit growth and a complete migration within five and ten years respectively. Figures are shown in U.S. $ billions.

5-Year Conversion

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Member Costs	.3	.8	2.2	3.0	3.6	1.6	1.7	2.3	2.5	2.3	20.3
Member Benefits	.03	.1	.4	1.0	2.8	3.4	4.2	4.8	5.7	6.8	29.2
Member Baseline Net	(.27)	(.7)	(1.8)	(2.0)	(.8)	1.8	2.5	2.5	3.2	4.5	8.9
Member Baseline Net NPV	(.2)	(.5)	(1.2)	(1.2)	(.4)	.8	.9	.9	1.0	1.2	1.4

10-Year Conversion

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Member Costs	.3	.3	1.7	1.9	2.1	1.5	1.5	1.6	2.0	2.7	15.6
Member Benefits	.02	.06	.1	.3	.7	1.4	2.2	3.1	4.4	6.3	18.6
Member Baseline Net	(.27)	(.24)	(1.6)	(1.6)	(1.4)	(.1)	.7	1.5	2.4	3.6	3.0
Member Baseline Net NPV	(.2)	(.19)	(1.0)	(.9)	(.7)	(.1)	.3	.5	.7	.9	(.7)

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

EXECUTIVE SUMMARY

Year 2000 Update

The transition to the Year 2000 continues to present many potential risks. While progress is being made in infrastructure, such as power and telecommunications, in many countries, as well as in remediation of banking and bankcard-related systems, it is still highly probable that there will be some failures that will impact Visa and its Members. Year 2000 failures have already begun to occur; they will continue to emerge during 1999; and they will likely continue to occur well into the new millennium.

Visa International continues to make strong progress in preparation for the Year 2000. The Year 2000 Project Office was established in 1995 to ensure that all VisaNet systems are Year 2000 compliant by 31 December 1998, and this milestone has been achieved. The Year 2000 Business Council was established in mid-1998 to address the business risks of the year 2000 transition, which occur as a result of factors outside of Visa's direct control. A report on these activities is included in this Executive Summary.

Year 2000 Business Council

The Year 2000 Business Council is responsible for identifying potential Year 2000 business risks, developing mitigation strategies and contingency plans, and monitoring their implementation. The Council members include senior management from each Visa Region, as well as management from key functional areas at Headquarters. In October 1998, the responsibility for the Council was transferred to Global Support Services, where all Year 2000 activities are now managed in a single organization.

During the third quarter of 1998, the Year 2000 Business Council has focused on four key areas:

- Market Readiness
- Card Acceptance
- Awareness and Communication
- Contingency Planning and Event Management

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Market Readiness

To prepare for the Year 2000, it is critical that key participants in the payment system be evaluated to determine both their readiness to process VISA transactions in the year 2000 and beyond and their overall viability beyond day one of the new millennium. To that end, guidelines have been established for identifying the key participants in the Visa payment system, and a methodology has been adopted for evaluating their Year 2000 readiness. The methodology is based on the Firm Self Assessment and Disclosure document of the Global 2000 Coordinating Group[1], which has been accepted by the more than 230 participating financial institutions from 45 countries. Quarterly updates will be used to monitor progress throughout 1999.

A procedure also has been developed to address the operational and settlement risks posed by Members which are not preparing adequately for Year 2000. This procedure and the accompanying modifications to the Global Member Risk Policy are described in a separate Executive Summary.

Card Acceptance

Visa is committed to optimizing the acceptance of VISA branded cards, even in scenarios where various elements of the Visa payment system may not be operating appropriately, in order to protect the value of the VISA brand, as well as the value of the card business to both issuing and acquiring Members. At the same time, Visa must protect against fraud in an environment which may present opportunities for attack. A set of card acceptance programs has been prepared for the Year 2000 transition period, addressing the following areas:

- Intensify acquiring readiness assessment
- Automated Voice Authorization Service (AVAS)
- Pro-active floor limit changes
- Floor limit changes during extended outage situations
- Stand-in Processing (STIP) parameter reviews
- Dispute processing time limits

[1] The Global 2000 Coordinating Group is an informal grouping of banks, security firms, and insurance companies whose aim is to identify and resource areas where coordinated initiatives will facilitate efforts by the global financial community to improve the readiness of global financial institutions to meet the challenges created by the Year 2000 date change.

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999
0830-1700

AGENDA

1. **Introductory Matters**
   - a. Welcome of New Director
   - ~~b. Absent Directors~~
   - c. Approval of Minutes (Resolution)
   - d. Executive Committee Report
   - e. CEO Report
2. **Strategic Matters**
   - a. Restructure of Committees (Resolution)
   - • BREAK
   - b. VisaNet 2 (Resolution)
   - c. Revised Budget 1999 (Resolution)
   - • LUNCH
   - d. Chip Card – Strategy and Business Case
   - e. Venture Capital (Resolution)
3. **Operating Matters**
   - a. Systems
     - • Year 2000 Report
       - ◆ Global Member Risk Policy (Resolution)
   - • BREAK

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b. Financial Report

c. Risk Report

- Collateral Exemptions

d. Regulatory Report

e. Operating Principles

(1) Internet Domain Names (Resolution)

