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Minutes of the Meeting of the
Board of Directors of
MasterCard International Incorporated
Marina del Rey, California
July 16, 1994

P-0356

A meeting of the Board of Directors of MasterCard International Incorporated (hereinafter referred to as the "Corporation" or "MasterCard") was held, commencing at 8:00 A.M., local time, on Saturday, July 16, 1994, at the Ritz Carlton Hotel in Marina del Rey, California. The following directors were present: Messrs. Antonini, Canasi, Enlow, Field, Freeman, Galante, Gaugh, Gray, Greenawalt, Grether, Hoch, Inagaki, Jeffs, Ledru, Lockhart, Loy, Morgan, Nissen, Ribourdouille, Richolt, Rogers, Saunders, Tice, Vosloo, Walsh, Williams, Yang, Ziegler and Zuendt, thereby constituting a quorum. The following staff members participated in the meeting: Messrs. Barlett, Brode, Cheskis, Child, Dimsey, Hanft, Heatherington, Hogan, Levy, Lisker, Norton, Orrell, Ms. Rigione, and Messrs. Smith, Timko, Townend, Tripodi, Verdi, Ms. Wetherington, and Mr. Woods. Mr. Tice, Chairman of the Corporation, chaired the meeting and Mr. Norton, Secretary of the Corporation, kept the Minutes thereof.

Approval of Minutes and Report on Executive Committee Meetings

Mr. Tice called the meeting to order. Upon motion duly made and seconded, the Minutes of the March 24, 1994 meeting of the Board of Directors were unanimously approved. See Agenda Item 1. Mr. Tice then reported on Executive Committee meetings held April 21, June 16 and July 15, 1994. During his report Mr. Tice advised the Board of Mr. Enlow's impending resignation from the Global Board. Mr. Tice thanked Mr. Enlow for his contributions to MasterCard.

Appointment of Independent Auditors

Mr. Antonini reported that the Audit Committee had reviewed the Price Waterhouse 1994 client service plan and had recommended the appointment of the firm as MasterCard's independent auditors for 1994. See Agenda Item 3. Upon motion duly made and seconded, the Board unanimously approved the appointment of Price Waterhouse as MasterCard's independent auditors for 1994.

President's Report

Mr. Lockhart directed the Board's attention to the Corporation's 1994 and 1993-96 objectives found in Agenda Item 4.A. He reported the objectives had been amended by adding increased weight to share-based objectives, and to permit all objectives to be measured in quantitative terms. He reported the objectives had been reviewed by both the Executive and Human Resources Committees. Mr. Lockhart also reported that a review of the Programme Global evaluation by KPMG Klynveld Management Consultants was not complete and that a report on the review would be postponed until November.

Mr. Orrell reviewed MasterCard brand performance on a worldwide, regional and key country basis through the first quarter of 1994. See Agenda Item 4.C. He also reported on Maestro card and terminal performance, Cirrus ATMs and the countries in which they are operative, and travelers cheque sales. He contrasted MasterCard performance versus Visa for regions outside the U.S. and contrasted MasterCard performance in the U.S.

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Region versus Visa and other general purpose card market competitors.

Mr. Brode reported on the 1995 preliminary expense budget. See Agenda Item 4.D. He reported the preliminary budget incorporates cost efficiencies in the basic RGO expenses. He reported that cost containment measures have been implemented to ensure MasterCard can strengthen commitments to long-term funding of key markets and product development efforts. Mr. Brode summarized the impact of proposed 1995 expense targets and reported on forecasted 1994 unbudgeted program and product expansion cost commitments not addressed in the approved 1994 budget.

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Relocation

Mr. Lockhart reported that he and the entire senior management team were recommending that MasterCard relocate all current New York City staff to a facility in Westchester County, New York and not retain any space in 1345 Avenue of the Americas. See Agenda Items 7 and 7.A. He discussed the reasons for the recommendations, including financial, environmental, and business relocation considerations, and reported on progress in terminating liability for leased space in 1345 Avenue of the Americas. After discussion, upon motion duly made and seconded, the Board of Directors unanimously adopted and approved the following resolutions.

