

6/4/96 SMG Meeting

CONFIDENTIAL

1. Amerx

- ① Does not being beaten down
- ② seems to vary by region
- ③ Why are EPI members silent about Amerx in light of exclusives?
- ④ Net: haven't hurt ourselves by remaining flexible
- ⑤ Discussed ~~the~~ Amerx letter to be sent to board - was to be standard letter to all board members
 as a need ~~to~~ at last SMG mtg
 LWS - ME/A would not have sent out - not appropriate
 Canada - would have a proposal
- ⑥

REDACTED

AJH: Important to give U.S. members a say in this - some received as U.S. (primarily issue)
would like to see a general consistent rule
concern about differentiated rules.

GOVERNMENT
DEPOSITION
EXHIBIT
516

REDACTED

P-0294

Highly Confidential
Subject to Protective Order

MC 85592

HEL: European board has always argued on other side (non-free market)

"Let Free market reign". Now - ~~we~~ would be

difficult to justify stand on exclusives. would not want to hard code into rules

Commission taking position its taking - runs counter to position of certain banks in Europe who issue Amex cards, TC, etc.

What should paper look like?

CDT:

- A. Do nothing
- B. Restrict card members to duality
- C. Invest in share of portfolio, future mailings, New cards
- D. Increase interchange for all selected products
- E. Change assessments based support of other products
- F. Brand development fee if they do issue - eye of ball
∴ owe MC (divergence of funds to competitor) -
Global methodology w/ regional execution
- G Stop exclusive arrangements w/ members

RNC:

If Amex successful - might steer banks away from MC..
down road

If Amex successful - extent to which members would drop
down road MC for Amex as "The other card".

WIS: Need real strategy that stops Amex

~~SECRET~~

ASH/JVT: Would not throw them a life line
Trying to sustain them... when we
should let them wither

ASH: REDACTED

INC: Where does Citibank come out in all of this...

ASH: Have asked Citibank how they'd view it if
we were silent on Amex... Citi checking w/ counsel

WIS: Visa doesn't allow ...
Don't want to be riding on Visa coattails ... possibility would be wrong

JVT: Why not embrace Amex - would bring assessments down
COT has a half payment strategy

REDACTED
REDACTED

HEL: Why not prohibit issuance of another brand
that's a competing acceptance mark

mark = acceptance mark

UX: Could we grandfather in Beners?

HEL: Very complicated? ^{largest U.S. member} would we have to do same for JCB?
for CreditCard?

Bank one keep discover w/ Novus mark

LWS: What's Threat?

Amex → 3rd viable global pts scheme?

Competing for relationships w/ key members?

AJH: American Banks issue more cards. More cards - stronger your leverage w/ merchants. Helps stem share loss

- Cards out
- stems share loss
- helps acceptance

Closed loop - quality is another factor/advantage

LWS: Will banks in other markets really dedicate control to Amex. will be a really hard sell if Amex thinks they'll get top 10 members in U.S. ... that U.S. guys will void their own business. AJH scenario is on margin

CDT/AJH: Market share play

AJH: ~~4~~5 at risk.

JVT: small to medium guys may jump

WIS: Expect Amex is significant competitor.
Need to hinder ability of Amex to operate in your business

LXC: Maybe Amex counting us to be more flexible - our desperation to grow share.

WIS: We cave, they fight Visa, they win... Amex has no downside would create an Amex downside

RNC: Banks in UK upset about Visa telling them
what they can/can't do. Banks hate
to be dictated to

(5)

HEC: Prohibit members from issuing the brands of a
competing acceptance bank

- would allow Discover to can Novus
+ become MC member

Purcell could see this

- Leverage to negotiations w/ Amex, UC, Argencard, Cardiacard

REDACTED

HEC: Biggest concern is Europe:

- European board - what happens if they
don't pass some thing? MC BIN #'s + branded
cards. will force discussions on
rules harmonization, etc.