(2) Miscellaneous Operating Principles (Resolution)

f. Ratification of Acceptance of Member by LAC Region (Resolution)

4. Open Forum

5. Closing Comments

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NOTES TO THE AGENDA

1. Introductory Matters

a. Welcome of New Director. Robert Potts and John Reed will be welcomed to the Board.

b. Absent Directors. Michael Leeming, Les Biller and Wee Ee Cheong send their apologies for being unable to attend the meeting. In addition, Paulo Cesar Ximenes is resigning as Chairman of the Latin America and Caribbean Regional Board and as a director to this Board. In his absence, Egidio Iannella, Vice Chairman of the LAC Regional Board, will be attending the International Board meeting.

c. Approval of Minutes. Minutes of the Board of Directors meeting held on 28 October 1998 are included under separate cover, and a resolution for their approval is included. (TAB 1, Page 1)

- Management Executive Committee minutes for May, July, September, October and November 1998 also are included under separate cover.

d. Executive Committee Report. Peter Ellwood will report on the Executive Committee meeting held in conjunction with the Board meeting. No materials are included.

e. CEO Report. Malcolm Williamson will give a state of the company report and an overview of the Board Agenda. A recent memorandum sent to Visa staff on the President's Projects is included. (TAB 1, Page 2)

2. Strategic Matters

a. Restructure of Committees. The Executive Committee will be restructured to change its authority and reconstituted. The Compensation Committee, currently an ad hoc subcommittee of the Executive Committee, will be formalized as a Board Committee with appropriate authority and reconstituted. In addition, an Audit, Risk and Finance Committee will be formed. An Executive Summary and resolution are included. (TAB 2, Page 1)

b. VisaNet 2. At the June 1998 meeting, the Board unanimously approved the VisaNet 2 Program. Significant progress has been made regarding requirements definition and software methodology enhancements. Activities also have been focused on developing a funding and allocation methodology. A presentation will be made to the Board on need for and benefits of the VisaNet 2 Program, as well as a discussion of funding and allocation. Materials will be sent to the Board under separate cover.

c. Revised Budget 1999. A presentation addressing issues raised at the last Board meeting will be given, including revisions to the current year

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budget. An Executive Summary and resolution are included. (TAB 2, Page 5)

d. Chip Card -- Strategy and Business Case. A business case, including infrastructure migration, will be presented. An Executive Summary is included. (TAB 2, Page 10)

e. Venture Capital. Since 1994, Visa has achieved substantial strategic and financial benefits for Visa Members through a series of equity investments in emerging technologies companies. Management is proposing the formation of an investment fund that can yield greater returns for Visa Members and will provide more discipline and control over Visa's strategic investment activities. The proposed Visa Technology Fund will be a vehicle for interested Members to benefit directly from these investments as well as gain greater insight into technology developments. An Executive Summary and resolution are included under separate cover.

3. Operating Matters

a. Systems

• Year 2000 Report. The transition to the Year 2000 continues to present many potential risks. While progress is being made in infrastructure, such as power and telecommunications, in many countries, as well as in remediation of banking and bankcard-related systems, it is still highly probable that there will be some failures that will impact Visa and its Members. Meanwhile, Visa International continues to make strong progress in preparation for the year 2000. The Year 2000 Project Office was established in 1995 to ensure that all VisaNet systems are Year 2000 compliant by 31 December 1998, and this milestone has been achieved. The Year 2000 Business Council was established in mid-1998 to address the business risks of the situation, which occur as a result of factors outside of Visa's direct control. A report on these activities is included in the Executive Summary. (TAB 3, Page 1)

◆ Global Member Risk Policy. The paper included in the Board materials recommends some changes to the existing Member Risk Policy to provide a measure of additional protection as a result of Year 2000 issues on individual Members. Notwithstanding the strength of Members, there will be additional risks in some cases by virtue of the domicile of Members. Some country infrastructure will not be Year 2000 compliant, e.g., telecommunications companies, which will affect the ability of Members fulfilling their obligations through no fault of their own. These issues are both complex and sensitive, particularly where sovereign institutions and utilities are concerned, and resulting sensitivities could affect Visa's current or future ambitions in a country. Work is currently being undertaken to identify those markets and Members which could be affected. The Board will receive an update in June, which will include the result of discussions with Central Banks, regulators, and other pertinent parties. Modifications to the Global Member Risk Policy and a procedure for Principal Member Year 2000

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risk management are provided for the Board's approval. An Executive Summary and resolution are included. (TAB 3, Page 6)

b. Financial Report

(1) Financial Report – 1998 Fiscal Year. Visa International Pre Tax for the 12 months ended 30 September 1998 was U.S. $44 million, favorable to Plan by $10 million. Total Revenue of $1,268 million was favorable by $29 million, while Total Expense of $1,224 million was $19 million unfavorable to Plan. The revenue and expense variances were primarily due to additional project work performed by Headquarters at the request of the Regions, which resulted in both excess revenue and excess expense. Additionally, an investment gain of $14 million was recognized from the sale of Yahoo! Securities. An Executive Summary is included. (TAB 3, Page 21)

(2) Current Financial Statements. Visa International Pre Tax for the two months ended 30 November 1998 was $42 million, favorable to Plan by $42 million. Total Revenue of $235 million was 9 percent favorable to Plan, while Total Expense of $193 million was 11 percent favorable to Plan. The favorable revenue variance was primarily due to the Investment Gain of $14 million recognized from the sale of Verisign Securities and higher-than-planned Data Processing Fees. The expense variance was due to timing of Initiatives projects and other operating expenses. A presentation on the results for the three months ended 31 December 1998 will be given at the Board Meeting. No materials are included.