RESOLUTIONS OF THE BOARD OF DIRECTORS:

RESOLVED, that, the Chief Executive Officer, or his designee, be, and hereby is, authorized to enter into formal negotiations to lease, with an option to purchase, the premises located at 2000 Purchase Street in Harrison, New York or to lease the premises known as One Gateway Plaza in White Plains, New York; and

RESOLVED FURTHER, that, subject to the review and approval of the terms of such lease by the Executive Committee of the Board of Directors, the Chief Executive Officer, or his designee, be, and hereby is, authorized to execute the lease for the selected property.

Temporary Adjournment and Recommencement of Meeting

Mr. Tice temporarily adjourned the meeting to enable directors and other invited guests to

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meet with the Honorable Albert Gore, Vice President of the United States of America, following which the meeting recommenced.

International Interchange Fees

Mr. Zuentd reported that the Marketing and Planning Committee had discussed the proposed 1995-96 international interchange fee recommendations set forth in Agenda Item 9 and had recommended their approval. After discussion, upon motion duly made and seconded, the following resolution was unanimously approved and adopted.

RESOLUTION OF THE BOARD OF DIRECTORS:

RESOLVED, that, effective for the 1995-96 interchange year, the following international interchange fees be, and hereby are, approved as follows:

- a standard interchange fee of 1.41% + US\$0.10; and
- an electronic interchange fee of 1.10%; and
- a cash advance accommodation fee of US\$3.60 + 0.09%.

Chip Card Strategy

Mr. Verdi made a presentation regarding management's rationale for recommending that the Corporation proceed with the development and implementation of a chip on MasterCard cards. See Agenda Item 5. He discussed environmental changes impacting MasterCard's product delivery platform, weaknesses in magnetic stripe technology, and the evaluation of various technologies to support a Card Authentication Method ("CAM"). He stated that chip represents the best available solution to support risk management and revenue enhancement opportunities.

Mr. Verdi discussed the ongoing efforts to develop standards and specifications for chip. He reported that industry-wide acceptance of standards and specifications is vital to chip card implementation. He detailed additional steps to complete the chip foundation include: development of chip card product strategies and business plans; design of chip architecture to support individual product requirements; and development of new applications.

Mr. Verdi presented an eight point action plan to implement a chip card technology strategy, addressing such issues as: the infrastructure to support migration to chip; the development of standards, rules, procedures and specifications; incentives to motivate member participation; and the financial impact of implementing the strategy.

Several directors commented that it is appropriate for MasterCard to adopt a chip technology strategy and to initiate an action plan. Mr. Ledru reported on chip card implementation in France. After further discussion, upon motion duly made and seconded, the Board of Directors unanimously approved and adopted the following resolutions.

RESOLUTIONS OF THE BOARD OF DIRECTORS :

RESOLVED, that, the Corporation hereby adopts the strategy of chip card delivery platform development and implementation as presented by Mr. Verdi; and

RESOLVED FURTHER, that, staff be, and hereby is, authorized and directed to take such action as is deemed necessary or appropriate to effectuate the development and implementation of the chip card strategy to ensure that MasterCard attains the following milestones by the dates indicated:

- 3Q 1994 Begin to provide financing from strategic fund to build the infrastructure to support the orderly migration to the chip card platform.
- 1Q 1995 Continue working with VISA to complete standards for global interoperability of chip card.
- 4Q 1995 Provide standards/specifications, modify rules/procedures, and enhance the authorization, clearing and settlement systems to accept chip as a means of reading technology for ATM and POS interchange (debit and credit); the decision whether to implement chips in cards to be at each issuer's discretion.
- 4Q 1995 Provide standards/specifications, modify rules/procedures, and enhance the authorization, clearing and settlement systems to allow PIN to be introduced at the POS for credit; the decision whether to introduce PIN for credit transactions to be at the discretion of issuers in a region or country.

Subject to industry acceptance of the chip card standards, the following dates are guidelines which will be subject to review and approval by the Board:

- 1996 It is envisioned that terminals which accept both magnetic stripe with PIN and smart (chip) cards that conform to MasterCard's rules will be available to merchants.
- 1996 It is envisioned that acquirers will be provided appropriate incentives to upgrade POS devices to accept both magnetic stripe with PIN and smart (chip) cards.
- 2000 It is estimated that virtually all MasterCard-branded payment products and acceptance locations will include chip/PIN technology in some form; and

RESOLVED FURTHER, that, staff be, and hereby is, authorized and directed to take such further action as may be deemed necessary or

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appropriate to effectuate the foregoing; and

RESOLVED FURTHER, that, management update the Global Board at each meeting on progress against the above-described plans.

