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May 3, 2012

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CT - 2010 - 010

THE COMPETITION TRIBUNAL

**IN THE MATTER OF THE *COMPETITION ACT*,
R.S.C. 1985, C. C-34, AS AMENDED;**

**AND IN THE MATTER OF AN APPLICATION BY THE
COMMISSIONER OF COMPETITION PURSUANT TO SECTION 76 OF THE
COMPETITION ACT;**

**AND IN THE MATTER OF CERTAIN AGREEMENTS OR ARRANGEMENTS
IMPLEMENTED OR ENFORCED BY VISA CANADA CORPORATION AND
MASTERCARD INTERNATIONAL INCORPORATED.**

BETWEEN:

THE COMMISSIONER OF COMPETITION

Applicant

-and-

**VISA CANADA CORPORATION and
MASTERCARD INTERNATIONAL INCORPORATED**

Respondents

-and-

**THE TORONTO-DOMINION BANK and
CANADIAN BANKERS ASSOCIATION**

Intervenors

**WITNESS STATEMENT OF
KEVIN J. STANTON**

1) Educational And Employment Background

1. I have a Bachelor of Science in Anthropology from the University of Massachusetts at Amherst and I attended law school at Tulane University School of Law in New Orleans.

2. After graduation, I was admitted to the bars of Massachusetts, the District of Columbia and New York State. I worked in private practice in two different Boston law firms and after working at those two firms I assumed an in-house counsel position with Shawmut Bank from 1990 to 1995.

3. I joined MasterCard International Incorporated ("MasterCard") on July 7, 1995. In 2002, I was promoted to the position of Senior Vice President, Strategy and Market Development of MasterCard Canada, Inc.

4. In 2004, I assumed the role of President of MasterCard Canada, Inc. -- first on an interim basis, and then on a permanent basis. I remained President of MasterCard Canada, Inc. until January 2010, when I assumed the role of President of another MasterCard division, MasterCard Advisors.

5. In my current role, I am responsible for driving the offering of professional services at MasterCard. I have oversight of all global and regional teams covering three practice areas, being: Information Services, Consulting Services and Managed Services.

2) The MasterCard System

6. MasterCard is headquartered in Purchase, New York. It has approximately 6,700 employees located in offices around the world in five regions: Asia Pacific/Middle East & Africa (APMEA); Canada; Europe; Latin America/Caribbean; and the United States.

7. Further information about MasterCard can be located in MasterCard's 2010

Annual Report, attached as Exhibit "A".

2.1) The Parties in the MasterCard System

8. MasterCard's network is commonly referred to as a four-party network. In actuality, five entities generally participate in the operation of MasterCard's four-party network: cardholders ("Cardholders"), issuers ("Issuers"), acquirers ("Acquirers"), merchants ("Merchants") and MasterCard.

9. The four-party MasterCard network is two-sided. On one side, Acquirers offer a suite of services to Merchants, used by Merchants to assist them in accepting MasterCard credit cards and other forms of payment at their locations, as well as other services. On the other side, Issuers make MasterCard-branded credit cards available to individuals who thereby become Cardholders. A diagram illustrating the relationship between MasterCard, Cardholders, Merchants, Acquirers and Issuers during a typical transaction is provided on page 7 of the Form 10K, included with the 2010 Annual Report attached as Exhibit "A".

10. Issuers must make contractual arrangements with Cardholders, Acquirers must make contractual arrangements with Merchants and MasterCard establishes rules and protocols so that parties know when they will be paid and Cardholders know how and where they can use the card. Acquirers and Issuers establish fees charged to their respective customers and negotiate the terms that govern those relationships.

2.1.1) MasterCard Establishes Rules And Protocols Which Balance the System

11. One of MasterCard's roles as network operator is to establish and promote a well known brand or trademark so that Cardholders know where their MasterCard credit card will be accepted.

12. As further discussed below, success of the MasterCard network depends on achieving both widespread consumer demand for use of its credit cards and widespread Merchant acceptance of its cards. Merchants will not accept MasterCard credit cards unless a meaningful number of consumers want to pay with MasterCard credit cards, and the related costs are acceptable. Consumers will not use MasterCard credit cards unless the costs are outweighed by the benefits and unless the card is widely accepted by Merchants.

13. As a result of the four-party network, Merchants and Cardholders both gain from its use. As Carlos Arango, the Principal Researcher of the Currency Department, Bank of Canada, stated in his testimony to the Canadian Senate:

“In two-sided markets, payment service providers require both customer and merchants to be on board and to create demand for their service. The key element of these markets are efficiency gains for both consumers and merchants if a third party coordinates their demand. Among the benefits of this coordination are the sharing of large set-up costs and the gains by both merchants and consumers if more of them adopt the payment instrument.”

The Senate Testimony of Carlos Arango of March 3, 2011 is attached as Exhibit “B”.

2.1.2) Cardholders in the MasterCard System

14. Cardholders do not receive credit cards from MasterCard, but instead may have a MasterCard branded credit card issued to them by any one of a number of Issuers.

15. There are significant advantages to Cardholders who use MasterCard credit cards. While these advantages do not restrict Cardholders from using other forms of payment, they provide value to consumers who choose MasterCard credit cards as a form of payment.

16. Cardholders enjoy convenience and security from using MasterCard credit cards.

Cardholders are not liable for fraudulent transactions, and responsibility for such transactions is instead borne by Issuers, Acquirers or MasterCard, depending on the nature of the fraud.

17. Cardholders also enjoy "charge-back protection". Charge-back protection is available to Cardholders who pay for goods or services using MasterCard credit cards for a variety of reasons, including if Cardholders do not receive the purchased goods or services or such goods or services are not what they bargained for. An example of charge-back protection is a refund provided for a travel purchase that is not enjoyed due to the bankruptcy of a travel agent or airline. A recent example of the ubiquity of this protection can be observed in the recent shut down of chartered airline DirectAir.

DirectAir's website expressly directs:

"If you have not begun your travel and have a ticket for which you paid with a credit card, contact your credit card company for a refund. If you are currently at your travel destination, please arrange for alternate transportation. You can file a claim with your credit card company for a refund of the unused portion of your Direct Air ticket.

If you paid by cash or debit card, please call 1-855-888-8090 or see the detailed instructions for filing a claim with the escrow bank and securer contained in the DOT Notice."

A copy of a printout from DirectAir's website is attached as Exhibit "C".

18. If a Cardholder uses a particular Merchant-branded MasterCard credit card, they may also receive additional rewards and benefits associated with use of their cards, as further discussed below.

19. MasterCard credit cards offer Cardholders the convenience of not carrying cash or cheques, a source of unsecured credit, interest-free periods and easy record keeping.

2.1.3) Issuers in the MasterCard System

20. Issuers are responsible for creating product offerings which interest Cardholders, issuing MasterCard credit cards to Cardholders and establishing the terms on which Cardholders maintain their credit card accounts.

21. Issuers' arrangements with Cardholders determine credit limits, when payments are due, the amount of time before interest is charged on account balances, the minimum repayment requirement, the minimum payment to be made by the Cardholder, the interest rate on unpaid accounts, the amount of the annual fee, if any, the rewards, cash advance transaction fees, foreign exchange markup rate and over limit fees.

22. Issuers compete to offer arrangements to Cardholders, offering different features, different interest rates, different annual fees and different rewards. MasterCard Issuers compete with each other to issue MasterCard credit cards, they compete with Issuers of other cards to encourage use of MasterCard issued credit cards instead of other payment card types, and they compete with suppliers of other payment mechanisms to encourage Cardholders to use MasterCard credit cards instead of other means of payment.

23. In some cases, MasterCard requires that Issuers provide Cardholders with certain levels of benefits with respect to particular types of cards. However, the fees paid to Issuers by Cardholders are generally determined by Issuers and not by MasterCard.

24. Issuers, and not MasterCard, also determine the interest rates or other charges to be applied in circumstances where, as an example, grace periods have expired and amounts remain due and owing. The only exception to this statement is that MasterCard's Operating Rules prohibits Issuers from engaging in illegal actions, which prevents them from charging unlawful interest rates.

2.1.3.1) The Historic Issuance of MasterCard Credit Cards in Canada

25. When the network now operated by Visa Canada Corporation ("Visa") first came to Canada in 1968, it did so as an association of four of Canada's five largest banks:

Canadian Imperial Bank of Commerce, Royal Bank of Canada, Bank of Nova Scotia and The Toronto-Dominion Bank.

26. When MasterCard first came to Canada, it did so under the brand name MasterCard. At that time, it forged a relationship with the remaining major banks in Canada including Bank of Montreal and National Bank of Canada. Interac debit was introduced in or around the early 1990s as a product of agreement between Canada's largest banks.

27. Until November of 2008, "non-duality rules" prevented Issuers from issuing both MasterCard and Visa cards. In November 2008, the Competition Bureau issued a letter which advised that the Bureau was of the view that it would no longer have a concern if Issuers were permitted to issue both MasterCard and Visa credit cards. They may now do so.

28. Traditionally, MasterCard has been the second largest credit card network in Canada in most Merchant and Cardholder demographics, measured by both the number of transactions and by the gross dollar volume of its transactions. However, MasterCard is behind American Express as well as Visa, in some important categories including "transactors", further discussed below.

29. MasterCard's Issuers include banks, credit unions, and other financial service entities. MasterCard credit cards have also been issued by a number of small credit unions, such as Credit Union Atlantic, and foreign-based Issuers, including Capital One,

Bank of America, Chase, GE Money Canada, and HSBC.

30. MasterCard Issuers also include a number of the largest financial institutions in Canada, such as Canadian Imperial Bank of Commerce, Royal Bank of Canada, Bank of Montreal and National Bank of Canada.

31. Some of the largest retailers and Merchants in this country also issue MasterCard credit cards, including Canadian Tire and Wal-Mart.

2.1.4) Acquirers in the MasterCard System

32. Acquirers that play a significant role in the MasterCard network in Canada include Moneris Solutions, Global Payments Canada and Chase Paymentech.

33. The suite of services supplied by MasterCard to Acquirers permit Acquirers to switch transactions and match MasterCard credit cards presented to their Merchant clients with Issuer accounts for authorization and clearance. The services which MasterCard supplies to Acquirers also include brand marketing, product development, and network/processing solutions involving the MasterCard network.

34. Acquirers supply a different suite of services to Merchants including, but not limited to, a guarantee of prompt payment, banking and deposit arrangements, deployment of terminals or other technology to accept card payments, implementation and project management services, assumption of risk, customer service support, replacement of equipment, flexibility of settlement/deposit arrangements, gift card processing, rewards processing, private label card processing, Merchant statements, training and training material packages.

35. Among other things, Acquirers often package and sell to various Merchants different forms of payment acceptance and related hardware. They also often offer

Merchants a "float" of particular payments in the network.

36. In exchange for providing a suite of services to Merchants, Acquirers generally charge Merchants a fee calculated as the percentage of each transaction, known as the merchant discount rate. Generally speaking, the Acquirer makes its profit out of the merchant discount rate.

37. MasterCard does not track, compile or control the merchant discount rate or any other fee charged by Acquirers to Merchants. MasterCard does not mandate that Acquirers charge Merchants in this way. MasterCard generally does not have knowledge of particular merchant discount rates paid by Merchants to their Acquirers. Because MasterCard is not privy to negotiated agreements between Acquirers and Merchants, MasterCard is not aware of each Merchant's merchant discount rate nor does it know all Merchants which accept, or cease to accept, MasterCard credit cards.

38. The Witness Statement of Mike McCormack states at paragraph 159 that the services that Acquirers provide to Merchants are "[...] centered on providing merchants with the ability to accept Visa and MasterCard branded credit cards for payment [...]".

39. The description of services which Mr. McCormack states are provided by Acquirers to Merchants are not a set of services provided by MasterCard to Acquirers.

40. Even with respect to the MasterCard network, Merchants deal with their Acquirer – not with MasterCard. Merchants connect electronically via point-of-sale solutions to the proprietary system operated by their Acquirers. Merchants have no ability to connect to the MasterCard network (unless they also issue or acquire MasterCard transactions, thereby acting as an Acquirer or Issuer, rather than a Merchant).

2.1.5) Merchants in the MasterCard System

41. Merchants in a variety of sectors choose to accept MasterCard credit cards. The vast and overwhelming majority of Merchants who accept MasterCard credit cards do not have any contractual relationship with MasterCard, but rather contract with Acquirers for a whole suite of credit card, debit and payment method services. Despite some Merchants having contractual relationships with MasterCard relating to incentives, marketing and technology, MasterCard does not acquire transactions for Merchants in Canada. That is, in all instances where MasterCard has concluded an agreement with a Merchant, the Merchant still has an agreement with an Acquirer for the provision of acquiring services.

42. Where it will add value to the network, MasterCard will negotiate agreements directly with Merchants. MasterCard has incentive agreements with some large Merchants, who have negotiated certain benefits directly with MasterCard in exchange for electing to issue or accept MasterCard credit cards. For example, MasterCard may provide marketing incentives in exchange for having a high-profile Merchant choose to accept MasterCard credit cards. MasterCard may also pay Merchants for transaction volume processed at their store, on Merchant-issued cards or on cards issued by Issuers but labeled with the Merchant's brand (known as "co-branded" credit cards).

43. [REDACTED]

[REDACTED] I further discuss co-branded and Merchant issued credit cards below.

44. Some of the benefits to Merchants of accepting MasterCard credit cards include:

- a. Increased Sales: Consumers spend more when they are not constrained by cash on hand;
- b. Customer Satisfaction: Customers appreciate the fact that Merchants allow them the flexibility to pay the way they want to pay;
- c. Speed of Checkout: Merchants do not have to spend time counting change or waiting while customers write cheques;
- d. Improved Efficiency: Card transactions today are conducted electronically. These paperless payments can save Merchant's time and money by minimizing cash handling and payment reconciliation;
- e. Safety: With lower volumes of cash, Merchants are less vulnerable to costs of handling, depositing, shrinkage, dishonouring, counterfeiting, delay, theft and pilfering;
- f. Currency Conversion: Electronic payments on MasterCard credit cards are settled in the currency in which the Merchant sells goods and services, regardless of the Cardholder's country of origin is from;
- g. Credit Risk: Merchants accepting payment by MasterCard cards do not bear the risk associated with extending credit to Merchants; and
- h. Low Cost: Merchants do not have to incur the expense of establishing and running their own proprietary credit card systems.

2.2) The MasterCard Credit Card Payment Process

45. Payment by MasterCard credit card in Canada generally accords with the following process. The first step upon Merchant acceptance of a MasterCard credit card for payment is for the transaction to be authorized. In the authorization process, information goes from the Merchant to the Acquirer. The Acquirer then communicates with the Issuer through MasterCard to determine if the Cardholder has sufficient credit to make the purchase. After MasterCard has received instructions from the Issuer, they advise the Acquirer that goods can be released. The Merchant and Acquirer note the transaction.

46. A clearance process takes place after the goods are sold. Merchants provide information about transactions, either sale-by-sale or in batches, to their Acquirer. The information is then transmitted to MasterCard, MasterCard takes the information, notes who is owed what, and advises each Acquirer and Issuer of their net position. Clearance and a form of settlement occur between Acquirers and Issuers, where Issuers pay the net transaction value to Acquirers, minus amounts for the related default interchange rate.

47. Acquirers then settle their accounts with Merchants. The length of time for settlement between a Merchant and Acquirer will usually be driven by market conditions although MasterCard does establish minimum conditions. In Canada, Acquirers compete on the time they take to settle with Merchants. Settlement often occurs within one day. Barring any problems, MasterCard is not generally involved in the settlement process between Acquirers and Merchants.

48. MasterCard operates its own electronic system for clearing transactions. While MasterCard Issuers and Acquirers are not obligated to use MasterCard's system for

settlement of amounts owing between them, many choose to do so because it is cost-effective and efficient. However, other Issuers and Acquirers settle through other systems independent of MasterCard.

49. Acquirers ultimately collect their fees from Merchants on a schedule determined by them. Correspondingly, Cardholders maintain an account with Issuers on terms agreed upon between them.

3) Competition for Payments in Canada

50. Use of a MasterCard credit card is one of many ways for consumers or businesses to pay for goods and services in Canada and for merchants to accept payment for goods. A non-comprehensive listing of such methods includes cash, cheques, pre-authorized debit, Interac debit, Interac e-Transfer, money orders, travelers cheques, gift cards, Merchant-issued credit cards, PayPal, Bill me Later, Obopay, Bill Monk, Text Pay Me and Zoompass and general purpose credit cards, including MasterCard, Visa, American Express, Discover, JCB and China UnionPay.

51. Cash is a particularly significant competitor for MasterCard. The Bank of Canada's Carlos Arango stated in his testimony to the Canadian Senate of March 3, 2011 attached as Exhibit "B":

"Cash accounts for 54% of total purchases....Based on a rough extrapolation this could amount to at least 6 billion cash transactions compared to 2.5 billion for credit-cards and 3.9 billion for debit cards in 2009."

Correspondingly, an active component of MasterCard's competitive strategy – not just in Canada, but throughout the world – has been a "war on cash".

52. That credit cards and cash compete at the point of sale has been recently acknowledged by Mr. Arango in the conclusion of his discussion paper, *Why Is Cash*

(Still) So Entrenched? Insights from the Bank of Canada's 2009 Methods-of-Payment

Survey, released February 2012:

The results suggest that payment innovations that are easy to use and widely accepted may cause substantial reductions in cash usage, especially for transactions below \$25, where we estimate that annual cash volumes are 6.2 billion transactions, about the same as the current combined volume of debit and credit card payments.

One example of such an innovation is the contactless feature (where a payment instrument can be simply waved over a terminal without the need for a signature or PIN) in some Interac debit cards (Flash) and Visa (payWave) and MasterCard (PayPass) credit cards. Such payment cards would be more competitive with cash in terms of speed and ease of use. Although contactless card features were just introduced in Canada a few years ago, there is already evidence of their effect on cash usage (Fung, Huynh and Sabetti 2011). More recent innovations allow debit and credit payments through mobile phones, as well as make credit card payments quicker for low value transactions by eliminating the requirement to provide a signature. However, merchants, especially those with high transaction volumes and low transaction values, must be given the right incentives to accept these innovations, since it may involve the upgrading of existing equipment or the purchase of new equipment.

Future work [should] allow researchers to develop more elaborate models of payment instrument usage. For example, to explore competition between debit and credit cards at the point of sale, it is important to understand the factors underlying both consumer selection of different debit and credit card plans and merchants' decisions regarding payment card acceptance.

Why Is Cash (Still) So Entrenched? Insights from the Bank of Canada's 2009

Methods-of-Payment Survey is attached as Exhibit "E".

53. MasterCard aggressively competes as a general purpose credit card brand within the broad payment landscape in Canada. To compete with other methods of payment, MasterCard must successfully encourage both Merchants and Cardholders to use MasterCard credit cards. This competition occurs every day, multiple times a day, with millions and millions of transactions. By the time a purchase is made, MasterCard has

competed with all the other available payment methods for that transaction.

54. While the acceptance of MasterCard credit cards amongst all Merchants increased during my time with MasterCard, MasterCard traditionally struggled for Merchant acceptance in certain Merchant segments. We made a conscious effort to expand Merchant acceptance by being more attractive to more Merchants, and broader categories of Merchants. We succeeded in this. Presumably those Merchants who previously did not accept MasterCard credit cards decided that they would be better off accepting them than not, taking into account the merchant discount rate they had to pay to do so.

55. MasterCard also competes for Cardholders in different spaces. For example, American Express traditionally had an advantage among affluent Cardholders and performed similarly to MasterCard in the commercial sphere.

56. The competition between Visa and MasterCard is vigorous and occurs on both sides of the two-sided Canadian credit card business. On the Merchant side, MasterCard competes to enlist Canadian financial institutions and processors to acquire Merchant MasterCard credit card payments.

57. On the consumer side, MasterCard competes to enlist Canadian financial institutions to issue MasterCard credit cards. These Issuers seek to encourage consumers to use MasterCard credit cards instead of competing payment forms. MasterCard offers consumers a significant number of Merchants who choose to accept MasterCard branded credit cards.

58. PayPal, a traditional on-line payment provider, has also begun to move into the bricks and mortar retail landscape. I believe that the merchant discount rate for Merchants to accept PayPal is substantially higher than MasterCard, Visa or American

Express.

59. Some Merchants issue their own general purpose credit cards or operate store-branded cards. Many Merchants have discontinued their proprietary card arrangements to accept general purpose cards because of the relatively low cost of doing so. That is, they have concluded that they are better off accepting general purpose credit cards and paying the associated costs, than operating their own proprietary credit card program.

60. Merchants who accept credit cards have determined that the benefits outweigh the costs. Merchants are aware of the cost of credit card payments because they receive disclosures pursuant to the Code and within periodic statements from their Acquirers. Merchants also sign contracts outlining their costs before commencing acceptance of MasterCard credit cards.

61. However, Merchants tend to have less awareness about the costs of accepting cash, cheque or pre-authorized debit because such costs are less transparent and don't appear as an item on a statement. Other payment methods have their own associated costs, such as handling, theft, depositing, shrinkage, dishonouring, counterfeiting and delays.

4) The Operating Rules

62. MasterCard's role as network operator also includes the establishment of rules and protocols to ensure that Acquirers promptly settle Merchant accounts, Issuers clear transactions with Acquirers, and Issuers treat Cardholders as they promise.

63. MasterCard's Operating Rules (the "Operating Rules") require Issuers to settle all valid transactions which are submitted by Acquirers. The Operating Rules allow the MasterCard network to function as an attractive, efficient payment mechanism for both

Cardholders and Merchants. The Operating Rules dated December 7, 2011, are attached as Exhibit "F".

64. Within the four-party MasterCard network, MasterCard typically has agreements with two main types of parties: Issuers and Acquirers. In order for an entity to act as an Issuer or Acquirer within the MasterCard network, it must execute a license agreement.

4.1) The Challenged Rules

65. The "honor all cards rule" ("HACR") for MasterCard credit cards in the Canada Region, Rule 5.8.1, reads:

"Honor All Other MasterCard Cards. Merchants that choose to accept Other [non-domestic debit] Cards must honor all Other Cards without discrimination when properly presented for payment. The Merchant must maintain a policy that does not discriminate among customers seeking to make purchases with another Card."

66. The "no discrimination rule" ("NDR"), Rule 5.11.1, reads:

"A Merchant must not engage in any acceptance practice that discriminates against or discourages the use of a Card in favor of any other acceptance brand."

67. The "no surcharge rule" ("NSR") for the Canada Region, Rule 5.11.2, reads:

"A Merchant must not directly or indirectly require any Cardholder to pay a surcharge or any part of any Merchant discount or any contemporaneous finance charge in connection with a Transaction. A Merchant may provide a discount to its customers for cash payments. A Merchant is permitted to charge a fee (such as a bona fide commission, postage, expedited service or convenience fees, and the like) if the fee is imposed on all like transactions regardless of the form of payment used, or as the Corporation has expressly permitted in writing. For the purposes of this Rule:

1. A surcharge is any fee charged in connection with a Transaction that is not charged if another payment method is used.
 2. The Merchant discount fee is any fee a Merchant pays to an Acquirer so that the Acquirer will acquire the Transactions of the Merchant.
- In addition to a discount for cash, a Merchant may provide a discount to its

customers for other forms of payment, including differential discounts for other payment brands. Such discounts must be clearly communicated at the Point of Interaction.”

68. Collectively, the HACR, NDR and NSR are the “Challenged Rules”.

4.1.1) The No Surcharge Rule

69. The NSR is protective of Cardholder interests. It prohibits the Cardholder being asked to pay an additional amount above the posted price for using a MasterCard credit card. Moreover, the NSR is a common feature in different franchises.

70. The NSR prevents Merchants from free riding on the benefits of the MasterCard network by extracting benefits for themselves in the form of a surcharge for MasterCard usage.

71. If Cardholders are surcharged, they may believe that their MasterCard is not willingly accepted at Merchant locations. The NSR therefore prevents a bait and switch on Cardholders who believe that they will receive the full benefit associated with use of their MasterCard credit card, but, because of a surcharge, do not.

72. Insofar as surcharging would negatively affect use of MasterCard credit cards the NSR protects the MasterCard network from injury. Permitting surecharging would allow certain Merchants to surcharge certain Cardholders in certain situations, to the detriment of those Cardholders, and to the detriment of MasterCard since its brand would be seen as less valuable, and MasterCard cards used less often. Of course, this concern arises because MasterCard competes with many other forms of payment.

73. No MasterCard rule, policy or agreement prevents or discourages Acquirers from offering lower prices to Merchants or Merchants from offering discounts or lower prices to Cardholders.

4.1.2) The Non-Discrimination Rule

74. The NDR is designed to protect the value of the MasterCard brand, including protecting against brand disparagement or behaviour which prevents a Cardholder from using his or her MasterCard credit card.

75. The NDR does not prevent steering, however. Merchants who agree to accept payment by MasterCard credit cards are free to effectively encourage Cardholders to pay for goods and services by various other payment options so long as they do not do so in ways which unduly damages or undermines the MasterCard brand proposition to Cardholder or Cardholder interests.

76. Notwithstanding the Challenged Rules, MasterCard permits steering and preference statements in the form of discounting and signs promoting use of other payment methods as are permitted under the Operating Rules.

77. However, the NDR prevents Merchants from purporting to accept MasterCard credit cards and then preventing Cardholders from using them. Practical examples of conduct prohibited by the MDR are if a Merchant were to automatically send consumers paying with MasterCard credit cards to the back of a line at the point of sale.

4.1.3) The Honour All Cards Rule

78. One of MasterCard's core brand promises to Cardholders is that if a Merchant agrees to accept MasterCard credit cards, the Cardholder's particular MasterCard credit card will be accepted.

79. If a Merchant agrees to accept a MasterCard credit card, the Merchant must accept all MasterCard credit cards, no matter the type of card or who the Issuer is or where it is located.

80. The HACR is also fundamental to the payment network by giving Cardholders confidence that their MasterCard credit card will be accepted and avoiding negative experiences at the point of interaction. MasterCard's HACR enables the network to compete by protecting its valuable brand capital. Without confidence that their MasterCard credit card will be accepted for payment, a Cardholder will not be as inclined to carry or use a MasterCard credit card.

