

VISA U.S.A. INC.
MEETING OF THE BOARD OF DIRECTORS
January 7-8, 1987

P-0599

A meeting of the Board of Directors of Visa U.S.A. Inc. was held at The Lodge at Pebble Beach in Pebble Beach, California at 2:00 p.m. on January 7 and at 8:30 a.m. on January 8, 1987. All the Directors were present. Visa staff present were John H. Bennett, Thomas G. Cleveland, Joseph P. Francini, A. Wayne Johnson, Bennett R. Katz, James Kieff, Scott Loftesness, Linda W. Mock, William F. Neumann, Carl F. Pascarella, Roger L. Peirce, Francine B. Schall and B. Ray Traweek. Gideon Argov, George P. Denny and Thomas J. Tierney, representatives of Bain & Company, were present part of the time. David A. Wagman acted as Secretary.

947. APPROVAL OF MINUTES

The Chairman requested and received approval of the (i) Board of Directors meeting of September 3-4, 1986, (ii) Executive/ Planning Committee meeting of September 3, 1986, (iii) Executive/ Planning Committee meeting of December 4, 1986, (iv) Delivery Systems Committee meeting of September 3, 1986, and (v) the Product Development and Marketing Committee meeting of September 3, 1986.

948. DIRECTORS AND PERSONNEL

Staffing Report

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A staffing report for the corporation, Service Center Inc.

GOVERNMENT
DEPOSITION
EXHIBIT
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and International Anasazi, including length of service and turnover analyses, was included in the Advance Materials.

949. LONG-RANGE STRATEGY - BAIN & COMPANY

The Board reviewed with approval a Long-Range Strategy presentation by Bain & Company which concluded that (i) over the past twelve months, the corporation has successfully implemented strategies to maintain the existing perception of Visa as the bank card industry leader vis-a-vis MasterCard and to inform Members and merchants of the competitive threat posed by the Sears Discover Card, (ii) while some negative trends, such as a decline over the past two years in volume growth and evidence of saturation in certain market sectors, have become apparent, significant opportunities for card and travelers cheque growth continue to exist, (iii) there exists a number of strategies and options to further expand market share including, among other things, increasing Member, merchant and cardholder awareness of the inherent advantages of the Visa card, travelers cheque and VisaNet systems over those of American Express, and (iv) while the competitive environment is going to become increasingly hostile, there exists several strategies to assist Members in preserving and enhancing their Visa program profitability. A copy of the presentation is attached to the minutes as Exhibit A.

950. DEBIT CARD STRATEGIES

The Board received a status report on the corporation's debit card product and system strategies which include the (i)

provision of expanded system services to the Interlink Network, (ii) acquisition of rights to a full-service ATM mark through an affiliation with the Plus System, and (iii) development, jointly with MasterCard, of a point-of-sale debit card service.

(a) Interlink Network Agreement

It was reported that an agreement has been reached with the Interlink Network which supersedes the existing arrangement pursuant to which the corporation provided many systems services to Interlink. Under the new agreement, the terms of which are set forth in Exhibit B, attached to the minutes of this meeting, the corporation will perform all Interlink operational and system functions.

(b) Affiliation with the Plus System

The Board reviewed with approval a proposal for affiliation with the Plus system pursuant to which the corporation and its Members would acquire the right to use the Plus mark for ATM cash disbursements within the U.S., thereby creating, in terms of numbers of ATMs and cards outstanding, the largest ATM network in the country. This network would be in addition to and complement the worldwide Visa ATM cash advance network. The proposal, the terms of which are set forth in Exhibit C, attached to the minutes of this meeting, is consistent with the Principles approved by the Executive/Planning Committee at its meeting of December 4, 1986.

(c) Combined Visa/MasterCard Debit Card Program

It was reported that the Entree Debit Card Organizing Committee, which was appointed from Members interested in parti-

icipating in the program has, since its inception, made significant progress developing Operating Principles from the ABA debit card guidelines which constitute the underlying operating concept. Production of a functional description for the product and a Member commitment package are scheduled for release within the next sixty days, with program launch scheduled for fall 1987.

It was also reported that several issues have arisen relative to the fundamental debit card program concept, such as (i) the degree of independence from Visa and MasterCard of the Debit Card Management Committee, (ii) staff and funding resources for the project, and (iii) the extent to which decisions made within the context of the joint project should apply to other activities of Visa and MasterCard which may not be directly related to the project. The Board reaffirmed the joint program policies and supported the recommendations of the Executive Committee relating to the issues presented, as set forth on Exhibit D, attached to the minutes of this meeting. Furthermore, in order to resolve outstanding program concept issues, the Board recommended that a joint meeting of the Visa and MasterCard Executive Committees be called.