Project Horizon Update

Mr. Hogan presented a status report on the design of a potential new stored value service intended to capture incremental, "small ticket" revenue from markets traditionally adverse to credit and debit card acceptance. See Agenda Item 6. He reported the service, known by the working name "Horizon", is intended for integration into credit and debit card products. He explained that Horizon would be an open, global system for either on-line or off-line stored value application and would leverage the existing infrastructure of Banknet, traditional acquirer services, MasterCard's clearing and settlement system, and existing issuer cardholder accounting and posting systems.

Mr. Hogan stated that the proposed product targets two to five dollar service transactions. He reported Horizon is being designed as a turnkey system for members, using software and hardware developed, delivered and maintained by MasterCard which would enable a cardholder's card to work globally. Mr. Hogan then explained how the card would work and how the program would be structured.

The Board discussed the report and, in response to questions, Mr. Hogan stated that the Horizon mark could be used to enhance any MasterCard card product or on a Horizon-only card basis. The Board expressed support for further development of the program. Mr. Hogan stated that the Board would be advised of the progress made in developing the program.

AT&T Compliance

Mr. Dimsey asked the Board to accept the purchase by AT&T of Universal Bank as satisfying the requirements of the September 1991 AT&T/MasterCard agreement regarding membership and control of the Universal MasterCard program. See Agenda Item 8. Mr. Dimsey reported that the Executive Committee and the U.S. Board had each recommended approval. He expressed his view that AT&T has acted in good faith to expedite compliance with MasterCard rules and the September 1991 agreement. After discussion, upon motion duly made and seconded, the following resolution was unanimously approved.

RESOLUTION OF THE BOARD OF DIRECTORS:

RESOLVED, that, the purchase of Universal Bank by AT&T within 30 days after receipt of all regulatory approvals necessary to consummate such purchase be, and hereby is, accepted by the MasterCard Board as satisfying the requirements of the 1991 MasterCard/AT&T agreement (i) with respect to issuance of Universal MasterCard cards and ownership of accounts and (ii) to be eligible for the waiver of the higher post-November 1990 membership fees.

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U.S. Region Interchange Fees

Mr. Dimsey requested that the Board approve 1995 U.S. Region interchange fees recommended for approval by both the Executive Committee and the U.S. Board. He also requested that the U.S. Board be delegated authority to adjust the fees, if necessary, for competitive reasons. After discussion, upon motion duly made and seconded, the following resolutions were unanimously approved and adopted.

RESOLUTIONS OF THE BOARD OF DIRECTORS

RESOLVED, that, effective April 1995, the following interchange fees be, and hereby are, approved and recommended for adoption by the Global Board:

<u>Program</u>	<u>Interchange Fee</u>
Standard	2.16% + 10c
Merit I	1.60% + 9c
Merit II	1.35% + 9c
Merit III	1.30%
Supermarket	1.10%
BusinessCard/T&E Transactions	1.95% + 9c

RESOLVED FURTHER, that, the U.S. Board be, and hereby is, delegated authority to modify any of the above fees on a meet-competition basis in response to 1995 interchange fees subsequently adopted by VISA U.S.A. Inc.

Directors Committees Reports

Mr. Antonini reported that, in addition to reviewing matters concerning Price Waterhouse, the Audit Committee had been updated by Mr. McMillan on Audit Department activities and plans. He reported the Committee had reviewed the Corporation's 1994 financial performance to date as well as an overview of the 1995 preliminary expense budget. He reported that, in conjunction with a review of the counterfeit reimbursement program, the Committee had recommended that the Global Board approve an increase in the funds available to reimburse for qualifying counterfeit claims for the claims period ending June 30, 1994 by \$5 million. Upon motion duly made and seconded, the Board of Directors unanimously approved and adopted a resolution increasing the budgeted funds available for reimbursement of counterfeit loss claims for the counterfeit reimbursement year ending June 30, 1994 to \$34 million.