81. It is particularly critical to the viability of the MasterCard network that cards issued by smaller entities be honoured, as MasterCard relies on many small Issuers and fewer larger Canadian financial institutions to issue MasterCard credit cards. Other general purpose credit card networks, such as American Express and Visa, do not rely on small Issuers.

82. Correspondingly, the HACR promotes innovation and entry by small, new innovative Issuers and promotes the existence of competing card types. New, smaller, innovative Issuers will have confidence that the MasterCard credit cards they issue will be accepted. Larger, more established Issuers cannot strike arrangements which would exclude such smaller Issuers.

83. Both the Canadian Federation of Independent Business and Retail Council of Canada have advised MasterCard that if Merchants are not required to honor all cards, they would recommend to their members to drop MasterCard acceptance as a way of "sending a message" because MasterCard is the smaller network and has small issuers. Assuming that Merchants are willing to follow the advice of these associations, MasterCard will be disproportionately discriminated against if the HACR is removed.

4.2) The Role of the Operating Rules

84. Certain of the Operating Rules minimize negative impact and provide Cardholders ease and confidence in using their MasterCard card. If an Acquirer or Issuer of the network does not abide by the rules of the network, there is a risk that the consumer experience will be denigrated and the quality control that a consumer has come to associate with the use of a MasterCard credit card will not have been lived up to.

85. MasterCard, as is common in other franchise situations, strives to ensure that the members of the network meet certain quality control standards. Some of these standards (e.g. the NSR and HACR) primarily benefit Cardholders, while others (e.g. timely settlement) primarily benefit Merchants. They are all designed to maximize the attractiveness of the network, overall, to balance it, and thereby to maximize its usage.

86. The Operating Rules and the Challenged Rules are designed to expand output, benefit Cardholders and promote efficiency. The Operating Rules are efficiency enhancing and consumer protection rules, designed to make MasterCard an attractive form of payment. Reasons for adoption of the Challenged Rules have nothing to do with any sort of price maintenance.

87. Even if the Challenged Rules are removed, I do not believe that MasterCard's default interchange rates or network fees will be materially different, or result in a reduction in consumer prices.

5) The Default Interchange Rate, Interchange Monies and Network Fees

5.1) Interchange Rates

88. The interchange rate is an amount retained by an Issuer on any given credit card transaction before payment is made to an Issuer. MasterCard does not receive interchange

monies (they flow from Acquirer to Issuer), and MasterCard does not earn revenue on interchange amounts. However, MasterCard manages default interchange rates to balance the network to maximize its appeal on one hand to Merchants and Acquirers, and to Issuers and Cardholders on the other.

89. Interchange is an input cost for Acquirers. When Acquirers contract with Merchants, they may relate the merchant discount rate which they negotiate and charge to the Merchant to default interchange rates, or they may not. It is up to them. An Acquirer may conclude an agreement with a Merchant specifically enumerating default interchange rates or may conclude a flat-fee arrangement where default interchange rates are invisible and irrelevant to the Merchant. Acquirers are free to negotiate whatever pricing they can. They can make money or lose money. MasterCard has no say in the matter.

90. Merchants and Acquirers negotiate agreements without the involvement of MasterCard. Acquirers are not required by any agreement with MasterCard to charge specific amounts to Merchants or set their pricing so as to specifically enumerate default interchange rates.

5.2) The Default Interchange Rate

91. In lieu of an agreement between an Acquirer and Issuer providing otherwise, MasterCard establishes the default interchange rate applicable to transactions on the MasterCard network. However, Acquirers and Issuers are not bound to the default interchange rate. At all times, Acquirers and Issuers have the ability to negotiate the interchange rate applicable to any particular transaction.

92. The cost and time required to negotiate individual agreements between Acquirers

and Issuers lead them to utilize the default interchange rate. In addition to enhancing efficiency, default interchange rates prevent large participants from taking advantage of, or even “freezing out”, smaller entities in the MasterCard network by ensuring the transaction will be completed.

93. But for an agreed interchange rate, Acquirers would not be assured of their costs of clearance or that they could clear and settle at all and could not commit to pay a pre-agreed amount to Merchants. But for an agreed interchange rate, Issuers could not determine pricing to Cardholders. The default interchange rate ensures that there is an agreed rate.

94. Without default interchange rates, the MasterCard network would not function at all or, at best, would function at a significantly reduced level with greater uncertainty for the involved parties.

5.2.1) The Role of the Default Interchange Rate

95. MasterCard’s goal in establishing the default interchange rate, as with its use of other balancing devices such as the Challenged Rules, is to achieve a balance between the “value propositions” that MasterCard provides to Cardholders and Issuers on the one hand and Merchants and Acquirers on the other so as to achieve maximum possible volume on the MasterCard network.

96. MasterCard periodically reviews default interchange rates to ensure the rate maximizes the benefits of the MasterCard network for Merchants, Cardholders, Acquirers and Issuers.

97. MasterCard considers whether the default interchange rate would tend to encourage Merchants to accept MasterCard credit cards and tend to encourage Issuers to

provide innovative card products that meet consumer demand. In order to achieve widespread consumer demand and Merchant acceptance of MasterCard cards, MasterCard sets the default interchange rate at a rate where Cardholders must perceive benefit and Merchants must be better off accepting MasterCard cards.

98. There is therefore a relationship between the two sides of the network: MasterCard must ensure that a MasterCard transaction or products associated with transactions are attractive to Issuers so that they increase the number of Cardholders they put into the network and, at the same time, the default interchange rate must represent value for Acquirers and Merchants compared to the cost. If MasterCard fails in its value proposition to Acquirers, MasterCard runs the risk of losing Merchants, and if the network loses Merchants, the Cardholder value proposition is lost. If fewer Cardholders use MasterCard credit cards, MasterCard loses the Merchant value proposition.

5.2.2) Market Impact on the Default Interchange Rate

99. In some instances, the amount charged by Acquirers to Merchants for their whole suite of services may be below the amount of default interchange rate, and in others it may be well above it. In some cases, for on-us transactions, the interchange rate is zero per cent.

100. Default interchange rates are constrained by operation of the market. MasterCard considers its "competitive positioning" against other forms of payment as one of the factors when establishing default interchange rates.

101. To the extent default interchange rates influence pricing to Merchants by Acquirers, Merchant willingness to accept MasterCard credit cards may drop. MasterCard will, in that scenario, lose business to its competitors.

102. If default interchange rates are set too low, Issuer willingness to continue to create innovative products and issue MasterCard credit cards that attract Cardholders will drop and, as a result, so will consumer demand for MasterCard credit cards.

103. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED] The current segregation of default interchange rates into different Merchant categories (including, for example, the lower default interchange rates related to large petroleum and supermarket Merchants) is a by-product of MasterCard balancing the system and needing to compete for Merchant acceptance in those discrete segments.

104. MasterCard's default interchange rates do not determine Merchant pricing. I generally understand that, historically, despite MasterCard's default interchange rate being lower than Visa's for many years, the merchant discount rate offered by Acquirers to Merchants for acceptance of MasterCard products was at times more expensive than for acceptance of Visa products. Some Acquirers offered pricing for blended services across payment types and sometimes, irrespective of MasterCard's default interchange rate, made up for a narrow margin on Visa credit card transactions by charging more for MasterCard credit card transactions.

105. As discussed below, MasterCard makes its revenue from Issuers and Acquirers

based on the number of transactions and dollar volume associated with those transactions. MasterCard's financial interest and goal is therefore to set default interchange rates and Operating Rules so as to maximize the acceptance and use of MasterCard credit cards, against all forms of payment, by maximizing value to Cardholders and Merchants. Conduct to the contrary would cause MasterCard financial harm as Cardholders would instead make purchases using competing payment types, such as Visa, Interac debit and cash, among others.

5.3) The Creation of Premium High Spend Products

106. In the last five years, MasterCard identified a sector of consumers where MasterCard was not competitive, being "transactor" purchasers. These purchasers typically do not carry a monthly balance on their MasterCard credit card accounts and, on average, spend more and more frequently. They also tend to expect benefits and be attracted to rewards from their payment cards.

107. Transactors tend to use credit cards as a payment vehicle and do not require associated lending. It is desirable to attract transactors to the MasterCard network because MasterCard's revenues are derived from transaction count and volume and MasterCard derives no economic benefit from lending. Transactors, however, may be less desirable to Issuer than "revolvers", because transactors do not generate interest revenue for Issuers.

108. When MasterCard found itself uncompetitive in the transactor segment with Visa, American Express and Interac debit, MasterCard developed product structures which would appeal to high-spend transactor Cardholders, the High Spend and Premium High Spend programs.

109. The default interchange rate payable in relation to use of High Spend and Premium High Spend MasterCard credit cards was higher than that of core MasterCard credit cards, but Issuers were also required to ensure that Cardholders would receive additional benefits for using these products.

110. Issuers were required to certify that minimum spend levels were met on an aggregate basis in order for the Issuer to receive the higher default interchange rate related to a High Spend or Premium High Spend product construct.

111. If an Issuer could not meet the requirements of the Premium High Spend product construct, that Issuer's program would be moved out of the product construct. MasterCard also retained the ability to assess penalties against non-compliant Issuers, so as to eliminate the receipt of interchange monies not otherwise payable to the Issuer and to provide economic incentive for the Issuer to be honest in the presentation of qualifying programs.

5.4) Co-Brand and Other Agreements Between MasterCard and Merchants

112. In exchange for incentives, as noted above, some Merchants enter into agreements with MasterCard directly to create credit card products that bear the brands of both the Merchant and MasterCard. These arrangements may be structured so that credit cards will be issued by any one of MasterCard's Issuers or issued by the Merchant itself. They may involve incorporation of the Merchant's brand on the card, or they may not.

113. Where a Merchant does enter into a co-branding or issuing arrangement with MasterCard, the associated card product most often provides benefits to Cardholders for use of the card, with extra benefits for use of the card at the participating Merchant.

114. I have read the Witness Statement of Candice Li, filed on behalf of WestJet. Ms.

Li asserts at paragraph 22 that "To the best of WestJet's knowledge, Interchange Fees are set by Visa and MasterCard, and are non-negotiable by the Merchant, except where certain limited opportunities exist, such as the issuance of a co-branded credit card".

115. WestJet is indeed familiar with negotiating interchange rates related to co-branded credit cards with MasterCard. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

116. I am also aware that WestJet does not accept cash in the cabin, and only accept MasterCard, Visa, American Express and WestJet vouchers. It must find cash – given its associated costs and inconvenience – to be more expensive than those other payment methods.

117. I have also read portions of the Witness Statement of Craig Daigle, filed on behalf of Shoppers Drug Mart Inc. While Mr. Daigle, like Ms. Li, acknowledges the co-branded MasterCard product offered in conjunction with Shoppers Drug Mart Inc., Mr. Daigle states at paragraph 23 that, "Shoppers has no say with respect to Card Acceptance Fees and not [sic] been able to effectively negotiate with Visa and MasterCard to constrain or reduce these fees". He also states at paragraph 33 that, "Shoppers cannot create competition to constrain increases in or encourage reductions of Card Acceptance Fees". Lastly, he states at paragraph 34 that, "Shoppers is unable to effectively encourage or incent customers to use lower-cost methods of payment, such as cash, Interac debit and

[REDACTED]

lower-cost credit cards, including by surcharging credit cards with higher Card Acceptance Fees, declining to accept credit cards with higher Card Acceptance Fees or steering consumers to lower-cost payment methods”.

118. As a matter of fact, these statements are inaccurate. Mr. Daigle acknowledges the reduction in default interchange rate payable upon usage of the co-branded MBNA Shoppers Optimum MasterCard at Shoppers Drug Mart. However, the Strategic Alliance Agreement entered into between Shoppers Drug Mart and MasterCard, [REDACTED] [REDACTED] is more extensive. The preamble to the Strategic Alliance Agreement states,

[REDACTED]

119. As a function of the Strategic Alliance Agreement, Shoppers Drug Mart Inc. receives [REDACTED]

[REDACTED]

120. Among other things, the Strategic Alliance Agreement also provides that Shoppers Drug Mart Inc. will [REDACTED]

[REDACTED]. As a result, not only can Shoppers Drug Mart Inc. steer consumers to lower-cost payment methods (indeed through a MasterCard product), [REDACTED]

121. I have also read portions of the Witness Statement of Paul Jewer, filed on behalf

of Sobeys Inc. Mr. Jewer states:

“As a result of the Merchant Rules, grocers are unable to effectively encourage customers to use lower-cost methods of payment, such as cash, Interac debit and lower-cost credit cards, including by surcharging credit cards with higher Card Acceptance Fees, declining to accept credit cards with higher Card Acceptance Fees or steering consumers to lower-cost payment methods.” (paragraph 49)

122. As otherwise detailed herein, the Operating Rules and the Code of Conduct for the Credit and Debit Card Industry (“Code of Conduct”) permit various forms of steering, including varied discounting between payment types. Additionally, Sobeys has entered into a Strategic Alliance Agreement with MasterCard, [REDACTED]

[REDACTED]

123. The preamble of the Sobeys Strategic Alliance Agreement states, among other things:

[REDACTED]

124. The Strategic Alliance Agreement provides for [REDACTED]

[REDACTED]

125. In exchange for these significant financial concessions, Sobeys agreed to

[REDACTED]

[REDACTED]

126. Not only did Sobeys negotiate an agreement with MasterCard which provided it with significant financial benefit (related to the co-branded product and otherwise), but it committed to additional obligations regarding acceptance of MasterCard credit cards beyond those required in the Operating Rules. It negotiated these commitments in exchange for benefits. It is odd, to say the least, therefore that Mr. Jewer says that grocers are unable to effectively encourage customers to use lower-cost methods of payment, including lower-cost credit cards, or steer consumers to lower-cost payment methods.

5.5) MasterCard's Network Fees

127. MasterCard's financial interest is related to network fees charged by MasterCard to Issuers and Acquirers, which are not interchange fees. Because MasterCard earns revenue on volume-based transaction fees and dollar volume fees, not interchange rates, MasterCard has an economic incentive to make rules that increase the use of its brand of credit cards.

128. The blended total of all fees paid to MasterCard, by Issuers and Acquirers, in or around 2010, was roughly [REDACTED] including costs of settlement between Issuers and Acquirers, less the effect of incentives and rebates.

6) Conclusion

129. If the Order requested by the Commissioner is granted, MasterCard's competitors, such as American Express and Interac debit, who will not be subject to such Order, will be competitively advantaged. They will not be required to permit surcharging, nor will

Merchants be permitted to decline cards related to those networks. While Interac currently permits Merchants to surcharge Interac debit usage, it will not be obligated to continue to do so in the future.

130. Even Visa, who is presumably would be subject to the Competition Tribunal's Order, will be competitively advantaged over MasterCard because of its size.

131. The Code of Conduct specifically addresses the same concerns that the Application purports to address, such as cost awareness, interchange awareness and differential discounting for different methods of payment.

132. In arriving at the Code of Conduct, the Minister of Finance decided not to challenge the HACR or NSR, despite being urged to do so by stakeholders.

133. In fact, even industry participants who represent Merchants do not support the relief sought by the Commissioner. According to the Globe & Mail, the Retail Council of Canada's President Diane Brisebois stated, "The Retail Council of Canada does not support surcharging, but wants the payment system regulated. This is another piece of the puzzle, and [the Code] provides the Minister with further evidence of a more robust regulatory framework". Page A1 of the Globe & Mail, dated December 16, 2010 is attached as **Exhibit "K"**.

134. Cardholders are opposed to any initiative whereby Merchants would be permitted to add a surcharge to purchases made with a credit card or reject certain forms of payment from customers. The Consumers' Association of Canada also does not support the relief sought by the Commissioner. A Statement issued by the Consumers' Association of Canada stating its position concerning this application is attached as **Exhibit "L"**.

135. The Code of Conduct was not fully in effect when the Application was commenced or when my role as President of MasterCard. The Commissioner's application has not given the Code of Conduct much of a chance to work.

136. The Operating Rules do not necessarily effect MasterCard's default interchange rates. If any particular Merchant surcharges MasterCard credit cards or does not honour all cards, it will not necessarily have the effect of lowering Canadian default interchange rates. Eliminating the Challenged Rules will not, in and of itself, have a generalized effect of lowering default interchange rates which are set at a level which is believed to maximize the volume of transactions on MasterCard credit cards.

137. Repeal of the NSR is unlikely to have a meaningful effect on default interchange rates or merchant discount rates but to the extent that surcharges occur will injure Cardholders, the usefulness of MasterCard credit cards and divert Cardholders to American Express and other forms of payment.

138. The NDR is important to MasterCard in light of its market position vis-à-vis Visa as a smaller brand of general purpose credit card in Canada. Repeal of the NDR will permit disparagement of the MasterCard brand and unfairly discriminate against MasterCard as the smaller of the two four-party networks now operating in Canada.

139. Repeal of the HACR could fundamentally undermine the MasterCard network; thwart small brands and small Issuers; and injure Cardholders. Without the rule, Cardholders cannot have confidence that their card will be accepted. Even if very few Merchants actually fail to honour all cards, once it is known that they may not some confidence in the network is lost. If dishonoring cards becomes common, the situation is even worse. It would undermine the effectiveness of MasterCard as a payment device

and result in diversion of Cardholders to American Express and other forms of payment.

140. Eliminating the Challenged Rules will not have a generalized effect of lowering interchange which is set in an attempt to maximize the volume of transactions on MasterCard credit cards. An increase or reduction of the default interchange rate has nothing to do with the level of competition in the payments market (although it will affect MasterCard's competitiveness and efficiency).

141. If the Challenged Rules are eliminated, to the extent that the Commissioner's position that Merchant leverage is increased, it will disproportionately advantage large Merchants over small ones. Absent the Challenged Rules, large merchants will be in a better position to bargain than small Merchants who will thereby be relatively prejudiced.

142. The remedy sought by the Commissioner would, if it works the way the Commissioner envisions, decrease the efficiency, competitiveness and value to Cardholders of the MasterCard network. It would result in both uncertainty about acceptance and confusion about prices among Cardholders, which would undermine two core brand promises of MasterCard credit cards and would harm the welfare of consumers whose credit cards would no longer be as convenient or reliable as they were before.

Signed: _____



KEVIN J. STANTON

CT - 2010-010
THE COMPETITION TRIBUNAL

IN THE MATTER OF THE *COMPETITION ACT*, R.S. 1985, C. C-34, AS AMENDED;

AND IN THE MATTER OF AN APPLICATION BY THE COMMISSIONER OF COMPETITION PURSUANT TO SECTION 76 OF THE *COMPETITION ACT*;

AND IN THE MATTER OF CERTAIN AGREEMENTS OR ARRANGEMENTS IMPLEMENTED OR ENFORCED BY VISA CANADA CORPORATION AND MASTERCARD INTERNATIONAL INCORPORATED.

BETWEEN:

THE COMMISSIONER OF COMPETITION
Applicant

-and-

VISA CANADA CORPORATION and
MASTERCARD INTERNATIONAL
INCORPORATED
Respondents

-and-

THE TORONTO-DOMINION BANK and
CANADIAN BANKERS ASSOCIATION
Intervenors

WITNESS STATEMENT OF
KEVIN J. STANTON

McMILLAN LLP
Brookfield Place
181 Bay Street, Suite 4400
Toronto, Ontario M5J 2T3

Tel: (416) 865-7000
Fax: (416) 865-7048

Jeffrey B. Simpson
David W. Kent
James B. Musgrove
Counsel to MasterCard International
Incorporated

**This is Exhibit "A" referred to in the
Witness Statement of KEVIN J. STANTON**



Energized **employees**. Powerful **insights**. Leading **innovations**.
Delivering valuable payment solutions to people everywhere.

The MasterCard Advantage

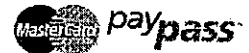
MasterCard AdvisorsSM

MasterCard
inControl.

Priceless
あなたのお金の使い方から "priceless" を見つけよう



MasterCard.
Smart Data



Consumo Inteligente
MasterCard Worldwide



Summary Consolidated Financial and Other Data

All figures throughout this report in U.S. dollars

(in millions except per share and operating data)	For the Years Ended December 31		
	2010	2009	2008
Statement of Operations			
Revenues, Net	\$ 5,539	\$ 5,099	\$ 4,992
General and Administrative	1,852	1,935	1,996
Advertising and Marketing	782	756	935
Litigation Settlements	5	7	2,483
Depreciation and Amortization	148	141	112
Total Operating Expenses	2,787	2,839	5,526
Operating Income (Loss)	2,752	2,260	(534)
Total Other Income (Expense)	5	(42)	151
Income (Loss) before Income Taxes	2,757	2,218	(383)
Income Tax Expense (Benefit)	910	755	(129)
Income Attributable to Non-Controlling Interests	(1)	—	—
Net Income (Loss) Attributable to MasterCard	\$ 1,846	\$ 1,463	\$ (254)
Basic Earnings (Loss) per Share	\$ 14.10	\$ 11.19	\$ (1.94) ¹
Diluted Earnings (Loss) per Share	\$ 14.05	\$ 11.16	\$ (1.94) ¹
Balance Sheet Data (at period end)			
Cash, Cash Equivalents and Investment Securities — Current	\$ 4,198	\$ 2,879	\$ 2,093
Total Assets	8,837	7,470	6,476
Long-Term Debt	—	22	19
Obligations Under Litigation Settlements	302	870	1,736
Equity	5,216	3,512	1,932
Operating Data			
Gross Dollar Volume (in billions) ²	\$ 2,727	\$ 2,463	\$ 2,540
Processed Transactions (in millions) ³	23,052	22,401	20,951

(1) As more fully described in Note 3 (Earnings Per Share) to the consolidated financial statements included in the Form 10-K, on January 1, 2009, a new accounting standard was adopted related to EPS which required retrospective adjustment of EPS for the year ended December 31, 2008.

(2) GDV generated by Maestro and Cirrus cards is not included. The data for GDV is provided by MasterCard customers and includes information with respect to MasterCard-branded transactions that are not processed by MasterCard and for which MasterCard does not earn significant revenues. All data is subject to revision and amendment by MasterCard's customers subsequent to the date of its release, which revisions and amendments may be material.

(3) Data represents all transactions processed by MasterCard, including PIN-based online debit transactions, regardless of brand. The numbers were updated in 2009 to exclude a small number of certain processed transactions initiated with cards that do not bear our brands, and in 2010 to exclude a small number of transactions that were processed by both of MasterCard's processing systems. All prior period data have been revised to be consistent with this revised methodology. Revenue was not impacted by these changes.

The MasterCard Advantage

Every day, MasterCard uses its advantages to benefit consumers, businesses and governments around the world.

We have the fastest processing network in the world. Period.

Our average network response time is 130 milliseconds — twice as fast as our closest competitor — a particularly significant advantage in quick-service environments such as fast food and transit.

We bring intelligence to every transaction.

Our global network is reliable and flexible — making it easier to provide innovative payment solutions like MasterCard inControl.®

We have deep knowledge and insights.

We have an advertising platform that's *Priceless*.

Our award-winning and enduring *Priceless* advertising campaign has appeared in 112 countries and 52 languages.

We're keenly focused on innovation.

We offer state-of-the-art fraud monitoring.

We combat payments fraud on many fronts, using industry leading technology such as MasterCard Expert Monitoring Solutions® to deliver the most advanced fraud protection.

We have powerful brands.

MasterCard,® Maestro® and Cirrus® span the globe. We serve consumers, businesses and governments in more than 210 countries and territories.

We have a diverse, highly skilled workforce.

We have a unified, global structure.

We're able to share products and best practices across regions quickly and easily.



From left to right:

Ajay Banga
President and Chief Executive Officer

Richard Haythornthwaite
Chairman of the Board of Directors

Chairman's Message

Dear Fellow Shareholders:

As I reflect back on 2010, I do so with a great deal of satisfaction.

I am very pleased with the strong results MasterCard delivered, particularly as global economic uncertainty continued to prevail. Our business momentum is good, and our competitive spirit is evident in all that we do.

I am equally pleased with how we continue to further strengthen our organisation through key partnerships, business deals, joint ventures and acquisitions — such as DataCash Group and the prepaid program management business of Travelex. These strategic moves are positioning us to compete more aggressively in markets the world over — markets in which consumers, businesses and governments are coming to appreciate, more and more, the MasterCard advantage over cash and checks as well as other competing brands.

To be sure, the benefits we deliver run far and wide. As developed and emerging societies continue to recognise the safety, efficiency and transparency offered through our payment solutions, I have no doubt that MasterCard will become the currency of choice.

Our future looks bright, indeed. Demographic and secular trends are favourable; our insights are pointing us to emerging opportunities; and our people are energised by the intriguing prospects that lie ahead. Above all, our leading innovations are shaping the future of payments, bringing the MasterCard advantage to everyone, everywhere.

Richard Haythornthwaite
Chairman of the Board of Directors

2010 Financial Highlights

Net Revenues	\$5.5B
Net Income	\$1.8B
Operating Margin	49.7%
Gross Dollar Volume	\$2.7T
Processed Transactions	over 23B
MasterCard-Branded Credit and Debit Cards*	975M
Maestro Debit Cards*	666M
Total Cards*	over 1.6B

T=Trillion, B=Billion, M=Million
*As of December 31, 2010

Executive Letter

Dear Fellow Shareholders:

Since taking on the position of president and CEO, I'm often asked what I like best about MasterCard. The answer is simple. I'm excited about the way our products and solutions benefit people and businesses all around the world — and the integral part we play in people's daily lives.

The fact is that whether you're a young, urban professional working in London, a retired teacher living in Bangkok, or a government seeking greater efficiency, our products and solutions make life easier for you. They offer greater convenience, security and efficiency than cash or checks ever could. What we do as a company allows us to play a central role in facilitating global commerce and all of its positive aspects.

A Strong Year

When I look back on 2010, I see a year in which we made great progress in strengthening our company and our position in the marketplace. I thank our employees for this. Due to their commitment — and the support of customers, merchants, partners and our cardholders — 2010 was another strong year for our company. We posted solid gains in key financial metrics.