951. SECURITY MATTERS

(a) Credit Bureau Standards

Noting that there are significant differences among financial institutions as to the type of data reported to credit bureaus, the meaning of the data and the manner in which it is reported, the Board was advised that the corporation is working

with the American Bankers Association to establish uniform standards for the reporting of information by financial institutions to credit bureaus and the manner in which credit bureaus handle that information.

(b) Account Clearinghouse Service

The Board reviewed a proposal for an Account Clearing Service which, through use of a data base containing the addresses, social security numbers, and telephone numbers of persons who apply for Visa credit cards, as well as account numbers of accounts on which fraud losses have occurred, will alert Issuers who submit inquiries to circumstances which merit their further investigation. The service has a potential for reducing further Member fraud and credit losses. A pilot is scheduled to commence in the late summer of 1987, with the service being generally available by the summer of 1988. It was also reported that MasterCard has advised the corporation of its intention to cooperate in this endeavor.

952. COMMITTEE REPORTS

(a) Executive/Planning Committee

The Board received a report on the Executive/Planning Committee meeting of January 7, 1987 on matters discussed and action taken, all of which are reflected in the minutes of the meeting of that Committee.

(b) Delivery Systems Committee

The Board received a report on the Delivery Systems Committee meeting of January 7, 1987 on matters discussed and

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action taken, all of which are reflected in the minutes of the meeting of that Committee.

(c) Product Development and Marketing Committee

The Board received a report on the Product Development and Marketing Committee meeting of January 7, 1987 on matters discussed and action taken, all of which are reflected in the minutes of the meeting of that Committee.

(d) Nominating Committee

The Board received a report on the Nominating Committee meeting of January 7, 1987 on matters discussed and action taken, all of which are reflected in the minutes of the meeting of that Committee.

953. VISA INTERNATIONAL REORGANIZATION

In order to address concerns which have been raised outside the U.S. about the lack of autonomy of non-U.S. regions, the Board reviewed a concept to modify the existing structure of Visa International to allow the Europe, Middle East, Africa (EMEA), Asia-Pacific, and Latin America Regions to separately incorporate and operate in a manner similar to that of the U.S. and Canadian regions. The proposal reflects the fact that, although these regions, especially EMEA, are experiencing significant growth rates, there exists a perception outside the U.S. of Visa International being U.S.-dominated, a perception which is impeding even greater growth. Moreover, exploitation of existing market opportunities within these regions increasingly requires region-specific, customized approaches to product development and

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marketing strategies. Incorporation would facilitate the ability of a region to develop unique, regional products and enhancements and enable it to assume responsibility for its financial affairs. Upon motion duly made, seconded and unanimously carried, it was

RESOLVED, that the Principles of Reorganization be and are hereby approved and the Secretary is directed to attach a copy thereof to the minutes of this meeting as Exhibit E.

And be it further

RESOLVED, that it is recommended that the Visa International Board of Directors adopt a similar resolution, and the Visa U.S.A. representatives to the Visa International Board are hereby authorized to support its adoption.

954. CARD TECHNOLOGY UPDATE

The Board extensively discussed card technology developments, noting that MasterCard has announced in the press its intention to pursue adoption of the chip card as the standard for the U.S. bank card industry. Notwithstanding the MasterCard announcements, it is the corporation's position that there is no justification at this time for adoption by the industry of the integrated circuit card as the industry standard. Adoption of that technology would necessitate development of an entirely new infrastructure consisting, among other things, of cards, the production facilities for which, in the numbers required, do not exist, as well as the installation of terminals at every merchant location which accepts the card, each capable of reading PINs. Such a conversion, even if it were feasible, would require significant initial investment, potentially as much as \$1 billion, the return of which

would not be realized for many years, if ever. Moreover, the underlying technology remains extremely fluid, with work on various concepts still being conducted in several countries, including France, Japan, and the United States.

In addition, within this scenario, management believes it unlikely that the anticipated savings from reduced fraud and credit losses and communications costs, estimated by proponents of the concept to be in the area of \$200 million per year, will be realized. In fact, management believes that comparable reductions can be achieved through the development of new service offerings within the structure of the existing VisaNet system.

While chip card technology has enormous inherent potential, the service base to justify the investment involved does not, at this time, exist. As new card-based services are developed, however, the corporation will continue to evaluate the most appropriate means for delivering those services, including chip card technology. In the meantime, Visa will continue to explore all technologies, including the super card, and will cooperate with other organizations in the development of technical standards for the integrated circuit card.

