VISA U.S.A. INC.

MEETING OF THE BOARD OF DIRECTORS

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A meeting of the Board of Directors of Visa U.S.A. Inc. was held at the Hong Kong Convention and Exhibition Centre on June 1-2, 1992 at 2:00 p.m. All Directors were present except Messrs. Keith W. Hughes and James M. Wells III. Visa staff were present. Paul A. Allen acted as Secretary.

1162. **APPROVAL OF MINUTES**

The Chairman requested and received approval of the minutes of the (i) Board of Directors meeting of February 11-12, 1992; (ii) Systems and Operations Committee meeting of February 10, 1992; (iii) Executive/Planning Committee meeting of February 10, 1992; (iv) Product Development and Marketing Committee meeting of February 10, 1992; and (v) the Special meeting of the Systems and Operations Committee, February 11, 1992.

1163. **VISA U.S.A. STRATEGIC DIRECTIONS**

The Board received a report from the President, attached as Exhibit A, on the strategic direction of the corporation, and he identified several issues to be addressed by the corporation as a consequence of its strategy. The consensus of the Board was that management should proceed to develop further details of a strategic plan for subsequent discussion at a regular or special meeting of the Board.

1164. **MASTERCARD STRATEGIC ANALYSIS**

Management presented an analysis of MasterCard's apparent business strategy, the results of the strategy to date, and the consequences of that strategy for the Members and the corporation. The presentation is attached as Exhibit B.

1165. **AFFINITY PROGRAMS**

(a) **Guidelines for Board Review of Affinity Programs**

Management presented guidelines to be established pursuant to Section 17.1(c)(3) of the Operating Regulations, pursuant to which management would refer to the Board for its review Affinity Programs characterized by any one of several criteria. Following discussion, upon motion duly made, seconded, and unanimously carried, it was

> **RESOLVED** that management shall submit to the Board of Directors any proposed Affinity Program characterized by any of the following criteria:

A. Finances

1. Receivables: The Affinity Partner finances 25 percent or more of the receivables of the program or has assumed more than 50 percent of the losses on the receivables of the program.

2. Income: The Affinity Partner enjoys one-half or more of the revenues or profits from the Affinity Program.

3. Expenses: The Affinity Partner absorbs one-half or more of the expenses, direct or indirect, of the Affinity Program.

4. Credit Decisions: The Affinity Partner solely makes the credit decisions or sets the credit criteria of the Affinity Program.

B. Operations

5. Employees: One half or more of the Member's employees are devoted to activities associated with the Affinity Program.

6. Employees: The Affinity Partner dedicates more personnel to the Affinity Program than the Member.

7. Sole Visa Program: The proposed Affinity Program is the sole Visa program presently operated by the Member.

8. Second Account Number: The proposed Affinity Program proposes to use a second account number on the Card.

9. Option to Purchase: The Affinity Partner has an option to purchase the proposed Affinity Program.

(b) **Telephone Programs**

In response to recent business opportunities available to several Members, the Board received a report on the adverse effect of the recently adopted Affinity Rules on card programs proposed by one or more Regional Bell Operating Companies (RBOCs), as well as the possible disadvantages of modifying the Affinity Rules to accommodate the RBOC business. After discussion, upon motion duly made, seconded, and carried, it was

RESOLVED, that the Affinity Rules not be modified to accommodate the proposed RBOC programs.

1166. **SEARS LITIGATION**

The Board was given a status report on the Sears litigation.

1167. **INTERCHANGE REIMBURSEMENT FEES**

The Board reviewed the Interchange Reimbursement Fees proposed to be effective April 1, 1993, and previously reviewed by the Board at its meeting of February 11-12, 1992. Upon motion duly made, seconded, and unanimously carried, it was

> **RESOLVED**, that the Operating Regulations for interchange reimbursement fees be amended as set forth in Exhibit C, and the Secretary is directed to attach said Exhibit to the minutes of this meeting.

1168. **VISA INTERNATIONAL NATIONAL ORGANIZATIONS**

The Board reviewed a proposal to be considered by the Visa International Board under which national companies would be established in various countries, controlled by indigenous Visa Issuers and Acquirers, and delegated the authority to administer the Visa program. The proposal would have no effect in the United States. In order to approve the concept and authorize the region's representatives to the International Board to approve the By-Laws and upon motion duly made, seconded and unanimously carried, it was

> **RESOLVED**, that the concept underlying the proposed Visa International By-Laws which are attached as Exhibit D be and hereby are approved, and the representatives to the Visa International Board are hereby authorized to approve the proposed By-Laws.

1169. **OLYMPIC SPONSORSHIP**

(a) **Olympic Sponsorship Results**

The Board reviewed the goals of the corporation's Olympic sponsorship, the integrated marketing plan, and the results of the latest Cardholder Tracking Study that measured consumer perceptions during the seven months of the Olympic marketing campaign preceding the 1992 Winter Olympic Games. Historic new highs were achieved on all but one attribute (retail), and for the first time Visa surpassed American Express as the best card for international travel. Although overall results were quite positive, there was some apparent effect from the American Express ambush advertising campaign.

(b) **Terms of Future Olympic Sponsorship**

The Board reviewed the likely terms of agreement for renewal of the corporation's sponsorship of the 1994 and 1996 Olympic Games. The terms include a probable fee of $40 million offset with a $5 million fund-raising credit; the U.S. share would be approximately $16 million. The package would also include Olympic Committee commitments to thwart an American Express ambush marketing campaign as well as constraints on Visa's direct comparative advertising to American Express. In support of management's recommendation, upon motion duly made, seconded, and unanimously carried, it was

> **RESOLVED**, that the Board supports the renewal of Olympic Games sponsorship, contingent on final International Board of Directors approval in the fall of 1992.

The meeting recessed, and was reconvened on June 2 at 8:30 a.m. All directors were present except Messrs. Keith W. Hughes, James M. Wells, III, Arthur F. Ryan, and Charles T. Russell.

1170. **FINANCIAL MATTERS**

(a) Visa U.S.A.

(i) Business Overview

Statistical highlights, including trends and Member profitability figures, were included in the advance materials.

(ii) Current Financial Statements

Results for the first half of the fiscal year ending March 31, 1992 showed net revenue of $5.3 million, compared to a budget of ($1.08 million). Revenue shortfalls were more than offset by favorable expense variances. Accumulated net revenue is now $40.1 million. There were significant changes to the balance sheet as a result of the transfer of the data processing centers to Visa International effective October 1, 1991.

(b) Visa International

(i) Current Financial Statements

For the first six months of the fiscal year ending March 31, 1992 net revenue after tax was $7.4 million, compared to a plan of ($4.4 million). Continuing constraints on Regional and Headquarters spending, coupled with higher than planned Regional revenues, have more than offset counterfeit losses and lower than planned Headquarters Service Fees, the latter primarily from Visa U.S.A. and Europe, Middle East and Africa.

1171. **VISA INTEGRATED DEBIT STRATEGY STATUS REPORT**

The Board received a report on the status of the Visa Integrated Debit Strategy. Visa Debit card growth exceeded 20% in 1991; sales volume grew only slightly less. Visa's on-line direct debit service, Interlink, continues its aggressive national roll out. Almost 230 financial institutions have committed to Interlink; most states are represented; and almost all new Interlink members have elected to issue Visa Debit as well.

1172. **MEMBERSHIP ADMINISTRATION RESTRUCTURING**

In order to better delineate Members' rights and obligations in operating their Visa programs, upon motion duly made, seconded and unanimously carried, it was

> **RESOLVED**, that, effective January 1, 1993, the By-Laws of the corporation be and hereby are amended as shown in Exhibit E, except for provisions requiring the vote of 90 percent of the Board's membership, viz, Section 2.04(c)(10), 2.04(e)(11), 2.04(i)(11) and 5.01 thereof, which Exhibit shall be attached to the minutes of this meeting;

And be it further

> **RESOLVED**, that effective January 1, 1993, the By-Laws of the corporation be and hereby are amended as shown in Sections 2.04(c)(10), 2.04(e)(11), 2.04(i)(11) and 5.01 of Exhibit E;

And be it further

> **RESOLVED**, that the corporation is hereby authorized to implement the foregoing amendments to the By-Laws in accordance with the Transition Plan (Attachment B) as described in Exhibit F, which the Secretary shall attach to the minutes of this meeting;

And be it further

> **RESOLVED**, that, effective immediately, the corporation may accept applications for membership from applicants meeting all applicable requirements but electing to engage in acquiring activities without Card issuance in accordance with By-Law provisions to become effective pursuant to the foregoing amendments, provided that such Members shall be re-classified into appropriate membership categories in accordance with the foregoing Transition Plan;

And be it further

> **RESOLVED**, that the Principles for New Operating Regulations (Attachment C) as shown in Exhibit G are hereby approved, and the Secretary shall attach said Exhibit to the minutes of this meeting;

And be it further

> **RESOLVED**, that amendments to the Operating Regulations implementing the foregoing Principles and other amendments

which are necessary to bring the Operating Regulations into conformity with the foregoing By-Law amendments be prepared and submitted to the Systems and Operations Committee at its next meeting;

And be it further

RESOLVED, that the following administrative fees are hereby adopted:

(1) to change a Member's primary membership category, the processing fee would be set at the higher of the current fee or $500; and

(2) to add any additional membership class, a $100 fee would be assessed per additional class.

(3) Changes in classifications made pursuant to Section 2.03(g) to implement the foregoing By-Law amendments shall not be subject to these fees.

Due to the absence of four directors from the meeting, it was noted that a vote by written consent will be conducted with regard to the amendments to Sections 2.04(c)(10), 2.04(e)(11), 2.04(i)(11), and 5.01, all of which require the affirmative vote of 90% of the Directors of the Corporation.

1173. RISK MANAGEMENT MATTERS

(a) Risk Management Review

The Board received a presentation on numerous global and U.S. risk issues. There was a review of Visa International's programs to address counterfeit and other fraud and credit losses, as well as future technologies to reduce risks to the Members and the corporation. Management reviewed Visa U.S.A. plans to implement International's programs as well as enhanced risk control measures unique to the United States.

(b) Charter Pacific Bank

In order to ensure that Charter Pacific Bank, a Member of the corporation, complies with the terms of its membership in the corporation, upon motion duly made, seconded and unanimously carried, it was

> **RESOLVED**, that the membership of Charter Pacific Bank ("Charter Pacific") shall terminate and Charter Pacific shall be expelled from the corporation as of June 15, 1992 in the event Charter Pacific fails to comply with either of the following conditions of membership:
>
> 1. Deposit of collateral in the amount of $949,000 on or before Monday, June 8, 1992 in accordance with terms established by the corporation; and
>
> 2. Compliance with such additional conditions as may be established by the President for the purpose of ensuring that Charter Pacific complies with the By-Laws and Operating Regulations, operates in a sound and safe manner, and does not expose the corporation or its Members to financial loss.

And be it further

> **RESOLVED**, that the President of the corporation is authorized to take such additional action as may be necessary and appropriate to ensure compliance with this Resolution and to protect the corporation from exposure to financial loss.
>
> Mr. Grundhofer abstained.

1174. **COMMITTEE REPORTS**

(a) Executive/Planning Committee

The Board received a report from the Executive/Planning Committee meeting of June 1, 1992 on matters discussed and actions taken, all of which are reflected in the minutes of that Committee.

(b) Product Development and Marketing Committee

The Board received a report from the Product Development and Marketing Committee meeting of June 1, 1992 on matters discussed and actions taken, all of which are reflected in the minutes of that Committee.

(c) Systems and Operations Committee

The Board received a report from the Systems and Operations Committee meeting of June 1, 1992 on matters discussed and actions taken, all of which are reflected in the minutes of that Committee.

There being no further business, the meeting was adjourned.

Paul A. Allen, Secretary

VISA U.S.A. Strategic Directions

H. Robert Heller
President & Chief Executive Officer
VISA U.S.A. Inc.

VISA U.S.A. Board Meeting
Hong Kong
June 1, 1992

VISA U.S.A. Strategic Directions

For the past two years, this Board and VISA management have been focused on membership -- who could be a VISA Member and under what conditions. The issue was controversial and, at times, divisive.

Nevertheless, we adopted the new membership principles unanimously, and we have established clear membership policies that will work well for VISA.

Our challenge now is to make these new policies work. If we do this, there will be tremendous benefit to your institutions and to the entire VISA membership.

Immediately following our Board meeting in February, I pulled the senior management team together for a two-day offsite planning retreat.

Our purpose was to identify the strategic issues that we, as a group, feel are the most critical to the future success of VISA and its Members. By the end of the second day, we had developed a list of the key issues to be dealt with.

I'd like to share those issues with you this morning. At this point, they are in the form of strategic questions that need to be addressed. We will come back to you in future Board meetings with proposed answers and solutions.

Because these are the issues that will guide our strategic actions, we need your input. If you don't agree with our initiatives, we need to know it now, so we can correct course. We're embarking on a new direction, and we need to be together in this endeavor.

Of great concern was the fact that the Association and its Members might not be able to maintain the dominant position in the card business, as non-bank and co-branded programs would not be available to us. We asked ourselves if, by limiting VISA's growth, were we risking the Association's market leadership position over time? And, what would this mean to our Members?

After much discussion, we concluded that a major strategic shift is needed to enable VISA to retain its market leadership.

I'm not talking about a few more points in market share for a specific product. I'm talking about the kind of industry leadership you have come to expect from us, and that will take some bold changes in strategy.

The strategic shift we think necessary incorporates the following three broad goals:

A. Accelerating the move away from being viewed as just a credit card company to fulfilling our role as a full payment system.

B. Focusing our efforts in the credit card arena on building profitable volume for our existing Members, and

C. Using the non-dual issuance model for debit as a foundation for encouraging issuer loyalty to all VISA products.

As we identify the steps needed to effect this strategic shift, we will also identify the required funding resources. We know that making the shift will take resources beyond those currently available to VISA.

Furthermore, changes in our pricing structure are inevitable if we are to ensure the long-term success of the Association by supporting issuer loyalty. That means loyalty pricing.

Let me turn now to identifying five key issues that need to be examined to define our future strategic posture.

To begin with, fundamental to any business is answering the question, "what are we"? In our case, the heart of that issue lies in asking, "are we a brand company or a systems company"? Looked at as a balance, we ask ourselves, "where is the fulcrum placed between brand and systems"?

While both our brand and our systems are the twin pillars of our success, discussions showed clear agreement that we should focus on being a product company. But our systems are essential to the superiority of our products. Without VisaNet, the VISA brand would not have the tremendous brand equity it has today.

We intend to be brand driven, which means we must make decisions consistent with that. Before any strategic action, we must always be clear on how that action will serve the market and add value to the brand. And one of the key strategic assets that adds value to the brand are our processing systems that lend us technological superiority and cost-effectiveness.

What we are saying is that, as a brand company, we intend to be driven by the marketplace rather than making our primary focus increasing processing volumes for VISA systems. We will be value-driven, not volume-driven.

Furthermore, we are keenly aware of our role as a payment system. We will not allow others to ursurp that central role. We do not want to become a switch of last resort for any cobranding scheme that one might think up.

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Brand differentiation is our second issue. Given our new membership policies and MasterCard's new aggressiveness, we are concerned about our ability to differentiate ourselves in a meaningful way to merchants, consumers, and Members. We'll hear more from Brad Morgan on this issue in just a few minutes.

Our new membership rules, affinity rules, and non-duality on debit provide a great opportunity to operate differently than we have in the past.

We have clearly chosen a divergent path from MasterCard. Increasingly, they will become a non-bank association, while VISA cements it's role as the bankcard. To illustrate this, let me point out that only one quarter of the U.S. sales volume produced by MasterCard Board members comes from issuers that are traditional banks. Three quarters comes from non-traditional banks. In contrast, 95 percent of the sales volume produced by the VISA U.S.A. Board is produced by traditional banks, and only 5 percent by non-traditional banks.

We believe that the VISA brand has superior value. And we want to accentuate that superiority as we enter a new era in this industry.

This may mean that we don't continue to share our ideas and programs with MasterCard as fully as we have in the past. We will begin to differentiate ourselves more from MasterCard so that they don't hold us back. We've clearly begun this with the Payment Service 2000 project with systems innovations that MasterCard will not be able to match easily.

We've had discussions about this issue with the Board over the years. With good reason, you've encouraged the two associations to stay in step as much as possible. But, it seems that now the time has come to compete more openly with them. We believe that differentiation can add value to the brand and add to your profitability.

I would like a sense of the Board about whether you think things have changed to the degree that we need to reexamine our cooperative efforts with MasterCard, and whether we should provide special pricing incentives for those issuers that are loyal to VISA.

. . . . .

The third key issue we discussed was also brand-related. It is the issue of branding -- when will the VISA brand name be used? When will other brand names (or sub-brands) be developed? Should the word "VISA" represent a credit card or a payment system? What does it represent today?

As you can imagine, these issues are very real to us as we roll out Interlink, and as the issuance of VISA Debit accelerates dramatically.

There is a related organizational issue here. Do separate lines of business demand separate organizations? Are we one payment system company, or should we have separate companies for debit and credit?

There is good reason to be flexible where special issues or projects are involved that impact primarily a limited subset of our Members.

A good example of this is the new Merchant Bank Services Company which has a separate Board because it is an area that needs special focus among our acquiring Members. This Board is, however, ultimately answerable to the Board of VISA U.S.A. on issues that affect the VISA brand and the membership at large.

But on broad issues that affect the entire membership, we feel that we have to act as one cohesive organization directed by one Board.

. . . . .

While we're discussing products, let's move on to the fourth key issue: debit. VISA U.S.A. has designed and is carrying out an integrated debit strategy to develop this market and to cement our position as the leading payment system. To date, this strategy has been very successful. We'll hear more about the current status of our debit products from Wes Tallman tomorrow. Debit products will be the key to moving from a credit card company to a total payment systems company.

At the same time, we need to be very attentive to not under-resourcing credit, because this is the basis of our current profitability. I think this will become very apparent when we have our budget discussions at the end of August.

An important opportunity for both credit and debit issuers lies in generating new volume for existing cards.

The four issues we've discussed so far have focused on the issuing side of the business. Let's turn to the acquirer side. Our efforts to date, on this side of the business, have been focused on merchant relations and on building our new Merchant Bank Services Company. Just like we have to strike a balance between brand and systems, between credit and debit, we also have to assure that the acquiring side receives proper emphasis and attention next to the issuing side of the business.

These are the strategic responses that will preserve and enhance VISA's position as the leading payment system in the U.S.

Let me briefly recap the key issues. There are first of all our three broad strategic goals:

A. Becoming a full payment system company, not just a credit card company,

B. Building value for our existing Members, and

C. Encouraging issuer loyalty -- that is, moving closer to a non-dual issuing mode through voluntary actions.

To achieve these goals, we identified five key issues that need to be addressed and where we need consensus. They are:

1. The balance between the brand and the systems in defining the company,

2. Brand differentiation vis-a-vis MasterCard and loyalty pricing.

3. Internal branding and associated organizational issues.

4. The establishment of our debit products as a major thrust to fulfill our mission as a total payments system company, and emphasize increased utilization for both credit and debit.

5. Further development of our strategy for the acquiring business.

I am convinced that our mutual success lies in working together on these issues to build an even better association that will enhance your profits. I would welcome your ideas on these strategic issues now or as we're together over the course of this week.

Thank you.

Mastercard Strategic Analysis

June,1992
Full Board Presentation

Final

This is a longer presentation than we usually give this Board since I have a lot of territory to cover. We have a summary to hand out, though, so you don't have to take notes and can just relax and listen.

Three years ago in Cannes I gave a presentation to this Board on the serious threat the new strategies of a competitive brand presented to the future profitability of bankcards. That competitor was American Express and the actions subsequently taken under your guidance have dramatically reduced this threat to bankcard profits.

Today there is another competitive brand pursuing new strategies which seriously threaten your future overall bankcard profits. Surprisingly, that threat to your bankcard profits is coming from a bankcard --specifically, it is coming from Mastercard.

Given the realities of duality, we seriously considered not discussing these new MasterCard strategies with you. But we decided that this would be doing you a disservice. We doubt if MasterCard's management has discussed these new strategies with any of you and, as a result, you probably are not fully aware of them or of the threats that they represent to you.

(1) So, that is the purpose of this presentation -- to alert you to the threats Mastercard's new strategies present to you and to the financial institutions you represent.

We are not proposing specific actions for your agreement today. If you agree with this analysis, though, we will develop specific action recommendations to bring to you at our October meeting.

I'd like to register two points before I proceed.

First, I spent most of my career before I joined Visa managing multiple brands competing in the same category, so I am comfortable dealing in this kind of a competitive framework. Duality does not bother me.

Indeed, when I first joined Visa I instructed my Member Relations people to stop knocking MasterCard in their presentations to members on the basis that both Associations were serving the common interests of our common owners.

If I still believed that Mastercard was acting in the best interests of you, our owners, I would not be giving this presentation today.

Second, you should know that we also plan to do a formal strategic analysis of Discover. However we are waiting for the end of the current litigation with Sears before we formalize that work.
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In order to do an effective strategic analysis of a competitive brand, you have to try to understand not only what they are doing, but why they are doing it. This requires that you put yourself in the mind of your competitors.