At the same time, we expanded our presence in new areas and formed mutually beneficial relationships with financial institutions, merchants, government agencies, transit authorities and telecom companies. This included acquisitions and business partnerships that support our strategy to grow, diversify and build our business.

One example is our acquisition of DataCash Group. This strategic move extends our e-commerce merchant gateway capabilities from Asia and Australia to European countries and other markets worldwide. Another example is our agreement to purchase the prepaid program management business of Travelex. This transaction will enable MasterCard to play a greater role in shaping the future of prepaid, especially in high-growth markets and in the attractive cross-border payments space.

As we look to the future, our biggest growth opportunity lies in replacing cash and checks. That's where electronic payments — and MasterCard — offer a huge advantage.

Making payments mobile



More than four billion people around the world currently have a mobile phone. Or, as we see it, more than four billion people carry a personal mobile payment device.

That's an exciting prospect for us because we already have more than 20 mobile phone initiatives under way in markets around the world.

Recently, we teamed up with numerous mobile carriers, handset manufacturers and financial institutions globally to launch several near field communication payment trials. These initiatives — along with PayPass contactless payment tags, person-to-person money transfer services and smartphone apps — are paving a path to help revolutionize the mobile commerce experience for consumers.

Thanks to joint ventures with Smart Hub and Telefónica, MasterCard payment solutions are being further mobilized for

consumers around the world. And, earlier this year, in partnership with airtel Africa and Standard Chartered Bank, we launched the world's first virtual card that operates off a mobile wallet. Innovations like these are helping to empower billions of mobile phone users who don't have bank accounts or who prefer the convenience of instant access within the palm of their hands.

With MasterCard mobile payment solutions, both banked and unbanked mobile consumers have access to a wide range of payment options that provide greater convenience and security over cash. And, the benefits don't stop with retail purchases and bill payments. Mobile phone users can also send funds, safely and securely, to other people with MasterCard *MoneySend* through their participating bank.

In addition, MasterCard apps like Savings Locator in Italy and Priceless Maker in Japan help consumers find special deals or manage their budgets.

There's no doubt that in markets around the world, consumers are dialing up the MasterCard Advantage for mobile payment solutions.



Increasing efficiency with prepaid

With MasterCard prepaid cards, unbanked workers can collect their paychecks and governments can pay out social benefits and tax refunds.

Consider this:

- Thanks to MasterCard prepaid solutions, people in Peru are receiving government food vouchers on MasterCard prepaid cards.
- In Italy, 1 million people receive government benefits on reloadable MasterCard prepaid cards thanks to our partnership with Poste Italiane. This is Europe's largest social benefits card program.
- Millions of workers in countries from China to the U.S. now receive their salaries on MasterCard prepaid cards.
- In Russia, MasterCard is a key partner in a project designed to deliver social services benefits to millions of Russian citizens who don't have bank accounts.
- The U.S. Department of the Treasury enrolled more than 1.5 million beneficiaries in the Direct Express® Debit MasterCard® program since it was introduced in 2008. As a matter of fact, the U.S. Department of the Treasury announced it will eliminate paper checks completely for Social Security and other government benefit payments. It estimates the switch from paper to electronic payments by 2013 will save U.S. taxpayers — and the Social Security System — more than \$1 billion over the next 10 years. That's an incredible example of the increased efficiency that electronic payments offer.

To be sure, prepaid is a useful solution for many. For under-banked and unbanked consumers, it means financial inclusion — and an opportunity to participate in the modern economy. Our prepaid cards are safe, secure and convenient. They can be used everywhere MasterCard debit and credit cards are accepted and, if a registered card is lost or stolen, cardholders can recover their funds. Can cash do that for you?

The MasterCard Advantage means efficient prepaid solutions for consumers, workers, governments and benefit recipients around the world.

The MasterCard Advantage: Putting Insights to Work at an Exciting Time

Today, nearly 60 percent of our revenue comes from outside the United States. Given global trends, we think that figure will only increase in the coming years, making this an exciting time to be in the payments industry.

For example, over the next decade, there will be 300 million new middle class and affluent consumers, 80% of whom will come from emerging markets. This presents a world of opportunity for us to further penetrate this segment.⁽¹⁾

Another example is the growing influence and purchasing power of the youth market. More than half of the world's population is under the age of 29. And, one in every five dollars — or \$6.4 trillion annually — is spent by youth.

Growing urbanization is yet another interesting trend. The World Bank estimates that approximately one million people a week move from rural homes into cities, putting more people within reach of financial services and electronic payments. And, in countries like India and Russia, governments are increasingly prioritizing financial inclusion within their strategies to ensure future sustainable growth.

These trends are promising for the global economy and for our future growth prospects. Our insights into these and other areas help us create solutions that make it easier for people everywhere to shop, travel, run a business or manage their finances.

Of course, in addition to tracking trends, we actively monitor legal and regulatory matters that may affect our business. In the U.S., for example, we are working with policymakers, the financial services industry and community groups, seeking to address the harm the proposed regulations on debit card interchange fees will have on consumers, small businesses, community banks and credit unions. We'll continue to work with all stakeholders to help them understand the many benefits electronic payments bring to people around the world.

The MasterCard Advantage: Replacing Cash and Checks

Cash and check transactions continue to account for an astonishing 85 percent of the world's \$15.7 trillion of total global payment transactions.⁽²⁾ Hard as it is to believe, even in so-called "mature" payments markets, such as the U.S. and Western Europe, more than half of personal consumption expenditure is in paper form.

Consider the cost of cash. Cash is expensive for governments to print, transport, distribute and secure. Its presence reduces the transparency of an economy and can even impact tax revenues. Is it any wonder that cash is most predominant in "informal" economies and "black markets"?

Speeding up transit



MasterCard cardholders in some of the world's busiest cities are benefiting from our innovative Tap & Go™ PayPass contactless technology. With MasterCard PayPass, riders always have the exact fare, whether traveling by subway, bus or taxi.

In the last year alone, we've expanded our global footprint, making it easier for consumers to use public transportation in cities from New York to Seoul.

- In New York and New Jersey, MasterCard PayPass helped commuters get where they wanted to go faster — above ground and below. In June 2010, we successfully piloted our contactless payments system linking multiple agencies: New York City Transit, an operating agency of the New York Metropolitan Transit Authority (MTA), Port Authority of NY, NJ/PATH and NJ TRANSIT. With MasterCard PayPass, riders can Tap & Go quickly and easily, paying fares directly at turnstiles and transferring seamlessly between transit systems using credit, debit or prepaid-enabled MasterCard PayPass cards.
- In Romania, ultrafast access to 10 subway stations in Bucharest is now possible through the BRD Groupe Société Générale

card, Instant Pay. Based on contactless MasterCard PayPass technology, the Instant Pay card eliminates the need for travelers to purchase a separate card for transportation.

- In Poland, MasterCard PayPass is accepted in transit stations, taxis and at bus stops within the Warsaw vicinity, allowing quick, non-cash payments. In addition, Poland's Citi Handlowy is now issuing Citi Handlowy MasterCard PayPass contactless debit cards with an application that allows travelers to reload their transport tickets at unattended machines.
- In Singapore, the Post Office Savings Bank (POSB) Everyday MasterCard card features MasterCard PayPass and local contactless e-Purse Application functionality. This allows cardholders to use the card for everyday purchases as well as throughout the public transport network, which includes trains, buses and taxis.
- In Korea, a co-brand MasterCard card with PayPass technology and a local transit application offers MasterCard PayPass cardholders greater convenience when riding the transit system.

MasterCard PayPass means no waiting in line. No fumbling for cash and coins. No watching your train leave the station while you try to buy a fare card or token from a vending machine or clerk. You just Tap & Go with your card, mobile phone or key fob, and you're on your way.

In cities around the world, "smart" consumers are benefiting from the MasterCard Advantage.

Moving to electronic payments is just plain smart. The benefits of electronic payments far outweigh those of cash. Beyond the obvious advantages of speed, convenience and guaranteed payment, electronic payments offer a host of advantages that cash can't touch, including security and transparency for everyone.

The MasterCard Advantage: A Range of Payment Solutions

In all markets, we're aggressively seizing opportunities to curtail the use of cash and checks and meet consumers' unique needs.

One way we're doing this is through our portfolio of debit products, including Maestro. Our debit solutions are aimed at meeting payment needs based on local market requirements. And, they can be used with some of our most innovative payment methods, including Tap & Go, reloadable prepaid and payroll cards.

We're also well positioned in the commercial space, an area that is fast-growing. By 2015, the commercial segment is expected to equate to \$1.7 trillion globally. And, this segment is not very developed outside of the United States and parts of Europe.⁽³⁾

We're poised to seize that opportunity. We already have one of the largest commercial payroll programs in place with Walmart, and we currently capture approximately 60 percent of U.S. public-sector volume. Our commercial prepaid cards include everything from payroll to employee benefits to government social benefit programs. These programs are benefiting people in numerous countries, including Italy, Peru, Russia, China and the U.S.

I believe the benefits of prepaid will continue to drive demand, as total global volume on open-loop prepaid cards is predicted to reach nearly \$840 billion by 2017, according to a study we commissioned last year.

We're also seeing significant opportunities in e-commerce and mobile. That's why we're forging strategic partnerships in this space and developing the infrastructure needed to drive the migration to e-commerce and mobile payments. Global e-commerce sales are projected to reach more than \$1 trillion in 2011.⁽⁴⁾ And, since cash is useless when shopping online, consumers really appreciate the convenience of electronic payments.

We're already leading the way through various merchant and other partnerships, which make it easier for consumers to shop online. Examples include our partnerships with NextJump for MasterCard Marketplace and with Borderlinx for cross-border, online shopping.

Also, we're actively engaged in the mobile arena. Worldwide, there are more than four billion people with a mobile phone, yet only 1.5 billion people with a payment card.⁽⁵⁾ In Vietnam alone, the mobile market exceeded the 120 million subscriber mark last year — that's equivalent to a mobile penetration rate of 134 percent. In telling contrast, the banked population in Vietnam is estimated at only 15 percent.

Our successes with mobile are gaining attention. We were recently honored — along with airtel Africa and Standard Chartered Bank — for mobile payments innovation at the 16th Annual Global Mobile Awards held during Mobile World Congress 2011. Our jointly developed virtual card product received top honors as the Best Mobile Money Product or Solution.

In addition, we also announced plans to launch our Open Application Programming Interface (API) from MasterCard Labs, our global research and development arm. This will allow us to tap into the ingenuity and creativity of software developers across the globe as we create the next generation of payment applications.

The MasterCard Advantage: Our People

In any organization, employees are key to driving results. In that regard, we're extremely fortunate. In addition to their knowledge and expertise, our workforce continually demonstrates a passion for developing new solutions, dedication to excellence in all they do and strength of character, all of which help distinguish MasterCard.

In 2010, we saw one of MasterCard's most respected leaders retire, former president and CEO Bob Selander. Bob's legacy of bold and visionary leadership will remain a compelling chapter in MasterCard history. His contributions were many and varied and include taking the company public in 2006. On behalf of the entire MasterCard family, I wish Bob the very best and thank him for his stewardship.

As a company, we're keenly focused on innovation, and we believe that diversity sits at the root of innovation. Diversity of culture, experience and thought all drive innovative thinking. Our employees are encouraged to express their diverse opinions, engage in healthy debate and candidly share their experiences and ideas. I want our people to feel empowered and to recognize that their contributions make a difference. Their expertise and experience

Giving cardholders more control

Innovations in payments are giving consumers options and controls like never before.

With MasterCard inControl, cardholders decide in advance where, when, how and for what types of purchases their cards may — and may not — be used. Users can establish spending parameters, create budgets and customize controls for specific types of spending. What's more, with inControl, cardholders can receive real-time alerts, via e-mail or text message, keeping them informed about card activity. MasterCard inControl is powering over 30 bank card programs across the globe and is live in every region.



So whether you're a business owner who's provided payment cards to employees or a parent who's given your child a card to take away to college, you'll have no more surprises because with MasterCard you are inControl.

And, for businesses, MasterCard SmartData offers an even more extensive solution.

Companies and government agencies in 41 countries are getting "smart" with MasterCard's SmartData reporting tool for managing corporate expenses. Available in 14 languages, SmartData provides detailed analysis, reporting and reconciliation of expenses.

For consumers and business owners, the MasterCard Advantage means more control.

help us develop innovative, market-specific payment solutions that deliver value to people everywhere. And, I know our employees are passionate about this.

Of course, innovation also requires a tolerance for failure. That's why our leaders are focused on supporting a culture that encourages collaboration and the sharing of lessons learned.

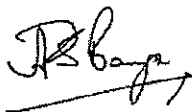
Strong leadership is critical to our future — not just at the executive level, but throughout MasterCard. I believe that part of a manager's role is to drive change, give people hope and inspire them to do things they wouldn't otherwise do. I want all of our employees to have the conviction and courage to take on difficult tasks while maintaining accountability — and a healthy dose of competitive paranoia.

That latter point is something that can't be ignored. In fact, over the last year or so, our internal mantra has been "Competing to Win." Everyone is behind it. We're well aware that technology is driving shorter product life cycles and reducing barriers to entry for others. That's why we're staying on top of our game and keeping a watchful eye on our competitors, both traditional and emerging.

Looking Ahead

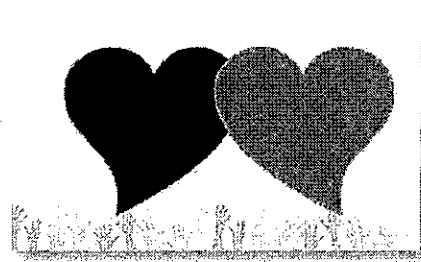
In summary, I'm thrilled about what we achieved in 2010 and enthused about what tomorrow will bring. Our business is growing, our bottom line is strong and our global resources — both financial and intellectual — are formidable.

Each day, we put our advantages to work. We're in the enviable position of being able to draw upon our assets to make the most of opportunities and trends shaping the industry. More importantly, by bringing together the best people, insights and innovations, we'll continue to create meaningful solutions that benefit consumers, businesses and governments all around the world. That's what being at the heart of commerce is all about — and that's why I'm excited to be part of this great company.



Ajay Banga
President and Chief Executive Officer

(1) McKinsey & Company, 2010.
(2) MasterCard Advisors, 2010.
(3) Packaged Facts, 2009.
(4) Glenbrook Partners, 2009.
(5) GSMA & Bank of America Merrill Lynch, 2010.



Making a difference every day

Making a difference is why our company is committed to furthering financial inclusion for everyone through the power of entrepreneurship.

We believe financial inclusion increases the prosperity of communities and ensures that people have an opportunity to achieve their full potential. Programs like Consumo Inteligente in Latin America help us achieve this goal. By focusing on entrepreneurship, we aim to fuel innovation, employment and economic growth to help people around the world build stronger futures for themselves, their families and their communities.

Through our philanthropic efforts, we strive to help people overcome barriers to financial inclusion. By supporting educational and skill-building initiatives, we aim to develop a generation of educated and motivated young people poised for career success, enable the creation of new enterprises and help small businesses thrive and generate long-term economic growth.

Employees demonstrate their civic spirit by generously lending their time and talent to support local communities. They teach basic business skills to schoolchildren, lead financial literacy workshops for parents, mentor students and plan projects to help nearby residents.

They support other causes as well, including disaster relief efforts. In 2010 and early 2011, MasterCard donated to numerous disaster relief efforts, responding to tragedies that occurred in Chile, China, Haiti, New Zealand, Russia, Australia and Japan.

Making a difference is, without question, the most important MasterCard Advantage of all.

Form 10-K

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-32877

MasterCard Incorporated

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-4172551
(I.R.S. Employer
Identification No.)

2000 Purchase Street, Purchase, New York
(Address of Registrant's principal executive offices)

10577
(Zip Code)

Registrant's telephone number, including area code (914) 249-2000

Securities registered pursuant to Section 12(b):

<u>Title of each Class</u>	<u>Name of each exchange on which registered</u>
Class A common stock, par value \$.0001 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g): Class B common stock, par value \$.0001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's Class A common stock, par value \$.0001 per share, held by non-affiliates (using the New York Stock Exchange closing price as of June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$23.7 billion. There is currently no established public trading market for the registrant's Class B common stock, par value \$.0001 per share. As of February 16, 2011, there were 123,656,120 shares outstanding of the registrant's Class A common stock, par value \$.0001 per share and 6,940,312 shares outstanding of the registrant's Class B common stock, par value \$.0001 per share.

Portions of the registrant's definitive proxy statement for the 2011 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

MASTERCARD INCORPORATED
FISCAL YEAR 2010 FORM 10-K ANNUAL REPORT
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Forward-Looking Statements

This Report on Form 10-K contains forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical facts may be forward-looking statements. When used in this Report, the words “believe,” “expect,” “could,” “may,” “would”, “will”, “trend” and similar words are intended to identify forward-looking statements. These forward-looking statements relate to the Company’s future prospects, developments and business strategies and include, without limitation, statements relating to:

- the Company’s belief in the continuing trend towards electronic forms of payment;
- the Company’s focus on growing its credit, debit, prepaid and payment transaction processing offerings (including statements related to the expanded opportunity for domestic transaction processing, the open and competitive market created by SEPA (defined below), extending our processing capabilities in the payment value chain, continuing to develop opportunities to further enhance our IPS (defined below) offerings and global presence, and the pending acquisition of the prepaid card program management operations of Travelex Holdings Ltd. (as described below));
- the Company’s focus on diversifying our business (including seeking new areas of growth, expanding acceptance points and maintaining unsurpassed acceptance and successfully working with new business partners);
- the Company’s focus on building new businesses through e-Commerce, mobile and other initiatives;
- potential opportunities related to the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States;
- the effects of economic recoveries in areas such as the Asia/Pacific and Latin America regions;
- the Company’s advertising and marketing strategy and investment;
- the potential reduction in the Company’s tax rate over time;
- and the Company’s belief that cash generated from operations, our borrowing capacity and our access to capital resources are sufficient to meet our future operating capital needs and litigation settlement obligations.

Many factors and uncertainties relating to our operations and business environment, all of which are difficult to predict and many of which are outside of our control, influence whether any forward-looking statements can or will be achieved. Any one of those factors could cause our actual results to differ materially from those expressed or implied in writing in any forward-looking statements made by MasterCard or on its behalf. We believe there are certain risk factors that are important to our business, and these could cause actual results to differ from our expectations. Such risk factors include: litigation decisions, regulation and legislation related to interchange fees and related practices; regulation established by the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States; regulation in one jurisdiction or of one product resulting in regulation in other jurisdictions or of other products; competitive issues caused by government actions; regulation of the payments industry, consumer privacy, data use and/or security; appeals of currency conversion case settlements; future reserves, incurred liability, limitations on business and other penalties resulting from litigation; competition in the payments industry; competitive pressure on pricing; banking industry consolidation; loss of significant business from significant customers; merchant activity; our relationship and the relationship of our competitors to our customers; brand perceptions and reputation; inability to grow our debit business, particularly in the United States; global economic events and the overall business environment; decline in cross-border travel; the effect of general economic and global political conditions on consumer spending trends; exposure to loss or illiquidity due to settlement obligation defaults by our customers; disruptions to our transaction processing systems; account data breaches; reputation damage from increases in fraudulent activity; the inability to keep pace with technological developments in the industry; the effect of adverse currency fluctuation; the inability to adequately manage change; acquisition integration issues; and issues relating to our

Class A common stock and corporate governance structure. Please see a complete discussion of these risk factors in Part I, Item 1A—Risk Factors. We caution you that the important factors referenced above may not contain all of the factors that are important to you. Our forward-looking statements speak only as of the date of this report or as of the date they are made, and we undertake no obligation to update our forward-looking statements.

In this Report, references to the “Company,” “MasterCard,” “we,” “us” or “our” refer to the MasterCard brand generally, and to the business conducted by MasterCard Incorporated and its consolidated subsidiaries, including our principal operating subsidiary, MasterCard International Incorporated (d/b/a MasterCard Worldwide). All third-party trademarks appearing in this Report are the property of their respective holders.

Item 1. Business

Overview

MasterCard is a leading global payments company that provides a critical economic link among financial institutions, businesses, merchants, cardholders and governments worldwide, enabling them to use electronic forms of payment instead of cash and checks. We provide a variety of services in support of the credit, debit, prepaid and related payment programs of approximately 22,000 financial institutions and other entities that are our customers. We primarily:

- offer a wide range of payment solutions, which enable our customers to develop and implement credit, debit, prepaid and related payment programs for their customers (which include cardholders, businesses and government entities),
- manage a family of well-known, widely accepted payment card brands, including MasterCard®, Maestro® and Cirrus®, which we license to our customers for use in their payment programs,
- process payment transactions over the MasterCard Worldwide Network,
- provide support services to our customers and, depending upon the service, merchants and other clients, and
- as part of managing our brands and our franchise, establish and enforce a common set of standards for adherence by our customers for the efficient and secure use of our payment card network.

MasterCard generates revenue by charging fees to our customers for providing transaction processing and other payment-related services and by assessing our customers based primarily on the dollar volume of activity, or gross dollar volume (“GDV”), on the cards that carry our brands.

A typical transaction processed over our network involves four parties in addition to us: the cardholder, the merchant, the issuer (the cardholder’s financial institution) and the acquirer (the merchant’s financial institution). Consequently, the payment network we operate supports what is often referred to as a “four-party” payment system. Our customers are financial institutions and other entities that act as issuers and acquirers. Using our transaction processing services, issuers and acquirers facilitate payment transactions between cardholders and merchants throughout the world, providing merchants with an efficient and secure means of receiving payment, and consumers and businesses with a convenient, quick and secure payment method that is accepted worldwide. We guarantee the settlement of many of these transactions among our customers to ensure the integrity of our payment network. In addition, we undertake a variety of marketing activities designed to maintain and enhance the value of our brands. However, cardholder and merchant transaction relationships are managed principally by our customers. We do not issue cards, extend credit to cardholders, determine the interest rates (if applicable) or other fees charged to cardholders by issuers, or establish the “merchant discount” charged by acquirers in connection with the acceptance of cards that carry our brands.

Our business has a global reach and has continued to experience growth. In 2010, we processed 23.1 billion transactions, a 2.9% increase over the number of transactions processed in 2009. GDV on cards carrying the MasterCard brand as reported by our customers was approximately \$2.7 trillion in 2010, a 10.7% increase in U.S. dollar terms and a 9.1% increase in local currency terms over the GDV reported in 2009.

We believe the trend within the global payments industry from paper-based forms of payment, such as cash and checks, toward electronic forms of payment, such as payment card transactions, creates significant opportunities for the growth of our business over the longer term. Our focus is on continuing to:

- grow our offerings by extending our strength in our core businesses globally, including credit, debit, prepaid and processing payment transactions over the MasterCard Worldwide Network,
- diversify our business by seeking new areas of growth in markets around the world, expanding points of acceptance for our brands in new geographies, seeking to maintain unsurpassed acceptance, and working with new business partners such as merchants, government agencies and telecommunications companies, and
- build new businesses through continued strategic efforts with respect to innovative payment methods such as electronic commerce (e-Commerce) and mobile capabilities.

We operate in a dynamic and rapidly evolving legal and regulatory environment. In recent years, we have faced heightened regulatory scrutiny and other legal challenges, particularly with respect to interchange fees. Interchange fees, which represent a balancing of payment system costs among acquirers and issuers (and in turn, among merchants and cardholders), have been the subject of regulatory review and challenges and legislative action, as well as litigation, as card-based forms of payment have become relatively more important to local economies. Although we establish certain interchange rates and collect and remit interchange fees on behalf of our customers, we do not earn revenues from interchange fees. However, if issuers were unable to collect interchange fees or were to receive reduced interchange fees, we may experience a reduction in the number of customers willing to participate in a four-party payment card system such as ours and/or a reduction in the rate of cards issued, as well as overall transaction volumes. Proprietary end-to-end networks or other forms of payment may also become more attractive to issuers. Issuers might also decide to charge higher fees to cardholders, thereby making our card programs less desirable to consumers and reducing our transaction volumes and profitability. They also might attempt to decrease the expense of their card programs by seeking a reduction in the fees that we charge. In addition to those challenges relating to interchange fees, we are also exposed to a variety of significant lawsuits and regulatory actions, including federal antitrust claims, and claims under state unfair competition statutes. See “Risk Factors—Legal and Regulatory Risks” in Part I, Item 1A.

MasterCard Incorporated was incorporated as a Delaware stock corporation in May 2001. We conduct our business principally through MasterCard Incorporated’s principal operating subsidiary, MasterCard International Incorporated (“MasterCard International”), a Delaware non-stock (or membership) corporation that was formed in November 1966. Our customers are generally either principal members of MasterCard International, which participate directly in MasterCard International’s business, or affiliate members of MasterCard International, which participate indirectly in MasterCard International’s business through principal members. In May 2006, we completed a plan for a new ownership and governance structure for MasterCard Incorporated (including an initial public offering of a new class of common stock (the “IPO”)) which included the appointment of a new Board of Directors comprised of a majority of directors who are independent from our customers. For more information about our capital structure, voting rights of our Class A common stock (our voting stock) and Class B common stock (our non-voting stock) and conversions of shares of our Class B common stock into shares of our voting Class A common stock, see Note 17 (Stockholders’ Equity) to the consolidated financial statements included in Part II, Item 8.

Our Industry

We operate in the global payments industry, which consists of all forms of payment including:

- Paper—cash, personal checks, money orders, official checks, travelers cheques and other paper-based means of transferring value;
- Cards—credit cards, charge cards, debit cards (including Automated Teller Machine (“ATM”) cards), prepaid cards and other types of cards; and

- Emerging and Other Forms of Payment—wire transfers, electronic benefits transfers, bill payments, Automated Clearing House payments, e-Commerce payments and payments using mobile devices, among others.

The most common card-based forms of payment are general purpose cards, which are payment cards carrying logos that permit widespread usage of the cards within countries, regions or around the world. General purpose cards have different attributes depending on the type of accounts to which they are linked:

- credit or charge cards typically access a credit account that either requires payment of the full balance within a specified period (a charge card) or that permits the cardholder to carry a balance in a revolving credit account (a credit card);
- debit cards typically access a checking, demand deposit or other current account maintained by the cardholder; and
- prepaid cards typically access previously funded monetary value.