955. FINANCIAL MATTERS

(a) System Statistics

Included in the Advance Materials were reports for the corporation through September 30, 1986 of (i) payment service volume, (ii) numbers of accounts, (iii) delinquency, (iv) net charge-offs and (v) card profitability trends.

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(b) Prior Year Financial Statement - Visa U.S.A.

The Board reviewed the financial statements of the corporation for the year ended September 30, 1986, which were included in the Advance Materials, noting that net revenue after taxes was \$8.15 million compared to planned net revenue of \$1.5 million, attributable to higher-than-anticipated revenue and lower-than-anticipated expenses.

(c) Prior Year Financial Statement - Visa International

The Board reviewed the financial statements of Visa International for the year ended September 30, 1986, which were included in the Advance Materials, noting that net revenue after tax was \$3.1 million compared to a budgeted net expense of \$3.2 million, attributable to higher-than-anticipated revenue and lower-than-anticipated expenses.

(d) Current Financial Statements - Visa U.S.A.

The Board reviewed the financial statements of the corporation for the two months ended November 30, 1986, noting that while a two-month period is too short a period from which to discern significant trends, it is anticipated that the results for the current year will be in line with original plan amounts.

(e) Interchange Reimbursement Fees

No change was recommended for the standard Interchange Reimbursement Fee for the period April 1, 1987 through March 31, 1988 since the projected rate is not significantly different than the current rate.

(f) By-Law Amendment - Associate Membership

The Associate Member category of membership which

became effective October 1986 was established to more effectively serve the needs of those Proprietary Members with small card programs and provide an alternative to those Proprietary Members adversely affected by the increase from \$125 to \$500 in the minimum quarterly fee, to be effective with fees due July 15, 1987. In order to enhance participation in this new membership category, it was recommended that the By-Laws be amended to eliminate the \$50 quarterly fee which is currently payable in addition to the regular sales volume service fees; Sponsoring Proprietary Members to pay a minimum service fee of \$50 with respect to each Associate Member sponsored by them, effective with service fees due January 15, 1987. Upon motion duly made, seconded and unanimously carried, it was

RESOLVED, that the By-Laws of the corporation are hereby amended as set forth in Exhibit F, which the Secretary is directed to attach to the minutes of this meeting.

956. ADVERTISING TRACKING STUDY RESULTS

The Board received a report on research to track the effectiveness of Visa communication vis-a-vis MasterCard, American Express and Sears Discover Card, noting that (i) since November 1984, surveys have taken place periodically at approximately six-month intervals and (ii) research results indicate a trend toward increased awareness and preference for the Visa brand on the part of Members, merchants and cardholders in each of the "Best Overall", "T&E", "Cash Advance Availability" and "Merchant Acceptability" categories.

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957. OTHER BUSINESS

(a) Litigation Report

(i) Chargit Inc./Bowery Savings Bank

It was reported that (i) Chargit Inc., a nonmember processor for Bowery Savings Bank, New York, New York, a Proprietary Member of the corporation, has filed a petition for relief under Chapter 11 of the Bankruptcy Act, following its failure to remit to merchants monies arising from Visa transactions, (ii) to date, Bowery Savings Bank has disclaimed responsibility for the actions of Chargit Inc., (iii) the corporation has obtained an order enabling it to conduct discovery in the Bankruptcy Court to ascertain more information as to the relationships between Chargit, Bowery Savings Bank and merchants with whom Chargit contracted, and (iv) during the pendency of the proceedings, pursuant to an understanding with the Bankruptcy Court, those merchants formerly serviced by Chargit will be serviced by Bowery Savings Bank. A report on this matter will be made to the Board at its next meeting.

(ii) Other Litigation

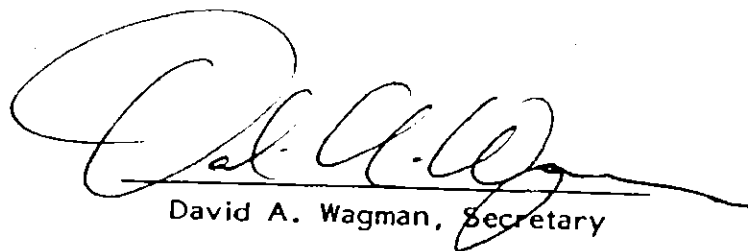
A status report regarding other litigation and trademark matters was contained in the Advance Materials.

(b) Miscellaneous Status Reports

Status reports regarding (i) Visa/MasterCard cooperative activities, (ii) Visa card and paper products, (iii) the Visa ATM Network, and (iv) membership, together with summaries of

Advisory Meetings and the schedule of future Board meetings, were contained in the Advance Materials.

There being no further business, the meeting was adjourned.



David A. Wagman, Secretary

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