(3) Performance Report. Quarterly performance for the quarter ended December 1998 for Headquarters and the six Regions is provided in the Performance Reports book.

c. Risk Report. A status report on risk matters will be presented. An Executive Summary on current collateral exemptions is included. (TAB 3, Page 32)

d. Regulatory Report. A status report will be presented on the U.S. Department of Justice investigation and other regulatory matters. No materials are included.

e. Operating Principles

(1) Internet Domain Names. Operating Principles are proposed to establish rules for the use of "visa" domain names on the Internet. Their objectives are to protect the Visa global corporate brand identity and to avoid confusion among consumers. Included are an Executive Summary, Operating Principles, and a resolution. (TAB 3, Page 33)

(2) Miscellaneous Operating Principles. Detailed in an Executive Summary are Operating Principles for proposed changes to the Visa International Operating Regulations relating to Chargeback rights for automated fuel dispensers, the VisaNet Documentation Automation Service, the VisaNet Copy Request and Fulfillment Service, optional expiration date

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legend on cards, magnetic-stripe terminals with dual readers, and card design considerations. A resolution also is included. (TAB 3, Page 41)

(3) Ratification of Acceptance of Member by LAC Region. The LAC Region has requested ratification of their acceptance into membership of Financiera Itacua S.A.E.C.A., a Peruvian finance company. An Executive Summary and resolution are included. (TAB 3, Page 48)

4. Open Forum. Time is set aside on the agenda to discuss issues the Board would like to raise, including questions or comments on the following reports provided for your information in the Reports book. There will be no presentations on these reports.

a. Euro Report. A status report on introduction of the euro is included. (REPORTS TAB 4, Page 1)

b. Marketing Report. The marketing report reviews Visa's brand performance, including market share. Activities to leverage the VISA brand to support Member business objectives also are reviewed. An Executive Summary is included (REPORTS TAB 4, Page 4), as well as a paper on the Olympics (REPORTS TAB 4, Page 9).

c. Litigation Report. A summary of the current status of litigation, regulatory and trademark matters is included. (REPORTS TAB 4, Page 14)

d. Human Resources Report. The worldwide staffing report is included. (REPORTS TAB 4, Page 19)

e. Membership Report. The report on current numbers and types of Members worldwide is included. (REPORTS TAB 4, Page 20)

f. Peak Season Report. There was 100 percent availability for the Visa Integrated Payment System ("V.I.P.") for all Regions. BASE II also achieved 100 percent settlement. On 24 December 1998, the peak message rate reached 2,702 messages per second, a 12.8 percent increase over last year's peak message rate. On that same day, Visa processed 64,167,029 transactions, a 24 percent growth over last year's peak volume day. Overall, Visa experienced a 23.8 percent growth in cumulative peak period transaction volume. On 21 December, BASE II experienced the peak day with U.S. $3.3 billion dollars, a 12.4 percent growth over last year's peak dollar day. Overall, there was a growth of 14.6 percent in cumulative peak period BASE II total dollar volume. No materials are included.

g. Bankruptcy Prediction Service. A report on the commercialization of credit risk prediction services is included. (REPORTS TAB 4, Page 22)

5. Closing Comments. The next International Board meeting will be held in Philadelphia, Pennsylvania on 4 June 1999.

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

APPROVAL OF MINUTES

In order to approve the minutes of the 28 October 1998 International Board of Directors meeting, after discussion, and upon motion duly made, seconded and unanimously carried, it was

> **RESOLVED**, that the minutes of the International Board of Directors meeting of 28 October 1998 are hereby approved.

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

MEMORANDUM

TO:	All Visa Staff
DATE:	January 12, 1999
FROM:	Malcolm Williamson
SUBJECT:	The President's Projects

Since joining Visa, I have been reviewing our situation and starting to pinpoint the most important challenges facing us in 1999 and after. My review has reconfirmed my initial opinion that Visa has been, and continues to be, a highly successful organization, one in which we can all take great pride. I offer my congratulations to all of you for your achievements over recent years.

I have also formed the view that we face considerable opportunities and challenges in the years ahead. The demand for our services from member banks and cardholders will multiply. There may be advantage in widening our membership base. Moreover, there are very likely to be opportunities to introduce new forms of payment system which employ new technologies. At the same time, I expect to see competition intensify with new types of competitors emerging, some with the capabilities and resources to make life more difficult for us if we do not act to frustrate their moves. And, reflecting the commercial pressures affecting our members, we shall need to provide our services ever more cost-effectively.

To ensure that we are at the forefront in taking advantage of the opportunities and dealing with the threats, I have decided to launch three important and linked projects in 1999. Because they are of particular importance to me, I call them the President's Projects. The purpose of this memorandum is to tell you about these and invite your contributions.