Generally, card-based forms of payment involve two types of transactions (depending on the type of card being used): transactions that typically require the cardholder's signature, which are referred to as "offline" transactions; and transactions that require the cardholder to use a personal identification number ("PIN") for verification, which are typically referred to as "online" transactions. Some purchase transactions outside of the United States, such as those made using cards equipped with a chip, can be PIN-authenticated but are considered offline transactions. In addition, some payment cards are equipped with an RFID (radio frequency identification) microchip, which provides an advanced authentication technique, and technology which allows contactless payments requiring neither signature nor PIN under established transaction amounts. Many merchants no longer require a signature for low value purchases, and there is no PIN or signature on e-Commerce or other card-not-present transactions. Such transactions are still considered, however, to be offline transactions.

The primary general purpose card brands include MasterCard, Visa®, American Express®, JCB®, Diners Club® and Discover®. Historically, these brands—including MasterCard—were principally associated with credit or charge cards in the United States and other major markets around the world. Today, debit and prepaid cards with MasterCard's brands (as well as the brands of Visa and others) are issued as well.

Debit cards may be further categorized into several sub-segments:

- Signature-based debit cards are cards for which the primary means of cardholder validation at the point of sale is for the cardholder to sign a sales receipt (other than circumstances where an actual signature is not necessary).
- PIN-based debit cards are cards with which cardholders generally enter a PIN at a point-of-sale terminal for validation.
- Cash access cards are cards which permit cardholders to obtain cash principally at ATMs by entering a PIN.

Regional and domestic/local PIN-based debit brands are the primary brands in many countries. In these markets, issuers have historically relied on the Maestro and Cirrus brands (and other brands) to enable cross-border transactions, which typically constitute a small portion of the overall number of transactions.

In addition to general purpose cards, private label cards comprise a portion of all card-based forms of payment. Typically, private label cards are credit cards issued by, or on behalf of, a merchant (such as a department store or gasoline retailer) and can be used only at the issuing merchant's locations.

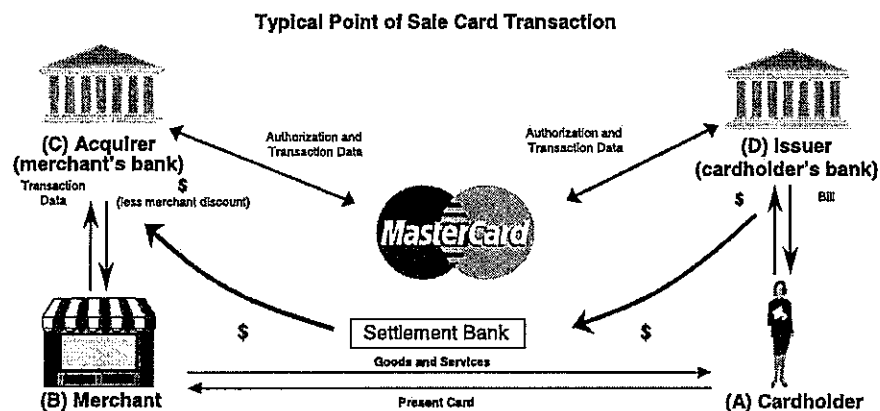
Payment Services and Solutions

We provide transaction processing and other payment-related services as well as a wide range of payment solutions to enable our customers to design, package and implement products and programs targeted to the specific needs of their customers (which include cardholders, businesses and governments). We work with customers to provide customized solutions, as well as more general solutions. Our payment solutions are built upon our expertise in payment programs, product development, payment processing technology, consulting and information services and marketing. We also manage and promote our brands for the benefit of all customers through brand advertising, promotional and interactive programs and sponsorship initiatives.

Transaction Processing on the MasterCard Worldwide Network

Introduction. We operate the MasterCard Worldwide Network, our proprietary, global payments network that links issuers and acquirers around the globe to facilitate the processing of transactions and, through them, permits MasterCard cardholders to use their cards at millions of merchants worldwide. We process transactions through our network for financial institutions and other entities that are our customers, in more than 150 currencies in more than 210 countries and territories.

Typical Transaction. A typical transaction processed over the MasterCard Worldwide Network involves four participants in addition to us: cardholder, merchant, issuer (the cardholder's financial institution) and acquirer (the merchant's financial institution). The following diagram depicts a typical point-of-sale card transaction:



In a typical transaction, a cardholder (A) purchases goods or services from a merchant (B) using a card or other payment device. After the transaction is authorized by the issuer (D) using our network, the issuer pays the acquirer (C) an amount equal to the value of the transaction, minus the interchange fee (described below), and posts the transaction to the cardholder's account. The acquirer pays the amount of the purchase, net of a discount, to the merchant (referred to as the "merchant discount"). The merchant discount, among other things, takes into consideration the amount of the interchange fee. Our standards generally guarantee the payment of transactions using MasterCard-branded cards and certain transactions using Cirrus and Maestro-branded cards between issuers and acquirers.

Interchange Fees. The interchange fee is equal to the difference between the amount of the payment transaction (the transaction amount) and the amount the issuer pays the acquirer (the settlement amount). Interchange fees represent a sharing of a portion of payment system costs among the customers participating in our four-party payment card system. As such, interchange fees are a key factor in balancing the costs consumers pay and the costs merchants pay. We do not earn revenues from interchange fees. Generally, interchange fees are collected from acquirers and paid to issuers (or netted by issuers against amounts paid to acquirers) to reimburse the issuers for a portion of the costs incurred by them in providing services that benefit all participants in the system, including acquirers and merchants. In some circumstances, such as cash withdrawal transactions, this

situation is reversed and interchange fees are paid by issuers to acquirers. We establish default interchange fees that apply when there are no other established settlement terms in place between an issuer and an acquirer. We administer the collection and remittance of interchange fees through the settlement process. Interchange fees can be a significant component of the merchant discount, and therefore of the costs that merchants pay to accept payment cards. These fees are currently subject to regulatory, legislative and/or legal challenges in a number of jurisdictions. We are devoting substantial management and financial resources to the defense of interchange fees and to the other legal and regulatory challenges we face. See “Risk Factors—Legal and Regulatory Risks” in Part I, Item 1A.

Merchant Discount. The merchant discount is established by the acquirer to cover its costs and profit margin of participating in the four-party system. The discount takes into consideration the amount of the interchange fee which the acquirer generally pays to the issuer, and the balance of the discount either consists of fees established by the acquirer and paid by the merchant for certain of the acquirer’s services to the merchant (which are retained by the acquirer) or reflects the costs of such services.

Additional Fees and Economic Considerations. Acquirers may charge merchants processing and related fees in addition to the merchant discount. Issuers may also charge cardholders fees for the transaction, including, for example, fees for extending revolving credit. As described below, we charge issuers and acquirers transaction-based and related fees for the transaction processing and related services we provide them.

In a four-party payment system, the economics of a payment transaction relative to MasterCard vary widely depending on such factors as whether the transaction is domestic (and, if it is domestic, the country in which it takes place) or cross-border, whether it is a point-of-sale purchase transaction or cash withdrawal, and whether the transaction is processed over our network or a third-party network or is handled solely by a financial institution that is both the acquirer for the merchant and the issuer to the cardholder (an “on-us” transaction).

MasterCard Worldwide Network Architecture and Operations. We believe the architecture of the MasterCard Worldwide Network is unique, featuring a globally integrated structure that provides scalability for our customers and enables them to expand into regional and global markets. Our network also features an intelligent architecture that enables it to adapt to the needs of each transaction by blending two distinct processing structures—distributed (peer-to-peer) and centralized (hub-and-spoke). Transactions that require fast, reliable processing, such as those submitted using a MasterCard PayPass®-enabled device in a tollway, use the network’s distributed processing structure, ensuring they are processed close to where the transaction occurred. Transactions that require value-added processing, such as real-time access to transaction data for fraud scoring or rewards at the point-of-sale, or customization of transaction data for unique consumer-spending controls, use the network’s centralized processing structure, ensuring advanced processing services are applied to the transaction.

The network typically operates at under 80% capacity and can handle more than 160 million transactions per hour with an average network response time of 130 milliseconds. The network can also substantially scale capacity to meet demand. Our transaction processing services are available 24 hours per day, every day of the year. Our global payment network provides multiple levels of back-up protection and related continuity procedures in the event of an outage should the issuer, acquirer or payment network experience a service interruption. To date, we have consistently maintained availability of our global processing systems more than 99.9% of the time.

Processing Capabilities.

- *Transaction Switching—Authorization, Clearing and Settlement.* MasterCard provides transaction switching (authorization, clearing and settlement) through the MasterCard Worldwide Network.
 - *Authorization.* Authorization refers to the process by which a transaction is approved by the issuer or, in certain circumstances such as when the issuer’s systems are unavailable or cannot be contacted, by MasterCard or others on behalf of the issuer in accordance with either the issuer’s instructions or applicable rules. For offline transactions (as well as online transactions in Europe), the Dual Message System (which sends authorization and clearing messages separately) provides for

the transmission of authorization requests and results among issuers, acquirers and other transaction processors or networks. For online transactions (other than transactions in Europe), the Single Message System (which sends authorization and clearing messages together) switches financial messages and provides transaction and settlement reporting. Our standards, which may vary across regions, establish the circumstances under which merchants and acquirers must seek authorization of transactions.

- *Clearing.* Clearing refers to the exchange of financial transaction information between issuers and acquirers after a transaction has been completed. MasterCard clears transactions among customers through our central and regional processing systems. Offline transactions using our branded cards are generally cleared via centralized processing through the Global Clearing Management System and the related information is typically routed among customers via the MasterCard Worldwide Network. For online transactions, the Single Message System performs clearing between customers and other debit transaction processing networks. MasterCard clearing services can be managed with minimal system development, which has enabled us to accelerate our customers' ability to develop customized programs and services.
- *Settlement.* Once transactions have been authorized and cleared, MasterCard helps to settle the transactions by facilitating the exchange of funds between parties. Once clearing is completed, a daily reconciliation is provided to each customer involved in settlement, detailing the net amounts by clearing cycle and a final settlement position. The actual exchange of funds takes place between a clearing bank, designated by the customer and approved by MasterCard, and a settlement bank chosen by MasterCard. Customer settlement occurs in U.S. dollars or in a limited number of other currencies in accordance with our established rules.
- *Cross-Border and Domestic Processing.* The MasterCard Worldwide Network provides our customers with a flexible structure that enables them to support processing across regions and for domestic markets. The network processes transactions throughout the world on our branded cards where the merchant country and cardholder country are different (cross-border transactions). MasterCard processes transactions denominated in more than 150 currencies through our global system, providing cardholders with the ability to utilize, and merchants to accept, MasterCard cards across multiple country borders. For example, we may process a transaction in a merchant's local currency; however the charge for the transaction would appear on the cardholder's statement in the cardholder's home currency. MasterCard also provides domestic (or intra-country) transaction processing services to customers in every region of the world, which allow customers to facilitate payment transactions between cardholders and merchants throughout a particular country. We process most of the cross-border transactions using MasterCard, Maestro and Cirrus-branded cards and, among our largest markets, process the majority of MasterCard-branded domestic transactions in the United States, United Kingdom, Canada and Brazil. Outside of these and a select number of other countries, however, most intra-country (as opposed to cross-border) transaction activity conducted with our branded payment cards is authorized, cleared and/or settled by our customers or other processors without the involvement of the MasterCard Worldwide Network. We continue to invest in our network and build relationships to expand opportunities for domestic transaction processing. In particular, the Single European Payment Area ("SEPA") initiative creates an open and competitive market in many European countries that were previously mandated to process domestic debit transactions with domestic processors. As a result, in addition to cross-border transactions, MasterCard now processes some domestic debit card services in nearly every SEPA country.
- *Extended Processing Capabilities.* In addition to transaction switching, MasterCard continually evaluates and invests in ways to strategically extend our processing capabilities in the payment value chain by seeking to provide our customers with an expanded suite of payment processing solutions that meet the unique processing needs of their markets. Examples include:
 - *MasterCard Integrated Processing Solutions™ (IPS).* MasterCard Integrated Processing Solutions ("IPS") is a debit and prepaid issuer processing platform designed to provide medium to large global

issuing customers with a complete processing solution to help create differentiated products and services and allow quick deployment of payments portfolios across banking channels. Through a single processing platform, IPS can, among other things, authorize debit and prepaid transactions, assist issuers in managing risk using fraud detection tools, manage an issuer's card base, and manage and monitor an issuer's ATMs. The proprietary MasterCard Total Portfolio Viewer™ provides a user-friendly customer interface to IPS, delivering aggregate cardholder intelligence across accounts and product lines to provide our customers with a view of information that can help them customize their products and programs. We continue to develop opportunities to further enhance our IPS offerings and global presence.

- *Internet Payment Gateways.* MasterCard provides e-Commerce processing solutions through internet payment gateways, which are interfaces between the merchant and its acquirer as a transaction moves to a payments network. Our gateways include our MasterCard Internet Gateway Service (MiGS), which provides gateway infrastructure in Asia Pacific, and DataCash, a European payment service provider which MasterCard acquired in October 2010. DataCash offers a single interface that provides e-Commerce merchants with the ability to process secure payments across the world, and develops and provides outsourced electronic payments solutions, fraud prevention, alternative payment options, and other solutions.
- *Strategic Alliances.* We have invested in strategic alliances to pursue opportunities in prepaid and acquirer and third-party processing both through joint ventures and minority investments. These alliances include: (1) Prepay Solutions, a joint venture with Edenred (previously named Accor Services) which supports prepaid processing in Europe, (2) Strategic Payment Services, which provides acquirer processing in Asia Pacific, (3) ElectraCard Services, which provides third-party processing services and software, as well as switching solutions, in Asia Pacific, the Middle East and Africa and (4) Trevica, which provides third-party issuer processing services in Poland and other central and eastern European markets.

MasterCard Programs and Solutions

Our principal payment programs and solutions, which are facilitated through our brands, include consumer credit and charge, debit and prepaid programs, commercial payment solutions and emerging payments solutions. Our issuer customers determine the competitive features for the cards issued under our programs, including interest rates and fees. We determine other aspects of our card programs—such as required services and the marketing strategy—in order to ensure consistency in connection with these programs.

Consumer Credit and Charge. MasterCard offers a number of consumer credit and charge programs that are designed to meet the needs of our customers. For the year ended December 31, 2010, our consumer credit and charge programs generated approximately \$1.6 trillion in GDV globally, representing 57% of our total GDV for this period. As of December 31, 2010, the MasterCard brand mark appeared on approximately 648 million consumer credit and charge cards worldwide, representing a 2.4% decline from December 31, 2009.

- *United States.* We offer customized programs to customers in the United States to address specific consumer segments. Our consumer credit programs include Standard (general purpose cards targeted to consumers with basic credit card needs), Gold and Platinum (cards featuring higher credit lines and spending limits and a varying level of enhanced services) and World and World Elite MasterCard® (cards offered to affluent consumers which feature a wider range of enhanced services).
- *Regions Outside of the United States.* MasterCard makes available to customers outside of the United States a variety of consumer card programs in selected markets throughout the world. Examples of such programs include MasterCard Electronic™ cards (which offer additional control and risk management features designed to curb fraud and control exposure in high risk markets) and cards targeted to affluent consumers (such as Platinum MasterCard® and MasterCard Black™ cards in Latin America, World and World Signia MasterCard® cards in Europe, World and World Elite MasterCard® cards in Canada and Platinum and World MasterCard® cards in Asia/Pacific, Middle East and Africa (“APMEA”)).

- *General Services.* All MasterCard credit cards include services, such as lost/stolen card reporting, emergency card replacement and emergency cash advance, which are generally arranged by MasterCard and are provided through third-party service providers.

Consumer Debit. MasterCard supports a range of payment solutions that allow our customers to provide consumers with convenient access to funds on deposit in demand deposit and other accounts. Our debit and deposit access programs may be branded with the MasterCard, Maestro and/or Cirrus logos, and can be used to obtain cash in bank branches or at ATMs. In addition, MasterCard and Maestro-branded debit cards may be used to make purchases or obtain cash back at the point of sale. Debit programs we offer include Maestro and Gold Maestro, as well as Standard, Gold, Platinum, Premium and World Debit MasterCard® programs.

- *MasterCard-branded Debit Card.* MasterCard-branded debit programs issue cards which include functionality for signature authenticated transactions, as well as PIN-based functionality, giving consumers a choice at the point of sale. For the year ended December 31, 2010, our MasterCard-branded debit programs generated approximately \$957 billion in GDV globally, representing 35% of our total GDV for this period. As of December 31, 2010, the MasterCard brand mark appeared on approximately 297 million debit cards worldwide, representing 15.8% growth from December 31, 2009. MasterCard-branded debit card programs are offered in the United States, and are also increasingly being introduced in Europe, Asia Pacific and Latin America as a complement to existing Maestro-branded debit programs.
- *Maestro-branded Debit Card.* Maestro is our global PIN-based debit program, and is the only PIN-based solution that operates globally. As of December 31, 2010, the Maestro brand mark appeared on approximately 666 million cards worldwide, representing 2.2% growth from December 31, 2009. As of December 31, 2010, Maestro was accepted for purchases at more than 13.1 million merchant locations globally. Our Maestro brand has a leading position among PIN-based debit brands in many markets throughout the world, particularly in Europe. The strong presence of Maestro in Europe positions us well as the SEPA initiative creates a more open and competitive payment market in many European countries that had been previously mandated to process domestic debit transactions with domestic processors. The global acceptance of Maestro contributes to the growth of our debit business and adds value to the services that we provide to our customers.
- *MasterCard Global ATM Solutions.* Cirrus is our primary global cash access brand. Any debit, credit or ATM-accessible prepaid card bearing the MasterCard, Maestro or Cirrus logos had access to cash and account information at approximately 1.8 million participating ATMs around the world as of December 31, 2010. MasterCard Global ATM Solutions provides domestic (in-country) and cross-border access to cards allowing for varied types of transactions, including cash withdrawal (deposit accounts), cash advance (credit accounts), cash drawdown (prepaid accounts), balance inquiries, account transfers and deposits at ATMs that participate in the MasterCard Worldwide Network.

Prepaid. Prepaid programs involve a balance that is funded with monetary value prior to use. Holders access funds via a traditional magnetic stripe or chip-enabled payment card which may leverage the PayPass functionality or other payment devices, such as mobile devices. MasterCard customers may implement prepaid payment programs using any of our brands. MasterCard provides processing services (including transaction switching) in support of either magnetic stripe or chip-enabled prepaid card programs. MasterCard has capabilities to provide and customize programs to meet unique commercial and consumer needs in all prepaid segments, including programs such as gift, employee benefit, general purpose, payroll, travel, incentive and government disbursement programs. In particular, our strategy focuses on three categories:

- public sector, which includes programs targeted to achieve cost savings and efficiencies by moving traditional paper disbursement methods to electronic solutions in government programs such as Social Security payments, unemployment compensation and others;
- corporate, which includes programs targeted to achieve cost savings and efficiencies by moving traditional paper disbursement methods to electronic solutions in business applications such as payroll, health savings accounts and others; and

- consumer reloadable, which includes programs to address the payment needs of individuals without formal banking relationships, individuals who are not traditional users of credit or debit cards or individuals who want to compartmentalize funds for security or convenience purposes, such as travel.

On December 9, 2010, MasterCard announced its intention to acquire the prepaid card program management operations of Travelex Holdings Ltd. during the first half of 2011. MasterCard will acquire the Travelex operations that manage and deliver consumer and corporate prepaid travel cards to business partners around the world, including financial institutions, retailers, travel agents and foreign exchange bureaus. The acquisition of these operations from Travelex is an expansion for MasterCard into program management services. Combined with MasterCard's existing processing assets (such as IPS) and other strategic alliances, the asset will augment and support partners and issuers of prepaid cards around the world, with a focus outside of the United States. The acquisition is intended to enable MasterCard to offer end-to-end prepaid solutions encompassing branded switching, issuing processing and program management services, initially focused on the travel sector.

Commercial Payment Solutions. MasterCard offers commercial payment solutions that help large corporations, mid-sized companies, small businesses and public sector organizations to streamline their payment processes, manage information and reduce administrative costs. In the year ended December 31, 2010, our commercial credit and charge programs generated approximately \$211 billion in GDV globally, representing approximately 8% of our total GDV for this period. As of December 31, 2010, the MasterCard brand mark appeared on approximately 30 million commercial credit and charge cards worldwide, representing a 5.0% increase from December 31, 2009. We offer various corporate payment programs and value-added services, including corporate cards, corporate premium cards, corporate purchasing cards and fleet cards (as well as the MasterCard Corporate Multi Card[®], which combines the functionality of one or more of these cards) that allow corporations to manage travel and entertainment expenses and provide corporations with additional transactional detail. We also offer public sector entities a variety of payment programs that are similar to the travel, purchasing, fleet and Multi Card programs offered to corporations. The MasterCard BusinessCard[®], the Debit MasterCard BusinessCard[™], the World MasterCard for Business[®], the World Elite MasterCard for Business[®], Small Business Controller and Professional Debit and Credit Cards are targeted at the small-business segment, offering business owners the ability to gain access to working capital, to extend payments and to separate business expenses from personal expenses.

Emerging Payments Solutions. MasterCard focuses on innovation to enhance our current programs and extend our products and services to new customers and into new geographies. Our focus includes:

- *E-Commerce.* E-Commerce involves the secure purchase and sale of goods over the Internet. Our initiatives focus on:
 - the development of e-Commerce capability through internet payment gateways (including DataCash, which was acquired in October 2010, and MiGS) to support growth in the e-Commerce area,
 - the development of programs and services intended to drive GDV and improve the consumer experience (such as MasterCard Marketplace[™], an internet-based program which provides eligible MasterCard cardholders with individually tailored discount offers), and
 - the development of tools to help customers prevent fraud over the Internet.
- *Mobile.* MasterCard works with customers and leading technology companies to develop products and solutions in the area of mobile commerce and wireless payments. These initiatives generally focus on:
 - contactless payment solutions (including MasterCard PayPass), which utilize radio frequency technology to securely transmit payment details wirelessly through payment devices (including Mobile PayPass tags that adhere to the back of a mobile device, as well as other devices described below under "Acceptance Initiatives") to contactless-enabled payment card terminals for processing through the MasterCard Worldwide Network,

- mobile payments gateways (such as the MasterCard Mobile Payments Gateway introduced by MasterCard in Brazil in 2009), which are turnkey mobile payment processing platforms that facilitate transaction routing and prepaid processing for mobile-initiated transactions, and
 - person-to-person transfers (including MasterCard's money transfer solution, MasterCard MoneySend[®]) on behalf of MasterCard's customers using various channels, including mobile devices.
- *Value-Added Services.* MasterCard develops services designed to support and enhance its products and solutions. MasterCard inControl[®] is an innovative platform featuring an array of advanced authorization, transaction routing and alert controls that uses the functionality of the MasterCard Worldwide Network and is designed to assist financial institutions in creating new and enhanced payment offerings. MasterCard offers several fraud detection and prevention solutions, including MasterCard Expert Monitoring System[™] ("EMS"), a comprehensive suite of services designed to help its customers detect and prevent fraudulent activity.
 - *MasterCard Labs.* MasterCard Labs is a global innovation group created in 2010 and dedicated to developing new innovative products and solutions for MasterCard, our customers and our cardholders. MasterCard Labs enables us to take a portfolio approach to research and development by incubating new product concepts, building prototypes and running pilots. MasterCard Labs is designed for a rapid evaluation process, through which innovations either rapidly advance into MasterCard's new product process or are quickly disregarded.
 - *Smart Card and Other Development.* MasterCard continues to pursue smart card development, which enables MasterCard to work with our customers to help them replace traditional payment cards relying solely on magnetic stripe technology with chip-enabled payment cards that offer additional point-of-sale functionality and the ability to provide value-added services to the cardholder. We are also involved in a number of organizations that facilitate the development and use of smart cards globally. This includes a smart cards standards organization with other participants in the industry that maintains standards and specifications designed to ensure interoperability and acceptance of chip-based payment applications on a worldwide basis. MasterCard is also working to develop standards and programs that will allow consumers to conduct their financial transactions using a variety of new point-of-interaction devices.

Acceptance Initiatives

Overview. We estimate that, as of December 31, 2010, cards carrying the MasterCard brand were accepted at 31.7 million acceptance locations worldwide, including 1.8 million ATMs and 0.6 million other locations where cash may be obtained. Information on ATM and manual cash access locations is reported by our customers and is partly based on publicly-available reports of payment industry associations, government agencies and independent market analysts. Cards bearing the Maestro brand mark are accepted at many of these same locations.

Initiatives. We seek to maintain unsurpassed acceptance of MasterCard-branded programs by focusing on three core initiatives. First, we seek to increase the categories of merchants that accept cards carrying our brands. In addition to our focus on expanding acceptance in e-Commerce and mobile commerce environments, we are also focused on using the functionality of the MasterCard Worldwide Network to expand acceptance in quick service businesses (such as fast food restaurants), transportation (such as commuter train systems, buses and taxis), and public sector payments (such as those involving taxes, fees, fines and tolls), among other categories. Second, we seek to increase the number of payment channels in which MasterCard programs are accepted, such as by introducing MasterCard acceptance in connection with bill payment applications. We are working with customers to encourage consumers to make bill payments in a variety of categories—including rent, utilities and insurance—with their MasterCard-branded cards. Third, we seek to increase usage of our programs at selected

merchants by sponsoring a wide range of promotional programs on a global basis. We also enter into arrangements with selected merchants under which these merchants receive performance incentives for the increased use of MasterCard-branded programs or indicating a preference for MasterCard-branded programs when accepting payments from consumers.