In order for you to fully understand how the new Mastercard strategies were developed, you'll need to see things from the perspective of the Mastercard Management. In order to understand how they were approved, you'll need to understand the perspective of the Mastercard Board.

The new Mastercard strategies were formulated in about 1990. So, first, I'll ask you to imagine that it is 1990 and you are the management of Mastercard.

Mastercard's current management inherited a situation where relations and credibility with their Members were weak. They made it a high priority to improve relations with Members, upgraded their marketing staff, and began a number of new marketing programs.

But when they looked at business results, it was not a pretty picture. Here are some of the business trends Mastercard's management was looking at in 1990 when the new Mastercard strategies were developed, with Mastercard shown in red and Visa shown in blue.

(2) Since the bonus compensation plan for Mastercard's management is based in large part on market share performance, they were probably most concerned about their market share trend. They inherited a brand that was losing market share and have not been able to reverse this trend.

Members, even Mastercard U.S. Board Members, were increasingly skewing their card solicitations towards Visa for the simple reason that Visa received the strongest response.

(3) And the trends on the tracking study, which tend to be a lead indicator of future market share trends, showed Visa increasing its margin of advantage with consumers as well. This was true for all measures, including "overall best card", as shown here, "best card for personal T&E", and "best card for retail".

And, when Mastercard looked at trends from a product viewpoint in 1990, the picture was also discouraging.

(4) Mastercard had once held the lead on gold cards, but Visa relaunched their product in 1988 and raced into first place in a very short period.

Then, in 1988, Mastercard and Visa simultaneously launched major efforts to build their Debit card programs. (5) But, as of 1990, Visa had commitments for over 2.7 million new Debit cards from this effort. In contrast, Master Debit had commitments for only six hundred thousand cards, and lagged Visa Debit by over 7 million cards overall by 1991.

Unlike in credit cards, Members generally don't want to go dual in their debit programs. Forced to make a choice, Members were skewing towards the stronger Visa brand. This was very concerning to Mastercard as they saw debit as the major growth area for the 90's.

So things sure didn't look bright on the marketing side -- and they looked just as gloomy to MasterCard on the Systems side.

(6) The Hogg administration had made the decision to build the Mastercard system using a decentralized hub and spoke architecture. They viewed the primary role of BankNet as simply switching transactions from Point A to Point B and probably thought that this decentralized system would yield communications cost savings over time.

(7) In contrast, Visa chose an architecture in which transactions are routed through central computers. This centralized architecture allows all interchange transactions to be reviewed by the system. As a result, Visa has a superior capability to add value to the process of switching transactions between two points.

(8) Visa's centralized system architecture permits superior services which are either not feasible, or much more expensive, with the Mastercard architecture. This includes things like: the Risk Identification Service, the Excessive Chargeback Monitoring Service, the Chargeback Reduction Service, and the Account Tracking Service.

(9) And the Systems future probably looked increasingly threatening to Mastercard in 1990 because Visa had started talking to Members about major new systems initiatives which would result in major service and cost improvements over the next decade . Since then, we've gone on to announce the building of Supercenters, Back office 2000, Payment Service 2000, etc.

Mastercard's decentralized System architecture cannot duplicate these improvements.

Indeed, Mastercard's system was rapidly growing obsolete in 1990 since it was still based on Series One technology which IBM has said it will soon no longer support, while Visa had already made the transition to a more powerful PC based system

(10) Mastercard's management probably estimated that if they wanted to catch up with Visa on the systems side and keep up with them over the next few years, they would have to upgrade their hardware and software and increase their staff. A rough guess is that they would have to invest about $100 million to catch up today and an additional $150 million to remain competitive by the year 2000.

That's just the U.S picture. The same Mastercard people are also responsible for managing the global Mastercard business and, here again, they inherited a bit of a mess

(11) Visa expanded internationally by partnering with banks. As a result, today Visa is a truly global brand and is the dominant brand throughout its association.

In contrast, Mastercard got international utility primarily by partnering with associations and entities which already had an existing brand. As a result, today Mastercard is subordinate to, and less visible than, its partner brand in major parts of the world. Most concerning to them, the Mastercard brand is subordinate to Access in the UK and to Eurocard in Europe, while Visa marches behind a common flag.

Mastercard management tried to fix this by introducing a new logo design requiring new store decals and printed materials all over the world. That got some visibility gains for Mastercard overseas, but they still have a long way to go to catch up to Visa. They need more leverage to bring their International partners fully in line with a unified brand approach.

(12) As Mastercard added up all of these problems in 1990 it was probably clear that they needed some major new strategies and programs. They couldn't survive by competing under the old rules; they needed to redefine the game. But it would have to be a plan that Mastercard's Board will accept.

That might be a problem, but lets look at Mastercard's Board and how it compares to Visa's.

Mastercard's Board has always been different from Visa's, but you may not realize just how different they are.

(13) For one thing, they represent smaller financial institutions, with an average card portfolio size that is about half of the Visa Board's. The total U.S. bankcard volume of Mastercard's Board was only about $24 billion in 1990, while these new Mastercard strategies were being developed and approved, compared to over $68 billion for Visa's Board.

(14) And the MasterCard Board's portfolio is much different from the industry norm. Most issuers in our industry have more Visa cards than MasterCards, similar to the Visa Board, which had a 66% Visa portfolio. In contrast, the Mastercard Board's portfolio. is only 38% Visa, while MasterCard dominates this group's portfolio.

These facts about differences between the Visa and Mastercard Boards may not be news to anyone, but here's a comparison that I think might.

(15) As Bob mentioned earlier, if you break out their U.S. Board's volume by traditional and non-traditional banks, you'll see an amazing difference between the two Boards.

In 1990, about 97% of the Visa U.S. sales volume represented by Board banks was from traditional banks.

But, in sharp contrast, only about 45% of the Mastercard volume represented by their Board banks was from Traditional banks in 1990.

(16) And today, now that AT&T has joined their Board and Manufacturers Hanover has resigned, an amazing 74% of the U.S. sales volume represented by their Board Directors comes from non-traditional banks, compared to 4% for Visa.

(17) Here is a listing of Mastercard's current U.S. Board banks. The left hand column shows the non-traditional banks, including USAA, Colonial, AT&T and General Electric's Monogram bank. The right hand column hows the traditional banks, most of which have relatively small card portfolios.

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(18) Thus far in this presentation, I've been trying to give you perspective so you would understand the motivations for the new MasterCard strategies and how they could get approved by the MasterCard Board. Now let's look at what these strategies are and how they threaten you

(19) The five key elements of the new MasterCard strategies are as follows:

- o <u>Minimize Investment in Systems Development</u>
- o <u>Increase Emphasis on Marketing</u>
- o <u>Use Partnerships to Maximize Short-Term Business Growth</u>
- o <u>Use Maestro to Achieve Global Brand Unity</u>
- o <u>Win the On-Line Debit race, no matter what the cost.</u>

Let's review each of these strategies and their implications for you.

(20) The first new strategy is to minimize investment in the Mastercard System. This is a very logical move by Mastercard. It frees-up the $250 million they would need to invest to make their system competitive with Visa's. It lets them invest these funds in marketing activities, where they can probably get a faster return.

Mastercard is avoiding this system development investment by outsourcing their system. They call this Project Omni.

In January, 1991, Mastercard's Phil Verdi was quoted in the trade press as saying that Project Omni "will allow our membership to take full advantage of the tremendous strides in technology -- while dedicating only a minimal amount of their overall capital to systems support".

Verdi went on to say that Mastercard was investigating partnerships with service providers like telecommunications companies and data processing companies which would enable Mastercard to cut costs significantly.

Guess who the telecommunications and data processing companies turned out to be?!!

Last month, in the first detailed announcement about Project Omni, Mastercard announced that they would shift their system hardware from IBM to NCR, which, as you know, is a subsidiary of AT&T. Mastercard also announced that they would use AT&T satellite services for their overseas authorizations.

Indeed, it is rumored that AT&T will be Mastercard's primary candidate for systems outsourcing. The recent appointment of AT&T to Mastercard's Board certainly seems to lend credibility to these rumors.

Mastercard's outsourcing of systems development and maintenance certainly will save Members some money in the short term, but are you really willing to accept the risk that it presents?

(21) One risk is loss of control over your business.

When we reviewed the American Express strategy in Cannes three years ago and got to the part about FDR, I asked you the question, "what good is owning the electronic railroad when your competitor owns all of the railroad stations?". Today, I ask you the question, "What happens to the value of your Visa railroad when your competitor owns parallel tracks?".

Having the two bankcard associations own and control parallel tracks is obviously not a great risk to you. I am concerned, though, about what happens to the value of your railroad if Mastercard turns control of their System over to AT&T.

AT&T is probably the only company in the world with the capability of not only matching, but of surpassing, Visa's System in a short period of time.

And, if AT&T takes control over Mastercard's system, what is to prevent them from launching the Universal Card as a free standing brand in direct competition to bankcards? Once they have the system in place, it is simply a matter of putting up decals!

Let me digress a bit here with an historical analogy. A few years ago, the government of Afghanistan was delighted when the Soviet Union provided aid in the form of a highway linking their two countries. A few years after that, they were surprised to see Soviet troops and tanks streaming into their country on that same highway.

Don't be surprised to see AT&T, and other potential competitors, offering some very attractive prices on the outsourcing of Mastercard's system. But also don't be surprised to see them using their control over that system to invade your turf at some future date.

****

(22) The second major Mastercard strategy involves taking the funds freed up by reducing their investment in systems to increase their investment in marketing.

This is already happening. Mastercard is spending lots more money on marketing, and spending it in ways that don't seem to show much concern over the return to their Members. Let's look at some examples:

o Mastercard has publicly admitted that their current advertising campaign is ineffective by inviting other advertising agencies to bid for their business. Concurrently, they have announced a $10 million increase in their advertising budget.

It is a basic rule of marketing that you only increase advertising spending behind an advertising campaign which is known to build business. In over twenty years in marketing, this is the first time I have ever seen a company increase spending behind an advertising campaign which is known to be ineffective.

In contrast, Visa, the largest brand in this market and the brand that is widely recognized as having the most effective advertising in our business, is also the brand with the smallest advertising budget. We expect to be outspent this fiscal year by American Express, and Discover, and at least matched by Mastercard.

o Mastercard now has nearly 50% more field people in its Member Relations Division than Visa, and is also upgrading their staff by offering higher salaries. This superiority in numbers permits Mastercard to call more frequently and to meet with more people throughout our Member's organizations. One example of this is that Mastercard now has Member Relations people who are assigned full time to one specific Member.

(23) We believe a strong Member Relations effort to service Member needs is very important, but we don't see a massive build-up of Member Relations staffing and spending as a very good use of the funds you give to your associations for marketing.

This Board has told us in the past that you want your marketing dollars to be spent against consumers and merchants, not members. we agree with that principle.

However, you should be aware that the people in your banks don't seem to understand or agree with this. We are getting increasing numbers of complaints and comments from your staffs that they do not see their Visa account people as often as they see their Mastercard reps. This is proving to be a significant competitive advantage for Mastercard.

o Mastercard is also investing far more than Visa in its Merchant Relations effort. This is an effort with a more obvious business growth return to the Members, but we question the wisdom of how MasterCard is spending Member money in this effort and the effect this is having on future bankcard costs.

MasterCard now has more than three times more people working in the field for Merchant Relations than Visa. Here again, MasterCard is attracting good people with exceptional salaries. And MasterCard spends their money on merchants even more extravagantly.

Visa has made its merchant co-op promotion decisions based on Member profit returns. We won't invest in a co-op promotion if it doesn't promise to return the investment within the a few months. Thus far, our co-op promotions have been returning $3 to $4 for every Member dollar invested in them.

In contrast, we estimate that the Mastervalues promotion is not even approaching paying out its investment. It is losing as much as $10 million every time it is run.

You may not mind MasterCard spending Member money this way in the short term, but what it is really doing is training merchants to demand exorbitant amounts for their future cooperation.

Let me give you an example. MasterCard reportedly gave K-Mart $1 million as a fee just for participating in MasterValues. This was a cash payment to K-Mart, over and above the actual costs of Mastervalues, for K-Mart to spend as they wished.

Needless to say, when we later approached K-Mart to do a co-op promotion with Visa, they demanded a huge cooperation fee that we could not justify and we had to walk away from the deal.

That's what I mean when I say that the undisciplined way Mastercard is spending Member money on Merchant Relations is going to increase your cost of doing business over the long term

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(24) The third Mastercard strategy is to get short term card issuance and sales volume through partnerships with third parties.

You've seem one example of this with the AT&T program and other liberalizations of the Mastercard membership policy.

To put the impact of these partnerships in perspective, AT&T's issuance was splitting about 70% Visa and 30% Mastercard at the start of their program when they were allowing consumers to choose whichever brand they wanted. But then AT&T began to push Mastercards and to issue Visa's only if the consumer insisted on our brand. As a result, we understand that 90% of the Universal cards issued in 1991 were Mastercards.

With Cardfax reporting that AT&T did over $13 billion in sales volume in 1991, a 60% shift in their card portfolio equates to almost a 3 share point shift in long term bankcard market share to Mastercard -- just from the AT&T program alone.

It was not a simple coincidence that when Mastercard recently announced the end of their market share decline to their Members, they announced the addition of Paul Kahn to their Board at the same meeting!

(25) You've made it clear to us that this Board is strongly opposed to allowing programs like AT&T's to shift volume from traditional issuers by relying on the advantages of an unleveled playing field. We see an even greater danger to your long term profits, though, by Mastercard's policies on co-branded cards.

We see nothing wrong with co-branded cards per se, until they cross the line of becoming a free ride on the railroad and siphoning off the revenues of the people who built and maintain the railroad. We think Mastercard crossed that line when they began promoting the use of a second account number on a co-branded card to merchants in well developed credit card markets.

When these cards are used in most merchants, the card functions as a regular Mastercard.

When the card is used in the co-branded merchant's outlets, though, that merchant treats the transaction as its transaction, keeps the outstandings and pays no interchange. Mastercard, presumably, keeps the risks and expenses associated with chargebacks or merchant failure.

There are circumstances in which allowing this to happen could make good business sense. For example, in the telephone card business it is economically infeasible for the phone companies to have their billing done on the Association's account number. And there is an incremental volume argument for permitting a split transaction co-branded card in this merchant segment. Indeed, you'll be hearing more about this from Bennett Katz later this afternoon.

However, MasterCard is clearly not intending to limit split transaction co-branded cards to special new and undeveloped market segments like the telephone market. Mastercard has created a special business unit to aggressively promote co-branded cards. This group is aggressively discussing co-branding with retail merchants. And split transaction co-branding with retailers is likely to burgeon as a result.

The problem is that, under the Mastercard split transactions scenario, it is not going to take very long for most large retailers to feel that they are foolish and at a competitive disadvantage if they do not have a split transaction co-branded card.

And once this happens, retailers are going to start using their split transaction co-branded cards aggressively for marketing purposes, jeopardizing a principle that has historically been vital to the success of bankcards -- that all cards be treated equally at the point of sale.

Unlike in the telephone market, it is hard to believe that there is much incremental volume to be gained by making the split transaction concession to retailers. Mastercard will get market share from these programs, much of which will come from Visa. But Members will lose revenues that they could have enjoyed if both associations had prohibited the splitting of transactions for interchange and outstandings.

This is a case of MasterCard's management using <u>your</u> profits to buy Mastercard market share.

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(26) The fourth major new Mastercard strategy is to use Maestro to achieve global brand unity.

As you saw earlier, the Mastercard brand has a global disadvantage in being subordinate to other brands, like Eurocard, in overseas markets. These markets are going to be growing much faster than the U.S in the coming years. So Mastercard appears willing to sacrifice the interests of its U.S Members to overcome this disadvantage.

You saw the first evidence of this with the new Mastercard logo.

I don't think many U.S. Members realized that this effort was targeted to give MasterCard ammunition to try to persuade Eurocard to make the Mastercard interlocking circles the dominant logo in Europe. And while it helped Mastercard somewhat in this regard, it didn't succeed completely.

So, now today Mastercasrd's management is asking you to use the Mastercard interlocking circle logo as part of the new family look for Mastercard, Maestro, Cirrus -- and hopefully Eurocard and Access as well.

Members are being told that this is a way to capitalize on the investment in the interlocking circles to achieve consumer recognition of Maestro more efficiently. We don't see it quite this way.

(27) We think U.S. Members are being asked to risk their investment and equity in the Mastercard brand by spreading their logo across a line of products which will have less utility than the parent brand and which will therefore, over time, cheapen the image of the parent Mastercard brand.

We don't think this is a good risk to take from the perspective of U.S. Members, but we do think that Mastercard Management is willing to take this risk in order to convert the Eurocard logo to Mastercard's interlocking circles in Europe.

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(28) But Maestro isn't just a part of this one new Mastercard strategy. It is also a big part of their fifth major new strategy--which is to focus on on-line debit card success, no matter what the cost.

Again, put yourself in the perspective of the Mastercard Management as they developed this new strategy. They were running an increasingly distant second in the credit card market and they had totally lost the race on off-line debit cards. They were understandably willing to take risks.

And that is exactly what Maestro represents -- a major risk to your long term profits in order to help Mastercard offset the market share decline they have incurred in the credit card and off-line debit card businesses.

(29) Since you gentlemen have guided the development of Visa's Debit strategy, you know that it has been guided by three goals -- optimizing the overall profitability of your card programs, maintaining your current level of control over this business, and strengthening, not degrading, the value of your Visa brand.

(30) In contrast, the MasterCard Board does not appear to have had these same concerns. The Mastercard debit strategy, if successful, appears likely to reduce overall Member profitability, reduce Members' current level of control over this business, and degrade the value of the Members' Mastercard brand.

These differences are probably based on historical experience. When both Visa and Mastercard marketed their debit programs to the Members alone, Members overwhelmingly chose the stronger Visa brand. So Mastercard decided to get some allies in this battle, and the allies they chose are the Regional Switches.

Many of the differences between the Mastercard and Visa Debit strategies result from the simple fact that Visa is only concerned with what is best for our Members, while Mastercard's management is also worried about what it will take to keep the regional switches in their corner.

Let's look at a few of the contrasts.

(31) First, as regards profitability, Visa's debit program places primary emphasis on the more profitable off-line debit product. Secondary emphasis is placed on the on-line product.

(32) In contrast, Mastercard's program focuses primarily on the less profitable on-line debit product. They have stated that Maestro is to become their dominant international brand while MasterDebit will be a minor brand.

(33) Mastercard is also pricing this on-line product at a 9.5¢ transaction fee. We believe this fee is set far too low for retailers.

Mastercard's management is smart enough to know this. They understand that this low pricing risks encouraging retailers to install on-line terminals in order to reduce their sales on your more profitable credit and off-line debit card products.

(34) But, you see, this Maestro pricing was not motivated by an over-riding concern about Member profits. It was motivated by a desire to beat Visa in the number of cards issued despite the weaker consumer appeal, and hence Member appeal, of the Mastercard brand. And in order to do this, they needed pricing that would please their regional switch partners, who are more interested in transaction volume than in card program profitability.

This leads to the next point of contrast, the degree to which Members will be able to maintain control over Maestro in the long term.

Interlink has been set up so that our Member financial institutions will maintain control over the Interlink board Our structure for Interlink allows for this Board to control any Interlink policies which can impact your overall card profitability.

In contrast, Maestro's Board gives Regional Switch executives as much control over Maestro as their Member financial institutions have, with an equal number of Board seats.

Another point of control difference is that Visa has set up Interlink so that the transactions will continue to run over the Visanet system, while Maestro is set up so that the processing will be managed by Deluxe Data. This gives up a great deal of future control over Maestro to a third party -- a third party which could easily be taken over by a competitor to bankcards.

This, in combination with Mastercard's stated policy that Maestro will be the switch of last resort in all on-line debit transactions means that Mastercard Members are likely to experience diminishing control over their debit programs, and thus their overall card programs, if Maestro succeeds in the market.

I mentioned that the other risk Maestro represents is a degradation of the Mastercard brand. This has several pieces to it.

One is the previously mentioned risk of closely associating the interlocking circles logo with a lesser quality product like Maestro or Cirrus.

Another is the degradation of merchant and consumer service quality Mastercard is permitting on Maestro in order to achieve their partnership with Regional switches.

For example, Maestro will permit a 25 second authorization response time at the point of sale. That 25 seconds represents a fine standard for regional switches to have on their ATM's, but it won't work in a fast paced supermarket check-out line.

Mastercard's management obviously knows this, but they believe that they need the Regional Switches to be leaning their way in order for Maestro to succeed, so they are willing to offer this degraded service at the point of sale in order to get the strategic alliances they need to overcome Member's leanings towards the stronger Visa brand

This wish to accommodate partners as opposed to delivering a quality service is also evident in the most bizarre aspect of Maestro.

Mastercard is pitching Maestro heavily as a global product and touting this a major advantage over Interlink. But they are not telling Members that, in order to get global acceptance, they will allow Maestro cards to function without the security of a PIN terminal outside of the U.S.

So, if a Member issues a Maestro card to a customer on the belief that they can control this card with a PIN authorization, the Member is at risk when that card shows up overseas.

In net, Mastercard's Debit strategy is a clear example that their desire to issue cards and benefit from strategic alliances, has come to outweigh their regard for the interests of their U.S. Members, in either the short or long term.