Cost/Income Project

The first project will examine ways in which Visa International can increase its income and improve cost-effectiveness in the short term. It will start immediately. For 2 to 3 months, the focus of this work will be on the Center

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of Visa International: Global Support Services and the Group Support Functions. Later in the year, the work will broaden to include the Regions.

To improve cost-effectiveness, ideas for cutting costs in absolute terms are likely to emerge. Our preference will be to cut non-personnel costs by, for example, reducing fees paid to outside vendors, negotiating central discounts on services provided to several parts of the organization, planning travel and meetings to reduce fares and hotel expenses, increasing the sharing of office equipment, rationalizing the use of space and by being economical in all that we do. To the extent that we can find savings in these ways, it will be less necessary to consider reducing personnel costs so I invite you to make as many suggestions as possible for cutting non-personnel costs.

Jack Levine and Randy Fong will lead the Cost/Income Project. During January and February, they and their team members will be in touch with many of you to share opinions about how income and cost-effectiveness could be improved. In the meantime, feel free to write to Jack with any ideas, big or small, you may have. Please reflect on these challenges, think commercially and make as many suggestions as possible, and share your ideas freely with Jack, Randy and their team. Any suggestions, however radical, will be much appreciated.

<u>Global Strategy Project</u>

When the Cost/Income Project is underway, the second will start. Its role will be to develop a long term strategy and vision for governing the development of our business over the next 5-10 years. I expect this work to clarify the most important strategic issues which must be resolved, to define the main opportunities and threats facing us, to make proposals for dealing with them and to suggest priorities for management attention and future investment. This project will finalize its proposals for consideration by the Board in October 99 but will prepare a stream of position papers before then.

As with the Cost/Income Project, arrangements will be made for many of you to share your own views on future strategy with the team carrying out the work. I shall announce the leadership of this project over the coming weeks.

<u>Reorganization Project</u>

It is very likely that the preceding projects will highlight ways in which the organization structure of Visa could be improved to advantage. Accordingly, the third project will concentrate on designing and helping to introduce a new organization structure, to the extent that one is needed. We may, for example, want to reorganize to ensure that key management functions are given suitable organizational prominence. Consideration also needs to be given to how the Center and Regions could be restructured to strengthen our coordination of such things as planning and budgeting, product management, marketing, member relationship management, financial control, risk management, operations, human resources management, information technology management and internal audit. We also need to introduce a

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flatter, less bureaucratic structure, to facilitate communication and increase cost-effectiveness.

This Reorganization Project will be described in more detail in a few months time, after the Cost/Income and Strategy Projects have started to make their initial proposals.

I shall be closely involved in guiding the President's Projects and finalizing recommendations to the Board. To help me, I have asked Chris Batt to coordinate the various project efforts. Between us, we shall keep you informed about developments and decisions taken by me, my senior colleagues and the Board.

One key aim of the President's Projects is to ensure that Visa is always managed in the same commercially-minded way that is commonplace among our member banks who must strive to deliver excellent performance whilst facing increasingly stiff competition. As their servant, we should expect no less of ourselves in the years ahead. For this reason, we need to intensify our income generating activities, increase cost-effectiveness, sharpen our strategic focus and adopt best-practice organizational structures.

Evidently, the President's Projects are fundamental to our future success. I trust that you will contribute to them and look forward to reviewing progress with you during 1999.

Let me take this opportunity to wish you a happy, healthy and prosperous New Year.

Malcolm

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

Restructure of Committees

In order to revise the Terms of Reference for the Executive Committee and reconstitute such Committee, and to constitute a Compensation Committee and an Audit, Risk and Finance Committee of the Board with appropriate Terms of Reference, upon motion duly made, seconded and unanimously carried, it was

RESOLVED, that the Terms of Reference of the Executive Committee are hereby changed as follows:

The Executive Committee has the following authority:

(1) have and exercise~~, if it is impractical to bring an urgent matter to the full Board,~~ at any time the Board is not in session and subject at all times to the control of the Board, all of the powers and authority of the Board ~~with respect to that matter~~in the management of the business and affairs of the corporation, except (a) as otherwise provided by applicable law or the Corporation's Certificate of Incorporation, (b) the power to amend the Corporation's By-Laws, (c) change the eligibility requirements for membership, (d) establish service fees, (e) determine the qualification of directors, (f) fill vacancies on the Board, (g) elect or remove officers of the Corporation, or (h) take any other action which requires more than a majority vote of the Board, except where it is impractical to bring such other action, when it is urgent, to the full Board.

(2) provide a sounding board with feedback to management for formulation of key strategies and budgets prior to submission to the full Board for approval;

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~~(3) establish compensation and personnel policies;~~

~~(4) review the scope and results of the corporation's audit and adequacy of the corporation's accounting, financial and operating controls;~~

~~(5) establish risk and security policies and review implementation; and~~

~~(6) performance review.~~

And be it further

RESOLVED, that the members of the Executive Committee shall be:

______________________________ (Chairman)
____
____
____
____
____
____
____
____
____
____

And be it further

RESOLVED, that a Compensation Committee is hereby constituted with the following Terms of Reference:

The Compensation Committee, subject at all times to the control of the Executive Committee, shall have the power and authority to review and establish compensation, incentive programs and fringe benefits of the employees of the Corporation, as well as appoint officers of the Corporation, other than the President and CEO. This Committee shall report all of its actions to the Executive Committee;