Contactless Payment Solutions. Our acceptance initiatives include MasterCard PayPass, a “contactless” payment solution that utilizes wireless technology to enable consumers simply to tap their payment card or other payment device, such as a phone, key fob, wristband or Mobile PayPass tag that adheres to the back of a mobile device on a PayPass-enabled terminal to complete a transaction. Our PayPass program primarily targets low value purchases and is designed to help our customers further expand their businesses by capturing a portion of transactions that were previously cash-based, resulting in increased card activity. PayPass reduces transaction times, which appeals to merchants in quick service businesses (i.e., ballparks, fast food restaurants and gas stations) and allows us to expand the number of locations that accept our cards. We have also developed an innovative transit platform solution to address the needs of various transit acceptance environments and cardholders. PayPass programs expanded in 2010 to include customers and merchants in 36 countries as of December 31, 2010, an increase from 33 countries as of December 31, 2009. As of December 31, 2010, approximately 88 million PayPass cards and devices were issued globally with acceptance at approximately 276,000 merchant locations worldwide.

Additional Services. In addition, we provide research, marketing support and financial assistance to our customers and their marketing partners in connection with the launch and marketing of co-branded and affinity card programs. Co-branded cards are payment cards bearing the logos or other insignia of an issuer and a marketing partner, such as an airline or retail merchant. Affinity cards are similar to co-branded cards except that the issuer’s marketing partner is typically a charitable, educational or other non-profit organization.

Merchants. Merchants are an important constituency in the MasterCard payment system and we are working to further develop our relationships with them. We believe that consolidation in the retail industry is producing a set of larger merchants with increasingly global scope. These merchants are having a significant impact on all participants in the global payments industry, including MasterCard. We believe that the growing role of merchants in the payments system represents both an opportunity and a challenge for MasterCard. In particular, large merchants are supporting many of the litigation, legislative and regulatory challenges related to interchange fees that MasterCard is now defending against, since interchange fees can represent a significant component of the costs that merchants pay to accept payment cards. See “Risk Factors—Legal and Regulatory Risks” and “Risk Factors—Business Risks—Merchants are increasingly focused on the costs of accepting card-based forms of payment, which may lead to additional litigation and regulatory proceedings and may increase the costs of our incentive programs, which could materially and adversely affect our profitability” in Part I, Item 1A. Nevertheless, we believe many opportunities exist to enhance our relationships with merchants and to continue to expand acceptance of our cards. Over the years, for example, we have made available directly to merchants our standards that apply to card acceptance and related activities, thereby increasing the level of transparency and predictability of our payment system for merchants. We have also recently introduced a suite of information products, data analytics and marketing services which can help merchants understand specific activity in their industry, evaluate their sales performance against competitors and focus direct marketing efforts to target desirable prospects and hard to reach segments.

Customer Relationship Management

We are committed to providing our customers with coordinated services in a manner that allows us to take advantage of our expertise in payment programs, product development, technology, operations, processing, consulting and information services and marketing. We manage our relationships with our customers on a global and regional basis to ensure that their priorities are consistently identified and incorporated into our product, brand, processing, technology and related strategies.

We enter into business agreements pursuant to which we offer customers financial incentives and other support benefits to issue and promote our branded cards and other payment programs. Financial incentives may be based on GDV or other performance-based criteria, such as issuance of new cards, launch of new programs or execution of marketing initiatives. We believe that our business agreements with customers have contributed to our volume and revenue growth in recent years. In addition, we have standard licensing arrangements with all of our customers that permit them to use our trademarks and subject them to the standards governing our payment programs.

MasterCard Advisors

MasterCard Advisors is our global professional services group which is focused exclusively on the payments industry. It differentiates us from our competitors by providing our customers and other clients with services through three business lines: Consulting Services, Information Services, and Managed Services. Consulting Services delivers professional problem-solving skills with payments expertise to address the challenges and opportunities of customers with respect to their payments business. Information Services provides a suite of data analytics and products to a diversified customer base, enabling them to make better business decisions. Managed Services provides executional and turnkey solutions via data-driven acquisition and customer management services. MasterCard Advisors charges customers and other clients fees for its professional services or may offer these services as incentives under business agreements with certain customers.

Marketing

We manage and promote our brands through brand advertising, promotional and interactive programs and sponsorship initiatives. Our brand is supported by our corporate vision statement—The Heart of Commerce®, which represents our strategic vision of advancing commerce globally. Our corporate brand, MasterCard Worldwide®, is consistent with our role as franchisor, processor and advisor. Our marketing activities combine advertising, sponsorships, promotions, customer marketing, interactive media and public relations as part of an integrated program designed to increase consumer awareness of the MasterCard brand and usage of MasterCard cards. We also seek to tailor our global marketing messages by customizing them in individual countries, while maintaining a common global theme. Our initiatives are designed to build the value of the MasterCard brand and drive shareholder value.

Our advertising plays an important role in building brand visibility, usage and overall card preference among cardholders globally. Our award-winning “Priceless®” advertising campaign has run in 52 languages in 112 countries worldwide. The “Priceless” campaign promotes MasterCard usage benefits and acceptance that permit cardholders to pay for what they need, when they need it as well as marketing MasterCard credit, debit, prepaid and commercial products and solutions. It also provides MasterCard with a consistent, recognizable message that supports our brand positioning. We continue to support our brand by utilizing digital channels to allow us to engage more directly with our stakeholders and allow consumers and customers to engage directly in brand programs, promotions and merchant offers, as well as provide relevant information on MasterCard products, services and tools. MasterCard has also introduced global and regional specific smart phone applications, including MasterCard’s ATM Hunter®, Priceless Picks® and MasterCard Marketplace Overwhelming Offers, that provide consumers with on-the-go utility. MasterCard intends to continue to use digital channels and a variety of social media efforts to develop preference and usage with consumers and more effectively partner with customers and merchants to help them drive their respective businesses.

We also seek to deliver value to our customers through sponsorship of a variety of sporting and entertainment properties. Our presence in sports aligns with consumer segments important to MasterCard and our customers. Our worldwide partnerships in golf and rugby with the PGA TOUR, PGA European Tour, 2010 Ryder Cup and Rugby World Cup 2011 are intended to help create business building opportunities among a more affluent demographic. We have a long-standing relationship with international soccer and have continued this

relationship by sponsoring premiere events, including the Union of European Football Associations Champions League in Europe and the Copa America 2011 tournament in Argentina, as well as two leading Argentinean club teams. MasterCard is also the exclusive payments sponsor to Major League Baseball and a number of its professional teams. We also sponsor individual teams in the National Football League and National Hockey League, as well as a leading cricket team in the Indian Premier League. In China, MasterCard sponsors the Beijing Wukesong Culture and Sports Arena, one of the prominent Olympic stadiums, which was recently renamed the MasterCard Center. In addition to our sports portfolio, we align ourselves with diverse properties aimed at multiple target audiences, including a fashion platform in our Asia Pacific region, with the intention of raising our brand awareness with affluent consumers. We target a broad audience by providing access to music artists and live performances through well-known entertainment properties such as The GRAMMY Awards®, Jazz at Lincoln Center in New York, the Brit Awards and partnerships with Cirque du Soleil in Russia. MasterCard is the official payment services partner of the Walt Disney Company in Europe, including with respect to Disney stores, motion pictures and Disneyland Paris.

MasterCard Revenue Sources

MasterCard generates revenues by charging fees to our customers for providing transaction processing and other payment-related services and assessing our customers based on GDV on the cards that carry our brands. Accordingly, our revenues are impacted both by the number of transactions that we process and by the use of cards carrying our brands. Our net revenues are classified into the following five categories:

- *Domestic assessments:* Domestic assessments are fees charged to issuers and acquirers based primarily on the volume of activity on cards that carry our brands where the merchant country and the cardholder country are the same.
- *Cross-border volume fees:* Cross-border volume fees are charged to issuers and acquirers based on the volume of activity on cards that carry our brands where the merchant country and cardholder country are different.
- *Transaction processing fees:* Transaction processing fees are charged for both domestic and cross-border transactions and are primarily based on the number of transactions.
- *Other revenues:* Other revenues for other payment-related services include fees associated with fraud products and services, cardholder service fees, consulting and research fees, compliance and penalty fees, account and transaction enhancement services, holograms and publications.
- *Rebates and incentives (contra-revenue):* Rebates and incentives are provided to certain MasterCard customers and are recorded as contra-revenue in the same period that performance occurs.

Our pricing is complex and is dependent on the nature of the volumes, types of transactions and other products and services we offer to our customers. A combination of the following factors determines the pricing:

- Domestic or cross-border
- Signature-based or PIN-based
- Tiered pricing, with rates decreasing as customers meet incremental volume/transaction hurdles
- Geographic region or country
- Retail purchase or cash withdrawal

Cross-border transactions generate greater revenue than do domestic transactions. We review our pricing and implement pricing changes on an ongoing basis and expect pricing to continue to be a component of revenue growth in the future. In addition, standard pricing varies among our regional businesses, and such pricing can be customized further for our customers through incentive and rebate agreements. Revenues from processing cross-border transactions fluctuate with cross-border activities. See “Risk Factors—Business Risks—A decline in cross-border travel could adversely affect our revenues and profitability, as a significant portion of our revenue is generated from cross-border transactions” in Part I, Item 1A.

In 2010, net revenues from our five largest customers accounted for approximately \$1.5 billion, or 28% of our total revenue. No single customer generated greater than 10% of total revenue.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Revenues" in Part II, Item 7 for more detail.

GDV and Processed Transactions

The tables below provide some information regarding two key drivers of our revenue: (1) GDV, which forms the basis of volume-based revenues, and (2) processed transactions.

GDV. The GDV table below provides information regarding the GDV for all MasterCard-branded cards (excluding Cirrus and Maestro) and for both MasterCard credit and charge card programs and MasterCard debit programs in the United States and in all of our other regions for the years ended December 31, 2010 and 2009. Growth rates are provided on both a U.S. dollar and local currency basis for the periods indicated. GDV represents the aggregate dollar amount of purchases made and cash disbursements obtained with MasterCard-branded cards and includes the impact of balance transfers and convenience checks.

	Year ended December 31, 2010	Year-over-year growth		Year ended December 31, 2009
		U.S. \$	Local Currency ²	
(in billions, except percentages)				
MasterCard Branded GDV¹				
All MasterCard Branded Programs				
Asia/Pacific/Middle East/Africa	\$ 619	27.3%	18.8%	\$ 486
Canada	107	14.9%	4.2%	93
Europe	809	10.8%	13.5%	730
Latin America	221	23.1%	17.4%	179
United States	972	(0.3)%	(0.3)%	975
Worldwide	<u>\$2,727</u>	10.7%	9.1%	<u>\$2,463</u>
 All MasterCard Credit and Charge Programs				
United States	\$ 515	(2.0)%	(2.0)%	\$ 526
Worldwide less United States	1,255	12.9%	10.0%	1,112
Worldwide	<u>\$1,770</u>	8.1%	6.2%	<u>\$1,637</u>
 All MasterCard Debit Programs				
United States	\$ 457	1.7%	1.7%	\$ 450
Worldwide less United States	500	32.8%	30.4%	377
Worldwide	<u>\$ 957</u>	15.9%	14.9%	<u>\$ 826</u>

* Note that figures in the above table may not sum due to rounding.

¹ GDV generated by Maestro and Cirrus cards is not included. The data for GDV is provided by MasterCard customers and includes information with respect to MasterCard-branded transactions that are not processed by MasterCard and for which MasterCard does not earn significant revenues. All data is subject to revision and amendment by MasterCard's customers subsequent to the date of its release, which revisions and amendments may be material.

² Local currency growth eliminates the impact of currency fluctuations and represents local market performance.

Processed Transactions. The processed transaction table below provides information regarding all transactions processed by MasterCard, regardless of brand, for the years ended December 31, 2010 and 2009

	Year ended December 31, 2010	Year-over-year growth	Year ended December 31, 2009
	(in millions, except percentages)		
Processed transactions¹	<u>23,052</u>	2.9%	<u>22,401</u>

¹ Data represents all transactions processed by MasterCard, including PIN-based online debit transactions, regardless of brand. The numbers were updated in 2009 to exclude a small number of certain processed transactions initiated with cards that do not bear our brands. All prior period data has been revised to be consistent with this revised methodology. Revenue was not impacted by these changes.

Membership Standards

We establish and enforce our standards surrounding membership in MasterCard International and the use and acceptance of cards carrying our brands.

Rulemaking and Enforcement

Membership in MasterCard International and its affiliates is generally open to financial institutions and other entities that are our customers. Applicants for membership must generally meet specified membership eligibility requirements.

In general, MasterCard grants licenses by territory to applicants able to perform all obligations required of members. Licenses provide members with certain rights, including access to the network and usage of our brands. Anti-money laundering due diligence reviews and customer risk management reviews are conducted on all new members prior to admission, as well as on existing members. All applicants and members must meet the requirements of MasterCard’s anti-money laundering program, and MasterCard can block authorization of transactions and ultimately terminate membership for non-compliance with the program. As a condition of our licenses, members agree to comply with our standards, which include our certificate of incorporation, bylaws, policies, rules and operating regulations and procedures. MasterCard International and certain of its affiliates are the governing bodies that establish and enforce our standards, which relate to such matters as membership eligibility and financial soundness criteria; the standards, design and features of cards and card programs; the use of MasterCard trademarks; merchant acquiring activities (including acceptance standards applicable to merchants); and guaranteed settlement and member failures. To help ensure that members conform to the standards, we review card programs proposed by members.

Customer Risk Management

As a guarantor of certain card obligations of principal members, we are exposed to member credit risk arising from the potential financial failure of any of our approximately 2,500 principal members of MasterCard, Maestro and Cirrus, and approximately 3,400 affiliate debit licensees. Our estimated gross settlement risk exposure for MasterCard-branded transactions, which is calculated using the average daily card charges made during the quarter multiplied by the estimated number of days to settle, was approximately \$28.5 billion as of December 31, 2010. Principal members participate directly in MasterCard programs and are responsible for the settlement and other activities of their sponsored affiliate members (approximately 19,400).

To minimize the contingent risk to MasterCard of a failure, we monitor the financial health of, economic and political operating environments of, and compliance with our standards by, our principal members, affiliate debit licensees and other entities to which we grant licenses. If the financial condition of a member or the state of the economy in which it operates indicates that it may not be able to satisfy its obligations to us or to other

MasterCard members or its payment obligations to MasterCard merchants, we may require the member to post collateral, typically in the form of standby letters of credit, bank guarantees or secured cash accounts. As of December 31, 2010, we had members who had posted approximately \$3.0 billion in collateral held for settlement exposure for MasterCard-branded transactions. If a member becomes unable or unwilling to meet its obligations to us or other members, we are able to draw upon such member's collateral, if provided, in order to minimize any potential loss to our members or ourselves. In addition to obtaining collateral from members, in situations where a member is potentially unable to meet its obligations to us or other members, we can block authorization and settlement of transactions and ultimately terminate membership. Additionally, and to further preserve payment system integrity, MasterCard reserves the right to terminate a member's right to participate in MasterCard's payment card network if, for example, the member fails or refuses to make payments in the ordinary course of business, or if a liquidating agent, conservator or receiver is appointed for the member. In addition to these measures, we have also established a \$2.75 billion committed credit facility to provide liquidity for general corporate purposes, including to provide liquidity in the event of member settlement failure. See "Risk Factors—Business Risks—As a guarantor of certain obligations of principal members and affiliate debit licensees, we are exposed to risk of loss or illiquidity if any of our customers default on their MasterCard, Cirrus or Maestro settlement obligations" in Part I, Item 1A. See also "Risk Factors—Business Risks—Unprecedented global economic events in financial markets around the world have directly and adversely affected, and may continue to affect, many of our customers, merchants that accept our brands and cardholders who use our brands, which could result in a material and adverse impact on our prospects, growth, profitability, revenue and overall business" in Part I, Item 1A.

Payment System Integrity

The integrity of our payment system can be affected by fraudulent activity and illegal uses of cards and our system. Fraud is most often committed in connection with lost, stolen or counterfeit cards or stolen account information, often resulting from security breaches of third party systems that inappropriately store cardholder account data. See "Risk Factors—Business Risks—Account data breaches involving card data stored by us or third parties could adversely affect our reputation and revenue" in Part I, Item 1A. Fraud is also more likely to occur in transactions where the card is not present, such as e-Commerce, mail order and telephone order transactions. Security and cardholder authentication for these remote channels are particularly critical issues facing our customers and merchants who engage in these forms of commerce, where a signed cardholder sales receipt or the presence of the card or merchant agent is unavailable.

We monitor areas of risk exposure and enforce our standards to combat fraudulent activity. We also operate several compliance programs to help ensure that the integrity of our payment system is maintained by our customers and their agents. Key compliance programs include merchant audits (for high fraud, excessive chargebacks and processing of illegal transactions) and security compliance (including our MasterCard Site Data Protection Service®, which assists customers and merchants in protecting commercial sites from hacker intrusions and subsequent account data compromises) by requiring proper adherence to the Payment Card Industry Data Security Standards (PCI DDS). Our customers are also required to report instances of fraud to us in a timely manner so we can monitor trends and initiate action where appropriate.

Our customers generally are responsible for fraud losses associated with the cards they issue and the merchants from which they acquire transactions. However, we have implemented a series of programs and systems to aid them in detecting and preventing the fraudulent use of MasterCard cards. We provide education programs and various risk management tools to help prevent fraud, including MasterCard SecureCode®, a global Internet authentication solution that permits cardholders to authenticate themselves to their issuer using a unique, personal code, and our Site Data Protection program. We also provide fraud detection and prevention solutions, including EMS and DataCash fraud prevention tools.

Enterprise Risk Management

MasterCard faces a number of risks in operating its business (for a description of material risks, see “Risk Factors” in Part I, Item 1A). Managing risk is an integral component of our business activities and the degree to which we manage risk is vital to our financial condition and profitability. We have an Enterprise Risk Management (“ERM”) program which is integrated with the business and designed to ensure appropriate and comprehensive oversight and management of risk. The ERM program leverages our business processes to, among other things, ensure: allocation of resources to appropriately address risk; establishment of clear accountability for risk management; and provision of transparency of risks to senior management, the Board of Directors and appropriate Board committees. Our ERM program seeks to accomplish these goals by: identifying, prioritizing and monitoring key risks; providing an independent view of our risk profile; and strengthening business operations by integrating ERM principles and continuing to create a risk aware culture within MasterCard. MasterCard’s integrated risk management structure balances risk and return by having business units and central functions (such as finance and law) identify, own and manage risks, our executive officers set policy and accountability and the Board and committees provide oversight of the process.

Intellectual Property

We own a number of valuable trademarks that are essential to our business, including MasterCard®, Maestro® and Cirrus®, through one or more affiliates. We also own numerous other trademarks covering various brands, programs and services offered by MasterCard to support our payment programs. Trademark and service mark registrations are generally valid indefinitely as long as they are used and/or properly maintained. Through license agreements with our customers, we authorize the use of our trademarks in connection with our customers’ card issuing and merchant acquiring businesses. In addition, we own a number of patents and patent applications relating to payments solutions, transaction processing, smart cards, contactless, mobile, electronic commerce, security systems and other matters, some of which may be important to our business operations. Patents are of varying duration depending on the jurisdiction and filing date, and will typically expire at the end of their natural term.

Competition

General. MasterCard programs compete against all forms of payment, including paper-based transactions (principally cash and checks); card-based payment systems, including credit, charge, debit, prepaid, private-label and other types of general purpose and limited use cards; and electronic transactions such as wire transfers and Automated Clearing House payments. As a result of a global trend, electronic forms of payment such as payment cards are increasingly displacing paper forms of payment, and card brands such as MasterCard, Visa, American Express and Discover are benefiting from this displacement. However, cash and checks still capture the largest overall percentage of worldwide payment volume.

Payment Card, Processing and Alternative Competitors.

- *General Purpose Payment Card Industry.* Within the general purpose payment card industry, we face substantial and increasingly intense competition worldwide from systems such as Visa (including Plus®, Electron and Interlink), American Express and Discover, among others. Within the global general purpose card industry, Visa has significantly greater volume than we do. Outside of the United States, some of our competitors such as JCB in Japan and China Union Pay® have leading positions in their domestic markets. Regulation can also play a role in determining competitive market advantages for competitors. For example, China Union Pay is the sole domestic processor designated by the Chinese government and operates the sole national cross-bank bankcard information switch network in China due to local regulation. Some governments, such as India and Russia, are promoting local networks for domestic processing and there are similar developments in other countries. See “Risk Factors—Legal and Regulatory Risks—Government actions may prevent us from competing effectively against providers of domestic payments services in certain countries, which could adversely affect our ability to maintain or increase our revenues” in Part I, Item 1A.

- *Particular Segments.* We face competition with respect to particular segments of the payment card industry, including:
 - *Debit.* In the debit card sector, we also encounter substantial and increasingly intense competition from ATM and point-of-sale debit networks in various countries, such as Interlink™, Plus and Visa Electron (owned by Visa Inc.), Star® (owned by First Data Corporation), NYCE® (owned by FIS), and Pulse™ (owned by Discover), in the United States; Interac in Canada; EFTPOS in Australia; and Bankserv in South Africa. In addition, in many countries outside of the United States, local debit brands serve as the main brands while our brands are used mostly to enable cross-border transactions, which typically represent a small portion of overall transaction volume.
 - *PIN-Based Debit Transactions.* In the United States, some of our competitors process a greater number of online, PIN-based debit transactions at the point of sale than we do. In addition, our business and revenues could be impacted adversely by the tendency among U.S. merchants to migrate from offline, signature-based debit transactions to online, PIN-based debit transactions because we generally earn less revenue from the latter types of transactions. This tendency may be accelerated as a result of the Federal Reserve's implementation of rules associated with the Wall Street Reform and Consumer Protection Act (as defined and described below under "Government Regulation"). In addition, online, PIN-based transactions are more likely to be processed by other domestic ATM/debit point-of-sale networks rather than by us. See "Risk Factors—Business Risks—If we are unable to grow our debit business, particularly in the United States, we may fail to maintain and increase our revenue growth" in Part I, Item 1A.
 - *Private-Label.* Private-label cards, which can generally be used to make purchases solely at the sponsoring retail store, gasoline retailer or other types of merchants, also serve as another form of competition.
- *End-to-End Payment Networks.* Our competitors include operators of proprietary end-to-end payment networks that have direct acquiring relationships with merchants and direct issuing relationships with cardholders, such as American Express and Discover. These competitors have certain advantages that we do not enjoy. Among other things, these competitors do not require formal interchange fees to balance payment system costs among issuers and acquirers, because they typically have direct relationships with both merchants and cardholders. Interchange fees, which are a characteristic of four-party payments systems such as ours, are subject to increased regulatory and legislative scrutiny worldwide. See "Risk Factors—Legal and Regulatory Risks—Interchange fees and related practices have been receiving significant and increasingly intense legal, regulatory and legislative scrutiny worldwide, and the resulting decisions, regulations and legislation may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations" in Part I, Item 1A. To date, operators of end-to-end payment networks have generally avoided the same regulatory and legislative scrutiny and litigation challenges we face because they do not utilize formal interchange fees. Accordingly, these operators may enjoy a competitive advantage over four-party payments systems.
- *Competition for Customer Business.* We compete intensely with other card networks, principally Visa, for the loyalty of our customers. Globally, financial institutions typically issue both MasterCard and Visa-branded payment cards, and we compete with Visa for business on the basis of individual card portfolios or programs. Some of our customers also do business with American Express or Discover in the United States, and a number of our large customers now issue American Express and/or Discover-branded cards. We also compete for new business partners with whom we seek to work, such as merchants, government agencies and telecommunication companies. See "Risk Factors—Business Risks—Our operating results may suffer because of substantial and increasingly intense competition worldwide in the global payments industry" in Part I, Item 1A. Our ability to compete in the global payments industry for customer business can be affected by the outcome of litigation, regulatory proceedings and legislative activity. For example, in July 2010, the United States enacted into law the

Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Wall Street Reform and Consumer Protection Act”), which requires the Board of Governors of the United States Federal Reserve System to issue regulations prohibiting arrangements under which a debit card can be processed only by one network (or only by a group of affiliated networks). The Wall Street Reform and Consumer Protection Act also prohibits any restrictions on a merchant’s ability to route a transaction over any one of the networks that could process the transaction. These events have resulted in challenges, as well as potential opportunities to compete for business in this area.

- *Transaction Processors.* We face competition from transaction processors throughout the world, such as First Data Corporation and Total System Services, Inc., some of which are seeking to enhance their networks that link issuers directly with point-of-sale devices for payment card transaction authorization and processing services. Certain of these transaction processors could potentially displace MasterCard as the provider of these payment processing services.
- *New Entrants and Alternative Payment Systems.* We also compete against relatively new entrants and alternative payment providers, such as PayPal® (a business segment of eBay), which have developed payment systems in e-Commerce and across mobile devices. While PayPal is an established and important player in Internet payments, this is an increasingly competitive area, as evidenced by the proliferation of new online competitors. Among other services, these competitors provide Internet payment services that can be used to buy and sell goods online, and services that support payments to and from deposit accounts or proprietary accounts for Internet, mobile commerce and other applications. A number of these new entrants rely principally on the Internet and potential wireless communication networks to support their services, and may enjoy lower costs than we do. The payment card industry is also facing changes in services and technology related to mobile payments and emerging competition from mobile operators and handset manufacturers. Micro-payments on social networks such as Facebook® are relatively small today but have the potential to grow rapidly, representing the potential for competition from a new payment form.

Financial Institution Customers.

- *Pricing.* We face increasingly intense competitive pressure on the prices we charge our customers. We seek to enter into business agreements with customers through which we offer incentives and other support to issue and promote our cards. In order to stay competitive, we may have to increase the amount of rebates and incentives we provide to our customers and merchants, as we have in the last several years. See “Risk Factors—Business Risks—We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability” in Part I, Item 1A.
- *Banking Industry Consolidation.* The banking industry has undergone substantial accelerated consolidation over the last several years, and we expect some consolidation to continue in the future. Recent consolidations have included customers with a substantial MasterCard portfolio being acquired by institutions with a strong relationship with a competitor. Significant ongoing consolidation in the banking industry may result in a substantial loss of business for MasterCard. The continued consolidation in the banking industry, whether as a result of an acquisition of a substantial MasterCard portfolio by an institution with a strong relationship with a competitor or the combination of two institutions with which MasterCard has a strong relationship, would also produce a smaller number of large customers, which generally have a greater ability to negotiate pricing discounts with MasterCard. Consolidations could prompt our customers to renegotiate our business agreements to obtain more favorable terms. This pressure on the prices we charge our customers could materially and adversely affect our revenue and profitability. See “Risk Factors—Business Risks—Additional consolidation or other changes in or affecting the banking industry could result in a loss of business for MasterCard and create pressure on the fees we charge our customers, resulting in lower prices and/or more favorable terms for our customers, which may materially and adversely affect our revenue and profitability” in Part I, Item 1A.