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(35) Throughout this presentation, I've talked about Mastercard shifting market share from Visa. Some of you have probably thought that I was breaking from the intent of this presentation, which was to talk about the impact the new Mastercard strategies will have on you.

It is natural in a duality situation for Management to be more concerned with market share than the Members. If you own both Associations why should it concern you if MasterCard builds market share at Visa's expense?

Well, if both Associations were operating in your best interests and responding to your guidance, perhaps it shouldn't concern you very much. But that does not appear to be the case today, so the shift of market share from Visa to Mastercard should bother you a great deal.

(36) This Board controls the Visa Association and the Visa Brand in the United States. This Board uses that control to protect the interests of your institutions and the institutions you represent. Very importantly, <u>this</u> Board has demonstrated a sense of responsibility, and a concern about the long term, that has not been matched by the Mastercard Board.

Although the Members represented on this Board actually comprise about the same U.S. Mastercard volume as do the institutions represented on the Mastercard Board, Mastercard has demonstrated that it is no longer responsive to you.

They ignored your wishes on Membership and Affinity cards.

Recently, they totally ignored the very specific demand many of your people gave them to stop making comparisons to Visa in their gold card advertising --even though this change would have been very easy to make.

Share of market equals share of influence in the market.

Every time Visa loses one point of market share to Mastercard, this Board loses that much influence over the market--loses that much ability to influence the way this market develops--and loses that much ability to influence the future profitability of your card programs.

If this Board lets Mastercard take market share away from Visa, you will be giving away this Board's ability to influence this market to a Mastercard Management which has demonstrated that it does not worry about your long term best interests.

And you will be giving up the ability to influence this market to a Mastercard Board of Directors which increasingly does not even share your long term interests.

The second reason why that loss of Visa market share to Mastercard should bother you is that it will reduce this Board's ability to initiate new programs which build your volume or reduce your costs.

As Visa has pulled away from Mastercard in market share in recent years, we've taken advantage of this to shift our resources into marketing programs which convert cash and check volume to Visa and into systems programs which cut your backroom costs.

We won't be able to sustain that if we lose our market share advantage over Mastercard and have to resume focusing our energies primarily on competing with Mastercard.

And we won't be able to build usage efficiently, if we can't use the leverage of a strong market share leadership position to negotiate efficient co-op efforts with merchants.

Right now, this Board controls a brand that leads the market with record high market shares, record high consumer image and demand, and record high merchant desirability as a partner.

But the brand you control is at the point of losing momentum in the marketplace to these new Mastercard strategies.

It has been my experience that it is far less expensive to sustain market leadership and business momentum than it is to regenerate it once it is lost.

(37) We believe it is important that this Board recognize the threats from Mastercard's new strategies and take action to eliminate the threats.

As I said at the outset, we are not asking for agreement to any specific actions in response to this presentation today.

Instead, we would like to hear your reactions and get your guidance on some general courses of action.

The course of action we hope you will take is to encourage Visa's Management to begin developing plans to defend your interests against the threats which Mastercards new strategies present .

While we don't have specific plans for your approval today, there are some principles we believe Visa must follow.

One principle is that we cannot allow Mastercard's debit strategy to succeed. It may represent an attractive alternative for European Members, but it is just plain bad business for our U.S Members. It will cost you profits and it will cost you control over your overall bankcard business.

We are going to need the strong support of our Board to make Visa's debit strategy succeed.

A second principle is that we must maintain Visa's market share lead.

This Board has decided that Visa will not attempt to match the programs Mastercard has put in place to generate new cards from non-traditional issuers, corporate-dominated affinity card programs, and co-branded cards.

Management respects that decision. But, if we are not going to compete for this business, the only way for Visa to maintain its overall market share leadership is to offset any Mastercard gains in this non-traditional market by Visa gains among our traditional card issuers.

What this all means is that we are going to have to encourage greater loyalty to Visa among traditional banks, including very importantly, even stronger loyalty to Visa from the banks represented on this Board.

And we are going to have to field marketing efforts which do an even better job of building preference for Visa among our Members, our merchants and our consumers.

This is going to require stronger Visa advertising and promotion efforts, and a stronger selling effort by both Member Relations and Merchant Relations.

We may also want to look at incentive funding solutions for these increased marketing needs --- for example a pricing formula which reward banks which have growing loyalty to Visa while "disincenting" financial institutions from supporting Mastercard's new strategies

A third principle is that Visa will need to become increasingly differentiated from Mastercard in terms of what we offer our Members, our merchants, and our consumers.

If Mastercard continues to become increasingly oriented towards interests that are not shared by our Board banks and the institutions they represent, we cannot afford to let our products and services remain at parity and we can no longer afford to give Mastercard a free ride on our innovations in the marketplace.

As MasterCard becomes increasingly dominated by non-traditional banks, traditional banks may have to give up some operational efficiencies in order to achieve superiority on their Visa brand.

A fourth principle is that we must not stand by idly while Mastercard outsources its systems into the control of non-traditional banks and third parties. We must assure that traditional banks control the electronic railroad of choice.

That means continued support for the Visa programs which take advantage of our superiority in systems. And it also may mean shifting more transactions away from a Mastercard system that grows increasingly dominated by AT&T.

These are important issues which Visa must address and solve.

With your agreement, we will begin doing that in our budget planning for 1993 and then will come back to you again in the October Board Meeting with longer term strategies and plans.
****
Before I close, I have a brief message from our lawyers.

As with any similar issue, we must stress that this group can act as Visa's Board of Directors to assure that Visa takes the appropriate actions to defend the interests of our overall Membership. But any actions which your banks take in response to these threats from Mastercard's new strategies must be taken individually and be based on the best interests of your individual institutions.
****
We recognize that this is not an easy or a comfortable subject to tackle. But, as I said at the outset, we believed it was important that you be alerted to these threats Mastercard's new strategies represent to your interests. And we need your guidance if we are to defend your interests

That completes my presentation on this subject. I can either address your questions now, or we can move into a Board discussion of this subject.

Thank you.

EXHIBIT B

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VISA02647

DOJ-VUS-00131829

Share of Market

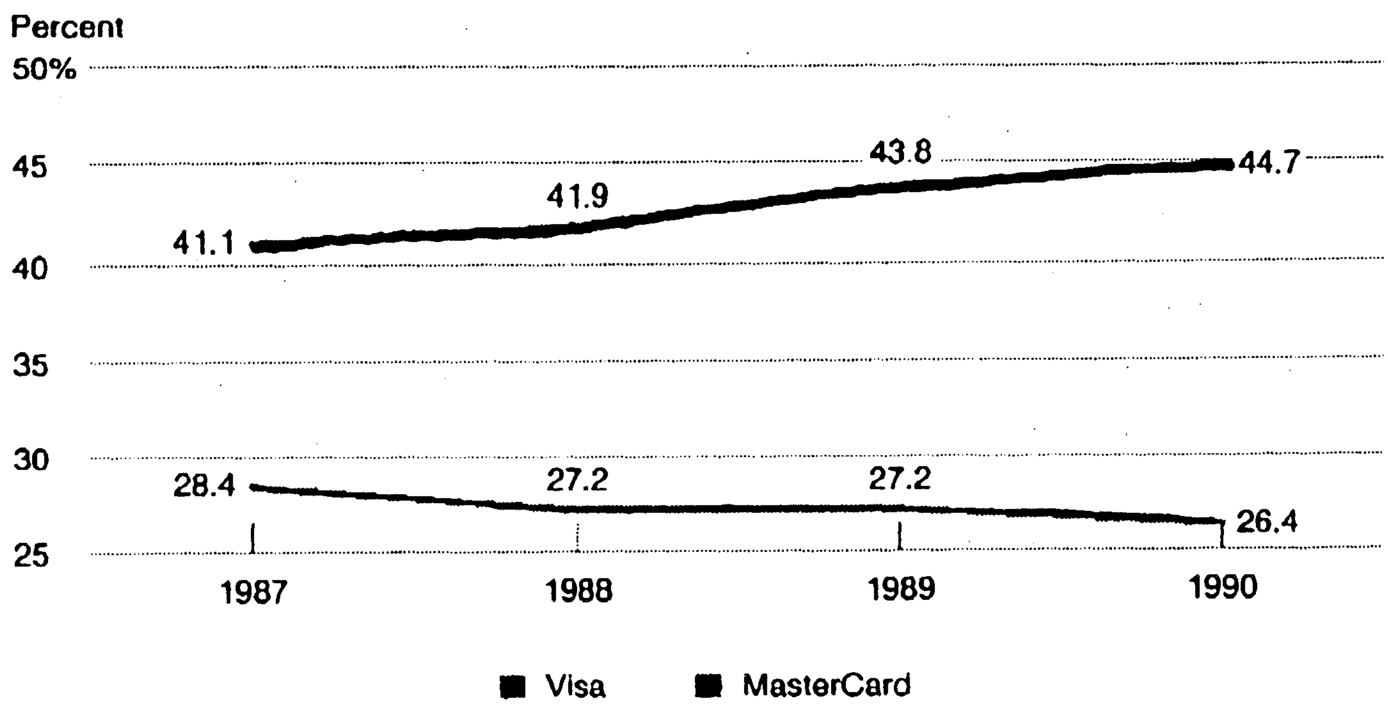

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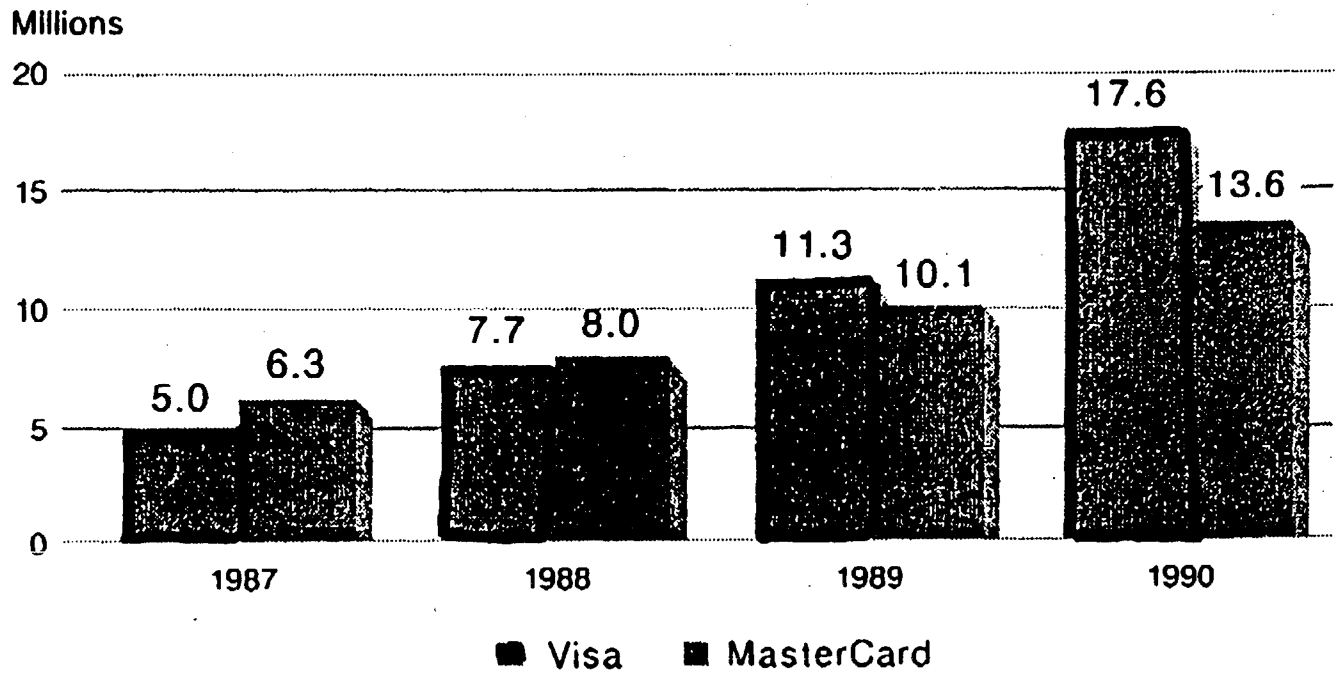
EXHIBIT B
Page 19 of 28

SLIDE #A5807.03

VISA #20323

Gold Cards Issued - Millions



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Subject to Protective Order

VISA02648

DOJ-VUS-0131830

C H A R T M A S T E R S LY 92-3858

SLIDE #A5807.04

Visa #2032

Debit Cards Issued - Millions

	1991	Versus 1988
Visa	9.3	+2.7
MasterCard	1.6	+0.6

C H A R T M A S T E R S ly 92-3858

EXHIBIT B
Page 21 of 28

SLIDE #A5807.06 | Visa #20326

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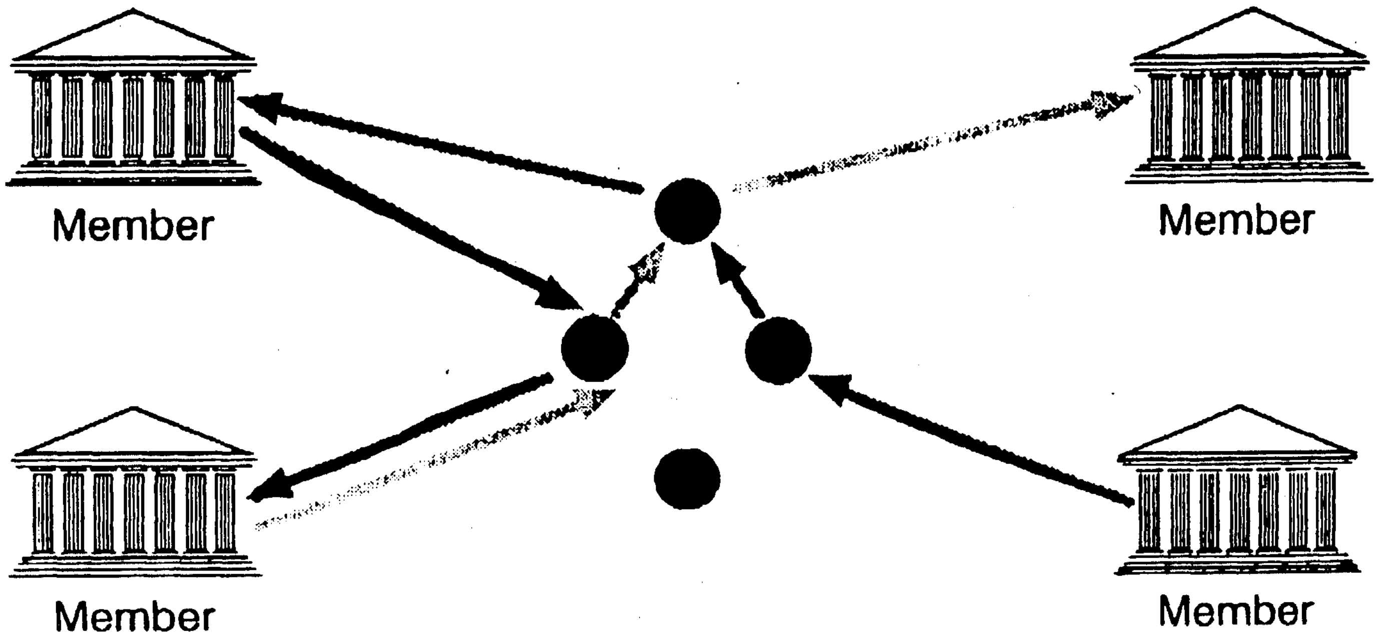
VISA02650

MasterCard Architecture



CHARTMASTERS MEM 92-3858

EXHIBIT B
Page 22 of 28

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VISA02651

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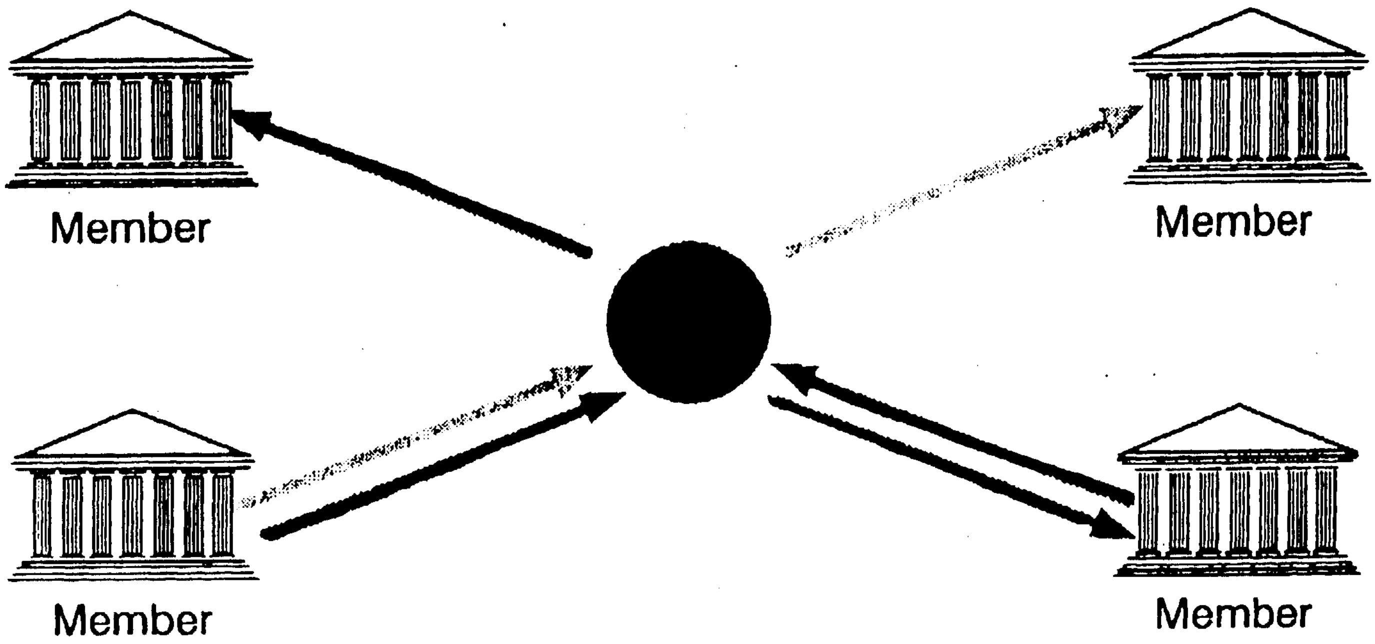
Visa Architecture



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SLIDE #A5807.10 **Visa #20330**