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And be it further

RESOLVED, that the members of the Compensation Committee shall be:

________________________________ (Chairman)

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And be it further

RESOLVED, that an Audit, Risk and Finance Committee is hereby constituted with the following Terms of Reference:

The Audit, Risk and Finance Committee shall have the power and authority to:

(1) Audit

(a) review and approve the internal audit plan and progress with respect thereto;

(b) review audit findings and corrective actions to be taken and progress with respect thereto;

(c) approve appointment of external auditors and scope of services; and

(d) review recommendations for improving controls and operating efficiencies and progress on actions taken with respect thereto;

(2) Risk

(a) review and establish Member and country risk policies, including approving exceptions to the policies and compliance;

(b) review product and system risks and establish policies with respect thereto;

(c) review and establish fraud and counterfeit protection policies; and

(d) review and establish treasury policies, including investments, funding, borrowing and other financial policies;

(3) Financial Results

(a) receive quarterly reports, including variances from budget; and

(b) receive and approve annual financial statements.

This Committee shall report all of its actions to the Executive Committee or the full Board;

And be it further

RESOLVED, that the members of the Audit, Risk and Finance Committee shall be:

______________________________ (Chairman)

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And be it further

RESOLVED, that a quorum of each Committee shall be a majority of its members, the required vote for approval shall be a majority of a quorum unless the By-Laws require a different percentage if it were to go before the full Board; in which case, it shall require that same percentage and notice shall be required for its meetings in the same manner as required for meetings of the Board of Directors.

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

EXECUTIVE SUMMARY

Current Year Budget – Update

In October the Board approved the Association's budget for the current financial year. This approved budget reflected the guidance from the Executive Committee at its meeting in September that management should strive to reduce the overall cost budgets. The intention that management shared with the Board was that savings would be identified on a worldwide basis, and that this task would be undertaken by Regional management and reviewed by them with the Regional Boards as well as the Center. However, Visa International (the headquarters functions) did commit to U.S. $30 million of savings; and whilst the details had to be worked out, that commitment was incorporated into the Budget that the Board approved in Buenos Aires. These potential savings were then passed back to the Regions, and remain available to the Regions in their considerations as to how they wish to fund their allocated contribution to VisaNet 2.

Since the last Board meeting, the details behind the budget savings have been identified and action plans are in place. None of the savings will impact core programs, with most of the savings resulting from re-deploying existing staff, thereby aggressively reducing the need for external contractors, consultants, and new hires. This lower headcount also has enabled a recast of the premises configuration by reducing some short-term space requirements.

In addition, a "President's Project" has been initiated, the remit of which is to examine every opportunity for cost reduction. The team is already engaged on the detailed analysis of a very large number of suggestions for cuts, but it is too early to quantify the numbers, not least of all because of the impact of the cost of any employee separation program. Whilst it is anticipated that savings will be made, and we will benefit from them in this current year, the process is in its early stages and management intends to incorporate those savings in the 1999/2000 budget cycle.

In giving their approval to the budget, the Board made the following two observations:

- They were uncomfortable with the concept of a contingency fund.
- The anticipated gains from the planned sale of Yahoo! stock should not be included in the budget.

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These two points have been incorporated into the budget revision, which also includes the following:

1. Contingency Fund. This has been removed. The original intention was to provide potential funding for unforeseen events from what was viewed to be an uncertain world economic climate, two examples being the possibility of further devaluations in South East Asia and Year 2000. The Asian devaluations in 1998 had been funded by a successful cost containment program in the Region. A fall in revenue of the same magnitude could not be funded in the same way. We are taking the view that further Asia devaluations, whilst possible, now seem less likely than six months ago.

2. Year 2000. Funds were originally budgeted to operate a forward-dated Member test system throughout the year and provide basic systems interfacing testing, and also to analyze the telecommunications facilities and infrastructure on a global basis. A Year 2000 Business Council was established to monitor Regional programs. Whilst Visa's own systems are compliant, management considered it critical to extend our procedures to those outside parties who interconnect with Visa's programs. An additional funding was required for this broadening of the project. Specifically the following additional assignments are being undertaken:

   - Integration testing with outside providers such as settlement providers, telecommunications providers, and other card networks.
   - Systems recovery and contingency planning specific to Year 2000.
   - Business recovery and contingency planning, including establishing Central and Regional command centers with standard procedures and recovery playbooks.
   - Augmenting the Year 2000 Business Council to establish global standards.
   - Endpoint and country infrastructure readiness assessments.
   - Acquiring and merchant awareness programs.
   - Card acceptance contingencies, including increased voice authorization capacity.
   - Communications office to establish and coordinate global messages and public relations activities.

   An additional $17.4 million has been allocated to fund this considerably enhanced program.

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3. Internal Audit. The function is not resourced sufficiently to provide management and the Board with reports on, specifically, systems development. $0.5 million has been allocated to fund the necessary increase in headcount.

REDACTED

5. Financial Systems. There has been no significant investment in the financial systems during a period of growing complexity in Visa's business. The existing systems are not integrated either by function or with the Regions, nor do they provide adequate management information to manage the system and product development project work. In the (Board approved) budget, $2 million was allocated to develop the business case and to scope the project; a further $5 million has been allocated to initiate the project during the second half of the current financial year.