Competitive Position. We believe that the principal factors influencing our competitive position in the global payments industry are:

- pricing;
- customer relationships;
- the impact of existing and future litigation, legislation and government regulation;
- the impact of globalization and consolidation of financial institutions and merchants;
- the acceptance base, reputation and brand recognition of payment cards;
- the success and scope of marketing and promotional campaigns;
- the quality, security and integrity of transaction processing;
- the relative value of services and products offered;
- new market entrants; and
- the ability to develop and implement competitive new card programs, systems and technologies in both physical and virtual environments.

Government Regulation

General. Government regulation impacts key aspects of our business. We are subject to regulations that affect the payment industry in the many countries in which our cards are used. Regulation of the payments industry has increased significantly in the last several years, including in the United States. Regulators in several countries outside of the United States have also become increasingly interested in payment issues, a number of which have launched official proceedings related to payment industry issues. See “Risk Factors—Legal and Regulatory Risks” in Part I, Item 1A.

Interchange Fees. Interchange fees associated with four-party payment systems like ours are being reviewed or challenged in various jurisdictions. Such challenges include regulatory proceedings in the European Union (by the European Commission, as well as by individual European Union member states) and elsewhere. Interchange fees have also become the subject of legislative action. In particular, the Wall Street Reform and Consumer Protection Act enacted into law in July 2010 provides for, among other things, the regulation of debit and prepaid “interchange transaction fees” directly and through an implementing rulemaking process undertaken by the Board of Governors of the United States Federal Reserve System. See “Risk Factors—Legal and Regulatory Risks—Interchange fees and related practices have been receiving significant and increasingly intense legal, regulatory and legislative scrutiny worldwide, and the resulting decisions, regulations and legislation may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations” and “The Wall Street Reform and Consumer Protection Act may have a material, adverse effect on our revenue, our prospects for future growth and our overall business, financial condition and results of operations” in Part I, Item 1A and in Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8.

Data Protection and Information Security. Aspects of our operations or business are subject to privacy regulation in the United States, the European Union and elsewhere, as well as regulations imposed by the U.S. Treasury’s Office of Foreign Assets Control (“OFAC”). For example, in the United States, we and our customers are respectively subject to Federal Trade Commission and federal banking agency information safeguarding requirements under the Gramm-Leach-Bliley Act. The Federal Trade Commission’s information safeguarding rules require us to develop, implement and maintain a written, comprehensive information security program containing safeguards that are appropriate for our size and complexity, the nature and scope of our activities, and the sensitivity of any customer information at issue. Our customers in the United States are subject to similar requirements under the guidelines issued by the federal banking agencies. As part of their compliance with the requirements, each of our U.S. customers is expected to have a program in place for responding to unauthorized access to, or use of, customer information that could result in substantial harm or inconvenience to customers.

In the United States, during the past several years, a number of bills have been considered by Congress and there have been several congressional hearings to address information safeguarding and data breach issues. Congress continues to consider these issues, which could result in legislation that would have an adverse impact on us and our customers. For example, the House of Representatives has again passed comprehensive data security and data breach notification legislation that could impose additional regulatory burdens on us and our customers. Similar legislation has not yet passed the Senate in this Congress, and it is not clear whether legislation of this type will be signed into law. In addition, a large number of U.S. states have enacted security breach legislation, requiring varying levels of consumer notification in the event of a security breach. In Europe, the European Parliament and Council passed the European Directive 95/46/EC (the "Directive") on the protection of individuals with regard to the processing of personal data and on the free movement of such data, which obligates the controller of an individual's personal data to take the necessary technical and organizational measures to protect personal data. The Directive has been implemented through local laws regulating data protection in European Union member states to which we and our customers are subject. The Directive establishes general principles with regard to the processing of personal data, including the legal grounds for processing, the rights of individuals with regard to their personal data, restrictions on transfers of the personal data outside the European Economic Area, and the obligation of the controller of that information to take the necessary technical and organizational measures to protect personal data. In addition to the United States and Europe, other jurisdictions around the world are enacting similar privacy, data protection and information security regulations which have similar impacts to our businesses in these jurisdictions. See "Risk Factors—Legal and Regulatory Risks—Regulation in the areas of consumer privacy, data use and/ or security could decrease the number of payment cards issued and could increase our costs" in Part I, Item 1A.

Anti-Money Laundering and Anti-Terrorism. MasterCard and other participants in the payment industry are also subject to the regulatory requirements of Section 352 of the USA PATRIOT Act, which applies to certain types of financial institutions, including operators of credit card systems. Section 352 of the USA PATRIOT Act requires MasterCard to maintain a comprehensive anti-money laundering program and imposes similar requirements on some of our customers. Our anti-money laundering program must be reasonably designed to prevent our system from being used to facilitate money laundering and the financing of terrorist activities. The program must, at a minimum, include the designation of a compliance officer, provide for the training of appropriate personnel regarding anti-money laundering responsibilities, as well as incorporate policies, procedures, and controls to mitigate money laundering risks, and be independently audited.

We are also subject to regulations imposed by OFAC restricting financial transactions with Cuba, Burma/Myanmar, Iran and Sudan and with persons and entities included in OFAC's list of Specially Designated Nationals and Blocked Persons (the "SDN List"). Cuba, Iran, Sudan and Syria also have been identified by the U.S. State Department as terrorist-sponsoring states. While MasterCard has no business operations, subsidiaries or affiliated entities in these countries, there are financial institutions licensed by MasterCard to issue cards or acquire merchant transactions in certain of these countries. MasterCard takes measures to avoid transactions with persons and entities on the SDN List; however, it is possible that transactions involving persons or entities on the SDN List may be processed through our payment system. It is possible that our reputation may suffer due to our customer financial institutions' association with these countries or the existence of any such transactions, which in turn could have a material adverse effect on the value of our stock. Further, certain U.S. states have enacted legislation regarding investments by pension funds and other retirement systems in companies that have business activities or contacts with countries that have been identified as terrorist-sponsoring states and similar legislation may be pending in other states. As a result, pension funds and other retirement systems may be subject to reporting requirements with respect to investments in companies such as ours or may be subject to limits or prohibitions with respect to those investments that may materially and adversely affect our stock price.

Financial Industry Regulation. MasterCard customers are subject to numerous regulations applicable to banks and other financial institutions in the United States and elsewhere, and as a consequence MasterCard is impacted by such regulations. Certain of our operations are periodically reviewed by the U.S. Federal Financial Institutions Examination Council ("FFIEC") under its authority to examine financial institutions' technology

service providers. Examinations by the FFIEC cover areas such as data integrity and data security. In recent years, the U.S. federal banking regulators have adopted a series of regulatory measures affecting credit card payment terms and requiring more conservative accounting, greater risk management and in some cases higher capital requirements for bank credit card activities, particularly in the case of banks that focus on subprime cardholders. In addition, MasterCard Europe operates a retail payment system in Europe and is subject to oversight by the National Bank of Belgium pursuant to standards published by the European Central Bank that are principally targeted at managing financial, legal and operations risk.

In July 2010, as part of the Wall Street Reform and Consumer Protection Act, the Bureau of Consumer Financial Protection (the "Bureau") was created. The Bureau will have significant authority to regulate consumer financial products, including consumer credit, deposit, payment, and similar products, although it is not clear whether and/or to what extent the Bureau will be authorized to regulate broader aspects of payment card network operations. In addition, the Financial Reform Act created the Financial Stability Oversight Council (the "Council") in order to identify risks to the financial stability of the United States that could arise from the material financial distress or failure of, or ongoing activities by, large, interconnected bank holding companies or nonbank financial companies. Among other responsibilities, the Council is tasked with identifying payment, clearing and settlement systems that are "systemically important" under the applicable statutory standard. Under the Wall Street Reform and Consumer Protection Act, such systems will be subject to new regulation, supervision and examination requirements. It is not clear whether MasterCard would be deemed "systemically important." However, the imposition of any additional regulatory or other obligations on MasterCard could result in costly new compliance burdens that could negatively impact our business. See "Risk Factors—Legal and Regulatory Risks—The Wall Street Reform and Consumer Protection Act may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations" in Part I, Item 1A.

Issuer Practice Legislation and Regulation. The Board of Governors of the United States Federal Reserve System is continuing the process of issuing regulations to implement the Credit CARD Act, which was signed into law in May 2009. The Credit CARD Act, and its implementing regulations, are having a significant impact on the disclosures made by our customers and on our customers' account terms and business practices. The Credit CARD Act, and its implementing regulations, are making it more difficult for credit card issuers to price credit cards for future credit risk and will have a significant effect on the pricing, credit allocation, and business models of most major credit card issuers. The new law could reduce credit availability, or increase the cost of credit to cardholders, possibly affecting MasterCard transaction volume and revenues.

The Credit CARD Act also includes provisions that impose limits and restrictions on certain prepaid card products, including on fees. The Board of Governors of the United States Federal Reserve System has issued implementing regulations with respect to these provisions. The statutory provisions and implementing regulations may diminish the attractiveness of these products to our customers and may consequently adversely affect transaction volumes and revenues.

The Board of Governors of the United States Federal Reserve System has also recently adopted regulations regulating overdraft fees imposed in connection with ATM and debit card transactions. These regulations will have the effect of significantly reducing overdraft fees our customers may charge in connection with debit card programs. This may diminish the attractiveness of debit card programs to our customers and may adversely affect transaction volumes and revenues.

Regulation of Internet Transactions. In October 2006, the U.S. Congress enacted legislation requiring the coding and blocking of payments for certain types of Internet gambling transactions. The legislation applies to payment system participants, including MasterCard and our U.S. customers, and is implemented through a federal regulation. Compliance was required no later than June 1, 2010, although Congress may consider additional legislation to legalize and regulate Internet gambling. The federal regulation requires us and our customers to implement compliance programs that would increase our costs and/or could decrease our

transaction volumes. In addition, the U.S. Congress continues its consideration of regulatory initiatives in the areas of Internet prescription drug purchases, copyright and trademark infringement, and privacy, among others, that could impose additional compliance burdens on us and/or our customers. Some U.S. states are considering a variety of similar legislation. If implemented, these initiatives could require us or our customers to monitor, filter, restrict, or otherwise oversee various categories of payment card transactions, thereby increasing our costs or decreasing our transaction volumes. Various regulatory agencies also continue to examine a wide variety of issues, including identity theft, account management guidelines, privacy, disclosure rules, security and marketing that would impact our customers directly. These new requirements and developments may affect our customers' ability to extend credit through the use of payment cards, which could decrease our transaction volumes. In some circumstances, new regulations could have the effect of limiting our customers' ability to offer new types of payment programs or restricting their ability to offer our existing programs such as prepaid cards, which could materially and adversely reduce our revenue and revenue growth.

Seasonality

See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Seasonality" in Part II, Item 7 for a discussion of the impact of seasonality on our business.

Financial Information About Geographic Areas

See Note 25 (Segment Reporting) to the consolidated financial statements included in Part II, Item 8 for certain geographic financial information.

Employees

As of December 31, 2010, we employed approximately 5,600 persons, of which approximately 2,200 were employed outside of the United States. We consider our relationship with employees to be good.

Website and SEC Reports

The Company's internet address is www.mastercard.com. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available, without charge, for review on our investor relations page, accessible through our corporate website, as soon as reasonably practicable after they are filed with, or furnished to, the U.S. Securities and Exchange Commission (the "SEC"). The information contained on our website is not incorporated by reference into this Report.

Item 1A. Risk Factors

Legal and Regulatory Risks

Interchange fees and related practices have been receiving significant and increasingly intense legal, regulatory and legislative scrutiny worldwide, and the resulting decisions, regulations and legislation may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations.

Interchange fees, which represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as ours, are generally the largest component of the costs that acquirers charge merchants in connection with the acceptance of payment cards. Typically, interchange fees are paid by the merchant financial institution (the acquirer) to the cardholder financial institution (the issuer) in connection with transactions initiated on our payment system.

We do not earn revenues from interchange fees. They are, however, a key factor in balancing the costs consumers pay and the costs merchants pay in our payment system. They are also a factor on which we compete with other payment providers and therefore an important determinant of the volume of transactions we process

over our network. Although we have historically set default interchange fees in the United States and other countries, in certain jurisdictions, our interchange rates and related practices, including our default interchange fees, are subject to increased litigation and government regulation as card-based forms of payment have become relatively more important to local economies. Regulators and legislative bodies in a number of countries, as well as merchants, are seeking to reduce these fees through litigation, regulatory action and/or legislative action.

Increased legislative scrutiny in the United States is resulting in limitations on our ability to establish default interchange rates for debit transactions. In July 2010, the United States enacted into law the Wall Street Reform and Consumer Protection Act that, among other things, requires debit and prepaid “interchange transaction fees” to be “reasonable and proportional to the cost incurred by the issuer with respect to the transaction.” See “Risk Factors—Legal and Regulatory Risks—The Wall Street Reform and Consumer Protection Act may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations” in this Part I, Item 1A for more detail. Interchange fees also have been the subject of legislative activity elsewhere, including:

- In France, in May 2009, the French Parliament began considering a bill that would have regulated merchant discount fees. In October 2010, a substantially modified version of the bill was adopted, and was subsequently struck down by the French Constitutional Court in January 2011.
- In Canada, in June 2009, the Canadian Senate issued a report with the non-binding recommendations that debit interchange be set at zero for three years, merchant surcharging be permitted in Canada and “honor all cards” rules be modified. In response, the Canadian Department of Finance implemented a voluntary “Code of Conduct” on related issues for payment card industry participants in Canada, to which MasterCard has agreed to abide. Private member bills have also been introduced in the Canadian Senate that would attempt to establish legislative or regulatory controls over interchange and related practices
- In Hungary, in December 2009, the Hungarian Parliament began considering a bill that would have regulated interchange fees and merchant discount rates. In February 2010, a modified bill was adopted which only regulated merchant discount rate, and the bill was subsequently effectively repealed in January 2011.
- In Brazil, in May 2010, the Central Bank of Brazil (together with competition agencies in Brazil) issued a final report detailing their findings with respect to the retail payment system in Brazil, including a finding that greater transparency was required in the setting of domestic interchange rates.

In addition, regulatory authorities and central banks in a number of jurisdictions around the world have commenced proceedings or inquiries into interchange fees and related practices. Examples include:

- In the European Union, in December 2007, the European Commission issued a negative decision (which we have appealed to the General Court of the European Union) with respect to our cross-border interchange fees for consumer credit and debit cards under European Union competition rules.
- In Australia, the Reserve Bank of Australia enacted regulations in 2002 (which have been subsequently reviewed and not withdrawn) controlling the costs that can be considered in setting interchange fees for four-party payment card systems such as ours.
- In the United Kingdom, in February 2007, the Office of Fair Trading commenced a new investigation (which has been suspended pending the outcome of our appeal of the European Commission decision) of our current U.K. credit card interchange fees and so-called “immediate debit” cards to determine whether such fees contravene U.K. and European Union competition law.
- In Poland, in January 2007, the Polish Office for Protection of Competition and Consumers issued a decision that our domestic interchange fees are unlawful under Polish competition law, and imposed fines on our licensed financial institutions—the decision is currently being appealed.

- In Hungary, in addition to the legislative activity described above, MasterCard Europe is appealing the Hungarian Competition Office December 2009 decision (which has been stayed) ruling that MasterCard Europe's historic domestic interchange fees violate Hungarian competition law and fining MasterCard Europe approximately U.S. \$3 million.
- In Italy, MasterCard Europe is appealing the November 2010 decision of the Italian Competition Authority ruling that MasterCard Europe's domestic interchange fees violate European Union competition law and fining MasterCard 2.7 million euro.
- In Canada, in addition to the legislative activity described above, in December 2010 the Canadian Competition Bureau filed an application with the Canadian Competition Tribunal to strike down rules related to MasterCard's interchange fees, including its "honor all cards" and "no surcharge" rules.
- In South Africa, in September 2010, MasterCard was informed by the South African Reserve Bank that it intended to appoint an independent consultant to make a recommendation on a simplified interchange structure for all payment systems in South Africa.

See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for a detailed description of regulatory proceedings and inquiries into interchange fees. We believe that regulators are increasingly cooperating on interchange matters and, as a result, developments in any one jurisdiction may influence regulators' approach to interchange fees in other jurisdictions. See "Risk Factors—Legal and Regulatory Risks—New regulations in one jurisdiction or of one product may lead to new regulations in other jurisdictions or of other products" in this Part I, Item 1A.

Additionally, merchants are seeking to reduce interchange fees through litigation. In the United States, merchants have filed approximately 50 class action or individual suits alleging that MasterCard's interchange fees and acceptance rules violate federal antitrust laws. These suits allege, among other things, that our purported setting of interchange fees constitutes horizontal price-fixing between and among MasterCard and its member banks, and MasterCard, Visa and their member banks in violation of Section 1 of the Sherman Act, which prohibits contracts, combinations or conspiracies that unreasonably restrain trade. The suits seek treble damages, attorneys' fees and injunctive relief. See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for more details regarding the allegations contained in these complaints and the status of these proceedings.

If issuers cannot collect, or we are forced to reduce, interchange fees, issuers may be unable to recoup a portion of the costs incurred for their services. This could reduce the number of financial institutions willing to participate in our four-party payment card system, lower overall transaction volumes, and/or make proprietary end-to-end networks or other forms of payment more attractive. Issuers also could charge higher fees to consumers, thereby making our card programs less desirable to consumers and reducing our transaction volumes and profitability, or attempt to decrease the expense of their card programs by seeking a reduction in the fees that we charge. This could also result in less innovation and product offerings. We are devoting substantial management and financial resources to the defense of interchange fees in regulatory proceedings, litigation and legislative activity. The potential outcome of any legislative, regulatory or litigation action could have a more positive or negative impact on MasterCard relative to its competitors. If we are ultimately unsuccessful in our defense of interchange fees, any such legislation, regulation and/or litigation may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations. In addition, regulatory proceedings and litigation could result in MasterCard being fined and/or having to pay civil damages.

The Wall Street Reform and Consumer Protection Act may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations.

The Wall Street Reform and Consumer Protection Act recently enacted in the United States establishes regulation and oversight by the U.S. Federal Reserve Board of debit interchange rates and certain other network

industry practices. Among other things, it requires debit and prepaid “interchange transaction fees” (referred to in the Wall Street Reform and Consumer Protection Act as fees established, charged or received by a payment card network for the purpose of compensating an issuer for its involvement in an electronic debit transaction) to be “reasonable and proportional to the cost incurred by the issuer with respect to the transaction.” Proposed regulations by the Federal Reserve provide two alternative proposals for determining whether a debit interchange fee complies with the “reasonable and proportional” standard. One alternative would impose a range for a per-transaction interchange fee and the other would impose a simple cap. In each case, the Federal Reserve’s proposed debit interchange limits are significantly below the interchange fees card issuers currently receive. Provided certain conditions are met, the proposed regulations exempt from the proposed interchange fee restrictions the following: (1) issuers with assets of less than \$10 billion; (2) debit cards issued pursuant to a government-administered program; and (3) general use prepaid cards not marketed or labeled as gift cards. Also, while the proposed regulations do not directly regulate network fees, they make clear that network fees cannot be used to circumvent the debit interchange fee restrictions. See “Risk Factors—Legal and Regulatory Risks—Interchange fees and related practices have been receiving significant and increasingly intense legal, regulatory and legislative scrutiny worldwide, and the resulting decisions, regulations and legislation may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations” in this Part I, Item 1A.

Additionally, the Wall Street Reform and Consumer Protection Act provides that neither an issuer nor a payment card network may establish exclusive debit network arrangements or inhibit the ability of a merchant to choose among different networks for routing debit transactions. Under alternative rules proposed by the Federal Reserve, either (1) a debit card would meet the requirements of the Wall Street Reform and Consumer Protection Act as long as it could be used in at least two unaffiliated networks, or (2) each debit card would be required to function in at least two unaffiliated networks for each method of authorization that the cardholder could use for transactions (*i.e.*, two signature and/or two PIN networks).

The Wall Street Reform and Consumer Protection Act also created two new independent regulatory bodies in the Financial Reserve System. The Bureau will have significant authority to regulate consumer financial products, including consumer credit, deposit, payment, and similar products, although it is not clear whether and/or to what extent the Bureau will be authorized to regulate broader aspects of payment card network operations. The Council is tasked, among other responsibilities, with identifying “systemically important” payment, clearing and settlement systems that will be subject to new regulation, supervision and examination requirements, although it is not clear whether MasterCard would be deemed “systemically important” under the applicable statutory standard. If MasterCard were deemed “systemically important,” it could be subject to new risk management regulations relating to its payment, clearing, and settlement activities. New regulations could address areas such as risk management policies and procedures; collateral requirements; participant default policies and procedures; the ability to complete timely clearing and settlement of financial transactions; and capital and financial resource requirements. Also, a “systemically important” payment system could be required to obtain prior approval from the U.S. Board of Governors of the Federal Reserve System or another federal agency for changes to its system rules, procedures or operations that could materially affect the level of risk presented by that payment system. These developments or actions could increase the cost of operating our business and may make payment card transactions less attractive to card issuers, as well as consumers. This could result in a reduction in our payments volume and revenues.

If issuers, acquirers and/or merchants modify their business operations or otherwise take actions in response to this legislation which have the result of reducing the number of debit transactions we process or the network fees we collect, the Wall Street Reform and Consumer Protection Act could have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations. Failure by our customers or by us to adjust our strategies successfully to compete in the new environment would increase this impact.

New regulations in one jurisdiction or of one product may lead to new regulations in other jurisdictions or of other products.

Regulators around the world increasingly look at each other's approaches to the regulation of the payments and other industries. Consequently, a development in any one country, state or region may influence regulatory approaches in other countries, states or regions. This includes the interpretation of the recent Wall Street Reform and Consumer Protection Act and other regulatory and legislative activity relating to interchange. Similarly, new laws and regulations in a country, state or region involving one product may cause lawmakers there to extend the regulations to another product. For example, regulations like those affecting debit payments could lead to regulations affecting credit and general use prepaid cards. See "Risk Factors—Legal and Regulatory Risks—Government actions may prevent us from competing effectively against providers of domestic payments services in certain countries which could adversely affect our ability to maintain or increase our revenues" in this Part I, Item 1A.

As a result, the risks created by any one new law or regulation are magnified by the potential they have to be replicated, affecting our business in another place or involving another product. These include matters like interchange rates, network standards and network exclusivity and routing agreements. Conversely, if widely varying regulations come into existence worldwide, we may have difficulty adjusting our products, services, fees and other important aspects of our business, with the same effect. Either of these eventualities could materially and adversely affect our business, financial condition and results of operations.

Government actions may prevent us from competing effectively against providers of domestic payments services in certain countries, which could adversely affect our ability to maintain or increase our revenues.

Governments in certain countries, such as Russia, Ukraine and India, have acted, or could act, to provide resources or protection to selected national payment card and processing providers. These governments may take this action to support these providers. They may also take this action to displace us from, prevent us from entering into, or substantially restrict us from participating in, particular geographies. As an example, governments in certain countries are considering, or may consider, regulatory requirements that mandate processing of domestic payments either entirely in that country or by only domestic companies. Such a development would prevent us from utilizing our global processing capabilities for customers. Our efforts to effect change in these countries may not succeed. This could adversely affect our ability to maintain or increase our revenues and extend our global brand.

The payments industry is the subject of increasing global regulatory focus, which may result in the imposition of costly new compliance burdens on us and our customers and may lead to increased costs and decreased transaction volumes and revenues.

We are subject to regulations that affect the payment industry in the many countries in which our cards are used. In particular, many of our customers are subject to regulations applicable to banks and other financial institutions in the United States and abroad, and, consequently, MasterCard is at times affected by such regulations. Regulation of the payments industry, including regulations applicable to us and our customers, has increased significantly in the last several years. See "Business—Government Regulation" in Part I, Item 1 for a detailed description of such regulation and related legislation. In addition to the Wall Street Reform and Consumer Protection Act, examples include:

- Anti-money laundering regulation, such as Section 352(a) of the USA PATRIOT Act in the United States and an anti-money laundering law enacted in India (which imposes requirements on payment systems, such as MasterCard's, and their customers).
- Payment systems regulation, such as the Indian Payments and Settlement Systems Act 2007, under which payment system operators, such as MasterCard, operate under the authority and broad oversight of the Reserve Bank of India. Increased regulatory focus in this area could result in additional

obligations or restrictions with respect to the types of products that we may offer to consumers, the countries in which our cards may be used and the types of cardholders and merchants who can obtain or accept our cards.

- Regulations imposed by OFAC, which impose restrictions on financial transactions with certain countries and with persons and entities included on the SDN List. It is possible that transactions involving persons or entities on the SDN List may be processed through our payment system, and that our reputation may suffer due to some of our financial institutions' association with these countries or the existence of any such transactions, which in turn could have a material adverse effect on the value of our stock.
- Legislation, such as that enacted by certain U.S. states, regarding investments by pension funds and other retirement systems in companies that have business activities or contacts with countries that have been identified as terrorist-sponsoring states. As a result of such legislation, pension funds and other retirement systems may be subject to reporting requirements with respect to investments in companies such as ours or may be subject to limits or prohibitions with respect to those investments that may materially and adversely affect our stock price.
- Issuer practices legislation and regulation, including the Credit CARD Act (which is being implemented through regulations issued by the Board of Governors of the United States Federal Reserve System), which are having a significant impact on the disclosures made by our customers and on our customers' account terms and business practices by, among other things, making it more difficult for credit card issuers to price credit cards for future credit risk and significantly affecting the pricing, credit allocation, and business models of most major credit card issuers. Additional regulations include regulations by the Board of Governors regulating overdraft fees imposed in connection with ATM and debit card transactions.
- Regulation of Internet transactions, including legislation enacted by the U.S. Congress (and applicable to payment system participants, including MasterCard and our customers in the United States) requiring the coding and blocking of payments for certain types of Internet gambling transactions, as well as various additional legislative and regulatory activities with respect to Internet transactions which are being considered in the United States.