Mr. Antonini reported that the Audit Committee had recommended that the Board authorize staff to invest up to \$30 million in a highly rated investment fund with a major market bank in order to maximize earnings without compromising the security of the funds invested. He also reported the Committee had recommended the Global Board approve a foreign exchange policy authorizing staff to execute foreign exchange transactions as necessary to protect the company from potential exchange losses and in accordance with guidelines

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established and monitored by the Audit Committee. Upon motion duly made and seconded, the Board of Directors unanimously approved and adopted resolutions authorizing staff to invest up to \$30 million in a highly rated investment fund with a major market bank and authorizing staff to execute foreign exchange transactions in accordance with guidelines established and monitored by the Audit Committee.

Mr. Grether reported the Compliance Committee had reviewed the member licensing matters presented in the Board Agenda and had recommended approval of those matters. After discussion, upon motion duly made and seconded, the following resolution was unanimously approved and adopted.

RESOLUTION OF THE BOARD OF DIRECTORS:

RESOLVED, that, the membership and licensing actions set forth in Agenda Item 10.B.1 be, and hereby are, approved and adopted.

Mr. Grether reported the Committee had also discussed staff reports addressing member risk exposure attributable to the failure of travelers cheque issuers, the merchant signage compliance program (including the imposition of fines for non-compliance) and membership territoriality policies. Mr. Grether expressed the concern of the Committee regarding the poor results of the merchant signage audits done in Belgium, France and Venezuela. Two directors expressed concern with a program to fine members for non-compliance. Mr. Lockhart stated that proper signage was a very important issue and, although MasterCard is not looking to make revenue on fines, implementation of the entire compliance package was very important to MasterCard.

Mr. Freeman reported that the Human Resources Committee had reviewed peer data with respect to compensation of top MasterCard management personnel and he reviewed recommendations acted upon by the Executive Committee with respect to qualified benefit plan limitations imposed by U.S. law.

Mr. Zuendt reported that the Marketing and Planning Committee had reviewed the proposed international interchange fees, Thomas Cook variance agreement criteria, and MasterCard objectives. He reported the Committee had met with the Technology Committee to review Mr. Verdi's chip card strategy presentation. He reported the Committee had also been updated on the corporate and brand identify project, preliminarily discussed pricing as a business strategy, and discussed MasterCard's evaluation of the effectiveness of its World Cup sponsorship.

Mr. Greenawalt reported that, in addition to reviewing Mr. Verdi's chip card strategy presentation, the Technology Committee had received updates on CVC roll-out and Programme Global. Mr. Greenawalt expressed the Committee's support for the restructuring of Programme Global.

Election of Director; Directors Committee Appointment

Mr. Tice informed the Board that the Executive Committee, acting as the Nominating Committee, had recommended the election of Mr. Patrick J. Boylan, General Manager,

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Group Card Services, HongKong and Shanghai Banking Corporation as a director of MasterCard International. See Agenda Item 11. Mr. Tice also asked the Board to increase the number of authorized directors on the Global Board from 29 to 30 effective with Mr. Boylan's election. After discussion, upon motion duly made and seconded, the Board of Directors unanimously approved and adopted the following resolutions.

RESOLUTIONS OF THE BOARD OF DIRECTORS:

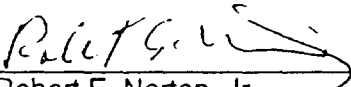
RESOLVED, that, pursuant to Sec. 3(a)(i) of Article II of the Bylaws, the authorized number of directors be, and hereby is, established at 30; and

RESOLVED FURTHER, that, effective immediately, Mr. Patrick J. Boylan, General Manager, Group Card Services, HongKong and Shanghai Banking Corporation, be, and hereby is, elected as a Director of MasterCard International Incorporated, to hold such office until his successor has been duly elected and qualified, or as otherwise provided in the Bylaws.

Mr. Tice asked the Board to approve the appointment of Dr. Richolt to the Audit Committee. Upon motion duly made and seconded, a resolution appointing Dr. Richolt to the Audit Committee was unanimously approved.

Adjournment

There being no further business to come before the meeting, upon motion duly made and seconded, the meeting was adjourned.



Robert E. Norton, Jr.
Corporate Secretary

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