VISA

EUROCARD

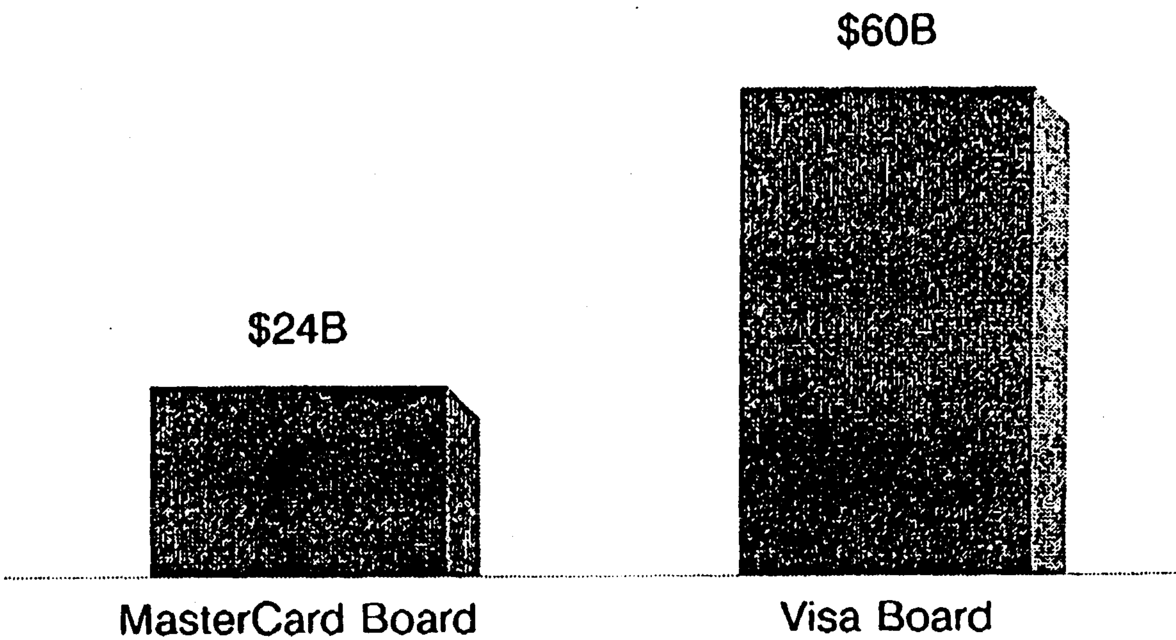
C H A R T M A S T E R S MEM 92-3858

SLIDE #A5807.11

Visa #20331

VISA 02652A

U.S. Bankcard Volume - 1990



CHARTMASTERS MEM 92-3858

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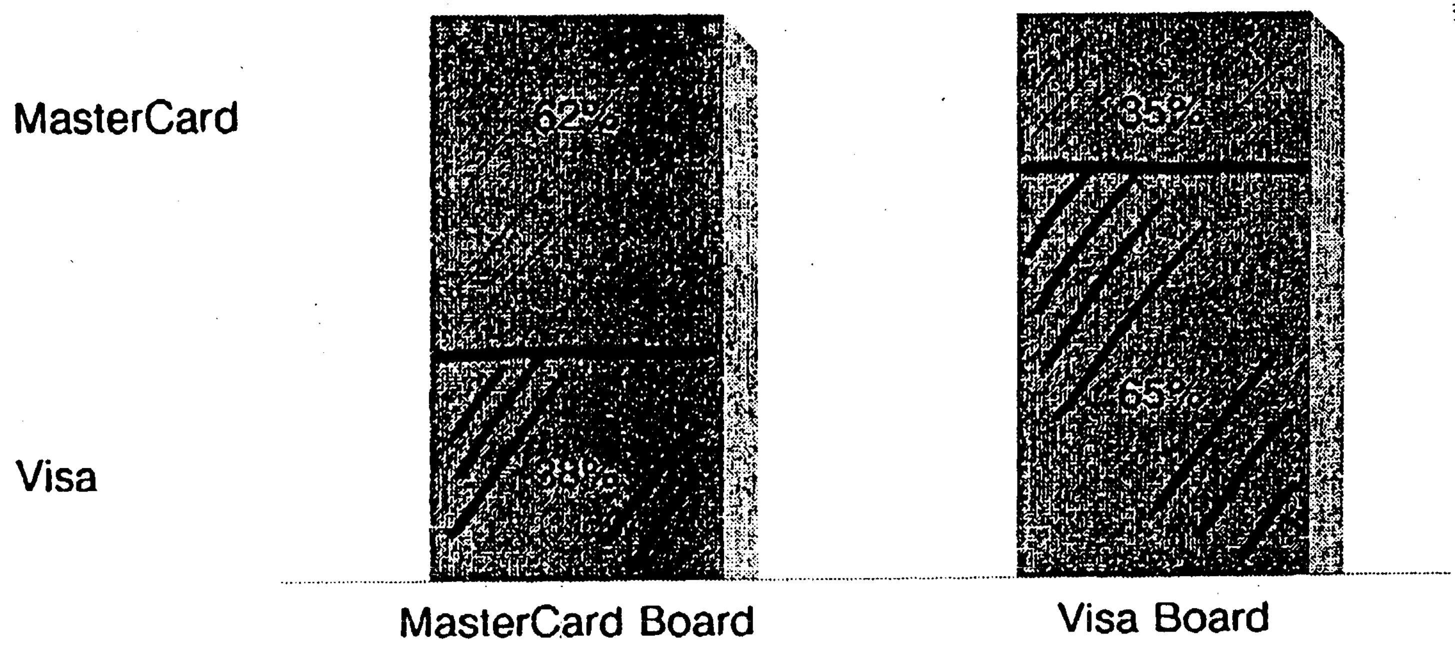
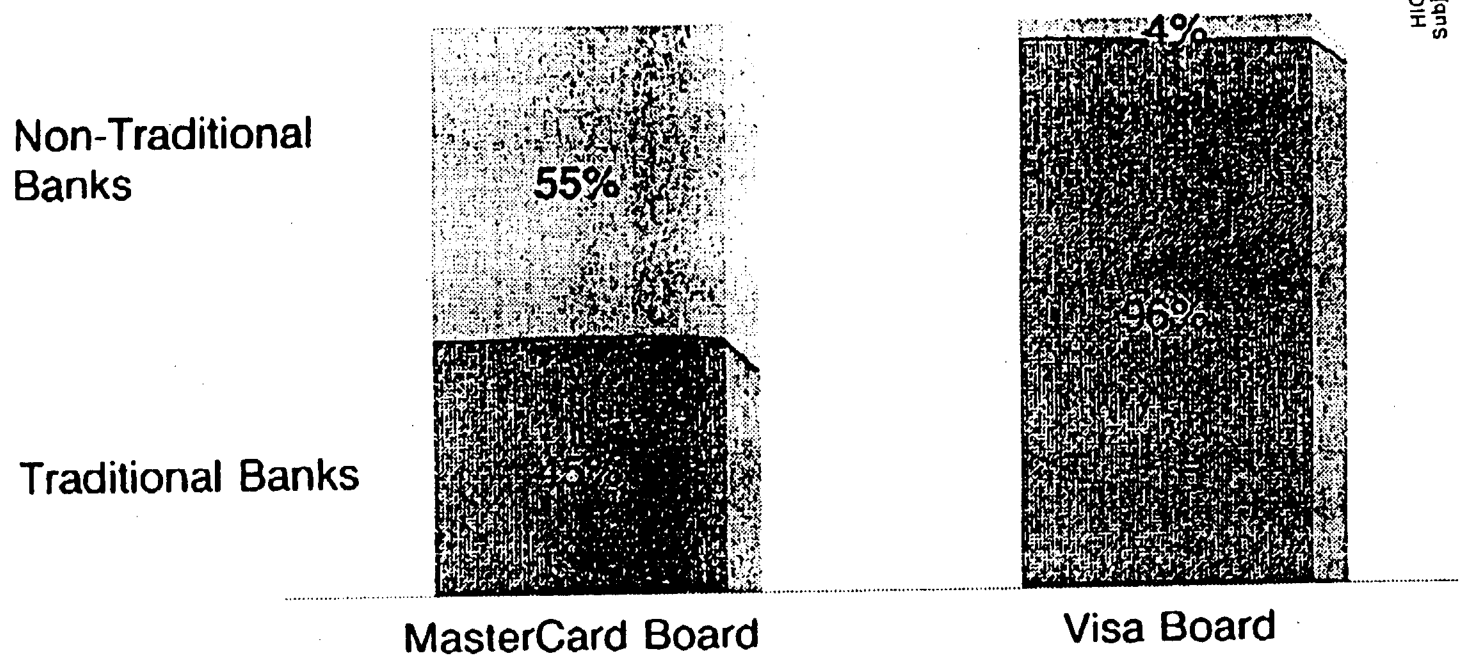
SLIDE #A5807.12 Visa #20332

Portfolio - 1990



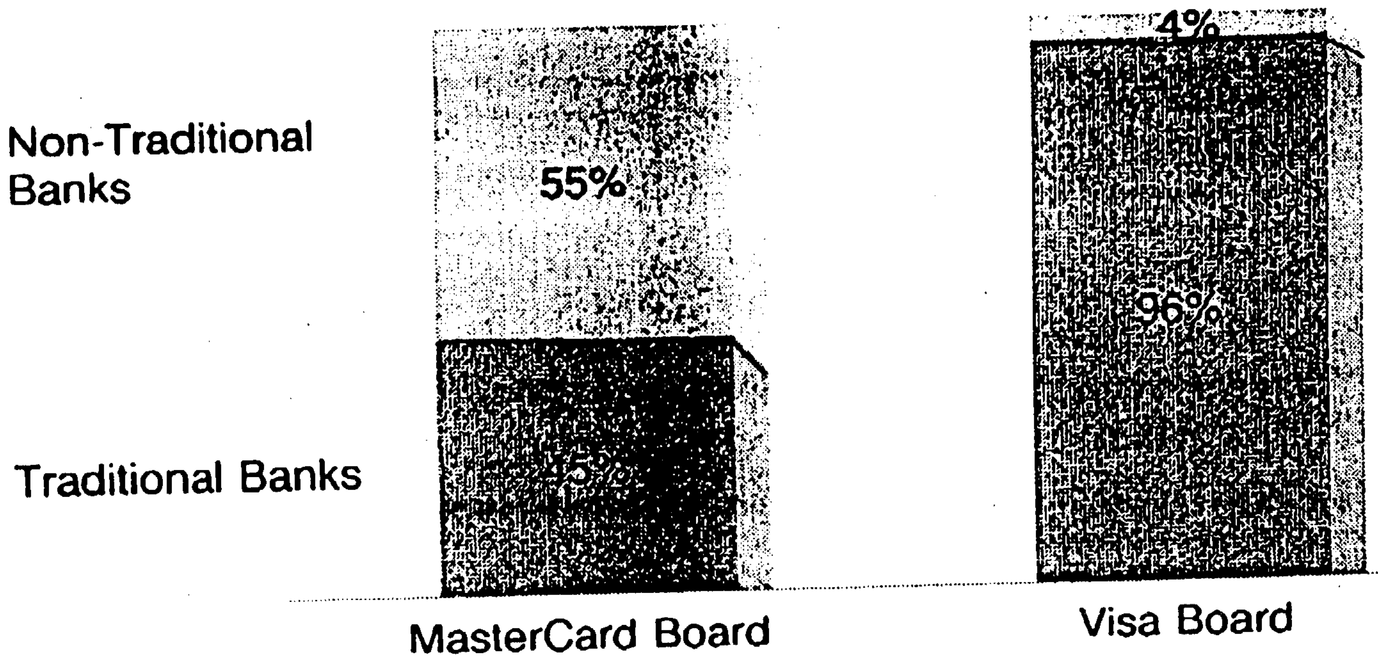
Sales Volume - 1990



SLIDE #A5807.13

Visa #20333

Sales Volume - 1990



SLIDE #A5807.31

VISA #20349

MasterCard U.S. Board

Non-Traditional Banks	Traditional Banks
USAA	Signet
MBNA	Mellon
Colonial	Bank of N.Y.
Household	NBD Bancorp
Monogram	Valley National - AZ
AT&T	Boatmen's
	Wells Fargo
$24.8 Billion	$8.6 Billion
74%	26%

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VISA U.S.A. INC.

BOARD OF DIRECTORS MEETING

Hong Kong
June 1-2, 1992

EXECUTIVE SUMMARY

Interchange Reimbursement Fees

Over its last three meetings, the Board has been presented a number of strategic and tactical business issues associated with interchange reimbursement fees. These issues included the review of the interchange fee methodology and allocations, the concept of moving toward product-based interchange rates, the resumption of the migration of the current incentive rates towards the calculated electronic rates and the introduction of a new incentive rate. At the February Meeting, a specific set of recommendations related to these business issues and associated interchange fees were reviewed with the Board for adoption at the June Meeting. The key recommendations to be effective April 1, 1993 are:

- Raise the standard interchange rate by 8 basis points to the calculated rate level
- Increase the current set of incentive interchange rates by 10 to 15 basis points per year within the constraints of the market and competition from other card products
- Unbundle a Visa Debit Card rate from Visa Credit Card Rates only for merchants meeting Payment Service 2000 processing requirements
- Introduce new Business Card Rates at T&E merchants (including restaurants) in order for the product to compete more effectively in the marketplace
- Institute new and separate Payment Service 2000 incentive rates for Visa Credit and Visa Debit Cards for three years to reflect benefits to Members and encourage acquirer and merchant participation

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- Make no changes to the current and special interchange rates for EPS (Express Payment Service) and Supermarkets.

Operational requirements for qualifying for the unbundled Visa Debit Card Rate and the new unbundled Visa Business Card Rates will be reviewed with the Product Development and Marketing Committee and the operational requirements for qualifying for the Payment Service 2000 rates will be reviewed with the Systems and Operations Committee. The proposed interchange reimbursement fees and structure for the period April 1, 1993 through March 31, 1994 are summarized in the Attachment. A resolution is enclosed for Board action to adopt the proposal.

B. Ray Traweek

Visa U.S.A.

Proposed Interchange Fee Structure (4/1/93 - 3/31/94)

Visa Credit, Visa Debit and Visa Business Cards

		Interchange Rates by Product		
		Credit	Debit	Business
Standard Rate - Retail Merchants		2.00%+11¢	2.00%+11¢	2.00%+11¢
- T & E Merchants				2.17%+12¢
Electronic Rates (TIIF/PS2000)				
Passenger Transport	TIIF	1.60%+5¢	1.60%+5¢	1.93%+6¢
	TIIF2	1.35%+5¢	1.35%+5¢	
	PS2000	1.25%	1.10%+3¢	
Travel (Includes restaurants)	TIIF1	1.55%+5¢	1.55%+5¢	
	TIIF2	1.35%+5¢	1.35%+5¢	
	PS2000	1.25%	1.05%+3¢	
Direct Marketing	TIIF1	1.55%+5¢	1.55%+5¢	1.55%+5¢
Other MCC	TIIF1	1.55%+5¢	1.55%+5¢	1.55%+5¢
	TIIF2	1.35%+5¢	1.35%+5¢	1.35%+5¢
	PS2000	1.25%	1.05%+3¢	1.25%
EPS		2.00%+2¢	2.00%+2¢	2.00%+2¢
Supermarkets		1.00%	1.00%	1.00%

01/30/92

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Attachment 1

EXHIBIT C
Page 3 of 4

Visa U.S.A.

Current Interchange Fee Structure (1991-93)

			Credit/Debit	Effective Rates4/92
Standard			1.91%+10.6¢	2.07%
Electronic Rates (TIIF1/2)				
	Passenger Transport	TIIF1	1.55%	1.51%
		TIIF2	1.25%	
	Travel	TIIF1	1.50%	1.27%
		TIIF2	1.25%	
	Direct Marketing	TIIF1	1.50%	1.50%
	Other MCC	TIIF1	1.50%	1.28%
		TIIF2	1.25%	
	EPS		2.00%+2¢	2.25%
	Supermarkets		1.00%	1.00%
Cash:	ATM		($0.50)	(0.65%)
	Manual		($1.50+.18%)	(0.60%)

01/30/92

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EXHIBIT C
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VISA U.S.A. INC.

BOARD OF DIRECTORS MEETING

Hong Kong
June 1-2, 1992

EXECUTIVE SUMMARY

Visa International National Organizations

At its March meeting, the Visa International Board reviewed a concept for the formation of national organizations which would be delegated the authority to promote and ~~administer~~ the Visa program in their respective countries. The principles of this concept as presented in March were:

- A country which does not have a National Group Member and which is deemed by the Visa International Board and the appropriate Regional Board to be strategically important will be subject to the restructuring.
- Visa International will organize a company within such selected country which will be delegated the authority, subject to the policies of Visa International, to establish national operating regulations to which all Members within that country will be subject ("National Company").
- The charter of the National Company will permit the development and implementation of national payment systems, including joint marketing.
- The Members subject to the operating rules of the National Company will elect the Board of Directors of the National Company.
- The composition of the National Board will insure fair and equitable representation of the Members within that country; in addition, there will be a small number of Visa International management representatives appointed to the Board.
- The National Company will be exclusively managed by Visa International, subject to the Board of the National Company disapproving the assigned individuals.
- Visa International will have the power to override any decision of the National Board if it determines that the action of the National Board has a significant adverse effect on Visa International.
- The relative responsibilities of the Visa International Board and the Regional Boards will not be affected.

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Concern was expressed that such an organization should not be mandatory, rather it should only be formed if the indigenous members were in favor. The proposed By-Laws which are included under this tab make it clear that in order to form such a company, approval would be needed from (i) the Visa Board, (ii) the appropriate Regional Board, and (iii) a majority of the voting members in such country representing a majority of the sales volume or members representing at least two-thirds of the sales volume.

Lastly, the proposed By-Laws do not allow the Visa International or Regional Boards to revoke the authority of the National Company, except for cause.

Presently, the members in the United Kingdom and Germany are considering the formation of such an organization. In addition, members in several other countries are likewise considering such an organization. Therefore, management is recommending the adoption of these amendments to the By-Laws to allow their formation when a proper number of the indigenous voting members ask for and gain approval from the appropriate Regional Board and the International Board.

This matter will be reviewed at the meeting in June. A resolution is attached, together with proposed By-Laws authorizing the representatives to the Visa International Board to approve these By-Laws.

Bennett R. Katz

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ATTACHMENT A
Exhibit ____

ARTICLE XVI

NATIONAL ORGANISATIONS

Section 16.01. Formation of National Organisations.

(a) The corporation may establish an organisation to which it delegates, in whole or in part, its responsibility for the development, operation and administration of the Card Programme and/or Cheque Programme within a specific country ("National Organisation") including, but not limited to, (i) the development and implementation of products, services, systems, programmes and strategies to address unique market conditions within such country, (ii) coordination of member activities, and (iii) the promulgation of rules, regulations and policies applicable to members operating within such country.

(b) A National Organisation may be formed only if approved (i) by the corporation's Board of Directors, (ii) the appropriate Regional Board and (iii) by a majority of the voting members in such country representing a majority of the sales volume or by members in such country representing 2/3 of the sales volume.

Section 16.02. Management. Management responsibility for a National Organisation shall reside exclusively with the corporation, subject to ratification by the Board of Directors of the National Organisation of those individuals designated as senior officers of the National Organisation. In addition, the corporation's Board of Directors, by a 2/3 vote, may waive this requirement.

The Board of Directors of a National Organisation shall, in accordance with the Charter and By-Laws of such National Organisation, be comprised primarily of senior officers of a representative cross-section of members operating within the country who shall be elected on an equitable basis, with a designated number of seats reserved for officers of the corporation, but never to be less than 3, to assure consistency of the policies of the National Organisation with those of the corporation and the Region within which it is located. Directors may not sit on the Board of Directors of a competitive organisation.

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ATTACHMENT A
Exhibit ____

Section 16.03. Operating Policies.

(a) A National Organisation may not be established in any country where there exists a National Group Member, pursuant to the provisions of Section 2.12(b) of the By-Laws to which all the indigenous Visa Issuers and Acquirers belong.

(b) A National Organisation may assess Service Fees and other fees to cover the costs of its operations, to be paid by members operating within its country on an equitable basis.

(c) Members operating within a country where a National Organisation has been established shall abide by all rules, regulations and policies of the National Organisation; non-compliance therewith constituting a violation by such member of the rules, regulations and policies of the corporation, subject to any sanctions provided in the International Operating Regulations therefor.

(d) The rules, regulations, policies and activities of a National Organisation shall in all instances comply and be consistent with those of the corporation and the Region within which it is located; and the corporation's Board of Directors, or Regional Board as the case may be, may override any action of a National Organisation which it deems inconsistent therewith.

Section 16.04. Revocation of Authority.

The Board of Directors of the corporation, or the appropriate Regional Board, may revoke the delegation made pursuant to Section 16.01 by an affirmative vote of three-fourths of the total membership of the Board for good cause only. Good cause shall include, by way of example but not by way of limiting the discretion vested in the Board:

(i) any reason for which a member can be terminated pursuant to section 2.17 of these By-Laws;

(ii) any terms or conditions of membership in, or ownership of, the National Organisation are deemed by the corporation's Board of Directors or the Regional Board, as the case may be, to be unreasonable;

(iii) the Directors on the National corporation's Board of Directors represent less than fifty-one percent of the sales volume of the members operating with such country; and

(iv) the eligibility requirements for voting and directorships are materially changed from those originally approved by the corporation's Board and the Regional Board without the approval of those Boards.

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VISA U.S.A. INC.

BOARD OF DIRECTORS MEETING

Hong Kong
June 1-2, 1992

EXECUTIVE SUMMARY

Membership Administration Restructuring

Overview

Both the bankcard business and the Visa organization have evolved greatly since 1970. Since their original development, the By-Laws on membership have been periodically modified but have never been fundamentally rewritten. In contrast to the Visa International By-Laws, membership classes in the Visa U.S.A. By-Laws are not clearly and separately defined. As a result, the rights and obligations of each membership class are often not clearly understood.

Given the current state of the banking industry, the importance of defining the rights, obligations, and financial responsibilities of Members for themselves and in relation to Visa and other Members is becoming increasingly important. This restructuring of the By-Laws is intended to clearly identify the rights, obligations, and financial responsibilities of separately identified membership classes (see Exhibits 1 and 2). The program is intended as an extension and complement to the Sponsored Member Registration and BIN Licensing Programs approved by the Board in October. In addition, this restructuring attempts to formally address various business changes that have evolved within Visa and the bank card industry over the past 21 years. The plan, formalizing current Visa practice and policies was developed with the intent of minimizing Member impact. It has been reviewed in detail and fully endorsed by both the Risk Control Advisors and Card Operations Advisors. The proposed changes do not affect the recent By-Law amendments establishing the Charter and Non-Charter Member classifications.

Historical Perspective

When the corporation was formed in 1970, two unique classes of membership were established: Class A and Class B. Class A Members were primarily large banks that were directly responsible to the corporation

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for their activities, and were authorized to perform any function of membership (issue, acquire, sponsor, process). Class B Members were primarily small banks that were sponsored by Class A Members which were financially responsible for and controlled their activities, and were authorized to perform limited functions (solicit cardholders on behalf of their sponsor, acquire).

During the 1970s several changes occurred. Class A Members were renamed "Proprietary Members" and Class B Members were renamed "Sponsored Members." Associations (traditional MasterCard Members) and other Member-owned organizations joined as Proprietary Members. In addition to banks, savings & loans and credit unions were allowed to become Members. The By-Laws were modified to allow institutions to join as Members for purposes of issuing the newly introduced Visa Travelers Cheque.

In the early 1980s, the ATM Group Member and Cash Disbursement Sponsored Member categories were established to accommodate the business needs related to ATMs. In the late 1980s, the Associate class of membership was created to allow smaller institutions with small portfolios to become Visa Card Issuers.

In 1990, the By-Laws were further amended to allow Sponsored Members to issue Visa Debit Cards to facilitate the growth of the Visa Debit program.