Increased regulatory focus on us, such as in connection with the matters discussed above, may result in costly compliance burdens and/or may otherwise increase our costs, which could materially and adversely impact our financial performance. Similarly, increased regulatory focus on our customers may cause such customers to reduce the volume of transactions processed through our systems, which could reduce our revenues materially and adversely impact our financial performance. Finally, failure to comply with the laws and regulations discussed above to which we are subject could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business, as well as have an impact on our reputation.

Regulation in the areas of consumer privacy, data use and/or security could decrease the number of payment cards issued and could increase our costs.

We and our customers are also subject to regulations related to privacy and data protection and information security in the jurisdictions in which we do business, and we and our customers could be negatively impacted by these regulations. Recently, these topics have received heightened legislative and regulatory focus in the United States (at both the federal and state level), in Europe and in other jurisdictions around the world. Regulation of privacy and data protection and information security in these and other jurisdictions may increase the costs of our customers to issue payment cards, which may, in turn, decrease the number of our cards that they issue. Any additional regulations in these areas may also increase our costs to comply with such regulations, which could materially and adversely affect our profitability. Finally, failure to comply with the privacy and data protection and security laws and regulations to which we are subject could result in fines, sanctions or other penalties, which could materially and adversely affect our results of operations and overall business, as well as have an impact on our reputation.

If the approval of the settlements of our currency conversion cases is undermined by an appeal and we are unsuccessful in any of our various lawsuits relating to our currency conversion practices, our business may be materially and adversely affected.

We generate significant revenue from processing cross-border currency transactions for customers. However, we are defendants in several state and federal lawsuits alleging that our currency conversion practices are deceptive, anti-competitive or otherwise unlawful. In July 2006, MasterCard and other defendants in federal class actions related to these matters entered into agreements to settle or otherwise dispose of such matters. Pursuant to the settlement agreements, MasterCard has paid \$72 million to be used for the defendants' settlement fund to settle the federal actions and \$13 million to settle state cases. While the federal court has granted final approval of the settlement agreements, the settlements are subject to appeals. If an appeal is filed and we are unsuccessful in that appellate proceeding, the settlement agreements will terminate. If that occurs, and we are unsuccessful in defending against these lawsuits or the state currency conversion cases, we may have to pay restitution to cardholders who make claims that they used their cards in another country, or may be required to modify our currency conversion practices. See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8.

If we determine in the future that we are required to establish reserves or we incur liabilities for any litigation that has been or may be brought against us, our results of operations, cash flow and financial condition could be materially and adversely affected.

Except as discussed in Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8, we have not established reserves for any of the material legal proceedings in which we are currently involved and we are unable to estimate at this time the amount of charges, if any, that may be required to provide reserves for these matters in the future. We may determine in the future that a charge for all or a portion of any of our legal proceedings is required, including charges related to legal fees. In addition, we may be required to record an additional charge if we incur liabilities in excess of reserves that we have previously recorded. Such charges, particularly in the event we may be found liable in a large class-action lawsuit or on the basis of an antitrust claim entitling the plaintiff to treble damages or under which we were jointly and severally liable, could be significant and could materially and adversely affect our results of operations, cash flow and financial condition, or, in certain circumstances, even cause us to become insolvent. See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8.

Limitations on our business and other penalties resulting from litigation or litigation settlements may materially and adversely affect our revenue and profitability.

As a result of the settlement agreement in connection with the U.S. merchant lawsuit in 2003, merchants have the right to reject our debit cards in the United States while still accepting other MasterCard-branded cards, and vice versa. See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8. These limitations and any future limitations on our business resulting from litigation or litigation settlements could reduce the volume of business that we do with our customers, which may materially and adversely affect our revenue and profitability.

Potential changes in the tax laws applicable to us could materially increase our tax payments.

Potential changes in existing tax laws, such as recent proposals for fundamental tax reform in the United States, including the treatment of earnings of controlled foreign corporations, may impact our effective tax rate. See also Note 21 (Income Tax) to the consolidated financial statements included in Part II, Item 8.

Business Risks

Our revenues, operating results, prospects for future growth and overall business may suffer because of substantial and increasingly intense competition worldwide in the global payments industry.

The global payments industry is highly competitive. Our payment programs compete against all forms of payment, including paper-based transactions (principally cash and checks), card-based systems, including credit, charge, debit, prepaid, private-label and other types of general purpose and limited use cards, and electronic transactions such as wire transfers and Automated Clearing House payments. Within the global general purpose payment card industry, we face substantial and increasingly intense competition worldwide from systems such as Visa, American Express, Discover and JCB, among others. Visa has significantly greater volume than we do, and has greater scale and market share, as well as strong brand recognition, which provides significant competitive advantages. Moreover, some of our traditional competitors, as well as alternative payment service providers, may have substantially greater financial and other resources than we have, may offer a wider range of programs and services than we offer or may use more effective advertising and marketing strategies to achieve broader brand recognition or merchant acceptance than we have. Our ability to compete may also be affected by the outcomes of litigation, regulatory proceedings and legislative activity.

Certain of our competitors, including American Express, Discover, private-label card networks and certain alternative payments systems, operate end-to-end payments systems with direct connections to both merchants and consumers, without involving intermediaries. These competitors seek to derive competitive advantages from their business models. For example, operators of end-to-end payments systems tend to have greater control over consumer and merchant customer service than operators of four party payments systems such as ours, in which we must rely on our issuing and acquiring financial institution customers. In addition, these competitors have not attracted the same level of legal or regulatory scrutiny of their pricing and business practices as have operators of four-party payments systems such as ours. Certain competitors may also hold competitive advantages as a result of their organizational structures. See "Business—Competition" in Part I, Item 1.

If we are not able to differentiate ourselves from our competitors, drive value for our customers and/or effectively align our resources with our goals and objectives, we may not be able to compete effectively against these threats. Our competitors may also more effectively introduce their own innovative programs and services that adversely impact our growth. Our customers can also develop their own competitive services. As a result, our revenue or profitability could decline. We also compete against new entrants that have developed alternative payment systems, e-Commerce payment systems and payment systems for mobile devices. A number of these new entrants rely principally on the Internet to support their services and may enjoy lower costs than we do, which could put us at a competitive disadvantage.

We also expect that there may be other changes in the competitive landscape in the future, including:

- Parties that process our transactions in certain countries may try to eliminate our position as an intermediary in the payment process. For example, merchants could process transactions directly with issuers, or processors could process transactions directly between issuers and acquirers. Large scale consolidation within processors could result in these processors developing bilateral agreements or in some cases processing the entire transaction on their own network, thereby dis-intermediating MasterCard.
- Rapid and significant technological changes could occur, resulting in new and innovative payment programs that could place us at a competitive disadvantage and that could reduce the use of MasterCard-branded cards.
- Competitors, customers and other industry participants may develop products that compete with or replace value-added services we currently provide to support our transaction processing which could, if significant numbers of cardholders choose to use them, replace our own processing services or could force us to change our pricing or practices for these services.

- Participants in the payments industry may merge, create joint ventures or form other business combinations that may strengthen their existing business services or create new payment services that compete with our services.

Our failure to compete effectively against any of the foregoing competitive threats could materially and adversely affect our revenues, operating results, prospects for future growth and overall business.

We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our business, revenue and profitability.

We generate revenue from the fees that we charge our customers for providing transaction processing and other payment-related services and from assessments on the dollar volume of activity on cards carrying our brands. In order to increase transaction volumes, enter new markets and expand our card base, we seek to enter into business agreements with customers through which we offer incentives, pricing discounts and other support to customers that issue and promote our cards. In order to stay competitive, we may have to increase the amount of these incentives and pricing discounts. Over the past several years, we have experienced continued pricing pressure. The demand from our customers for better pricing arrangements and greater rebates and incentives moderates our growth. We may not be able to continue our expansion strategy to process additional transaction volumes or to provide additional services to our customers at levels sufficient to compensate for such lower fees or increased costs in the future, which could materially and adversely affect our revenue and profitability. In addition, increased pressure on prices enhances the importance of cost containment and productivity initiatives in areas other than those relating to customer incentives. We may not succeed in these efforts.

In the future, we may not be able to enter into agreements with our customers on terms that we consider favorable, and we may be required to modify existing agreements in order to maintain relationships and to compete with others in the industry. Some of our competitors are larger and have greater financial resources than we do and accordingly may be able to charge lower prices to our customers. In addition, to the extent that we offer discounts or incentives under such agreements, we will need to further increase transaction volumes or the amount of services provided thereunder in order to benefit incrementally from such agreements and to increase revenue and profit, and we may not be successful in doing so, particularly in the current regulatory environment. Our customers also may implement cost reduction initiatives that reduce or eliminate payment card marketing or increase requests for greater incentives or greater cost stability. Furthermore, a number of customers from which we earn substantial revenue are principally aligned with one of our competitors. A significant loss of our existing revenue or transaction volumes from these customers could have a material adverse impact on our business.

Additional consolidation or other changes in or affecting the banking industry could result in a loss of business for MasterCard and create pressure on the fees we charge our customers, resulting in lower prices and/or more favorable terms for our customers, which may materially and adversely affect our revenue and profitability.

Over the last several years, the banking industry has undergone substantial, accelerated consolidation, and we expect some consolidation to continue in the future. Recent consolidations have included customers with a substantial MasterCard portfolio being acquired by institutions with a strong relationship with a competitor. Significant ongoing consolidation in the banking industry may result in the substantial loss of business for MasterCard, which could have a material adverse impact on our business and prospects. In addition, one or more of our customers could seek to merge with, or acquire, one of our competitors, and any such transaction could also have a material adverse impact on our business and prospects.

The continued consolidation in the banking industry, whether as a result of an acquisition of a substantial MasterCard portfolio by an institution with a strong relationship with a competitor or the combination of two institutions with which MasterCard has a strong relationship, would also produce a smaller number of large customers, which could increase the bargaining power of our customers. This consolidation could lead to lower prices and/or more favorable terms for our customers. Any such lower prices and/or more favorable terms could materially and adversely affect our revenue and profitability.

Our revenue could fluctuate and decrease significantly in the longer term if we lose a significant portion of business from one or more of our largest significant customers, which could have a material adverse long-term impact on our business.

Most of our customer relationships are not exclusive and in certain circumstances may be terminated by our customers. Our customers can reassess their commitments to us at any time in the future and/or develop their own competitive services. Accordingly, our business agreements with customers may not reduce the risk inherent in our business that customers may terminate their relationships with us in favor of relationships with our competitors, or for other reasons, or might not meet their contractual obligations to us.

In addition, a significant portion of our revenue is concentrated among our five largest customers. In 2010, the net revenues from these customers represented an aggregate of approximately \$1.5 billion, or 28%, of total revenue. Loss of business from any of our large customers could have a material adverse impact on our business.

Merchants are increasingly focused on the costs of accepting card-based forms of payment, which may lead to additional litigation and regulatory proceedings and may increase the costs of our incentive programs, which could materially and adversely affect our profitability.

We rely on merchants and their relationships with our customers to expand the acceptance of our cards. Consolidation in the retail industry is producing a set of larger merchants with increasingly global scope. We believe that these merchants are having a significant impact on all participants in the global payments industry, including MasterCard. Some large merchants are supporting many of the legal, regulatory and legislative challenges to interchange fees that MasterCard is now defending, since interchange fees represent a significant component of the costs that merchants pay to accept payment cards. See "Risk Factors—Legal and Regulatory Risks—Interchange fees and related practices have been receiving significant and increasingly intense legal, regulatory and legislative scrutiny worldwide, and the resulting decisions, regulations and legislation may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations." Also see "Risk Factors—Legal and Regulatory Risks—The Wall Street Reform and Consumer Protection Act may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations." The increasing focus of merchants on the costs of accepting various forms of payment may lead to additional litigation and regulatory proceedings.

Merchants are also able to negotiate incentives from us and pricing concessions from our customers as a condition to accepting our payment cards. As merchants consolidate and become even larger, we may have to increase the amount of incentives that we provide to certain merchants, which could materially and adversely affect our revenues and profitability. Competitive and regulatory pressures on pricing could make it difficult to offset the costs of these incentives.

Certain customers have exclusive, or nearly exclusive, relationships with our competitors to issue payment cards, and these relationships may adversely affect our ability to maintain or increase our revenues and may have a material adverse impact on our business.

Certain customers have exclusive, or nearly-exclusive, relationships with our competitors to issue payment cards, and these relationships may make it difficult or cost-prohibitive for us to do significant amounts of business with them to increase our revenues. In addition, these customers may be more successful and may grow faster than the customers that primarily issue our cards, which could put us at a competitive disadvantage. Furthermore, we earn substantial revenue from customers with exclusive or nearly-exclusive relationships with our competitors. Such relationships could provide advantages to the customers to shift business from MasterCard to the competitors with which they are principally aligned. A significant loss of our existing revenue or transaction volumes from these customers could have a material adverse impact on our business.

We depend significantly on our relationships with our customers to manage our payment system. If we are unable to maintain those relationships, or if our customers are unable to maintain their relationships with cardholders or merchants that accept our cards for payment, our business may be materially and adversely affected.

We are, and will continue to be, significantly dependent on our relationships with our issuers and acquirers and their further relationships with cardholders and merchants to support our programs and services. We do not issue cards, extend credit to cardholders or determine the interest rates (if applicable) or other fees charged to cardholders using cards that carry our brands. Each issuer determines these and most other competitive card features. In addition, we do not establish the discount rate that merchants are charged for card acceptance, which is the responsibility of our acquiring customers. As a result, our business significantly depends on the continued success and competitiveness of our issuing and acquiring customers and the strength of our relationships with them. In turn, our customers' success depends on a variety of factors over which we have little or no influence. If our customers become financially unstable, we may lose revenue or we may be exposed to settlement risk as described below.

With the exception of the United States and a select number of other jurisdictions, most in-country (as opposed to cross-border) transactions conducted using MasterCard, Maestro and Cirrus cards are authorized, cleared and settled by our customers or other processors without involving our central processing systems. Because we do not provide domestic processing services in these countries and do not, as described above, have direct relationships with cardholders or merchants, we depend on our close working relationships with our customers to effectively manage our brands, and the perception of our payment system among regulators, merchants and consumers in these countries. From time to time, our customers may take actions that we do not believe to be in the best interests of our payment system overall, which may materially and adversely impact our business. If our customers' actions cause significant negative perception of the global payments industry or our brands, cardholders may reduce the usage of our programs, which could reduce our revenues and profitability.

In addition, our competitors may process a greater percentage of domestic transactions in jurisdictions outside the United States than we do. As a result, our inability to control the end-to-end processing on cards carrying our brands in many markets may put us at a competitive disadvantage by limiting our ability to maintain transaction integrity or introduce value-added programs and services that are dependent upon us processing the underlying transactions.

We rely on the continuing expansion of merchant acceptance of our brands and programs. Although our business strategy is to invest in strengthening our brands and expanding our acceptance network, there can be no guarantee that our efforts in these areas will continue to be successful. If the rate of merchant acceptance growth slows or reverses itself, our business could suffer.

Our business may be materially and adversely affected by the marketplace's perception of our brands and reputation.

Our brands and their attributes are key assets of our business. The ability to attract and retain cardholders to our branded products depends highly upon the external perception of our company and industry. Our business may be affected by actions taken by our customers that impact the perception of our brands. From time to time, our customers may take actions that we do not believe to be in the best interests of our brands, such as creditor practices that may be viewed as "predatory." Moreover, adverse developments with respect to our industry or the industries of our customers may also, by association, impair our reputation, or result in greater regulatory or legislative scrutiny. Social media channels can also cause rapid, widespread reputational harm to our brands. Such perception and damage to our reputation could have a material and adverse effect to our business.

If we are unable to grow our debit business, particularly in the United States, we may fail to maintain and increase our revenue growth.

In recent years, industry-wide signature-based and PIN-based debit transactions have grown more rapidly than credit or charge transactions. However, in the United States, transactions involving our brands account for a smaller share of all signature-based debit transactions than they do credit or charge transactions. In addition, many of our competitors process a greater number of PIN-based debit transactions at the point of sale than we do, since our Maestro brand has relatively low penetration in the United States. We may not be able to increase our penetration for debit transactions in the United States since many of our competitors have long-standing and strong positions (although this could be impacted by the Federal Reserve's implementation of network exclusivity rules under the Wall Street Reform and Consumer Protection Act). We may also be impacted adversely by the tendency among U.S. consumers and merchants to migrate from signature-based debit transactions to PIN-based transactions because we generally earn less revenue from the latter types of transactions. In addition, PIN-based transactions are more likely to be processed by other ATM/debit point-of-sale networks than by us. Any of these factors may inhibit the growth of our debit business, which could materially and adversely affect our revenues and overall prospects for future growth.

Unprecedented global economic events in financial markets around the world have directly and adversely affected, and may continue to affect, many of our customers, merchants that accept our brands and cardholders who use our brands, which could result in a material and adverse impact on our prospects, growth, profitability, revenue and overall business.

The competitive and evolving nature of the global payments industry provides both challenges to and opportunities for the continued growth of our business. Unprecedented events which began during 2008 impacted the financial markets around the world, including continued distress in the credit environment, continued equity market volatility and additional government intervention. In particular, the economies of the United States and the United Kingdom were significantly impacted by this economic turmoil, and it has also impacted other economies around the world. More recently, European countries including Portugal, Ireland, Greece and Spain have experienced downgrades in sovereign credit ratings by rating agencies, driven by fiscal challenges. Some existing customers have been placed in receivership or administration or have a significant amount of their stock owned by their governments. Many financial institutions are facing increased regulatory and governmental influence, including potential further changes in laws and regulations. Many of our customers, merchants that accept our brands and cardholders who use our brands have been directly and adversely impacted.

MasterCard's financial results may be negatively impacted by actions taken by individual financial institutions or by governmental or regulatory bodies in response to the economic crisis and the state of economic environments. The severity of the economic environment may accelerate the timing of or increase the impact of risks to our financial performance that have historically been present. As a result, our revenue growth has been and may be negatively impacted, or we may be impacted, in several ways. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Business Environment" in Part II, Item 7 for a full discussion.

Any of these developments could have a material adverse impact on our prospects, growth, revenue, profitability and overall business.

A decline in cross-border travel could adversely affect our revenues and profitability, as a significant portion of our revenue is generated from cross-border transactions.

We process substantially all cross-border transactions using MasterCard, Maestro and Cirrus-branded cards and generate a significant amount of revenue from cross-border volume fees and transaction processing fees. Revenue from processing cross-border and currency conversion transactions for our customers fluctuates with

cross-border travel and our customers' need for transactions to be converted into their base currency. Cross-border travel may be adversely affected by world geopolitical, economic, weather and other conditions. These include the threat of terrorism and outbreaks of flu (such as H1N1), viruses (such as SARS) and other diseases. Any such decline in cross-border travel could adversely affect our revenues and profitability.

General economic and global political conditions may adversely affect trends in consumer spending, which may materially and adversely impact our revenue and profitability.

The global payments industry depends heavily upon the overall level of consumer, business and government spending. General economic conditions (such as unemployment, housing and changes in interest rates) and other political conditions (such as devaluation of currencies and government restrictions on consumer spending) in key countries in which we operate may adversely affect our financial performance by reducing the number or average purchase amount of transactions involving payment cards carrying our brands. Also, as we are principally based in the United States, a negative perception of the United States could impact the perception of our company, which could adversely affect our business prospects and growth.

As a guarantor of certain obligations of principal members and affiliate debit licensees, we are exposed to risk of loss or illiquidity if any of our customers default on their MasterCard, Cirrus or Maestro settlement obligations.

We may incur liability in connection with transaction settlements if an issuer or acquirer fails to fund its daily settlement obligations due to technical problems, liquidity shortfalls, insolvency or other reasons. If a principal member or affiliate debit licensee of MasterCard International is unable to fulfill its settlement obligations to other customers, we may bear the loss even if we do not process the transaction. In addition, although we are not obligated to do so, we may elect to keep merchants whole if an acquirer defaults on its merchant payment obligations. Our estimated MasterCard-branded gross legal settlement exposure, which is calculated using the average daily card charges made during the quarter multiplied by the estimated number of days to settle, was approximately \$28.5 billion as of December 31, 2010. We have a revolving credit facility in the amount of \$2.75 billion which could be used for general corporate purposes, including to provide liquidity in the event of one or more settlement failures by our customers. In the event that MasterCard International effects a payment on behalf of a failed member, MasterCard International may seek an assignment of the underlying receivables from its members. Subject to approval by our Board of Directors, members may be charged for the amount of any settlement loss incurred during these ordinary course activities of MasterCard. While we believe that we have sufficient liquidity to cover a settlement failure by any of our largest customers on their peak day, concurrent settlement failures of more than one of our largest customers or of several of our smaller customers may exceed our available resources and could materially and adversely affect our business and financial condition. In addition, even if we have sufficient liquidity to cover a settlement failure, we may not be able to recover the cost of such a payment and may therefore be exposed to significant losses, which could materially and adversely affect our results of operations, cash flow and financial condition. Moreover, during 2010, many of our financial institution customers continued to be directly and adversely impacted by the unprecedented events in the financial markets which began during 2008 and the economic turmoil that has ensued around the world. These events present increased risk that we may have to perform under our settlement guarantees. For more information on our settlement exposure as of December 31, 2010, see Note 23 (Settlement and Other Risk Management) to the consolidated financial statements included in Part II, Item 8.

If our transaction processing systems are disrupted or we are unable to process transactions efficiently or at all, our revenue or profitability would be materially reduced.

Our transaction processing systems may experience service interruptions as a result of process or other technology malfunction, fire, natural or man-made disasters, power loss, disruptions in long distance or local telecommunications access, fraud, terrorism, accident or other catastrophic events. A disaster or other problem at

our primary and/or back-up facilities or our other owned or leased facilities could interrupt our services. Our visibility in the global payments industry may also attract terrorists, activists or hackers to attack our facilities or systems, leading to service interruptions, increased costs or data security compromises. Additionally, we rely on third-party service providers for the timely transmission of information across our global data transportation network. Inadequate infrastructure in lesser developed markets could also result in service disruptions, which could impact our ability to do business in those markets. If one of our service providers fails to provide the communications capacity or services we require, as a result of natural disaster, operational disruption, terrorism or any other reason, the failure could interrupt our services, adversely affect the perception of our brands' reliability and materially reduce our revenue or profitability.

Account data breaches involving card data stored by us or third parties could adversely affect our reputation and revenue.

We, our customers, merchants, and other third parties store cardholder account and other information in connection with payment cards bearing our brands. In addition, our customers may sponsor third-party processors to process transactions generated by cards carrying our brands and merchants may use third parties to provide services related to card use. A breach of the systems on which sensitive cardholder data and account information are stored could lead to fraudulent activity involving cards carrying our brands, damage the reputation of our brands and lead to claims against us. In recent years, there have been several high-profile account data compromise events involving merchants and third party payment processors that process, store or transmit payment card data, which affected millions of MasterCard, Visa, Discover and American Express cardholders. As a result of such data security breaches, we may be subject to lawsuits involving payment cards carrying our brands. While most of these lawsuits do not involve direct claims against us, in certain circumstances, we could be exposed to damage claims, which, if upheld, could materially and adversely affect our profitability. Any damage to our reputation or that of our brands resulting from an account data breach could decrease the use and acceptance of our cards, which in turn could have a material adverse impact on our transaction volumes, revenue and prospects for future growth, or increase our costs by leading to additional regulatory burdens being imposed upon us.

An increase in fraudulent activity using our cards could lead to reputational damage to our brands and could reduce the use and acceptance of our cards.

Criminals are using increasingly sophisticated methods to capture cardholder account information to engage in illegal activities such as counterfeit or other fraud. As outsourcing and specialization become a more acceptable way of doing business in the payments industry, there are more third parties involved in processing transactions using our cards. Increased fraud levels involving our cards could lead to regulatory intervention, such as mandatory card re-issuance, adoption of new technologies or enhanced security requirements, as well as damage to our reputation and financial damage, which could reduce the use and acceptance of our cards or increase our compliance costs, and thereby have a material adverse impact on our business.

If we are not able to keep pace with the rapid technological developments in our industry to provide customers, merchants and cardholders with new and innovative payment programs and services, the use of our cards could decline, which could reduce our revenue and income or limit our future growth.

The payment card industry is subject to rapid and significant technological changes, including continuing developments of technologies in the areas of smart cards, radio frequency and proximity payment devices (such as contactless cards), electronic commerce and mobile commerce, among others. We cannot predict the effect of technological changes on our business. We rely in part on third parties, including some of our competitors and potential competitors, for the development of and access to new technologies. We expect that new services and technologies applicable to the payments industry will continue to emerge, and these new services and technologies may be superior to, or render obsolete, the technologies we currently use in our card programs and services. In addition, our ability to adopt new services and technologies that we develop may be inhibited by a

need for industry-wide standards, by resistance from customers or merchants to such changes by the complexity of our systems or by intellectual property rights of third parties. We have received, and we may in the future receive, notices or inquiries from other companies suggesting that we may be infringing a pre-existing patent or that we need to license use of their patents to avoid infringement. Such notices may, among other things, threaten litigation against us. Our future success will depend, in part, on our ability to develop or adapt to technological changes and evolving industry standards.

Adverse currency fluctuations and foreign exchange controls could decrease revenue we receive from our operations outside of the United States.

During 2010, approximately 58.4% of our revenue was generated from activities outside the United States. Some of the revenue we generate outside the United States is subject to unpredictable currency fluctuations (including devaluations of currencies) where the values of other currencies change relative to the U.S. dollar. Resulting exchange gains and losses are included in our net income. Our risk management activities provide protection with respect to adverse changes in the value of only a limited number of currencies and are based on estimates of exposures to these currencies. Furthermore, we may become subject to exchange control regulations that might restrict or prohibit the conversion of our other revenue currencies into U.S. dollars. The occurrence of any of these factors could decrease the value of revenues we receive from our international operations and have a material adverse impact on our business.