REDACTED

REDACTED

AJT: Dennis

LWC: grandfather of card program is
~~at competing~~ owned by members

REDACTED

v

HER: wrong path...

start simple + broad + qualify

"The members cannot issue products of a competing partner brand that has its own acceptance mark"

Qualifiers - at time of adoption of policy

- Except where they own those companies
- Things other than MasterCard type products

→ (1) rule passed globally

(2) would go to regional boards for advice

WIS: Risk not having it passed

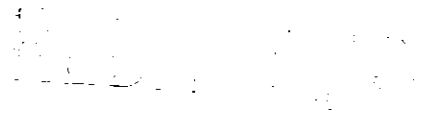
ASH: all U.S. would vote for this

LWS: Canada will vote for

BNC: LA would vote for

JThoma: Precludes JCB issuance -

A/P board generally hates JCB... but they typically issue + promote



HEZ: Should not put Amex paper on board 1-1

Could send out ^{summary} document to all non-U.S.
 Canada
 A/P
 Latin America

REDACTED

HEZ: ~~Send Amex note to all MC Intel Board Directors (global)~~

- ① Send to global board members - done
- ② Send to regional board members
- ③ write Amex paper - cover + meat will be tabled at meeting

LWS: How/Why are we treating Visa
need to explain difference of position vs. Visa and why different

8

HEL: means we took the time to listen

RWS: ~~not~~ difference not clearly understood around table

HEL: we're different by acceptance mark aspect

RWS: do not understand difference

HEL: Prohibit members from issuing product that has a competing multi-regional acceptance mark - issuer population; open door under our terms to Amex + Discover

ASIT: Defensible ... if people listen carefully ... may get it

RWS: Amex issue w/ MC make as it

HEL: would have to apply for a co-branded program.

REDACTED

HEL: Recommendation Item for Reg. boards
Voting Item at Global board

Interchange

- ① Rewrite paper in narrative
- ② Show impact by region in \$ terms.
- ③ GML to take a crack at it

1996 Budget →

Discussing how you will close the budget targets

Issues:

- 1) ATP - MCCR expenditures "hard coded"
16+ mm in reserve committed as MCCR givebacks
- 2) Access deal - How are we going to fund this?

JWL: Love in managing networks
also managing operating earnings

HEC: would not agree that Access funding
comes out of networks ^{necessarily}

Need to get
Camin to
name next
(2) months
of
PROXY'S

RNC: Hard to cut back - ~~take~~ on new initiatives
Brazil deal was an ~~exp~~ unplanned cost -
our future will be cast in stone
depending on outcome of Brazil

WC: How we estimated what we'd get
if we modify the way we collect
MCCR - (LA acquirers a lot of
\$ based transactions) we should relook
at this

Can we grow pool of MCCR rather than
redistributing among regions

JWK: Significant MCCR issue is getting MCCR in
Europe

ASH: 18 is the most recent #... need to cover it
elsewhere

Real issue for U.S. region is the co-branding
incentives - fluid #.

Revenue of \$533mm = net # after incentives.

\$ 581 mm - revenues
48 mm - co-branding incentives
\$ 533 mm

RNC: Everyone has justified why they can't meet budget - instead of figuring out how to cut - everyone's justified overages

HEC: W/out capital gain ... would be losing money. Sick about this

AJH: Did not realize \$20 MM would impact the company's bottom line
Will have to do what we have to do

A few things we must do that we don't have in budget ... T&E acceptance and premium card

U.S. input team has to tighten belt - even w/out \$20 MM spend ... Don't know where to find \$20 MM

RNC: A/P - \$75.2 = Direct Expenses ... hard to believe you can't find savings out of a \$75 million budget ...

A/P - usually carryforward 4-5 MM - last year carried forward 16 MM ...

Joy: - Forecast conservatively as a typical matter
 - Have planned commercials for 3rd + 4th quarter...
 - Don't spend ad \$ stupidly...
 Expensive to get identity out...

LNC: People are operating under business as usual = suspicion

HEZ: Would go off air last quarter

ASH: - Will do what we have to do.
 - Have to fix T&E; premium card
 - would like to know how we'll fix premium card
 - U.S. is the easy solution

HEZ: Lack of equity. Regions running surpluses feel raped.
 19.7MM AT ← 1995
 35MM BT

1996 → (2.0)MM Before Capital gain projected

ASH: Could we spread out incentive payments?
 Could ~~we~~ we recognize it later?