6. Promotion. Visa is sponsoring the 1999 Rugby World Cup at a total cost of $2.9 million. There is a shortfall of $0.4 million in the funding which needs to be funded by Central in the current year.

Summary

The contingency fund and the assumed contribution from the planned sale of Yahoo! stock have both been eliminated from the budget. However, a gain of $14 million has been realised on the partial sale of Verisign stock. $25.4 million of expenditure, primarily relating to Year 2000, has been incorporated within this budget revision.

	Original Budget (September 1998)	Board Approved Budget (October 1998)	($ in millions) This Revision (February 1999)
Headquarters			
Revenues	815	785	785
Operating Expenses	601	601	579
Initiatives	181	181	198
"Targeted" Expense Reductions	-	(30)	-
Contingency	30	30	-
Total Expense	812	782	777
Pre-tax	3	3	8

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Management's commitment to the Board to take costs out of the Association has progressed on two fronts. First, the $30 million of cost reduction incorporated into the Board approved budget in October has been developed into action plans to achieve those savings in the current financial year; and, second, a President's Project has been initiated to address a full array of cost reduction opportunities which will be reflected in the budget for the next financial year, although some actual savings are anticipated in 1999.

Ray Barnes

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

VISA INTERNATIONAL REVISED CONSOLIDATED FINANCIAL PLAN FOR FISCAL YEAR 1998/99

The Board reviewed the revised Plan for Headquarters and Visa International for fiscal year 1998/99. Upon motion duly made, seconded and unanimously carried, it was

> **RESOLVED**, that the Plan for Visa International for fiscal year 1998/99, as revised in the Executive Summary which the Secretary is directed to attach to the minutes of this meeting as Exhibit ____, is hereby approved.

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

EXECUTIVE SUMMARY

Chip Card – Strategy and Business Case

The Infrastructure Migration Strategy is a set of milestones for enhancing the global payment service infrastructure and extending its value for Members in the next decade. The overall strategy was reviewed with the International Board at its meeting in Buenos Aires, and is intended to achieve the following end vision:

- All VISA cards will be chip cards and VISA point-of-transaction devices will be able to read them.
- All VISA cards and devices will be EMV-compliant and interoperable.
- All VISA point-of-transaction chip devices will support enhanced cardholder verification methods (PIN as the near term global standard until biometrics evolve).
- VISA account numbers will contain up to 19 digits.
- Clearing times for electronic transactions will be a maximum of three days.
- The quality of authorization data will be substantially improved.
- Authorization and clearing transactions will be matched.

A financial analysis of the migration strategy costs and benefits has been prepared and will be shared with the Board. This analysis is based upon three key categories of business drivers and related actions:

> Baseline: Enhancements to the payment service to reduce fraud, achieve operating efficiencies, and expand usage. These include implementation of chip, Issuer optional use of PIN as an enhanced Cardholder Verification Method (CVM), reduced clearing windows, and data quality improvements.

Protect: Member issuance of multifunction relationship cards that leverage the baseline infrastructure and help protect banks' payment franchise from incursions by non-bank competitors.

Extend: Introduction of value-added services that drive increased card usage.

The financial analysis of the Infrastructure Migration Strategy assesses worldwide aggregate costs and benefits over a ten-year period, from the year 2000 through 2009. Two analyses have been prepared, based on a five-year versus a ten-year conversion period. The five-year conversion involves higher overall expenses for POS terminals that must be replaced before the end of their useful life and additional costs for a larger average number of chip cards during the period. These expenses are more than offset by increased benefits from more chip-based transactions over the full ten-year period of the analysis.

Costs and benefits are included for the major participants in the payment service -- Issuers, Acquirers, and merchants -- for their Visa and MasterCard programs. The financial analysis focuses primarily on the Baseline enhancements, although the potential benefits of the Protect and Extend categories also have been estimated. Assumptions supporting the business case are based on available quantitative data, the input of content experts, and feedback from Members that have implemented similar infrastructure changes. Attachment A summarizes the business case assumptions.

The analysis suggests that Visa Members may achieve a net benefit from the Baseline enhancements alone, with significant additional potential in the Protect and Extend categories. However, merchants will incur a net cost for the Baseline changes.

Baseline Business Case

Total combined Member and merchant costs for the Baseline enhancements over the ten-year period are U.S. $25.7-$31.7 billion, depending upon a five- or ten-year conversion period.

Member costs to implement the baseline debit and credit payment service are driven by changes to cards, systems and ATMs. Total Member costs to make the Baseline enhancements are significant, ranging from $15.6 billion to $20.3 billion, depending upon the timeframe for conversion. To put these figures in perspective, the total Issuer and Acquirer investment expense over the ten-year period is $4.45-$5.68 per chip card in the market in 2009.

Member benefits exceed costs, ranging from $18.6 billion to $34.8 billion, depending on future fraud growth and the speed of conversion. Member benefits include reduced skimmed counterfeit losses, avoidance of lost and stolen card fraud, increased operating efficiencies from off-line transactions, and expanded usage at additional points of convenience. Operational and data quality enhancements also will help Members to better manage available balances and risk, improve customer service, and reduce exception items. Because investments generally precede benefits, the Member net present value (NPV) of the Infrastructure Migration Strategy ranges from ($0.7) billion to $3.4 billion. Attachment B summarizes Member costs and benefits by year.