Key Issues

In recent years, a number of significant issues related to membership have arisen which cannot be easily resolved within the framework of the current membership structure. These include:

- Proprietary and Associate Members who wish to remain independently responsible for their own programs and active in the acquiring business after they have sold their card portfolios and no longer issue cards.
- Ongoing mergers, acquisitions, and restructuring in the industry have accelerated the need to clarify the rights, obligations and financial responsibilities (e.g., liabilities) of different Members under various business circumstances.
- Proprietary Members in many cases no longer have the relative financial capability to sponsor their Agent Members.

- Sponsored Members are now often sponsored by multiple institutions for different business lines, and their sponsors are frequently not aware of the totality of their obligations, including their financial exposure.

- Most association-type Proprietary Members have an interest in sponsoring Sponsored Members, but cannot do so because they do not issue cards.

- Some Proprietary Members are no longer willing to assume financial responsibility for their Sponsored Members and wish to withdraw their sponsorship of these institutions. Some of these Sponsored Members are unable to find a new sponsor, yet are unable to change membership status since they are only engaged in the acquiring business.

- An increasing number of Proprietary Members have an interest in "sponsoring" (i.e., entering into an agency relationship) other Proprietary Members for Visa Debit Card issuance or merchant signing (acquiring).

- Processors, both Member and nonmember, have taken on a dramatically expanded role in the bank card business, complicating the roles and financial obligations of Members and Processors.

- Independent Sales Organizations (ISOs) and nonmember Agents are increasingly used by Members for various services traditionally performed by Members, and the rights and responsibilities of Members in different classes to utilize these organizations have not been formally addressed.

- As card issuing and acquiring activities have evolved into fundamentally distinct businesses, the Visa membership structure has not been modified to recognize the unique and separate requirements of each business.

Over the years, the need for Members to understand their rights, obligations, and financial responsibilities has grown more pronounced. The current structure of the Visa By-Laws is focused more on those functions each Member is authorized to perform than on the rights and responsibilities of clearly identified, separate membership classes. Revising the current membership structure will provide an opportunity to restructure the By-Laws to alleviate this difficulty.

The sections that follow describe how the proposed By-Laws have been brought into conformance with current Visa policies and practices to more easily facilitate their eventual enforcement. The underlying framework of this restructuring is intended to minimize any administrative or operational impact to the membership.

Associations and Member Processors

The Visa Card issuance requirement is among the most important issues that must be addressed. A significant number of existing Proprietary and Associate Members do not issue cards, in contravention of current By-Laws. These non-card issuing Members fall into three broad categories: 1) associations; 2) processors; and, 3) acquiring-only Members. In essence, there are currently four separate kinds of Members within the Proprietary membership class: Issuers, Associations, Processors, and Acquirers.

Associations were originally admitted as Proprietary Members in order to accommodate duality, since most of these institutions were longtime members of MasterCard. Because of the fundamentally different structure of Visa and MasterCard, none of the Visa membership classes that existed at that time specifically accommodated the associations. In order to facilitate the acceptance of these institutions on a timely basis, the associations were admitted to Visa under the existing Proprietary membership class.

Some of these associations have since determined that they would now like to become Visa Card Issuers. Though the By-Laws make no exclusion with respect to the rights of Proprietary Members to issue cards, it has been a Visa policy that associations should not be allowed either to issue cards or acquire merchant transactions directly.

Despite their unique status, association Members have generally been allowed to act as sponsors, for reporting purposes, of Associate Members. Some of these association Members would now like to also sponsor Agent Members (i.e., Sponsored Members). Though it has been Visa policy not to permit this, the By-Laws do not specifically address the issue. Confusion on the sponsorship rights of Members has been further compounded due to the terminology which the corporation has adopted with respect to sponsored entities. The two terms "sponsored Member" (defining a relationship that may apply to either an Associate or Agent Member) and "Sponsored Member" (defining a membership class which excludes Associate Members) have entirely different meanings. This confusion is compounded by the fact that the membership class entitled "Associate" is not mentioned explicitly, but is referenced only by a section number in the By-Laws.

Since the mid 1970s, a number of processing subsidiaries of Visa Members have joined as Proprietary Members for the purpose of performing processing services. Generally speaking, most of these institutions never intended to issue Visa Cards. They generally have no acquiring programs and do not engage in the sponsorship of other Members.

The rules and requirements associated with Member and nonmember processors are not consistent. There are significant operational, reporting and potential liability differences. Currently, Member processors, unlike nonmember processors, are not required to identify what Members they process for or what processing services they offer. Member processors sometimes utilize BINs licensed to them as processors for card issuing or acquiring purposes, and not exclusively for processing services as is required of nonmembers.

The current proposal would address those issues related to associations (e.g., IBAA Bancard, Atlantic States, etc.) and Member processors (e.g., Banc One Financial Card Services Corp.) through the creation of an Administrative Member category.

By reclassifying these Members into a new category, their rights and responsibilities would be clarified. Administrative Members would be prohibited from issuing Visa Cards or from acquiring directly, and would be allowed only to sponsor those financial institutions for which they would not be financially responsible (i.e., Associate-type Members). Administrative Members would be allowed to retain voting and equity rights through their affiliated Associates, to engage in processing services, and to maintain direct VisaNet endpoint connections on the same terms and conditions as current Proprietary Members.

Acquirer-only Members

There are currently several hundred Proprietary and Associate Members of Visa U.S.A. that do not engage in Visa Card issuance. Due to a misinterpretation of the By-Laws, some Associate Members were admitted to Visa membership in the past even though they indicated at the time that they had no intention to issue cards. A number of Members that originally had indicated an intention to issue cards have not done so. Some Members were card issuers in the past but have since sold their portfolios. Many of these latter organizations are prevented by "non-compete" clauses in their contracts from re-starting a card issuing program for several years.

At the time Visa was originally established, the difficulty in getting into the card issuing business was far greater than that associated with signing merchants for card acceptance. The acquiring business was relatively more profitable than the card issuing business. The need to expand the number of Visa Cards was of greater importance than the need to acquire additional merchants. The underlying economics of the bank card industry are quite different today.

Usage stimulation and greater card utility can be expected to come primarily from broadening the merchant base, not necessarily through expanded card issuance. The larger Visa merchant base is a strategic advantage against competitors. At the same time, existing and potential competitors' interest in joining Visa is motivated to at least some extent by the broad Visa merchant base.

Profits on the bank card issuing side remain favorable and interest in card issuing remains firm. In contrast, the opposite situation is true with regard to acquiring. Profits in the acquiring business are at record lows and fewer Members are electing to stay in this business. In response, Visa is in the process of implementing a strategic plan intended to address the issue of retaining Members in the acquiring business.

Given current By-Laws, Sponsored Members that engage only in merchant signing cannot upgrade to Proprietary or Associate Member status. At the same time, a number of sponsors of Sponsored Members no longer wish to assume the financial obligations (joint and several liability) of sponsorship and have indicated their intent to terminate these relationships. Under the current rules, any Sponsored Member that is unable to find a new sponsor within a prescribed period will be automatically terminated from membership. Over the longer term, this could contribute to an eventual decline in the number of card-accepting merchant locations, especially in rural areas.

Two categories are proposed to meet the needs of the different institutions currently in the acquiring business. Generally speaking, the Acquirer membership category is designed for large institutions that are currently Proprietary Members and that have an interest in retaining voting and equity rights. The Acquiring Associate membership is designed for smaller institutions that could, subject to a number of restrictions, be independently financially responsible for merchant signing. The creation of the Acquiring Associate class would allow associations that wish to sponsor Merchant-Signing Members to do so, thereby eliminating their perceived need to sponsor Agent Members.

Ultimately, the proposed Acquirer and Acquiring Associate membership classes are designed to accommodate the need both for retaining Members in the acquiring business and to facilitate maximizing the signing of merchants for Visa Card acceptance.

Participant Members

A Sponsored (i.e., Agent) Member is a Member for which another Visa Member is financially responsible with respect to the performance of its Visa program. Given the significant changes that have and are continuing to occur in the banking industry, delineating and controlling financial liabilities are a major concern. According to current By-Laws, all sponsors of any Agent Member are jointly and severally liable for all of the activities of their agents, even those activities authorized by other sponsors; this includes liability for activities of which they are both unaware and which they explicitly did not authorize their agent to perform. Sponsors of Agent Members are increasingly unwilling to assume any financial responsibility with respect to their agents for activities over which they have no control. The current proposal addresses this concern by redefining the liability of sponsors to those activities which they have explicitly approved.

The Sponsored Member class, which has existed since the inception of Visa, has been a source of confusion ever since the creation of the Associate Member class in 1986. Because both Sponsored Agent Members and Associate Members are actually "sponsored", many Members have been confused by any references to rights or obligations of sponsored Members. Associate Members are "sponsored" only for purposes of quarterly reporting of activity and service fees to Visa. Agent Members are "sponsored" for the purposes of acquiring, soliciting credit Cards on behalf of the sponsor and/or issuing debit Cards. Whereas the sponsor of the Associate member assumes no program liability, the sponsor has joint and several liability for the Agent's program. The proposal to eliminate the term Sponsored Member in favor of Participant Member would be consistent with the Visa International usage and eliminate the source of this confusion.

Though there are currently two defined classes of Sponsored Members, there are actually four types of Sponsored Members within the two classes (cash disbursement agents, debit card issuers, credit card solicitation agents, and acquirers). The cash disbursement class is essentially restricted to institutions that provide cash disbursement services and that do not issue, solicit, or acquire. On the other hand, the standard Sponsored Member class allows four basic functions: cash disbursements, merchant-signing, credit card solicitation, and debit card issuance.

Cash disbursement services are mandated for all Visa membership classes and are not, therefore, unique to Sponsored Members. With the exception of Cheque Issuers, Cash Disbursement Sponsored Members, and ATM Group Members, all Member classes are permitted to engage in merchant acquiring. Direct credit card issuance is prohibited for Sponsored Members.

Since Sponsored Members may issue debit cards directly, and are required to have their sales volumes reported separately, debit card issuing Members are fundamentally different from other Sponsored Members. No formal recognition of this distinction exists, however, and any institution that has joined as a Sponsored Member may issue debit cards at any time. Because Visa has no means for determining which institutions actually issue debit cards, the debit card reporting requirement is essentially unenforceable. There is no way in the current membership structure to accurately identify all Members engaged in debit card issuance.

The proposed By-Laws will formalize the distinction between debit card Sponsored Members (Debit Participant) and those institutions that solicit credit card accounts on behalf of another institution (Credit Participant Members). This would enable separate membership, reporting, and risk monitoring requirements to be applied to each group of institutions. No change is proposed with respect to the rights of these Members to sign merchants.

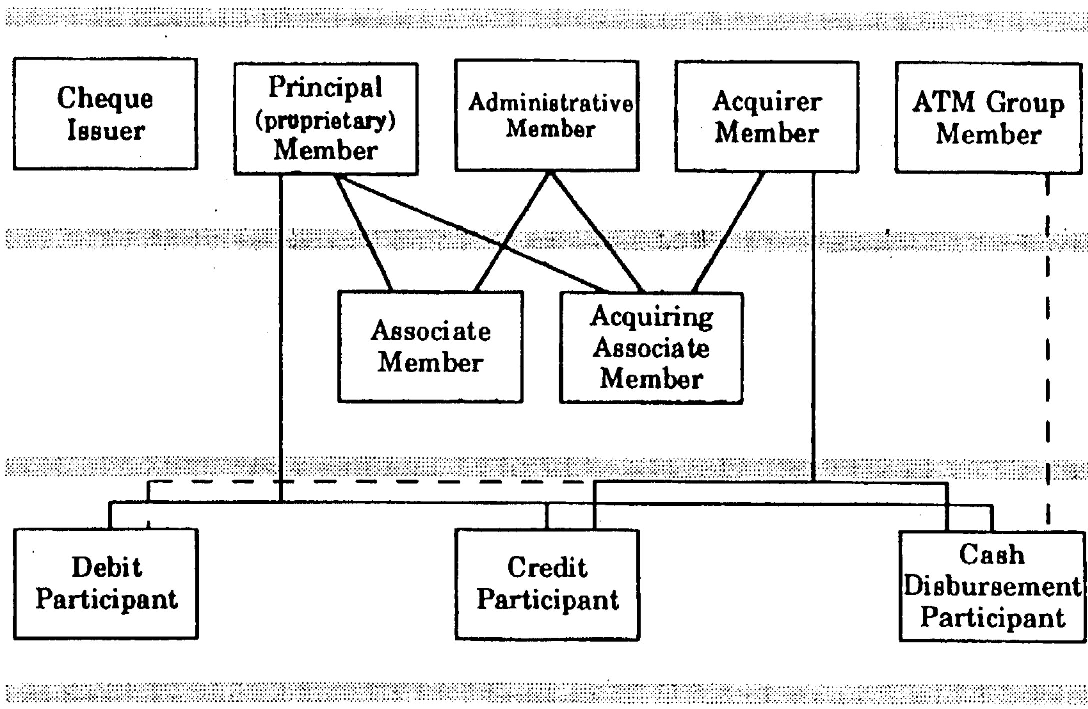
Conclusion

The details of this restructuring have been previously reviewed and unanimously endorsed by both the Card Operations Advisors and the Risk Control Advisors. The Systems and Operations and Executive/Planning Committees have reviewed and endorsed the principles underlying this restructuring at their February meetings. Since only the full Board can approve By-Law changes, the Systems and Operations Committee will review the revised By-Laws prior to the Board of Directors meeting.

In order to address the issues previously outlined, to clarify the rights, obligations and financial responsibilities of the Members and to provide a clearer basis for determining whether any given Member is complying with the By-Laws of the corporation, a general restructuring of the membership classes of Visa U.S.A. is hereby submitted. The primary intent of this restructuring will be to formalize current policy and procedures. The corresponding By-Law revisions which are contained in Attachment A are submitted for approval by the Board of Directors.

Ronald J. Schmidt

Visa USA Membership Restructuring
Proposed Membership Structure



Principal-type Members require no Sponsor & are financially responsible for themselves and any Participant-type Members they sponsor.

Associate-type Members are financially responsible for themselves but must be sponsored by a Principal-type Member for reporting purposes.

Participant-type Members are Members for whom the sponsor is financially responsible.

Exhibit 1

Proposed Visa U.S.A. Membership Structure

Rights and Obligations of Members

	Cheque	Principal	Admin.	Acquirer	ATM Group	Associate	Acq. Assoc.	Credit Part.	Debit Part.	C. Dis. Part.
Issuance										
Issues Cheques	Must	No	No	No	No	No	No	No	No	No
Solicits for Sponsor	n/a	n/a	n/a	n/a	n/a	No	No	May	No	No
Issue Credit Cards	No	Must*	No	No	No	Must*	No	No	No	No
Issue Debit Cards	No	Must*	No	No	No	Must*	No	No	May	No
Acquiring										
Acquire	No	May	No	Must	No	May	Must	May	May	No
Cash Disbursements	May	Must	May	Must	Must	Must	Must	Must	Must	Must
Sponsorship										
Must have sponsor	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes
Sponsors Assoc-type	No	Yes	Yes	Yes	No	No	No	No	No	No
Sponsors Participants	No	Yes	No	Yes	May	No	No	No	No	No
Reporting										
Does own reporting	Yes	Yes	Yes	Yes	Yes	No	No	No	No	No
Reports for others	No	Yes	Yes	Yes	No	No	No	No	No	No
Sponsor req'd to report	n/a	n/a	n/a	n/a	n/a	Yes	Yes	Yes	Yes	No
Liability										
Liable for self	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sponsor Liable	n/a	n/a	n/a	n/a	n/a	No	No	Yes	Yes	Yes
Voting Rights	Yes	Yes	Yes	Yes	No	No	No	No	No	No
Eligibility										
Board Eligibility	Yes	Yes	Yes	Yes	No	Yes	No	No	No	No
Advisors Eligibility	Yes	Yes	Yes	Yes	No	Yes	No	No	No	No
VisaNet Connection	n/a	Eligible	Eligible	Eligible	Eligible	Eligible	Eligible	No	No	Eligible
Processing										
Processor for Self	No	May	May	May	May	May	May	No	No	May
Processor for own sponsored Members	No	May	May	May	n/a	n/a	n/a	n/a	n/a	n/a
Acts as 3rd-party processor	No	May	May	May	No	No	No	No	No	No

*Proprietary and Associate Members must issue either Credit or Debit but are not required to issue both.

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Exhibit 2

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VISA U.S.A. INC.

MEMBERSHIP ADMINISTRATION RESTRUCTURING

SUMMARY: By-Law Amendments

The Executive Summary enclosed with the Board materials discusses the issues and underlying basis for the proposed Membership Restructuring. This document is intended as an overall summary of the specific By-Law revisions included in this Attachment.

One change has been proposed to the substance of the By-Laws, that of authorizing the admission of Members engaged in acquiring and related activities without requiring such Members to issue Cards. This change conforms with the corporation's strategic objective of supporting the acquiring business. A structural revision of the By-Laws has also been made. This involves replacing the "Functions" Section (2.04) with a Section that defines specific, non-exclusive membership categories having clearly defined rights and obligations.

The new membership categories include three fundamental groups: a) Principal-type Members; b) Associate-type Members; and, c) Participant-type Members:

> The first of these, Principal-type Members, require no sponsor for membership and are financially responsible for themselves and those Participant-type Members that they sponsor.
>
> The second group, Associate-type Members, are essentially small Members with limited size programs that are financially responsible for themselves. The Associate-type Members must all be sponsored by a Principal-type Member for reporting purposes and may not sponsor any other Member.
>
> The third group, Participant Members, are institutions that may only engage in those activities authorized by a Principal-type Member in those situations where that other Member has agreed to assume financial responsibility for the Participant. Participants may not sponsor any other Member and their sales volume is reported to Visa through their sponsor(s).

Within the three broad membership groups, specific membership categories have been defined:

> Four Principal-type Card-related membership categories are proposed: Principal (formerly Proprietary), Acquirer, Administrative, and ATM Group. The Principal and ATM Group Member categories already exist; their rights and responsibilities are essentially unchanged The Acquirer category has been structured as an acquiring-only equivalent

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to the Principal category. The Administrative category is specifically designed for Member associations and processors that do not contract with cardholders or merchants. The rights and obligations of Cheque Issuers have not changed, though a Cheque Issuer category has also been created.

There are two categories of Associate-type Members. The first is represented by the existing Associate Member class, while the second -- Acquiring Associate -- represents essentially its acquiring-only equivalent.

Among Participants, three categories of Sponsored (i.e., Agent) Members are proposed: Credit Participant, Debit Participant, and Cash Disbursement Participant. The first of these has the traditional rights and obligations of the original Sponsored Member class; the second category merely separates the Sponsored issuers of debit Cards from other Sponsored Members (such Members are permitted to issue debit Cards under the existing By-Laws); the third category accommodates the existing cash disbursement membership class currently described in By-Law Section 2.04(a)(5).

Though various modifications have been made throughout the By-Laws to bring them into conformity with this new membership structure, with the exception of the new acquirer-only membership classes, membership rules and policies are essentially unchanged. The new rules either clarify existing corporate policies, as described in the Executive Summary, or more clearly delineate the existing rights and obligations of Members in accordance with the new membership structure.

Detailed explanations of all the specific By-Law revisions are included in the following pages together with the proposed By-Law revisions.

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The explanations in this column are to assist in evaluating the proposed amendments, but are not intended to alter the meaning of the wording of the amendments.

ARTICLE II
MEMBERSHIP

Section 2.01. Eligibility. Application for membership in the corporation may be made by any organization which desires to participate in a card and/or travelers cheque program utilizing the service marks Blue, White and Gold Bands Design and/or such other service marks as may from time to time be adopted by the corporation ("Corporation's Systems"); is empowered to perform all of the functions for which it applies pursuant to the By-Laws and to otherwise comply with the By-Laws and Operating Regulations of the corporation as amended from time to time; and is

(a) Organized under the laws of the United States, or any state or territory thereof, as a financial institution eligible for federal deposit or share insurance; or

(b) Wholly owned by one or more organizations described in Section 2.01(a), at least one of which is a member, and solely engaged in activities which its parents are authorized to perform and primarily engaged in the bank card and/or travelers cheque business; or

Section 2.01 is included in its entirety for convenience of reference.

(c) A holding company having at least 66-2/3% of its assets consisting of the voting stocks of organizations described in Section 2.01(a) of the Visa U.S.A. and Section 2.01(a) of the Visa International By-Laws; or

(d) An organization wholly owned by one or more holding companies described in (c) above and solely engaged in the bank card and/or travelers cheque business and related activities; or

(e) Wholly owned by (i) one or more organizations described in Section 2.01(b) or 2.01(d) and solely engaged in the bank card and/or travelers cheque business, (ii) a trade association, the entire membership of which is comprised of organizations described in Section 2.01(a) and solely engaged in the processing of bank card and/or travelers cheque transactions, or (iii) a holding company which is a wholly- owned subsidiary of a trade association described in (ii) above, provided the activities of such holding company are limited to the ownership of organizations which are engaged exclusively in activities in which the members of such trade association, themselves, are authorized to participate, and solely engaged in the bank card and/or travellers cheque business; or

(f) A member of Visa International (or its owners or members) which operates a Visa card and/or travelers cheque program within the United States; provided that the rights of such member in the corporation shall be limited to the right to serve as a director pursuant to Section 5.01 and voting rights pursuant to Sections 5.02(b) and 5.02(c); or

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(g) An organization which operates a debit card interchange system and which is wholly owned by more than one organization described in Sections 2.01(a), (b), (c), (d) or (e). The restrictions on activities contained in Sections 2.01(b) and (d) above and the requirement in (b) that one owner organization be a member shall not apply to subsidiaries which are separately incorporated pursuant to regulatory limitations or for tax purposes and are solely engaged in activities related to banking.