~~###~~

ASH: propose a methodology → if pmt > \$10mm
then institute an annual
Walmart will drive it
to \$25mm and this
is still being negotiated
GE/FIT - positive decisions
could drive
\$25 to 35

WIS: Current hit vs. mortgaging the future.
That's the decision
PW would have to consider

ASH: Payments are tied to revenue.
For non-performance - can get rebates.
Pmts tied to cards, revenues, volumes
Take off line
~~working~~

HEL: GDA -
Henry not here
Should be conservative

Note also - \$4mm coming out of U.K
\$20mm to be covered by U.S.
off air in Q4'96
\$1mm ?

JWR: Global Marketing -

BS: Variance should be \$4.2mm favorable

~~JWR~~

HEL: very concerned about running a loss

JUT: will do what we have to do

Have a number of functions w/out funding

- brand building
- brand development / acceptance
- Commercial Products / T&E

~~JWR~~

HEL: Will have to do this next year

HEL: Need to fund \$3.3 more out of Global Marketing for a total of \$4.2mm

JWR: Traveler Cheques
Expense booked for future losses (a reserve)

HEL: what's our reserve experience

JWR: we are conservatively reserved
to time of pennies - not large pots of funds

HEL: Need to question our reserves at this time

CDT: Big impoundable are the Chase re-laudered checks. Need to look at reserves closely.

HEL: are we over or under reserving

RM: Haven't looked at it.

HEL: Finance should look at reserves w/ an eye to funding reserves

JKK: Can he get back on TC

HEL: Yeah - get back but with an answer to the problem

MCS: No budget for Anne ko research
No business plan prepared by Anne ko (KUH)
Have CPO signed. No contract

~~JKK:~~

MCS: Johnson/ko looking for ways revenues could be generated and group could be self-funding
Exposure is \$2.9MM w/ payroll thru year-end

HEL: Must make a forecast. Will not show a loss to the board...

WIS: what if as a group... we just manage to a number
Trying not to throw baby out w/ bath water

HEL: Can justify taking Access out of NW...
but we have to cover this

WIS: Will come in @ \$53.0 MM

Would prefer to commit to a bottom line
and let Alan Haver manage to it as best
he might

JEM: \$1,196 in the savings

AJH: Think real hard before you sever
the Anne ko thing

HEL: operations... what can we slowdown?

JEM: Auth requirements; not settlement; do things close
to completion

COT: predictive model
chip pilots
int'l cell referral
purchasing card } would slow

KT - did up
Cancel
Manuals
and
subscriptions

(17)

ASH: worried if we don't go forward w/
purchasing Card.

HEC: Core systems rewrite components
- multi-currency ~~is~~
- authorization
- clearing

↳ it reasonable to assume a target of \$6 mm

JEM: will fund \$6 mm

HEC: Bank services (Manuals/Jobs, Master Lem)

→ RPS is in U.S. region under Sheila

HEC: Where do counterfeit contingencies flow
through here??

Summary

22 - U.S.

4 - ~~EMEA~~

3 - ~~Global market~~ → 2 (1mm to cover orrell)

5 - ~~Global Services~~

6 - ~~GTO~~

7 - Counterfeit

\$47 million fund

- Minutes
- interchange rewrite

(4)

JEM: Freeze the forecast

license to spend more than you have
license to increase budget

LWS: Not reasonable to do this

HEL: Can't NOT reforecast

Need to go through an estimation
of Full year

RNC: We can't perpetuate this

HEL: No more independent cases
w/ Yes from HEL

Look at April scorecard - all is rosy
Isolated views of report thing don't
lead to good decisions

RNC: - BPIM

- 6.6% operating target

- Until we fix Europe won't be able to do
it across the board

HEL: Seeding brand in The U.K.

PSA.

Don't know what to do to make Europe a bigger contributor

MCS: + Carl will facilitate BPM

+ Top initiatives for areas identified

+ 126 separate initiative identified
over 10-12 business units

61% are priority #1

+ 126 items identified as important, must do items.