The net impact to merchants to make baseline debit and credit enhancements is between ($3.6) billion and ($3.5) billion NPV, depending upon the conversion period. Merchant costs are related to conversion of acceptance devices and systems, while benefits include throughput and telecommunications savings from off-line transactions (under the assumption that merchants generally incur these expenses).

Protecting the Payment Franchise

Members can derive additional benefit from their investment in the Baseline changes by issuing multifunction cards to protect the payment service franchise from non-bank competitors by being first to market. An income reduction of just 3 percent of card net income for the years 2000-2009 amounts to $9 billion net present value to Members worldwide.

Extending Services

Members also can add services to baseline payment services that drive increased card usage. A 10 percent increase in Visa payment service transactions generated by associated value-added services can result in a potential benefit of $5-$8 billion NPV or more.

Conclusions

These results support the following conclusions:

- The Baseline enhancements represent a reasonable investment to improve the payment service and to establish a foundation for protecting and extending Members' payment franchise. The benefits in the Protect and Extend categories could far exceed the net investment in Baseline changes.

  An imbalance in net benefits between Members and merchants may need to be at least partially offset to encourage merchants to establish the necessary chip acceptance infrastructure. This also raises the issue of free riding by Visa competitors on the infrastructure funded by Visa Members.

- It is prudent to initiate the Infrastructure Migration. The migration strategy establishes a global framework for movement to chip that ensures interoperability and acceptance for VISA cardholders, complementing domestic market actions and timing.

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> In addition, the benefits of other infrastructure changes, such as enhanced Cardholder Verification Methods, data quality improvements, and reduced clearing windows can be achieved at lower impact if completed in conjunction with the implementation of chip.

As a next step, it is proposed that worldwide milestones be established for those actions which require the longest lead time for implementation. The goal would be to impact the next purchase decision for acceptance devices, so that multiple replacement costs are avoided and benefits are derived more quickly. At a minimum, these initial steps would include the following requirements:

- All existing VISA chip cards and devices to be fully EMV compliant.
- All new point-of-sale devices to be capable of being upgraded to support chip and enhanced cardholder verification.
- All new ATMs to support chip and magnetic stripe cards.

Consideration also will be given to (1) interchange reimbursement fee structure modifications, which reduce the incentive for magnetic stripe terminals in favor of chip terminals; and (2) support for PIN entry capability in conjunction with chip implementation.

A proposal on these actions will be brought to the Board at the June meeting.

Stephen Schapp
Una Somerville

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Attachment A

Business Case Assumptions

This attachment summarizes the business case assumptions for the Baseline, Protect and Extend categories of business drivers and related actions.

Baseline Assumptions

Counterfeit

- Skimming fraud will increase significantly without chip. The following table shows the assumptions for the percent of skimming growth per year without chip. As a point of reference, the global average growth in total counterfeit, including skimming, was 44 percent in 1997 and approximately 35 percent in 1998. It is believed that skimming growth rates exceeded these figures.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Low Skimming Growth Scenario	30%	25%	22%	14%	14%	14%	14%	14%	14%	14%
High Skimming Growth Scenario	44%	44%	35%	22%	22%	14%	14%	14%	14%	14%

- Skimming and other counterfeit fraud will be reduced by 70-90 percent for chip transactions, depending upon whether the transaction is authorized on-line or off-line, and whether the results of chip authentication are passed to the Issuer.

Lost/Stolen Fraud

- Chip/PIN transactions will have 90 percent lower lost/stolen fraud.
- 80 percent of VISA Debit/Electron programs will migrate to PIN at the time of chip conversion.
- 25 percent of VISA credit programs will migrate to PIN at the time of chip conversion.
- Chip devices will support PIN entry.

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Operating Efficiencies

- 40 percent of chip card transactions will be conducted off-line in 2000, growing to 60 percent of chip card transactions conducted off-line in 2009 as a higher share of cash and check transactions are captured.

- Off-line transactions are less costly than on-line transactions.
  - ◊ Merchants will achieve $U.S. 20 per hour labor and labor-related cost savings for incremental chip off-line transactions, which are assumed to be 10 seconds faster than on-line transactions.
  - ◊ Issuer and Acquirer processing costs will be reduced by $0.046 each per off-line chip transaction.

Expanded Usage

- Internet purchases will increase by 10 percent due to chip access security and portability.

Reduced Clearing Windows and Data Quality Improvements

- Incremental systems conversion costs will be low if concurrent with chip conversion.

- POS decline rates, referral rates and duplicate authorizations will be reduced by 7.5 percent. Eighty percent of markets requiring longer messages for data quality improvements will incur 5 percent additional telecommunications costs.

Infrastructure Costs

- Chip card costs, including personalization, will decline from $3.00 in 2000 to $2.00 by 2009 for a small capacity chip.