This clarification points out that the Bank Holding Company Act's definition of Affiliate includes parents and subsidiaries as well as sister subsidiaries of the same holding company.

Subject to Sec. 2.07, "Charter Members" of the corporation are (i) members whose applications have been accepted on or before February 10, 1992, and (ii) Charter Member ~~subsidiaries and~~ "Affiliates" (including parents and subsidiaries), the applications of which are accepted after February 10, 1992. All other members are "Non-Charter Members". As used in these By-Laws, "Control" and "Affiliates" have the meanings as defined in the Federal Bank Holding Company Act of 1956, as amended, 12 USC 1841(a)(2) and (k).

This revision states the corporation's present policy of requiring that applications for membership be made by a senior officer of the applicant.

Section 2.02. Application for Membership. Application shall be made to the corporation which shall pass upon and accept or reject all applications for membership. Application for membership shall be submitted in such form as shall be approved from time to time by the president or any vice president of the corporation~~.~~ and shall be executed on behalf of the applicant by its officer duly authorized to make such application and having the equivalent rank of at least senior vice president. Application for and acceptance of membership in the corporation shall bind the applicant to abide by the provisions of the Certificate of Incorporation, these By-Laws and the Operating Regulations of the corporation in effect from time to time, and to perform in a sound and safe manner applicable activities required or permitted thereunder.

This revision recognizes that a member's activities and obligations in the Visa organization can be better understood when grouped in categories that reflect distinct business lines within the member's organization. In order to engage in activities which are not authorized in a single category, a member may participate in several categories at once, except those listed in Section 2.04, which are mutually exclusive. Participation in each category requires separate approval by Visa.

Section 2.03 General Obligations of Membership. ~~In accordance with the Operating Regulations, a member shall actively promote the Corporation's Systems, including but without limitation: the development of contractual relationships with cardholders and merchants for the issuance and honoring of cards bearing one or more service marks adopted by the corporation ("Cards"); and/or the issuance of travelers cheques bearing one or more service marks adopted by the corporation ("Cheques").~~ Every member shall participate in the Corporation's Systems in one or more categories of membership. Section 2.04 of the By-Laws specifies the functions authorized and the attendant obligations for each category of membership. A member shall have the rights and obligations of all categories in which it participates with the consent of the corporation.

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(a) As used in the By-Laws:

The merchant signing activity, now called "acquiring," was formerly described in Section 2.04(a)(2)(iii). A merchant may accept Cards only if it has a direct contractual relationship with a member of Visa.

(1) To "acquire" or "acquiring" means entering into direct contractual relationships as a principal party with merchants for the honoring of Cards, and maintaining and servicing such relationships;

This definition adopts the current usage of the term "agent" to refer to any person or organization engaged by a member for services in connection with the Visa program, including its subcontractors.

(2) An "agent" means any contractor, including Processors, and any subcontractors, whether a member or non-member, engaged by a member to provide services or to act on behalf of the member in connection with the business, products or services of the corporation;

(3) "ATM" means automated teller machine;

This is the existing definition which previously appeared in the deleted portion of 2.03, but it notes that Interlink cards are not covered by these By-Laws, since the Interlink program is governed by its own separate By-Laws and Operating Regulations.

(4) "Cards" means cards bearing one or more service marks adopted by the corporation, except that usage of service marks associated with the Interlink program is governed by the By-Laws and Operating Regulations of Interlink Network, Inc.;

Current definition.

(5) "Cheques" means travelers cheques bearing one or more service marks adopted by the corporation;

This states the current requirement that the issuer, i.e., the Visa member, have the direct contractual relationship with the Cardholder and be primarily responsible to the Cardholder and Visa. The activities listed in (i) through (iv) were moved from deleted Sec. 2.04(a)(1), which formerly identified functions of a "proprietary" member.

(6) To "issue" Cards means to enter into direct contractual relationships as the principal party with holders of Cards, to maintain and service such relationships, and either (i) extend credit to and collect credit from such cardholders, (ii) purchase accounts receivable due from and collect balances of such accounts from cardholders, (iii) debit deposit accounts of such cardholders in connection with transactions arising out of the use of such Cards, or (iv) guarantee the payment of checks or similar instruments through the use of such Cards;

Processing encompasses the three essential activities -- connection to VisaNet, authorization, interchange -- that were formerly expressed in deleted Sections 2.04(a)(3) and (4).

(7) To "Process" or "Processing" means having a direct connection to VisaNet or such other data processing systems which the corporation may designate, interchanging evidence of transactions and/or providing authorization service with respect to transactions arising out of the use of Cards; and

Any organization doing Processing, as defined in the By-Laws, is a "Processor."

(8) A "Processor" is an entity performing Processing functions, whether a member or non-member.

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The requirements stated here apply to all members, regardless of their particular categories of membership.

(b) In addition to the specific requirements for each category of membership stated in Section 2.04 of the By-Laws, every member:

(1) Shall comply with the Certificate of Incorporation, the By-Laws and the Operating Regulations, and all amendments to any of them, and have the rights and privileges stated there;

This requires a member to actively pursue the functions it elects and was formerly stated in the deleted portion of this Section 2.03.

(2) Shall actively promote the Corporation's Systems consistent with each category of membership elected;

A member must comply with all laws and regulations that apply to its Visa business. A violation of such legal requirements would also violate the member's obligations to the corporation.

(3) Shall be responsible for compliance with all federal, state and local laws which apply to the member's participation in the business, products and services of the corporation;

This protects the memberships's interest in the goodwill of the Visa brand from damage that would be incurred through a member's dishonest or negligent action.

(4) Shall act in good faith and exercise due care in discharging its duties, obligations and responsibilities under, and performing any act authorized or required by, the Certificate of Incorporation, the By-Laws and the Operating Regulations;

These requirements are important to facilitate the administration of membership activities and will become increasingly important as members' liabilities for sponsored members' and agents' activities are adjusted.

(5) Shall, in accordance with Operating Regulations, notify the corporation of any member it sponsors and of any Processors and other agents which it engages or which its sponsored members are authorized to engage to provide services in connection with their participation in the business, products or services of the corporation.

This provision does not alter the current responsibilities of members for sponsored members and agents, as stated elsewhere in the By-Laws and Operating Regulations, but is intended to alert members that these responsibilities exist.

(6) Shall have responsibility to the corporation in accordance with the By-Laws and Operating Regulations for the proper performance of membership functions by its sponsored members and by agents, including Processors, which the member or its sponsored members engage in connection with the business, products or services of the corporation.

This measure prohibits members from disadvantaging the membership through its participation in another card system and was formerly Section 2.04(c).

(7) Shall not, if the member participates in another card or travelers cheque system, injure the Corporation's Systems, appropriate any proprietary or confidential information of the Corporation's Systems for the benefit of the other system, intentionally provide inferior service with respect to, or otherwise discriminate against the Corporation's Systems.

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This provision, phasing out Electron cards, was formerly in Section 2.04(a)(2)(iv).

(c) With respect to Cards bearing the service marks associated with the Electron card program, only members performing functions with respect to such Cards on June 9, 1987 may continue to issue such Cards until September 1, 1990 and may continue to debit deposit accounts of such cardholders in connection with transactions arising out of the use of such Cards until expired or revoked in the ordinary course of business.

This restriction of an ATM network organization to making ATM cash disbursements was formerly found in Section 2.04(f).

(d) A member described in Section 2.01(g) is not empowered to perform or authorize its members or owners to perform any functions with respect to Cards, except that with respect to Cards bearing the Visa and Blue, White and Gold Bands Design, and/or marks associated with the Electron card program, such a member and its owners or members may participate in the Corporation's Systems only as an ATM Group Member as defined in Section 2.04(g) of the By-Laws.

The prohibition against duality with respect to similar debit card programs was formerly located in Section 2.04(g).

(e) Effective February 10, 1992, members of the corporation that participate as issuers in any of the corporation's point-of-sale debit Card programs and their Affiliates shall not also participate as card issuers in a similar point-of-sale debit card program of MasterCard International Incorporated, except affinity programs not permitted under the Visa Operating Regulations. Upon request, the corporation may grant members in violation of this provision a reasonable period of time, not to exceed five (5) years, in which to comply with this subsection (e).

This provision allows trade associations and their subsidiaries, which typically have limited financial resources, to sponsor participation by small but adequately capitalized members without accepting financial responsibility for their settlement obligations. This is the premise upon which these organizations were originally made eligible for membership.

(f) A trade association described in Section 2.01(e)(ii) or a holding company subsidiary described in Section 2.01(e)(iii) may perform functions only in the Administrative Member category as defined in Section 2.04(b) of the By-Laws.

This provision authorizes a procedure by which members will be classified into the new membership categories in accordance with each member's current status and activities. This is necessary to avoid the expense and burden of requiring all 17,000 members to submit new membership documents. A Transition Plan is being proposed to the Board to implement such a procedure and includes a timetable. A member can change its categories if it meets qualifications for other desired categories.

(g) On or after January 1, 1993, the corporation shall reclassify existing members into one or more categories of membership as defined in Section 2.04 of the By-Laws, and shall give each member written notice of such reclassification, in accordance with procedures adopted by the Board of Directors. Upon such notification, a member shall participate in the Corporation's Systems in accordance with such categories, unless and until its election of alternate categories has been accepted by the corporation in accordance with the By-Laws.

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Members must elect one or more categories of membership and may engage only in those activities authorized for the categories elected by the member and approved by the corporation. Certain categories are mutually exclusive because they would subject the member to incompatible rights and responsibilities. The categories are intended to allow a member to look at a comprehensive statement of the activities in which it may and may not engage, and be guided to the corresponding responsibilities imposed by the By-Laws and other governing documents.

Deleted Sections 2.04(a) through (g). The functions described in these sections have been relocated to the specific categories of members authorized to perform them. The former requirement in Section 2.04(e) which limited acquiring activities to Visa Card issuers has been replaced with the Acquirer and Acquiring Associate categories, in which acquiring is permitted without Card issuance. This brings the By-Laws into conformity with significant industry conditions.

Section 2.04. ~~**Functions**~~ **Categories of Membership.** ~~(a) In meeting its obligations set forth in Section 2.03, i~~In its application to the corporation, or upon prior written notice to the corporation ~~and with its consent~~, a member shall elect to participate in one or more of the categories described in this Section. Members shall engage in (or appoint agents to engage in) only those functions which are expressly designated for the categories for which its application or election has been accepted by the corporation. A member may change its elected categories in accordance with procedures adopted by the corporation. A member may not simultaneously participate as a

Principal and Acquirer;

Associate and Acquiring Associate;

Acquirer and Acquiring Associate; or

ATM Group and Cash Disbursement Participant.

~~to perform one or more of the following functions in the Corporation's Systems:~~

~~(1) enter into direct contractual relationships with holders of Cards and either (a) extend credit to and collect credit from such cardholders, (b) purchase accounts receivable due from and collect balances of such accounts from such cardholders, (c) debit deposit accounts of such cardholders in connection with transactions arising out of the use of such cards, or (d) guarantee the payment of checks or similar instruments through the use of such cards; provided that with respect to cards bearing the service marks associated with the Electron card program, only members performing such functions on June 9, 1987 may continue to issue such Cards until September 1, 1990 and may continue to debit deposit accounts of such cardholders in connection with transactions arising out of the use of such Cards until expired or revoked in the ordinary course of business.~~

~~(2) (i) with respect to Cards which access a credit account, solicit holders of cards on behalf of a member which performs the function described in (1) above for the purpose of establishing cardholder relationships for such other member; (ii) with respect to cards which access a deposit account, develop, maintain and service cardholder relationships, either as a principal, agent or independent contractor on behalf of a member which performs the function described in (1) above; (iii) develop, maintain and service, either as principal, agent or independent contractor, contractual relationships with merchants on behalf of such other members; and/or (iv) with respect to Cards bearing the service marks associated with the Electron card program, develop, maintain and service, either as principal or as agent or independent contractor for such other member contractual relationships with merchants and those members which, as of June 9, 1987, are entering into direct contractual relationships with holders of Cards or soliciting holders of Cards on behalf of another, a member may continue performing such functions until September 1, 1990, and may continue to debit deposit accounts of such cardholders in connection with transactions arising out of the use of such Cards until expired or revoked in the ordinary course of business.~~

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~~(3) interchange evidences of transactions arising from the use of Cards;~~

~~(4) provide authorisation service with respect to transactions arising out of the use of Cards;~~

~~(5) honor Cards for cash disbursements;~~

~~(6) issue, sell, honor, cash and refund Cheques and, in accordance with the Operating Regulations, it may designate members and nonmembers to sell, cash and refund Cheques;~~

~~(7) commencing October 1, 1986, a member which has card or merchant sales volume less than an amount established by the Board from time to time and is sponsored by a member performing the functions described in Section 2.04(a)(1) above, may perform the functions described in Sections 2.04(a)(1), (3), (4) and (5) provided its sponsor has given prior written notice to the corporation of each such function which such member shall perform, except that such sponsored member may not sponsor other members for the performance of any function.~~

~~(b) Only members which enter into contractual relationships with holders of Cards pursuant to Section 2.04(a)(1) may elect to perform interchange and authorisation functions described in Sections 2.04(a)(3) and (4), respectively, except, members performing the function described in 2.04(a)(5) or 2.04(a)(7), on written request of its sponsor.~~

~~(c) A member participating in another card and/or travelers cheque system shall not injure the Corporation's Systems, appropriate any proprietary or confidential information of the Corporation's Systems for the benefit of the other system, intentionally provide inferior service with respect to, or otherwise discriminate against, the Corporation's Systems.~~

~~(d) A member shall be deemed to be in compliance with this section if the member, together with its parent, subsidiaries or affiliates, which are members, taken as one member, satisfy the requirements.~~

~~(e) Only members which enter into contractual relationships with holders of Cards bearing the Visa and Blue, White and Gold Bands Design pursuant to Section 2.04(a)(1) may, with respect to such Cards, (i) perform the functions described in Sections 2.04(a)(2)(i), (3) and (4) or (ii) sponsor members to perform the functions described in Sections 2.04(a)(2)(i) and 2.04(a)(7).~~

~~(f) A member described in Section 2.01(g) is not empowered to perform or authorise its members or owners to perform any functions with respect to Cards, except that with respect to Cards bearing the Visa and Blue, White and Gold Bands Design, and/or marks associated with the Electron card program such a member and its owners or members may perform the functions described in Sections 2.04(a)(3), (4) and (5) through automated teller machines which they own or operate. A member shall be deemed to be in compliance with this Section 2.04, if the member, together with its members or owners, satisfies the requirements.~~

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~~(g) Effective February 10, 1992, members of the corporation that participate as issuers in any of the corporation's point-of-sale debit Card programs and their Affiliates shall not also participate as card issuers in a similar point-of-sale debit card program of MasterCard International Incorporated, except affinity programs not permitted under the Visa Operating Regulations. Upon request, the corporation may grant members in violation of this provision a reasonable period of time, not to exceed five years, in which to comply with this subsection (g).~~

This section lists the authorized activities and responsibilities of what traditionally has been called a "proprietary" member.

(a) **Principal Member.** Every Principal Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of these By-Laws;

A Principal Member must issue Visa Cards, but may satisfy this requirement through Cards issued by other members of its corporate structure (but not by non-affiliated sponsored members). This provision incorporates a similar provision that was in Section 2.04(d).

(2) Shall issue Cards bearing the Visa service mark, which requirement may be satisfied by the issuance of Cards by its Affiliates which are members;

May sign merchants.

(3) May acquire transactions on Cards and display at merchants' locations the service marks designated by the corporation to indicate Card acceptance;

Must provide cash disbursements.

(4) Shall provide cash disbursement services to Cardholders;

May act as an agent of another member for these purposes.

(5) May solicit Cardholder and/or acquiring relationships on behalf of other members authorized by the By-Laws to perform such functions;

These are the categories of membership in which its sponsored members may participate.

(6) May sponsor members in the Associate, Acquiring Associate, Credit Participant, Debit Participant and Cash Disbursement Participant categories;

The requirements for operating certificates, fees and penalties are established by the Board and administered by the corporation.

(7) Shall submit operating certificates and other information and pay all fees and penalties as the corporation may require in accordance with the By-Laws and the Operating Regulations;

A Principal Member can process its own transactions and transactions of other members. It may perform such processing itself or contract for processing services with a qualified processing company.

(8) May act as or designate a Processor in accordance with the Operating Regulations and other requirements established by the corporation for itself and for other members;

(9) May vote on matters which are submitted to the vote of the members pursuant to the Certificate of Incorporation and the By-Laws;

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(9), (10) and (11), regarding voting, Board eligibility and dividend participation, are subject to the member's status as a Charter or Non-Charter Member.

(10) May have its officers serve as members of the Board of Directors in accordance with the By-Laws and on advisory committees as the corporation may request; and

(11) May have rights to receive dividends and proceeds of the dissolution of the corporation in accordance with the Certificate of Incorporation and By-Laws.

This category allows a financially qualified member to engage in acquiring, processing and sponsoring activities similar to those of a principal, but without issuing Cards.

(b) Acquirer Member. Every Acquirer Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of the By-Laws;

Must actively engage in merchant signing or sponsor members which do so.

(2) Shall, or shall sponsor members which, acquire transactions on Cards, and display at merchants' locations the service marks designated by the corporation to indicate Card acceptance in accordance with the Operating Regulations;

(3) May solicit acquiring relationships with merchants on behalf of other members;

An Acquirer may not engage in Card issuing or solicitation unless it also elects to participate in a category for which such activity is permitted.

(4) Shall not issue Cards or solicit Cardholder relationships on behalf of other members;

Members in this category must make cash disbursements, as all members have always been required to do.

(5) Shall provide cash disbursement services to Cardholders;

Sponsorship of other members is limited to acquiring and cash disbursement activities.

(6) May sponsor, in accordance with the Operating Regulations, (i) Acquiring Associate Members, (ii) Credit Participant Members, but may authorize such members only to enter into acquiring relationships and to provide cash disbursement services to Cardholders; and (iii) Cash Disbursement Participant Members;

(7) Shall submit operating certificates and other information and pay all fees as the corporation may require in accordance with the By-Laws and Operating Regulations;

Members in this category may process their own transactions and those of other members.

(8) May act as or designate a Processor in accordance with the requirements established by the corporation pursuant to the Operating Regulations for itself and for other members;

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(9), (10) and (11) -- Has the same voting, Board eligibility and rights to receive dividends and dissolution proceeds as a Principal, subject to its status as a Charter or Non-Charter Member.

(9) May vote on matters which are submitted to the members pursuant to the Certificate of Incorporation and By-Laws; and

(10) May have its officers be eligible to serve as members of the Board of Directors in accordance with the By-Laws and on advisory committees as the corporation may request;

(11) May have the right to receive dividends and proceeds of the dissolution of the corporation in accordance with the Certificate of Incorporation and the By-Laws.

This category is established for members that sponsor other small, financially capable members without assuming responsibility for the sponsored member's interchange obligations. It also allows members to Process transactions for other members.

(c) **Administrative Member.** Every Administrative Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of the By-Laws;

A member in this category cannot issue Cards or acquire unless it is also accepted for participation in a category which is allowed to issue Cards and/or acquire.

(2) Shall not issue Cards, unless it is a member in another category which is authorized to issue Cards pursuant to the By-Laws;

(3) Shall not acquire transactions on Cards;

(4) May solicit Cardholder and/or acquiring relationships only on behalf of members which it sponsors;

Unless it cannot legally do so, this member must provide cash disbursements through its retail offices or ATMs.

(5) Shall provide cash disbursement services to Cardholders through its facilities which are open to retail customers, unless prohibited by law;

Sponsorship of other members is limited to the Associate and Acquiring Associate categories, i.e., those which allow smaller, financially capable members to conduct small-scale programs.

(6) May sponsor members only in the Associate and Acquiring Associate categories, in accordance with the Operating Regulations;

(7) Shall submit operating certificates and other information and pay all fees and penalties as the corporation may require in accordance with the By-Laws and Operating Regulations;

This member may act as a Processor for any other member.

(8) May act as or designate a Processor for any other members of the corporation in accordance with the Operating Regulations and other requirements established by the corporation;

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The Administrative Member has votes based on the sales volume which arises from the Card issuance and acquiring activities of its sponsored Associate and Acquiring Associate Members. If it is a Charter Member, it earns votes based on the credit Card, debit Card and merchant sales volume of its sponsored Charter Members and/or the debit Card sales volume of its sponsored Non-Charter Members; if it is a Non-Charter Member, it earns votes only on the debit Card sales volume of its sponsored Charter and Non-Charter Members. Section 4.03 makes it clear that for Non-Charter Members, only debit Card sales volume gives rise to voting rights.