U.S. gave 21

Bill Investment gave 4

Do they support objectives?

Do they produce revenues?

~~JB~~

JB — possibility for slowing the hiring process
This has potential for a positive variance

JWL — Issues

WJ: Employee Mtg... will have to be low tech &
cost effective

HEZ: PSA — should be self-funding...
— would like to avoid monthly
run rate \$600k — 700k

B.S.: Brand building in excess of \$0.8mm (Staff Expenses),
Point of Interaction in excess of \$1.2mm
(Jason & the Argonauts)

PRC: What about reventing Hawaii. London
is adding \$300k to LAC Budget

HEL: Found \$47mm we're now compromising
How to resolve

JWR: Items aren't in budget...

HEL: Trying to run to target...

WJS: ~~We~~ will not exceed target
in strategy fund. will manage
to \$45mm target

4. ~~Consider Budget Report~~

HEL: Some people really own financials

WJS

1) Some don't own financials.

How do we get finance function to ~~own~~ free people to own #15?

Everyone is responsible for their own numbers

Timeliness is poor. would not have made decisions

Made if prey to run rates

HEC: Needs to improve timeliness

2) Needs flash reports on financials

Have made bad decisions because of this

WIS

3) Have good people on board doing good things. Don't want to disappoint.

Focus on 1997... Don't have them fret about funding being taken away for last part of 1996. Focus them on future

4) Did not reduce costs by \$44MM -

European Progress Report

LWS: Hybrid MC made w/ Eurocard

How well it be implemented; redecentralization; CH communications ^{main meeting}

Austria + ~~Germany~~ in support at that time

Angst among Europeans re: Access, Mondex due to poor communications

Required communications correction. Access + Mondex perceived in worst light

Germany session at that time - will not give up "E" of Eurocard

HEC said there wasn't much more to talk about

Spent time discussing that this was business-based

- improve service
- improve knowledge of customers/merchant education
- to help customers when they travel

Learned

- ① Migration period might be different (e.g., 5 years for Germany)
- ② would support / invest in brand

RWS:

Agreed center of competence strategy for Europe
Germany did not want to continue bilateral discussions
at a place of compromise

Chairman's committee occurred - concluded
that "E" should be an option for any market.

Maestro - center of excellence in Europe and at European
Negotiations now Louis-Noel's responsibility

Chris / Bob N. / RWS... still doing duty on drafting
lines drawn in sand... key issues to be resolved

Louis-Noel does not want to take something to
his board that is not supported by MC...

Louis-Noel will not compromise chance of doing
deal w/ position that is intractable

Trying to push through a Eurocard - MasterCard deal.

Potentially far apart - 4 areas

1) deposit access - competence center

Veto powers

governance agmt

will take longer than 4 weeks

assure that deposit

access will follow a

EC/MC deal

2) Brand agmt - Louis Noel trying to get

members to take the

hybrid logo - even

the U.K.

- doesn't work for U.K., Scandinavia
have a way to go on branding

3) membership issues

- licensing procedures

- 8 country exclusives -

Louis Noel would try to break

- termination

4) Product development and systems development

Response to Mondex...
Want to be able to not take a product or support a platform.
Mondex = Mondex...
Substantial expense.
Members acknowledge you can't run a global system like this -
But serious lack of trust

Good time / Excellent listening / Tenor is positive.
Let's try and find a way to do this
Chris + Norm will represent us at Europay.
Will have face to face in Brussels.

Her: Reactions - Centers of Competence would work on as part of a package
Three of four are reneges vs. heads of acct

- Merits
- exclusives
- Report Access

② Exclusives - Louis Noel will not get anywhere. He doesn't understand. Exclusives are a deal breaker...

③ Power of European Payments System
lies in Germany

- 3 of 25 board members
- 6 million cards
- 15% shareholder

JEM: Careful about center of competence. EPI
believes its 50% ownership

HEC: Managed by European staff
Can't be governed by EPI board
must be governed by MC board
global platform / property
Must dissociate agreement
from centers of competence

AJH: Migration of branding
Germany → "E" to be retained for 5 years
instead of 5 years
5 years is forever!