• POS Devices:	$120 incremental cost for normal replacement $400 incremental for accelerated replacement
• Issuer and Acquirer Systems:	$15 million for each of largest 40 $5 million for each of next 100 $1 million for each of remaining 2,000 $0.05 million for each of remaining 5,000
• Merchant Systems:	$1.25 million for each of largest 10% $0.25 million for each of next 30% $0.1 million for each of remaining 60%

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Protecting the Payment Franchise

Projected Card Net Income (Pre-Tax NPV)	$303 billion
Income reduction at 1% decline	$ 3 billion
Income reduction at 3% decline	$ 9 billion
Income reduction at 10% decline	$ 30 billion

Extending Services

- Multifunction cards will account for 80 percent of card volume by 2009.
- Value-added services on multifunction chip cards will drive a 10 percent increase in Visa payment transaction volume.
- The cost of extended services is at least covered by additional revenue.

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Attachment B

Summary Member Analysis By Year

The tables below summarize Member costs and benefits of the Baseline implementation, assuming low counterfeit growth and a complete migration within five and ten years respectively. Figures are shown in U.S. $ billions.

5-Year Conversion

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Member Costs	.3	.8	2.2	3.0	3.6	1.6	1.7	2.3	2.5	2.3	20.3
Member Benefits	.03	.1	.4	1.0	2.8	3.4	4.2	4.8	5.7	6.8	29.2
Member Baseline Net	(.27)	(.7)	(1.8)	(2.0)	(.8)	1.8	2.5	2.5	3.2	4.5	8.9
Member Baseline Net NPV	(.2)	(.5)	(1.2)	(1.2)	(.4)	.8	.9	.9	1.0	1.2	1.4

10-Year Conversion

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Member Costs	.3	.3	1.7	1.9	2.1	1.5	1.5	1.6	2.0	2.7	15.6
Member Benefits	.02	.06	.1	.3	.7	1.4	2.2	3.1	4.4	6.3	18.6
Member Baseline Net	(.27)	(.24)	(1.6)	(1.6)	(1.4)	(.1)	.7	1.5	2.4	3.6	3.0
Member Baseline Net NPV	(.2)	(.19)	(1.0)	(.9)	(.7)	(.1)	.3	.5	.7	.9	(.7)

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VISA INTERNATIONAL

BOARD OF DIRECTORS MEETING

Foster City, California
23 February 1999

EXECUTIVE SUMMARY

Year 2000 Update

The transition to the Year 2000 continues to present many potential risks. While progress is being made in infrastructure, such as power and telecommunications, in many countries, as well as in remediation of banking and bankcard-related systems, it is still highly probable that there will be some failures that will impact Visa and its Members. Year 2000 failures have already begun to occur; they will continue to emerge during 1999; and they will likely continue to occur well into the new millennium.

Visa International continues to make strong progress in preparation for the Year 2000. The Year 2000 Project Office was established in 1995 to ensure that all VisaNet systems are Year 2000 compliant by 31 December 1998, and this milestone has been achieved. The Year 2000 Business Council was established in mid-1998 to address the business risks of the year 2000 transition, which occur as a result of factors outside of Visa's direct control. A report on these activities is included in this Executive Summary.

Year 2000 Business Council

The Year 2000 Business Council is responsible for identifying potential Year 2000 business risks, developing mitigation strategies and contingency plans, and monitoring their implementation. The Council members include senior management from each Visa Region, as well as management from key functional areas at Headquarters. In October 1998, the responsibility for the Council was transferred to Global Support Services, where all Year 2000 activities are now managed in a single organization.

During the third quarter of 1998, the Year 2000 Business Council has focused on four key areas:

- Market Readiness
- Card Acceptance
- Awareness and Communication
- Contingency Planning and Event Management

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Market Readiness

To prepare for the Year 2000, it is critical that key participants in the payment system be evaluated to determine both their readiness to process VISA transactions in the year 2000 and beyond and their overall viability beyond day one of the new millennium. To that end, guidelines have been established for identifying the key participants in the Visa payment system, and a methodology has been adopted for evaluating their Year 2000 readiness. The methodology is based on the Firm Self Assessment and Disclosure document of the Global 2000 Coordinating Group[1], which has been accepted by the more than 230 participating financial institutions from 45 countries. Quarterly updates will be used to monitor progress throughout 1999.

A procedure also has been developed to address the operational and settlement risks posed by Members which are not preparing adequately for Year 2000. This procedure and the accompanying modifications to the Global Member Risk Policy are described in a separate Executive Summary.

Card Acceptance

Visa is committed to optimizing the acceptance of VISA branded cards, even in scenarios where various elements of the Visa payment system may not be operating appropriately, in order to protect the value of the VISA brand, as well as the value of the card business to both issuing and acquiring Members. At the same time, Visa must protect against fraud in an environment which may present opportunities for attack. A set of card acceptance programs has been prepared for the Year 2000 transition period, addressing the following areas:

- Intensify acquiring readiness assessment
- Automated Voice Authorization Service (AVAS)
- Pro-active floor limit changes
- Floor limit changes during extended outage situations
- Stand-in Processing (STIP) parameter reviews
- Dispute processing time limits

[1] The Global 2000 Coordinating Group is an informal grouping of banks, security firms, and insurance companies whose aim is to identify and resource areas where coordinated initiatives will facilitate efforts by the global financial community to [illegible] the readiness of global financial institutions to meet the challenges created by the Year 2000 date change.