(9) May vote on matters which are submitted to the vote of the membership pursuant to the Certificate of Incorporation and the By-Laws;

Qualified officers of Administrative Members will be eligible for Board membership if the member is a Charter Member. This provision requires approval of 90% of the total membership of the Board.

(10) May have its officers serve as members of the Board of Directors in accordance with these By-Laws and on advisory committees as the corporation may request; and

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The Administrative Member earns rights to dividends and dissolution proceeds by filing operating certificates and paying service fees with respect to the sales volume of its sponsored Associate and Acquiring Associate Members. These rights are earned in accordance with the Charter and Non-Charter status of the Administrative Member and its sponsored Associate and Acquiring Associate Members as described above with respect to voting in item 2.04(c)(12). Under Sections 11.01 and 11.03, dividends and dissolution rights depend upon (i) the payment of service fees based on sales volume and (ii) voting rights of Charter and Non-Charter Members pursuant to Section 4.03 and are satisfied as follows: (i) the Administrative Member pays service fees on sales volume of its sponsored members pursuant to the proposed amendments to Section 3.02 regarding Quarterly Service Fees; and (ii) the Administrative Member, depending on its status and the status of its sponsored members as Charter or Non-Charter Members, is entitled to vote under Section 4.03 because votes are allocated in that Section to each member, based on sales volume set forth in its operating certificates.

(11) May have rights to receive dividends and proceeds of the dissolution of the corporation in accordance with the Certificate of Incorporation and these By-Laws.

The functions and responsibilities of an Associate Member (formerly described in Section 2.04(a)(7), have not changed. This member is permitted to operate a small program including Card issuance and acquiring function.

(d) Associate Member. Every Associate Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of the By-Laws;

(2) Shall issue Cards bearing the Visa service mark;

(3) May acquire transactions on Cards and display at merchants' locations the service marks designated by the corporation to indicate Card acceptance;

(4) May solicit Cardholder and/or acquiring relationships on behalf of other members authorized by the By-Laws to perform those functions;

(5) Shall provide cash disbursement services to Cardholders;

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Associate Members may be sponsored by members in the new Administrative Member category.

(6) Shall at all times be sponsored for membership in this category by a Principal or Administrative Member;

(7) Shall not sponsor any member;

The sales volume limit for this category now refers to only the first calendar quarter so that seasonal fluctuation will not cause a member to be disqualified from this category. The $3.5 million is the current limit, but stating the limit in the By-Laws will require a vote of 2/3rds of all directors to change the limit instead of only the vote of a majority of the Directors present at a meeting at which a quorum is present, as is required for other actions of the Board.

(8) Shall not have sales volume as defined in Section 3.03 of the By-Laws of more than $3.5 million in the first calendar quarter of any year;

In this category, the member may Process only its own transactions, but may Process for other members by participating in another category in which such Processing is permitted.

(9) May act as or designate a Processor for its own transactions, in accordance with the requirements established by the corporation pursuant to the Operating Regulations, but shall not act as a Processor for any other member;

(10) May have its officers serve as members of the Board of Directors in accordance with these By-Laws and on its advisory committees as the corporation may request; and

(11) Shall not have rights to vote on matters submitted to the membership or to receive dividends or proceeds of dissolution of the corporation, but such rights may accrue to its sponsoring members in accordance with the By-Laws.

This new category of membership is intended to allow financially qualified members to operate small acquiring programs without issuing Cards. Its sponsor assumes responsibility for reporting its merchant sales volume and paying fees and penalties, but not for its interchange obligations.

(e) Acquiring Associate Member. Every Acquiring Associate Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of the By-Laws.

To issue Cards or to solicit Cardholder relationships on behalf of other members, a member in this category must also be accepted to participate in a category for which such functions are authorized.

(2) Shall not issue Cards or solicit Cardholder relationships on behalf of other members;

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The Acquiring Associate must engage in acquiring activities.	(3) Shall acquire transactions on Cards and display at merchants' locations the service marks designated by the corporation to indicate such acceptance in accordance with the Operating Regulations;
The Acquiring Associate may solicit acquirer relationships on behalf of its sponsors (other than Administrative Members) but not on behalf of other members unless it participates in another category for which the solicitation of merchant relationships is authorized.	(4) May solicit acquiring relationships with merchants on behalf of its sponsor, but not on behalf of other members;
The Acquiring Associate must make cash disbursements.	(5) Shall provide cash disbursement services to Cardholders;
The Acquiring Associate may be sponsored by one or more members in the Principal, Acquirer or Administrative categories.	(6) Shall at all times be sponsored by a Principal, Acquirer or Administrative Member;
Members wishing to sponsor other members must be accepted for participation in another category for which sponsorship is permitted.	(7) Shall not sponsor other members;
An Acquiring Associate Member may Process, or may engage an agent Processor only to Process its own transactions, unless it also participates in another category for which Processing for other members is authorized.	(8) May act as or designate a Processor, in accordance with the requirements established by the corporation pursuant to the Operating Regulations, solely for itself;
The Acquiring Associate Member would be limited to $3.5 million in merchant sales volume in the first calendar quarter of the year.	(9) Shall not have sales volume as defined in Section 3.03 of the By-Laws of more than $3.5 million in the first calendar quarter of any year;
Officers of the Acquiring Associate would not be eligible to serve on the Board or advisory committees. An appropriate amendment is proposed for Section 5.01.	(10) Shall not have its officers be eligible to serve as members of the Board of Directors or on advisory committees; and

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The Acquiring Associate does not have rights to vote, to dividends or dissolution proceeds because its sales volume is reported on operating certificates filed by, and service fees paid by, its sponsors. Refer to the notes opposite Sections 2.04(c), (10) and (12) above for a detailed explanation.

(11) Shall not have rights to vote on matters submitted to the membership or to receive dividends or proceeds of dissolution of the corporation, but such rights may accrue to its sponsoring members in accordance with the By-Laws.

The functions and responsibilities of a Visa Travelers Cheque issuer, formerly described in Section 2.04(a)(6), have not changed.

This provision makes it clear that Visa Travelers Cheque Issuers in the United States are bound to comply with the Visa International Travelers Cheque Operating Regulations and clarifies the corporation's authority to enforce those Operating Regulations, which has always been so.

(f) **Cheque Issuer Member.** Every Cheque Issuer Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of the By-Laws;

(2) Shall comply with the Visa International Travelers Cheque Operating Regulations which, as amended from time to time, shall be considered Operating Regulations of the corporation;

(3) Shall issue Cheques bearing the service marks designated for use in connection with travelers cheques and sell, cash and refund Cheques;

(4) May designate, in accordance with the Operating Regulations, other members and nonmembers to sell, cash and refund Cheques;

(5) May provide cash disbursement services to Cardholders in accordance with the Operating Regulations;

(6) Shall not engage in any activities in connection with Cards (other than cash disbursements) or sponsor another member for any purpose unless it is a member in another category authorized to engage in such functions pursuant to the By-Laws;

(7) Shall submit operating certificates and other information and pay all fees and penalties as the corporation may require in accordance with the By-Laws and Operating Regulations;

(8) May have its officers be eligible to serve as members of the Board of Directors in accordance with the By-Laws and on advisory groups as the corporation may request;

(9) May vote on matters which are submitted to the vote of the members pursuant to the Certificate of Incorporation and the By-Laws; and

(10) May have rights to receive dividends and proceeds of the dissolution of the corporation, in accordance with the Certificate of Incorporation and the By-Laws.

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This category is limited to making cash disbursements through ATMs. This is the only function permitted to debit card interchange groups which only qualify for membership under Section 2.01(g). This limitation was formerly in Sec. 2.04(f) and is now stated in Sec. 2.03(d).

(g) ATM Group Member. Every ATM Group Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of the By-Laws;

This member must provide cash disbursements to Visa Cardholders through its ATMs or through those owned or operated by its members or owners.

(2) Shall provide cash disbursements to Cardholders through ATMs which it owns or operates or which are owned or operated by its owners or members;

Owners or members of the ATM Group Member may be authorized to make cash disbursements to Cardholders through their ATMs, whether or not they are members of Visa.

(3) May authorize its members or owners to provide cash disbursements on Cards through ATMs which they own or operate, whether or not such owners or members are members of the corporation;

No manual cash disbursements are permitted.

(4) Shall not provide cash disbursements manually;

Card issuing and soliciting of Cardholder relationships are not permitted.

(5) Shall not issue Cards or solicit Cardholder relationships on behalf of other members;

Acquiring and soliciting of acquiring relationships are not permitted.

(6) Shall not act as an acquirer or solicit acquiring relationships with merchants on behalf of other members;

(7) and (8) -- An ATM Group Member may sponsor members only to provide cash disbursements through ATMs.

(7) May sponsor only Cash Disbursement Participant Members and may authorize such members to provide cash disbursements on Cards through ATMs, in accordance with the Operating Regulations, but may not authorize such members to provide manual cash disbursements on Cards;

The ATM Group Member submits an Operating Certificate and pays any fees applicable to its participation. Although no service fees apply to cash disbursements, an amendment to Section 3.06 below would require an operating certificate reporting statistics.

(8) Shall submit operating certificates and other information and pay all fees and penalties as the corporation may require in accordance with the By-Laws and Operating Regulations;

The ATM Group may Process only its own cash disbursement transactions, including those of its owners or members and its sponsored Cash Disbursement Participant Members.

(9) May act as or designate a Processor, in accordance with the requirements established by the corporation pursuant to the Operating Regulations, solely for ATM cash disbursements on Cards which are provided by the member, by its owners or members, and by Cash Disbursement Participant Members which it sponsors;

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(10) and (11) – This category of membership has no rights to vote, to serve on the Board, or to receive dividends or proceeds of dissolution because cash disbursements do not give rise to sales volume.

(10) Shall not have its officers be eligible to serve as members of the Board of Directors or on advisory groups; and

(11) Shall not have rights to vote on matters submitted to the membership and shall not have the right to receive dividends or proceeds of the dissolution of the corporation.

This category includes the functions traditionally associated with the sponsored "Agent" member, but limited to credit Cards.

(h) **Credit Participant Member.** Every Credit Participant Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of these By-Laws;

A member in this category may solicit only credit Cardholder relationships on behalf of its sponsor or sponsors which are Principal Members.

(2) Shall not issue Cards, but may solicit Cardholder relationships on behalf of its sponsor(s) which are Principal Members and have designated the member to engage in such functions on their behalf in accordance with the By-Laws, Operating Regulations and procedures established by the corporation;

The acquiring function remains unchanged and the member may solicit acquiring relationships on behalf of its sponsors.

(3) May, with the prior approval of its sponsor(s), (i) acquire transactions on Cards and display the at merchants' locations the service marks designated by the corporation to indicate Card acceptance, and (ii) solicit acquiring relationships on behalf of its sponsor(s), in accordance with the By-Laws, Operating Regulations and procedures established by the corporation;

The Credit Participant must provide cash disbursements to Cardholders, as presently required, and must have at least one sponsor that has assumed responsibility for this member's performance of that function.

(4) Shall provide cash disbursement services to Cardholders;

This member must be sponsored for each of its required functions, i.e., acquiring and cash disbursements. It may be sponsored for acquiring and cash disbursement functions by a Principal or Acquirer Member, but must be sponsored by a Principal in order to solicit Cardholder relationships, including issuance of Cards to its customers.

(5) Shall at all times be sponsored for membership in this category by one or more Principals or, for the purpose only of acquiring transactions and/or providing cash disbursements on Cards, Acquirer Members;

This category does not permit sponsorship of other members; the member must elect another category to do so.

(6) Shall not sponsor any other member;

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This member must have its transactions (i.e., merchant transactions) Processed as directed by its sponsors.

(7) Shall not act as a Processor, but shall have its transactions processed only in accordance with the designation of its sponsor(s);

This member may engage only ISOs permitted by its sponsor and only for the purpose designated by the sponsor.

(8) May appoint agents for the solicitation of Cardholders and/or acquiring relationships on its behalf only with the prior written authorization of its sponsor;

(9) and (10) -- Since its sales volume is reported by its sponsor(s), the Credit Participant has no rights to vote, to serve on the Board or advisory groups or to receive dividends and dissolution proceeds.

(9) Shall not have its officers be eligible to serve as members of the Board of Directors or on advisory groups; and

(10) Shall not have rights to vote on matters submitted to the membership or to receive dividends of proceeds of dissolution of the corporation, but such rights shall accrue to its sponsoring members in accordance with the By-Laws.

This category permits debit Card issuance by a sponsored member, which was previously authorized in Section 2.04(a)(2)(ii).

(i) **Debit Participant Member.** Every Debit Participant Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of the By-Laws;

Members in this category must issue debit Cards.

(2) Shall issue debit Cards bearing the Visa service mark;

This member must elect another category if it wishes to issue credit Cards or solicit Cardholder relationships on behalf of another member.

(3) Shall not issue credit Cards or solicit Cardholder relationships on behalf of other members;

This category permits the acquiring activities currently allowed sponsored "Agent" members.

(4) May, with the prior approval of its sponsor(s), (i) acquire transactions on Cards and display at merchants' locations the service marks designated by the corporation to indicate Card acceptance, and (ii) solicit acquiring relationships on behalf of its sponsor(s), in accordance with the By-Laws, Operating Regulations and procedures established by the corporation;

This member must provide cash disbursements to all Visa Cardholders, as is currently required. It must have at least one sponsor that assumes responsibility for its performance of this function.

(5) Shall provide cash disbursement services to Cardholders;

The Debit Participant must be sponsored by at least one Principal Member which assumes secondary responsibility for its proper performance of all its functions, including interchange obligations.

(6) Shall at all times be sponsored for membership in this category by a one or more Principal Members, and may also be sponsored by Acquirer Member(s) for the acquiring and cash disbursement functions;

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This member may not sponsor another member unless it upgrades to a category for which the sponsorship function is authorized.

(7) Shall not sponsor any other member;

This member must have all of its processing, i.e., Cardholder and merchant transactions, Processed as directed by its sponsors.

(8) Shall not act as a Processor, but shall have its transactions processed only in accordance with the designation of its sponsor;

This member may use ISOs only as approved by its sponsors.

(9) Shall appoint agents for the solicitation of acquiring relationships on its behalf only with the prior written authorization of its sponsor;

(10) and (11) -- This member's sales volume accrues to the sponsor that reports it to Visa, and therefore this member has no rights to vote, to serve on the Board or advisory committees or to receive dividends and dissolution proceeds.

(10) Shall not have its officers be eligible to serve as members of the Board of Directors or on advisory groups; and

(11) Shall not have rights to vote on matters submitted to the membership or to receive dividends or proceeds of the dissolution of the corporation, but such rights shall accrue to its sponsoring members in accordance with the By-Laws.

The sole function of this category is to make cash disbursements on Cards.

(i) **Cash Disbursement Participant Member.** Every Cash Disbursement Participant Member:

(1) Shall comply with the obligations of all members as stated in Section 2.03 of the By-Laws;

This member must make cash disbursements on Cards and may do so either manually, through ATMs or both, as authorized specifically by its sponsors.

(2) Shall provide cash disbursement services to Cardholders either manually or through ATMs or both, only with the approval for each mode of service of its sponsor and the corporation, in accordance with the By-Laws, Operating Regulations and procedures established by the corporation;

(3) and (4) -- This member must elect another category in order to perform any other functions with respect to Cards.

(3) Shall not issue Cards or solicit Cardholder relationships;

(4) Shall not acquire transactions on Cards or solicit acquiring relationships on behalf of other members;

Either a Principal or Acquirer must sponsor the member in this category to make manual cash disbursements, but it may be sponsored by an ATM Group Member to make cash disbursements only through ATMs. The ATM Group member's responsibility for this member includes responsibility for its settlement obligations.

(5) Shall be sponsored at all times for membership in this category by a Principal or Acquirer Member, except that if the member provides cash disbursements only through ATMs, it may be sponsored by an ATM Group Member;

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This member may not sponsor other members unless it upgrades to a category for which such sponsorship function is authorized.	(6) Shall not sponsor any other member;
This member may Process directly or appoint a Processor only for its own cash disbursement transactions.	(7) May act as or designate a Processor in accordance with the requirements established by the corporation pursuant to the Operating Regulations solely in connection with its own cash disbursement services;
If it engages a Processor instead of Processing itself, this member may engage only Processors authorized by its sponsor(s).	(8) Shall appoint Processors only with the prior written authorization of its sponsor;
(9) and (10) -- Since it has no sales volume, this member has no rights to vote, to serve on the Board or advisory groups or to receive dividends and dissolution proceeds.	(9) Shall not have its officers be eligible to serve as members of the Board of Directors or on advisory groups; and (10) Shall not have rights to vote on matters submitted to the membership or to receive dividends or proceeds of the dissolution of the corporation.

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The indemnification responsibilities of members have not changed. The amendments to this section are necessary to apply the current responsibilities according to the restatement of functions in separate categories.

The deleted material that specifies which members must be sponsored has been restated specifically above in Section 2.04 with respect to each category of membership.

(i) - (ii) -- These are the categories of members for which the sponsors are not responsible to Visa for the sponsored member's settlement obligations. The provision for penalties clarifies the sponsor's liability for penalties that may be incurred for late payment of fees or late filing of operating certificates with respect to these sponsored members.

Section 2.05. Indemnification.

(a) ~~Any member which is performing any functions described in Section 2.04(a)(2) shall be sponsored for membership by the member(s) on whose behalf it solicits cardholders and develops, maintains and services contractual relationships with merchants or which authorises it to perform functions as a principal with respect to Cards. Any member performing the functions described in Section 2.04(a)(7) shall be sponsored for membership by a member performing the functions described in Section 2.04(a)(1). Any member which is only performing the functions described in Section 2.04(a)(5) except members described in Section 2.01(g), shall be sponsored for membership by a member which is performing the functions described in Section 2.04(a)(1).~~ When a member is required by the By-Laws to be sponsored by another member, ~~S~~such sponsorship shall be in such form as shall be approved from time to time by the corporation and such sponsor shall accept full responsibility for the proper performance by such sponsored member of all requirements of the Certificate of Incorporation, these By-Laws and the Operating Regulations, except that (i) for an Associate Member or (ii) for an Acquiring Associate Member~~for a member which is performing functions described in Section 2.04(a)(7),~~ such sponsor's responsibility shall be limited to submission of reports and payment of service fees and other fees, and for penalties with respect to such reports and fees, established by these By-Laws on behalf of such sponsored member. A member may withdraw its sponsorship of another member by delivering written notice thereof to the principal office of the corporation at least one hundred twenty (120) days prior to the effective date thereof. Such withdrawal of sponsorship shall not in any way limit the responsibility of the sponsoring member for proper performance of the sponsored member prior to the effective date thereof. Upon request of the corporation, from time to time, a sponsor shall provide to each of its sponsored members information designated by the corporation regarding the functions performed by sponsored members and the obligations and liabilities in connection therewith.

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This change refers to the Cheque Issuer category by name instead of by the number of the former section which described this function.

(d) Any member performing the functiong described in ~~Sections 2.04(a)(6)~~ the Cheque Issuer category of membership and which appoints respectively, an organization to sell its Cheques and/or cash and refund Cheques shall thereby accept full responsibility for the proper performance of such activities in accordance with the Certificate of Incorporation, these By-Laws and the Operating Regulations.

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This provision states the ATM Group Member's responsibility to Visa for its members or owners which are not necessarily members of Visa. This responsibility is the same as the member's responsibility for its sponsored Cash Disbursement Participant Members.

(g) Any ATM Group Member which authorizes its owners or members to make cash disbursements on Cards through ATMs shall thereby accept full responsibility for the proper performance of such activities in accordance with the Certificate of Incorporation, the By-Laws and the Operating Regulations.

This language clarifies the current rule that, to the extent a member is responsible to Visa for its own activities or for activities of its sponsored members, it also is responsible for agents and subcontractors of those agents, including Processors, which it engages or are engaged by its sponsored members.

(h) Each member's responsibility to the corporation for its own performance or for its sponsored member's performance shall include responsibility for the proper performance by any agents or contractors, including Processors, engaged by the member or by members which it sponsors, including subagents or subcontractors.

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This makes it clear that when membership is transferred by law that supersedes the non-transferability provision of the By-Laws, the new organization remains subject to the requirements applicable to new members.

Section 2.08. Transferability of Membership. Membership in the corporation shall not be transferable or assignable, whether by sale, consolidation, merger or otherwise, except as expressly provided in these By-Laws. If membership is transferred by operation of law or governmental action, the transferee organization shall nevertheless comply with the requirements applicable to applicants for membership.

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Section 2.10. Involuntary Termination of Membership and Cessation of Cheque Issuance.

This change is necessary because the sponsorship requirements are relocated in Section 2.04.

(a) The membership of any member which is sponsored pursuant to Section 2.04~~5~~ shall automatically terminate in the event its sponsorship is terminated pursuant to ~~such~~ ~~s~~Section 2.05.

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These changes name the category of member formerly described by reference to the deleted section numbers.

ARTICLE III
FEES AND CERTIFICATES

Section 3.01. Initial Service Fee.