RWS: would ~~not~~ educate merchants
would redecid

WTS: when would they get in perpetuity rights?

CDT: Says depends on closure in branding. That

RWS/HEL: Curren bits - Maestro to POS
Curren is a proprietary ATM mark

JUT: This company should not spend an incremental dime in promoting another mark...

~~It~~ doesn't seem like things are going to change substantively.

RWS: As long as we have positive progress - not ready to cut the cord. If we don't

HEL: See movement on Eurocard/AC and schedule for standards and disassociate depot access... need to have report to define requirements for platforms for global connectivity - If no movement on this - ready to call it quits. would give an exclusives

RWS: would discontinue PSA if Eurocard/AC agreement signed

JUT: Full back would be acceptance only?

Serpine

Global Board agenda

HEL/ASH/RXC - Concerned about cost of Hawaii -
boards already told. Hard to
disenrute.

HEL - year and a half away
could consider how to disconnect U.S. and Global Board

~~ASH~~

HEL - will think about spouse trip
to Hawaii for 1997

(SEE agenda)

JEM - is putting together a letter
for Dudley Neys - or can
call with ...

HEL - will have to discuss @ Westchester
airport... or on flight.

(27)

HEL: Need to make sure our share prices not disadvantaged by election. Election may be overstating

Election needs to be at least estimated and backed out from all numbers

HEL: Latin America status report edits. Presentation will be made

HEL: Wants everything for the weekend. on this

Strategy Paper

CDT: Concerned that numbers are not with us in terms of profit targets - very profit oriented
Seemed to be missing discussion of fundamental trends - infrastructure issues

HEL: Append w/ required uses of funds
w/ required sources of funds
gap analysis to determine if we
can afford this?
We really are missing infrastructure things

CDT: No mention on Europe

HEL: Needs appendices w/
- Region P&L
- Product P&L (Amst +; Maastr -)

Clarifies why the 1st (2) options - we lose money in Maastr

JUT: option #1 = buggy whip strategy
would not float it

HEL: Scratches Saunders' / Lawleys' itch

ASH: memo-line card businesses have been quite profitable

JUT: need to go through a couple years of heavy investment to reposition company to deal w/ challenges of next years.

HEL: Have to start the discussion
Some place

Capital requirement for III requires
slower attainment

Envision (3) meetings to go through this

MWS: Takes 5 minutes to
get them all on board w/
vision + purpose platform

- Security, quality, customization are necessary ~~for~~
but not sufficient ?

- How are you going to implement this ?

- Europeans would ask why aren't
we using discover or Amex

HEL: need to work in 4 legs

ASH: KUH + MasterCard on-line fit in
information strategy

JUT: members will be asking if ~~we~~ ^{they} want
association

MWS: members felt you'd be ~~diff~~ dealing
w/ different ownership / governance
structure

COT: Don't forget payments regulation

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Senior Management Meeting - June 4, 1996
Purchase Board Room, 11:00 a.m. - 4:00 p.m.

Attendance

Attending

In New York Office

- | | |
|-----------------------------|---|
| 1. James M. Bagley ✓ | x |
| 2. James A. Cassin | no - Joy Thoma will attend in JAC's place |
| 3. Richard N. Child ✓ | x |
| 4. Alan J. Heuer ✓ | x |
| 5. Edward J. Hogan | no - Will be at Europay Annual mtg. |
| 6. William I Jacobs ✓ | x |
| 7. Mary C. Johnson ✓ | x |
| 8. H. Eugene Lockhart ✓ | x |
| 9. Jerry McElhatton ✓ | x |
| 10. Robert K. McMillan ✓ | x |
| 11. G. Henry Mundt | no - will be on vacation |
| 12. Robert E. Norton, Jr. ✓ | x |
| 13. Gayle M. Rigione ✓ | x |
| 14. Charlotte Rush | no - will be on vacation |
| 15. Robert W. Selander ✓ | x |
| 16. Christopher D. Thom ✓ | x |
| 17. Joseph V. Tripodi ✓ | x |
| 18. Philip P. Verdi ✓ | x |