(a) Charter Members. Any organization described in Section 2.01 accepted as a Charter Member, other than organizations which will only participate in the Cash Disbursement Participant category ~~perform the functions (i) described in Section 2.04(a)(5)~~ and/or (ii) related to the Electron card program, shall pay the corporation an initial service fee which shall be a percentage of the total assets of such organization in accordance with a schedule to be fixed by the Board of Directors. Charter Members which only participate in the Cash Disbursement Participant category ~~perform the functions described in Section 2.04(a)(5)~~ shall pay to the corporation an initial service fee as fixed, from time to time, by the Board of Directors, but such fee shall be appropriately increased in the event such organization elects to perform other functions specified in Section 2.04~~(a)~~. An organization performing functions limited to the Electron card program shall pay an appropriate initial service fee in the event such organization elects to perform functions with respect to other programs.

(b) Non-Charter Members. Except as provided below, Non-Charter Members shall pay an initial service fee for Card issuance that is the greater of (i) or (ii); and in addition, shall pay the fee set forth in (iii), if applicable.

(i) For debit Card issuers, $6.00 per million dollars in assets (minimum of $500) plus any applicable documentation fee;

(ii) For credit Card issuers, a fee based on the number of cardholder accounts estimated for the end of the third year of operation of the member as follows:

Initial Fee on Cardholder Accounts

0 - 5000 accounts	$1500 flat fee
5,001 - 10,000 accounts	$5,000 flat fee
10,001 - 20,000 accounts	$10,000 flat fee
Over 20,000 accounts	$1 per account

(iii) The initial Fee on Sales Volume on Merchants shall be $100 per $1 million of volume estimated for the third year of operation. This fee will apply to that portion of sales volume on Merchants that is in excess of the sales volume on Cards.

Payments made and based on estimates not attained, or exceeded, shall be adjusted at the end of the third year in accordance with terms established by the corporation. At the end of the third year of operation, payments will be adjusted as follows: underpayments will be collected plus interest at the prime rate plus two percent, overpayments will be returned. Calculation of account related payments shall be based upon the highest number of accounts outstanding any time during the three-

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year period. Non-Charter Members whose membership or Non-Charter status terminates prior to the end of the three year period receive no adjustment under this Section. Non-Charter Members initially accepted ~~to perform~~ solely in the Cash Disbursement Participant category ~~the function described in Section 2.04(a)(5)~~ shall pay a flat fee of $100; Non-Charter Members initially accepted to perform solely the functiong permitted in the Credit Participant or Debit Participant categories of membership as described in Section 2.04~~(a)(2)~~ shall pay an initial fee of $500. Non-Charter Members shall pay the higher fees set forth in this subsection in the event they elect additional categories ~~functions~~ of membership.

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The service fee and operating certificate requirements exclude the categories of members which have sales volume, but for which reporting and payment of fees is the responsibility of their sponsors. Sponsors of Associate and Acquiring Associate members report their sales volume and pay fees separately under Section 3.06. Debit Participant's sales volume is reported by its sponsor on the same certificate with other sponsored member data.

Section 3.02. Quarterly Service Fees.

(a) Within the first fifteen (15) calendar days of each calendar quarter (or if said fifteenth day is not a working day, not later than the first working day thereafter), each member except members performing functions solely in the Associate, Acquiring Associate or Debit Participant categories of membership pursuant to Section 2.04~~(a)(7)~~ having sales volume as defined in Section 3.03(a) or accounts as defined in Section 3.03(c), and each Administrative Member and ATM Group Member shall file an operating certificate as provided in Section 3.06 and pay a service fee for the current quarter based upon its sales volume for the previous quarter, and/or the number of its accounts for the previous quarter, excluding sales volume and/or accounts attributable to Associate or Acquiring Associate ~~m~~Members which it sponsored ~~pursuant to Section 2.04(a)(7)~~, but including sales volume of Debit Participant Members which it sponsored, as so certified, which fee shall:

(i) with respect to sales volume of Charter Members and the debit Card volume of Non-Charter Members, be computed by the application of the service fee rate set forth in Section 3.02(b) and (c), to the Charter Member's sales volume on Cards and the Non-Charter Member's debit Card sales volume in accordance with the following schedule:

100% of the first \$50,000,000
85% of the next \$150,000,000
70% of the next \$200,000,000
55% of the next \$200,000,000
40% of the amount over \$600,000,000

provided that the sales volume amounts in the foregoing schedule shall be increased in proportion to the increase in the total of members' sales volume on Cards computed in accordance with Section 3.03(a)(1) for the four-quarter period ended June 30 of the previous year over such sales volume for the prior four-quarter period.

(ii) with respect to the credit Card sales volume of Non-Charter Members, be computed by application of the service fee rate set forth in Section 3.02(b) without application of the schedule set forth in Section 3.02(a)(i) for such credit Card sales volume;

(iii) with respect to sales volume on Cheques, be computed by the application of the service fee rate set within Section 3.02(b) to the member's sales volume.

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These changes substitute the name of the Associate Member category for the section number reference, and include the new Acquiring Associate category for which reporting and service fee payment responsibilities are similar.

(e) A member which sponsors Associate or Acquiring Associate ~~m~~Members,~~performing functions pursuant to Section 2.04(a)(7),~~ within fifteen (15) calendar days of each calendar quarter (or if said fifteenth day is not a working day, not later than the first working day thereafter), shall file an additional operating certificate as provided in Section 3.06 and pay a service fee for the current quarter, which fee shall be the sum of:

(i) fees computed pursuant to Section 3.02(a) with respect to sales volume attributable to such sponsored members, provided that the adjustment to sales volume described in Section 3.02(a)(i) shall not apply; the rate applicable under Section 3.02(b) shall be determined by aggregating the Card and Merchant sales volumes of all such sponsored members; and the fees pursuant to Section 3.02(a)(iii) with respect to Premier Visa Card accounts shall be computed for each sponsored member separately; and

(ii) fees computed separately for each sponsored member pursuant to Section 3.02(c).

The first change in this Section replaces the numerical reference to the Card issuing function. The change also means that a sponsored debit Card issuer has sales volume for its Cardholders' debit Card transactions. This necessitates some changes, below, in the Director eligibility provisions of Section 5.01, to continue to exclude these sponsored members from eligibility to serve on the Board.

The changes in this Section are for the same purpose as the changes in Section 3.03(a)(1) above. These four categories of members accrue sales volume for their own card and merchant sales volume and the sales volume of the Participants that they sponsor. These are the members which are independently responsible to Visa for interchange obligations.

Section 3.03. Sales Volume and Accounts Defined.

(a) Sales volume is defined as:

(1) on Cards, the total of all dollar amounts of Visa transactions debited by a member issuing Cards~~performing the functions pursuant to Section 2.04(a)(1)~~ and by members it has sponsored to accounts of holders of Cards issued from within the United States, but does not include (i) cash advances made directly to a person authorized to use such accounts, (ii) debits which arise out of the payment of checks, or (iii) the initial debit arising from the bulk purchase from a creditor of all or substantially all of its consumer accounts receivable.

(2) on Merchants, the total of all dollar amounts of sales volume on Visa Cards acquired~~which arises at Merchants signed~~ by the Principal, Acquirer, Associate or Acquiring Associate ~~m~~Member ~~performing the functions described in Section 2.04(a)(i)~~ with respect to Cards bearing the service marks Visa and/or Blue, White and Gold Bands Design and such sales volume acquired by members it has sponsored, except its sponsored Associates and Acquiring Members.

(3) on Cheques, the total face amount of Cheques sold within the United States by a member (including sales by its designees).

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In addition to substituting the category names for former section number references, the list of members subject to minimum service fees now includes the new Acquirer and Administrative categories and the ATM Group Members. The fees for Acquirer, Administrative and ATM Group Members are appropriately set at the level applicable to other sponsoring members. The minimum service fee for the new Acquiring Associate category is the same as currently applies to Associate Members.

Section 3.04. Minimum Service Fees. Each member which has elected to perform functions ~~described in Sections 2.04(a)(1) and/or 2.04(a)(6)~~ in the Principal, Acquirer, Administrative, Cheque Issuer, and/or ATM Group categories of membership shall pay a minimum quarterly service fee of five hundred dollars ($500), except that members which have not had sales volume or accounts as described in Section 3.03 shall be exempt from minimum service fees for the first two calendar quarters of membership in the corporation. Commencing with the calendar quarter commencing January 1, 1987, a member which sponsors ~~members performing functions pursuant to Section 2.04(a)(7)~~ Associate or Acquiring Associate Members shall pay a minimum service fee of $50 with respect to each such sponsored member. The minimum quarterly service fee for members which elect to perform functions limited to the Electron card program (but including acceptance of Visa cards in automated teller machines which also accept Electron cards) shall be one hundred twenty-five dollars ($125) and such members which were not previously subject to minimum service fees shall commence paying minimum service fees in the third quarter of 1986.

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Section 3.06. Operating Certificate.

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These changes substitute the names of the categories instead of the former section number. The new Acquiring Associate is treated for reporting purposes like the existing Associate Member.

(c) A member which sponsors Associate or Acquiring Associate ~~m~~Members ~~performing functions described in Section 2.04(a)(7)~~ shall file an operating certificate, separate from any other operating certificate which such sponsoring member files, which shall set forth such information as will establish the sales volume or the number of check guarantee and Electron card accounts separately for each such sponsored member and the totals thereof. Sponsored members which are only performing functions in the Associate or Acquiring Associate categories of membership ~~pursuant to Section 2.04(a)(7)~~ shall not file operating certificates.

The ATM Group Member will be required to file an operating certificate reporting cash disbursement statistics, even though only minimum service fees are payable. Otherwise, these statistics might go unreported.

(d) An ATM Group Member shall file an operating certificate setting forth such information as the corporation may require regarding cash disbursement statistics for itself, its members or owners and its sponsored Cash Disbursement Participant Members.

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The changes to this Section refer to information that is not necessarily reported on operating certificates, but is necessary to verify that a member and its sponsored members are engaging in functions appropriate to their categories of participation.

Section 3.07. Records. Each member shall maintain such records as will permit an accurate determination and verification of (a) its membership participation activities and those of its sponsored members and agents, (b) the information contained in the operating certificates and (c) for Non-Charter members, initial service fee adjustments. The corporation, or its agent selected for this purpose, shall have the right to audit and examine the books and records of any member to verify such information as it appears in the corporation's records.~~determine the accuracy of any operating certificate.~~ In the event that the Board of Directors finds an operating certificate inaccurate, it shall have the power to adjust the related service fee either by causing a refund to be made to or by assessing additional fees against such member, as the case may require. Where, in the opinion of the Board of Directors, the appointment or election of any director was materially affected by the inaccuracy of an operating certificate, such director shall be deemed not qualified and the vacancy created thereby shall be filled by the Board in accordance with Section 5.05. Findings of inaccuracy in an operating certificate shall not affect the validity of any voting at membership or Board of Directors' meetings and such voting shall continue to have full force and effect notwithstanding such findings of inaccuracy.

The first insertion applies to current penalties for late payment of service fees to service fee payments that do not necessarily occur in connection with operating certificates. The last sentence authorizes the collection of service fees through BASE II, when payment is past due.

Section 3.08. Late Payment of Service Fee. Should any member fail to file an operating certificate and pay the required quarterly service fee within the time specified in these By-Laws, or fail to pay initial service fees or adjustments within thirty (30) days after notice is given to the member, without prior extension by the Board of Directors, in addition to any other penalties provided elsewhere in these By-Laws or the Operating Regulations, such member shall pay a penalty equal to the greater of (i) one hundred (100) dollars or (ii) five (5) percent of the unpaid service fee or portion thereof for each sixty (60) days or part thereof such fee is in arrears. Such penalty may be waived by the corporation if payment is remitted within five (5) working days of receipt of verbal or written notice from the corporation of an arrearage, but no such waiver shall then be allowed as to the succeeding three quarters. Commencing with the fees payable July 15, 1986, such penalty shall be no greater than ten thousand dollars ($10,000) if the certificate, service fees and penalty are submitted within ten (10) calendar days of the date when originally due. The corporation may collect unpaid fees and penalties from members' clearing accounts in accordance with the Operating Regulations.

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The first change substitutes the name of the Associate Member and includes the new Acquiring Associate Member, in place of the reference to the prior section number where the Associate Member's functions were described.

The effect of the two added sentences is to require holding companies to participate in the Principal or Acquirer categories in order to submit consolidated holding company operating certificates. The Acquirer category is appropriate only for holding companies in which none of the Affiliates are required to report sales volume arising from Card issuance. There is no fee impact of this requirement on existing holding company reporters.

Section 3.11. **Holding Companies.** A holding company which is a member may, under procedures prescribed by the corporation, comply with Sections 3.06(a) and (b) by filing a single operating certificate on behalf of itself and all of its ~~a~~Affiliate members having sales volume, check guarantee accounts and/or Electron card accounts, except ~~a~~Affiliates participating in the Associate or Acquiring Associate categories of membership. ~~performing functions pursuant to Section 2.04(a)(7).~~ Such certificate shall report aggregate totals of sales volume, check guarantee accounts and/or Electron card accounts for each region in which the holding company and/or its ~~a~~Affiliate members maintain their head offices. Upon the filing of such certificate, the holding company and all of its ~~a~~Affiliate members shall thereafter be treated as a single member, with the principal place of business of the holding company being the principal place of business of such member, for the purposes of Articles III, IV, V, VI and XI of the By-Laws, except that in determining whether a Director meets the senior officer requirement of Section 5.01, the Director may be such a senior officer of the holding company or any of its ~~a~~Affiliate members having sales volume. A holding company participating in the Credit Participant or Debit Participant categories of membership may not submit certificates pursuant to this Section unless it has elected and has been accepted for participation in the Principal Member category. A holding company participating in the Acquirer category which has Affiliates participating as Acquirers or Acquiring Associate Members may submit certificates pursuant to this Section including sales volume of its Affiliates, providing that no Affiliate of the holding company issues Cards as to which it is required to submit an operating certificate pursuant to Section 3.02.

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ARTICLE IV
VOTING AND MEETINGS

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Section 4.03. Allocation of Votes.

For reference

(b) Each Charter Member and each Non-Charter Member with debit Card sales volume shall be entitled to (i) .75 votes for each one thousand ($1,000) dollars or fraction thereof of Card sales volume and .25 votes for each one thousand ($1,000) dollars or fraction thereof of Merchant sales volume as set forth in its operating certificates; (ii) one vote for each one thousand ($1,000) dollars or fraction thereof of Cheque sales volume as set forth in its operating certificate; (iii) one vote for every five check guarantee accounts in existence at the close of the preceding calendar year; and (iv) one vote for every ten (10) Electron Card accounts in existence at the close of the preceding calendar year, provided that no certificate found inaccurate by the Board of Directors pursuant to Section 3.07 of these By-Laws shall be the basis of computing or continuing to exercise voting rights until revised or accepted as accurate by the Board of Directors, and provided that such member's right to vote has not been suspended pursuant to Section 10.02. Notwithstanding anything to the contrary above, Non-Charter Members with debit Card sales volume shall be entitled to votes solely with respect to their debit Card sales volume at the rate set forth in this subsection.

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This provision is necessary to allocate votes to Administrative Members because they have no sales volume of their own, as required by Section 4.03(b), to qualify for votes. Voting by Administrative Members will depend on the status of such members as Charter or Non-Charter Members, as explained above opposite Section 2.04(c)(9).

(d) Each Administrative Member shall be entitled to votes allocated in accordance with this Section 4.03 for sales volume of its sponsored Associate and Acquiring Associate Members as set forth in its operating certificate.

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ARTICLE V
DIRECTORS

The first change is necessary to clarify that these sponsored members are not eligible for Board seats, even though they have sales volume. The second change would permit an Administrative Member to serve on the Board by virtue of the sales volume of the Associate and Acquiring Associate Members which it reports.

Section 5.01. Number of Directors. The number of directors which shall constitute the whole Board of Directors shall be not less than fourteen (14) nor more than twenty-seven (27). The directors shall be elected or appointed in accordance with these By-Laws. Directors must be (i) officers of this corporation or (ii) officers of Charter Members other than Acquiring Associate or Debit Participant Members (a) having sales volume or check guarantee accounts as defined in Section 3.03 or (b) if it is an Administrative Member, reporting sales volume of its sponsored Associate or Acquiring Associate Members, and having at least the equivalent rank of Chief Executive Officer or Chief Administrative Officer, or, if such organization's total assets exceed 15 billion dollars, adjust for the equivalent value of U.S. dollars as of January 1, 1981, a person who in the performance of his regular duties reports to such an officer. No member shall have more than one officer serving as a director at any one time.

Notwithstanding any other provision of law, the Certificate of Incorporation or these By-Laws, the provisions of this Article V shall be exclusive and shall govern in all respects the manner in which directors of this corporation shall be appointed or elected. Neither this section nor Section 5.02 of these By-Laws may be amended, altered, changed or repealed except with the affirmative vote of at least ninety (90) percent of the total membership of the Board of Directors, or by affirmative vote of members entitled to vote possessing at least ninety (90) percent of the total votes outstanding.

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CONFIDENTIAL

ATTACHMENT A

This changes the reference to the current name of the MasterCard organization.

Section 5.04. Qualification. The Board of Directors shall determine the qualifications of every director whether appointed or elected with respect to the standards set forth in Sections 3.07, 5.01, and 5.02. Any person found not qualified by the Board shall immediately cease being a director and the resulting vacancy filled in accordance with Section 5.05. No member which has an employee sitting on the Board of Directors of MasterCard International Incorporated~~Interbank Card Association~~ shall have an employee serve as director of the corporation.

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ARTICLE X
VIOLATIONS OF THE BY-LAWS OR OPERATING REGULATIONS

The reference to the Entree Operating Rules is deleted because that program has been withdrawn.

Section 10.02. Penalties. Fines or other penalties, including suspension of the right to vote, for violations shall be imposed in accordance with a schedule prescribed by the Board of Directors in the Operating Regulations~~, or, in the Entree Operating Rules and Regulations.~~

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The reference to the Entree Program "By-Laws" is deleted because that program has been withdrawn.

~~**ARTICLE XIII**~~
~~**ENTREE DEBIT CARD PROGRAMS**~~

~~**Section 13.01.** The Entree Program Charter Principles are incorporated into these By-Laws by reference and, together with other provisions which refer expressly to the Entree card program, shall constitute the provisions of specific By-Laws governing membership in the corporation for the purpose of participation in the Entree card program. No other provisions of these By-Laws shall apply to participation in the Entree Program. References in the Entree Charter Principles to "participation" and "participant(s)" shall be deemed to refer to "membership" and "member(s)", respectively.~~

CONFIDENTIAL

ATTACHMENT B

VISA U.S.A. INC.

MEMBERSHIP ADMINISTRATION RESTRUCTURING

Transition Plan

October 1992

A Member Letter will be sent to all Members explaining the new Visa U.S.A. Membership Structure.

Existing Members will be formally notified with a report listing their tentative classification into the new membership categories.

Any Member that requests classification into a class different from that originally proposed must notify the corporation of that request.

January 1993

All Members that do not request an alternative classification will be reclassified into a new membership category, in accordance with the proposed classifications sent in October.

All new applicants for membership will be admitted to the new membership classes.

January 1993- June 1993

All Member requests for changes to the proposed reclassifications will be reviewed.

The Visa U.S.A. Membership Committee will be asked to make a determination as to the appropriateness of each Member's request.

CONFIDENTIAL

ATTACHMENT C

VISA U.S.A. INC.

MEMBERSHIP ADMINISTRATION RESTRUCTURING

Principles for New Operating Regulations:

The sponsor of each Debit Participant must separately report the card sales volume of each Debit Participant Member.

All Members that utilize Independent Sales Organizations (ISOs) or third-party Processors must officially designate those organizations as their agents and specifically identify those activities these organizations are authorized by the Member to perform on its behalf.

When acting in the capacity of a Processor, Administrative Members are required to identify on an annual basis all of those Members on whose behalf they engage in Visa processing activities and will be subject to such reporting requirements as the corporation specifies.

Credit Participant and Debit Participant Members are prohibited from acting as a Processor directly (i.e., establish a direct connection to VisaNet) without the prior written approval of their sponsor.

Credit Participant, Debit Participant Members, Cash Disbursement Participants and ATM Group Members may not utilize Independent Sales Organizations (ISOs) or third-party Processors unless they obtain the prior written authorization of their Sponsor and the Sponsor has officially notified Visa of that authorization.

The Sponsored Member Registration Program should be modified to designate that the following classes are subject to the rules specified in the Operating Regulations: Credit Participants, Debit Participants, and Cash Disbursement Participants.

Cash Disbursement Participants must provide cash disbursement services to cardholders (either ATM or manual) and be separately approved for ATM and manual cash disbursements.

All Members will be subject to an Acquiring Diversification Threshold. This threshold will be set at such a level to ensure that all Members maintain a minimum diversification in their acquiring base, that only true acquirers sign merchants and that merchants do not set up shell organizations only for the purpose of bypassing the payment of appropriate merchant discount and acquirer specified fees. A phase-out period of three to five years will be instituted for existing acquirers.

Certain Members may be precluded from signing High Risk Merchants, the classification of which will be adopted at the next meeting of the Board of Directors. Unless otherwise specified by the corporation, Associate and Acquiring Associate Members will be prohibited from signing High Risk Merchants. Participants are required to have the written approval of their sponsor in order to sign any High Risk Merchants.