If we do not adequately manage the changes necessary to implement our strategy, our results of operations may suffer.

MasterCard continues to experience a significant amount of changes associated with items related to our strategy, including changes in technology, the marketplace, our customers and our products. In particular, our expansion into new businesses could result in unanticipated or unfamiliar issues which may be difficult to manage. If not adequately managed, these changes could result in missed opportunities for the business or could impact the effectiveness of our organization's execution of its strategy. As we manage these changes, any difficulty in retaining or attracting key management and employees could result in inadequate depth of institutional knowledge or skill sets necessary for the organization's effective execution of its strategy.

Acquisitions or strategic investments could disrupt our business and harm our financial condition or reputation.

Although we may continue to make strategic acquisitions of, or acquire interests in joint ventures or other entities related to, complementary businesses, products or technologies, we may not be able to successfully partner with or integrate any such acquired businesses, products or technologies. In addition, the integration of any acquisition or investment (including efforts related to an acquisition of an interest in a joint venture or other entity) may divert management's time and resources from our core business and disrupt our operations. Moreover, we may spend time and money on projects that do not increase our revenue. To the extent we pay the purchase price of any acquisition in cash, it would reduce our cash reserves available to us for other uses, and to the extent the purchase price is paid with our stock, it could be dilutive to our stockholders. Furthermore, we may not be able to successfully finance the business following the acquisition as a result of costs of operations, including any litigation risk which may be inherited from the acquisition. Any of these acquisitions could also result in control issues which could negatively affect our reputation. Although we periodically evaluate potential acquisitions of businesses, products and technologies and anticipate continuing to make these evaluations, we cannot guarantee that we will be able to execute and integrate any such acquisitions.

Risks Related to our Class A Common Stock and Governance Structure

Future sales of our shares of Class A common stock could depress the market price of our Class A common stock.

The market price of our Class A common stock could decline as a result of sales of a large number of shares in the market or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us or our stockholders to sell equity securities in the future. As of February 16, 2011, we had 123,656,120 outstanding shares of Class A common stock, of which 13,108,364 shares were owned by The MasterCard Foundation (the "Foundation"). Under the terms of the donation, the Foundation became able to sell its shares of our Class A common stock commencing on the fourth anniversary of the consummation of the IPO in May 2006 to the extent necessary to comply with charitable disbursement requirements. Under Canadian tax law, the Foundation is generally required each year to disburse at least 3.5% of its assets not used in administration of the Foundation in qualified charitable disbursements. However, the Foundation has obtained permission from the Canadian tax authorities to defer its annual disbursement requirement for up to ten years and meet its total deferred disbursement obligations at the end of the ten-year period. Despite this permission to defer annual disbursements, the Foundation may decide to meet its disbursement obligations on an annual basis or to settle previously accumulated obligations during any given year. In addition, the Foundation will be permitted to sell all of the remaining shares held by it starting twenty years and eleven months after the consummation of the IPO.

The market price of our common stock could be volatile.

Securities markets worldwide experience significant price and volume fluctuations and have experienced increased volatility in connection with recent unpredictable economic events around the world. This market volatility, as well as the factors listed below, among others, could affect the market price of our common stock:

- the continuation of unprecedented economic events around the world in financial markets as well as political conditions and other factors unrelated to our operating performance or the operating performance of our competitors;
- quarterly variations in our results of operations or the results of operations of our competitors;
- changes in earning estimates, investors' perceptions, recommendations by securities analysts or our failure to achieve analysts' earning estimates;
- the announcement of new products or service enhancements by us or our competitors;
- announcements related to litigation, regulation or legislative activity;
- potential acquisitions by us of other companies; and
- developments in our industry.

There are terms in our charter documents and under Delaware law that could be considered anti-takeover provisions or could have an impact on a change in control.

Provisions contained in our amended and restated certificate of incorporation and bylaws and Delaware law could delay or prevent entirely a merger or acquisition that our stockholders consider favorable. These provisions may also discourage acquisition proposals or have the effect of delaying or preventing entirely a change in control, which could harm our stock price. For example, subject to limited exceptions, our amended and restated certificate of incorporation prohibits any person from beneficially owning more than 15% of any of the Class A common stock or any other class or series of our stock with general voting power, or more than 15% of our total voting power. Further, except in limited circumstances, no member or former member of MasterCard International, or any operator, member or licensee of any competing general purpose payment card system, or any affiliate of any such person, may beneficially own any share of Class A common stock or any other class or series of our stock entitled to vote generally in the election of directors. In addition,

- our stockholders are not entitled to the right to cumulate votes in the election of directors;

- holders of our Class A common stock are not entitled to act by written consent;
- our stockholders must provide timely notice for any stockholder proposals and director nominations;
- a vote of 80% or more of all of the outstanding shares of our stock then entitled to vote is required for stockholders to amend any provision of our bylaws;
- our board of directors is divided into three classes, with approximately one-third of our directors elected each year (although pursuant to our amended certificate of incorporation, classes will be phased out through 2013, when each director will be elected each year);
- any representative of a competitor of MasterCard or of the Foundation is disqualified from service on our board of directors;
- prior to our 2013 annual meeting of stockholders, our directors may be removed only upon the affirmative vote of at least 80% in voting power of all the shares of stock then entitled to vote at an election of directors, voting together as a single class.

A substantial portion of our voting power is held by the Foundation, which is restricted from selling shares for an extended period of time and therefore may not have the same incentive to approve a corporate action that may be favorable to the other public stockholders. In addition, the ownership of Class A common stock by the Foundation and the restrictions on transfer could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock.

As of February 16, 2011 the Foundation owns 13,108,364 shares of Class A common stock, representing approximately 10.6% of our general voting power. The Foundation may not sell or otherwise transfer its shares of Class A common stock prior to the date which is twenty years and eleven months following the IPO, except to the extent necessary to satisfy its charitable disbursement requirements. The directors of the Foundation are required to be independent of us and our members. The ownership of Class A common stock by the Foundation, together with the restrictions on transfer, could discourage or make more difficult acquisition proposals favored by the other holders of the Class A common stock. In addition, because the Foundation is restricted from selling its shares for an extended period of time, it may not have the same interest in short or medium-term movements in our stock price as, or incentive to approve a corporate action that may be favorable to, our other stockholders.

Our ability to pay regular dividends to our holders of Class A common stock and Class B common stock is subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows.

MasterCard intends to pay cash dividends on a quarterly basis on our shares of Class A common stock and Class B common stock. Our board of directors may, in its discretion, decrease the level of dividends or discontinue the payment of dividends entirely. The payment of dividends is dependent upon our ability to generate earnings and cash flows so that we may pay our obligations and expenses and pay dividends to our stockholders. However, sufficient cash may not be available to pay such dividends. Payment of future dividends, if any, will be at the discretion of our board of directors after taking into account various factors, including our financial condition, settlement guarantees, operating results, available cash and current and anticipated cash needs. If, as a consequence of these various factors, we are unable to generate sufficient earnings and cash flows from our business, we may not be able to make or may have to reduce or eliminate the payment of dividends on our shares of Class A common stock and Class B common stock.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. *Properties*

As of December 31, 2010, MasterCard and its subsidiaries owned or leased 104 commercial properties. We own our corporate headquarters, a 472,600 square foot building located in Purchase, New York. There is no outstanding debt on this building. Our principal technology and operations center is a 528,000 square foot leased facility located in O'Fallon, Missouri, known as "Winghaven". The term of the lease on this facility is 10 years, which commenced on March 1, 2009. For more information on Winghaven, see Note 16 (Consolidation of Variable Interest Entity) to the consolidated financial statements included in Part II, Item 8. Our leased properties in the United States are located in 10 states, Puerto Rico and in the District of Columbia. We also lease and own properties in 51 other countries. These facilities primarily consist of corporate and regional offices, as well as our operations centers.

We believe that our facilities are suitable and adequate for the business that we currently conduct. However, we periodically review our space requirements and may acquire or lease new space to meet the needs of our business, or consolidate and dispose of facilities that are no longer required.

Item 3. *Legal Proceedings*

Refer to Notes 20 (Obligations Under Litigation Settlements) and 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8.

Item 4. *(Removed and Reserved)*

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Our Class A common stock trades on the New York Stock Exchange under the symbol "MA". The following table sets forth the intra-day high and low sale prices for our Class A common stock for the four quarterly periods in each of 2010 and 2009, as reported by the New York Stock Exchange. At February 16, 2011, the Company had 46 stockholders of record for its Class A common stock. We believe that the number of beneficial owners is substantially greater than the number of record holders, because a large portion of our Class A common stock is held in "street name" by brokers.

<u>2010</u>	<u>High</u>	<u>Low</u>
First Quarter	\$269.88	\$216.43
Second Quarter	269.22	193.76
Third Quarter	226.30	191.00
Fourth Quarter	260.72	215.00
<u>2009</u>	<u>High</u>	<u>Low</u>
First Quarter	\$171.41	\$117.06
Second Quarter	188.77	149.34
Third Quarter	225.83	158.57
Fourth Quarter	259.00	196.95

There is currently no established public trading market for our Class B common stock. There were approximately 535 holders of record of our Class B common stock as of February 16, 2011.

Dividend Declaration and Policy

During the years ended December 31, 2010 and 2009, we paid the following quarterly cash dividends per share on our Class A common stock and Class B Common stock:

<u>2010</u>	<u>Dividend per Share</u>
First Quarter	\$0.15
Second Quarter	0.15
Third Quarter	0.15
Fourth Quarter	0.15
<u>2009</u>	<u>Dividend per Share</u>
First Quarter	\$0.15
Second Quarter	0.15
Third Quarter	0.15
Fourth Quarter	0.15

In addition, on February 9, 2011, we paid quarterly cash dividends of \$0.15 per share on our Class A common stock and Class B common stock for the first quarter of the year ending December 31, 2011. Also, on February 8, 2011, our Board of Directors declared a quarterly cash dividend of \$0.15 per share, payable on May 9, 2011 to holders of record on April 8, 2011, of our Class A common stock and Class B common stock for the second quarter of the year ending December 31, 2011.

Subject to legally available funds, we intend to pay a quarterly cash dividend on our outstanding Class A common stock and Class B common stock. However, the declaration and payment of future dividends is at the sole discretion of our Board of Directors after taking into account various factors, including our financial condition, settlement guarantees, operating results, available cash and current and anticipated cash needs.

Issuer Purchases of Equity Securities

In September 2010, the Company's Board of Directors authorized a plan for the Company to repurchase up to \$1 billion of its Class A common stock in open market transactions. The Company did not repurchase any shares under this plan during 2010. As of February 16, 2011, the Company had completed the repurchase of approximately 0.3 million shares of its Class A common stock at a cost of approximately \$75 million. The timing and actual number of shares repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions.

Item 6. Selected Financial Data

The statement of operations data presented below for the years ended December 31, 2010, 2009 and 2008, and the balance sheet data as of December 31, 2010 and 2009, were derived from the audited consolidated financial statements of MasterCard Incorporated included in Part II, Item 8. The statement of operations data presented below for the years ended December 31, 2007 and 2006, and the balance sheet data as of December 31, 2008, 2007 and 2006, were derived from audited consolidated financial statements not included in this Report. The data set forth below should be read in conjunction with, and are qualified by reference to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and Notes thereto included in Part II, Item 8.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
	(in millions, except per share data)				
Statement of Operations Data:					
Revenues, net	\$5,539	\$5,099	\$4,992	\$4,068	\$3,326
Total operating expenses	2,787	2,839	5,526	2,959	3,097
Operating income (loss)	2,752	2,260	(534)	1,108	229
Net income (loss) attributable to MasterCard	1,846	1,463	(254)	1,086	50
Basic earnings (loss) per share	14.10	11.19	(1.94) ¹	7.98 ¹	0.37 ¹
Diluted earnings (loss) per share	14.05	11.16	(1.94) ¹	7.96 ¹	0.37 ¹
Balance Sheet Data:					
Total assets	\$8,837	\$7,470	\$6,476	\$6,260	\$5,082
Long-term debt	—	22	19	150	230
Obligations under litigation settlements, long-term	4	263	1,023	297	360
Equity	5,216	3,512	1,932 ²	3,032 ²	2,369 ²
Cash dividends declared per share	0.60	0.60	0.60	0.60	0.18

¹ As more fully described in Note 3 (Earnings Per Share) to the consolidated financial statements included in Part II, Item 8, on January 1, 2009, a new accounting standard was adopted related to EPS which required retrospective adjustment of EPS for the years ended December 31, 2008 and prior.

² On January 1, 2009, a new accounting standard was adopted related to non-controlling interests, previously referred to as minority interests, which required retrospective adjustment to Equity for the years ended December 31, 2008 and prior.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the consolidated financial statements and notes of MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated ("MasterCard International") and MasterCard Europe sprl ("MasterCard Europe") (together, "MasterCard" or the "Company") included elsewhere in this Report. Percentage changes provided throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" were calculated on amounts rounded to the nearest thousand.

Non-GAAP Financial Information

Non-GAAP financial information is defined as a numerical measure of a company's performance that excludes or includes amounts so as to be different than the most comparable measure calculated and presented in accordance with accounting principles generally accepted in the United States ("GAAP"). Pursuant to the requirements of Regulation S-K, portions of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" include a comparison of certain non-GAAP financial measures to the most directly comparable GAAP financial measures. The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for the Company's related financial results prepared in accordance with GAAP.

MasterCard presents non-GAAP financial measures to enhance an investor's evaluation of MasterCard's ongoing operating results and to aid in forecasting future periods. MasterCard's management uses these non-GAAP financial measures to, among other things, evaluate its ongoing operations in relation to historical results, for internal planning and forecasting purposes and in the calculation of performance-based compensation. More specifically, with respect to the non-GAAP financial measures presented in this discussion:

- Operating expenses—Selected litigation settlements from 2009 and 2008 (the "Litigation Settlements") have been excluded since MasterCard monitors some litigation settlements separately from ongoing operations and evaluates ongoing operating performance without these settlements. See "Operating Expenses" for a table which provides a reconciliation of operating expenses excluding the Litigation Settlements to the most directly comparable GAAP measure to allow for a more meaningful comparison of results between prior periods.
- Effective income tax rate—The income tax impacts associated with the Litigation Settlements have been excluded to provide a comparison of the effective income tax rate associated with ongoing operations of the business. See "Income Taxes" for a table which provides a reconciliation of the effective income tax rate excluding the Litigation Settlements to the most directly comparable GAAP measure to allow for a more meaningful comparison of results between periods.

Overview

MasterCard is a leading global payments company that provides a critical economic link among financial institutions, businesses, merchants, cardholders and governments worldwide, enabling them to use electronic forms of payment instead of cash and checks. We provide a variety of services in support of the credit, debit, prepaid and related payment programs of approximately 22,000 financial institutions and other entities that are our customers. We primarily:

- offer a wide range of payment solutions, which enable our customers to develop and implement credit, debit, prepaid and related payment programs for their customers (which include cardholders, businesses and government entities),
- manage a family of well-known, widely accepted payment card brands, including MasterCard, Maestro and Cirrus, which we license to our customers for use in their payment programs,
- process payment transactions over the MasterCard Worldwide Network,
- provide support services to our customers and, depending upon the service, merchants and other clients, and
- as part of managing our brands and our franchise, establish and enforce a common set of standards for adherence by our customers for the efficient and secure use of our payment card network.

We generate revenues from the fees that we charge our customers for providing transaction processing and other payment-related services and by assessing our customers based primarily on the dollar volume of activity on the cards that carry our brands. Cardholder and merchant relationships are managed principally by our customers. We do not issue cards, extend credit to cardholders, determine the interest rates (if applicable) or other fees charged to cardholders by issuers, or establish the merchant discount charged by acquirers in connection with the acceptance of cards that carry our brands.

We believe the trend within the global payments industry from paper-based forms of payment, such as cash and checks, toward electronic forms of payment, such as payment card transactions, creates significant opportunities for the growth of our business over the longer term. Our focus is on continuing to:

- grow our offerings by extending our strength in our core businesses globally, including credit, debit, prepaid and processing payment transactions over the MasterCard Worldwide Network,
- diversify our business by seeking new areas of growth in markets around the world, expanding points of acceptance for our brands in new geographies, seeking to maintain unsurpassed acceptance, and working with new business partners such as merchants, government agencies and telecommunications companies, and
- build new businesses through continued strategic efforts with respect to innovative payment methods such as electronic commerce (e-Commerce) and mobile capabilities.

See “—Business Environment” for a discussion of environmental considerations related to our long-term strategic objectives.

We recorded net income of \$1.8 billion, or \$14.05 per diluted share, in 2010 versus net income of \$1.5 billion, or \$11.16 per diluted share, in 2009 and a net loss of \$0.3 billion, or (\$1.94) per diluted share, in 2008. As of December 31, 2010, our liquidity and capital positions remained strong, with \$3.9 billion in cash and cash equivalents and current available-for-sale securities and \$5.2 billion in equity. In addition, we generated cash flows from operations of \$1.7 billion for the year ended December 31, 2010.

Our net revenues increased 8.6% in 2010, primarily due to the increased dollar volume of activity on cards carrying our brands, pricing changes and increased transactions. The net foreign currency impact of changes in the U.S. dollar average exchange rates against the euro and Brazilian real reduced net revenue growth by

approximately 1 percentage point in 2010. Our net revenues increased 2.1% in 2009, primarily due to increased transactions, pricing changes and increases in the volume of activity on cards carrying our brands, partially offset by approximately 2 percentage points relating to the U.S. dollar average exchange rates strengthening versus the euro and Brazilian real. Historically, we experienced greater growth in net revenues than the revenue growth in 2009. The lower growth rate reflected the impact of the global economic environment in 2009, which negatively affected our customers and their cardholders.

Our revenues depend heavily upon the overall level of consumer, business and government spending. Changes in cardholder spending behavior, influenced by economic environments, have impacted and may continue to impact our ability to grow our revenues. Our revenues are primarily based on transactions and volumes, which are impacted by the number of transactions and the dollar amount of each transaction. In 2010, our processed transactions increased 2.9% and our volumes increased 9.1% on a local currency basis. In 2009, while our processed transactions increased 6.9%, our volumes only increased 1.7% on a local currency basis, reflecting a decline in the average amount per transaction. Our growth in processed transactions in 2010 was lower than in 2009 primarily due to debit portfolio losses in the U.S. and U.K.

During 2010, net pricing actions contributed approximately 5 percentage points to our net revenue growth. These net pricing actions included the effects of price increases during 2009 and 2010, which were partially offset by an increase in cross-border rebates and the repeal of pricing relating to our interim arrangement with the European Commission. During 2009, net pricing actions contributed approximately 6 percentage points to our net revenue growth. These net pricing actions included price increases in 2009 partially offset by an increase in cross-border rebates and the repeal of pricing relating to our interim arrangement with the European Commission. Overall, net revenue growth in 2010 and 2009 was moderated by an increase in rebates and incentives relating to customer and merchant agreement activity. Rebates and incentives as a percentage of gross revenues were 26.7%, 24.1% and 22.7% in 2010, 2009 and 2008, respectively.

Our operating expenses decreased 1.8% in 2010 compared to 2009, primarily due to lower general and administrative expenses, partially offset by increased advertising and marketing expenses. The decline in general and administrative expenses was primarily due to lower personnel expenses, partially offset by increased professional fees. The net foreign currency impact of changes in the U.S. dollar average exchange rates against the euro and the Brazilian real reduced expenses by approximately 1 percentage point in 2010.

Operating expenses decreased 48.6% in 2009 compared to 2008, primarily due to lower litigation settlements. Excluding the impact of the Litigation Settlements identified in the reconciliation table included in “—Operating Expenses,” operating expenses declined 6.9% in 2009 compared to 2008. In 2009, we realigned our resources and implemented contingency plans in response to the global economic and business environment at that time.

Our ratios of operating income (loss) as a percentage of net revenues, or operating margins, were 49.7% in 2010 versus 44.3% in 2009 and (10.7%) in 2008. In 2008, excluding the impact of the Litigation Settlements, the operating margin was 39.0%.

Other income (expense) varies depending on activities not core to our operations. Other income (expense) increased in 2010 from 2009, including the effects of decreased interest expense on litigation settlements and uncertain tax positions. In 2009, we did not have significant activity comparable to gains realized in 2008. As to income tax expense (benefit), effective income tax rates were 33.0%, 34.1% and 33.7% for the years ended December 31, 2010, 2009 and 2008, respectively.

On August 19, 2010, MasterCard entered into an agreement to acquire all the outstanding shares of DataCash Group plc (“DataCash”), a European payment service provider. Pursuant to the terms of the acquisition agreement, the Company acquired DataCash in cash on October 22, 2010 at a purchase price of 334 million U.K. pound sterling, or \$534 million. DataCash provides e-Commerce merchants with the ability to process secure

payments across the world. DataCash develops and provides outsourced electronic payments solutions, fraud prevention, alternative payment options, back-office reconciliation and solutions for merchants selling via multiple channels. DataCash also has a fraud solutions and technology platform. MasterCard believes the acquisition of DataCash will create a long-term growth platform in the e-Commerce category while enhancing existing MasterCard payment products and expanding its global presence in the internet gateway business.

On December 9, 2010, MasterCard entered into an agreement to acquire the prepaid card program management operations of Travelex Holdings Ltd. ("Travelex CPM") for 290 million U.K. pound sterling, or approximately \$458 million, with contingent consideration (an "earn-out") of up to an additional 35 million U.K. pound sterling, or approximately \$55 million, if certain performance targets are met. We will acquire the operations that manage and deliver consumer and corporate prepaid travel cards to business partners around the world, including financial institutions, retailers, travel agents and foreign exchange bureaus. The acquisition of Travelex CPM is an expansion of MasterCard into program management services. Combined with our existing processing assets and other strategic alliances, the asset will augment and support partners and issuers of prepaid cards around the world, with a focus outside of the United States. The acquisition is intended to enable us to offer end-to-end prepaid solutions encompassing branded switching, issuing, processing and program management services, initially focused on the travel sector. We expect to consummate the acquisition in the first half of 2011.

Business Environment

We process transactions from more than 210 countries and territories and in more than 150 currencies. Revenue generated in the United States was approximately 41.6%, 42.4% and 44.1% of total revenues in 2010, 2009 and 2008, respectively. No individual country, other than the United States, generated more than 10% of total revenues in any period, but differences in market maturity, economic health, price changes and foreign exchange fluctuations in certain countries have increased the proportion of revenues generated outside the United States over time. While the global nature of our business helps protect our operating results from adverse economic conditions in a single or a few countries, the significant concentration of our revenues generated in the United States makes our business particularly susceptible to adverse economic conditions in the United States.

The competitive and evolving nature of the global payments industry provides both challenges to and opportunities for the continued growth of our business. Unprecedented events which began during 2008 impacted the financial markets around the world, including continued distress in the credit environment, continued equity market volatility and additional government intervention. In particular, the economies of the United States and the United Kingdom were significantly impacted by this economic turmoil, and it has also impacted other economies around the world. More recently, European countries including Portugal, Ireland, Greece and Spain have experienced downgrades in sovereign credit ratings by ratings agencies, driven by fiscal challenges. Some existing customers have been placed in receivership or administration or have a significant amount of their stock owned by their governments. Many financial institutions are facing increased regulatory and governmental influence, including potential further changes in laws and regulations. Many of our financial institution customers, merchants that accept our brands and cardholders who use our brands have been directly and adversely impacted.

MasterCard's financial results may be negatively impacted by actions taken by individual financial institutions or by governmental or regulatory bodies in response to the economic crisis and the state of economic environments. The severity of the economic environments may accelerate the timing of or increase the impact of risks to our financial performance that have historically been present. As a result, our revenue growth has been and may be negatively impacted, or the Company may be impacted in several ways, including but not limited to the following:

- Declining economies, foreign currency fluctuations and the pace of economic recovery can change consumer spending behaviors; for example, a significant portion of our revenues is dependent on cross-border travel patterns, which may continue to change.

- Constriction of consumer and business confidence, such as in recessionary environments and those markets experiencing relatively high unemployment, may continue to cause decreased spending by cardholders.
- Our customers may restrict credit lines to cardholders or limit the issuance of new cards to mitigate increasing cardholder defaults.
- Uncertainty and volatility in the performance of our customers' businesses may make estimates of our revenues, rebates, incentives and realization of prepaid assets less predictable.
- Our customers may implement cost reduction initiatives that reduce or eliminate payment card marketing or increase requests for greater incentives or greater cost stability.
- Our customers may decrease spending for optional or enhanced services.
- Government intervention, including the effect of laws, regulations and/or government investments in our customers, may have potential negative effects on our business and our relationships with customers or otherwise alter their strategic direction away from our products.
- Tightening of credit availability could impact the ability of participating financial institutions to lend to us under the terms of our credit facility.
- Our customers may default on their settlement obligations. See Note 23 (Settlement and Other Risk Management) to the consolidated financial statements included in Part II, Item 8 for further discussion of our settlement exposure.
- Our business and prospects, as well as our revenue and profitability, could be materially and adversely affected by consolidation of our customers. See "Additional consolidation or other changes in or affecting the banking industry could result in a loss of business for MasterCard and create pressure on the fees we charge our customers, resulting in lower prices and/or more favorable terms for our customers, which may materially and adversely affect our revenues and profitability" in Part I, Item 1A (Risk Factors) for further discussion.

In addition, our business and our customers' businesses are subject to regulation in many countries. Regulatory bodies may seek to impose rules and price controls on certain aspects of our business and the payments industry. See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 and Part I, Item 1A (Risk Factors) for further discussion. In particular, in July 2010, the United States enacted into law the Dodd-Frank Wall Street Reform and Consumer Protection Act. See "Risk Factors—Legal and Regulatory Risks—The Wall Street Reform and Consumer Protection Act may have a material adverse impact on our revenue, our prospects for future growth and our overall business, financial condition and results of operations" in Part I, Item 1A for further discussion, including with respect to: (1) regulation providing for limitations on debit and prepaid "interchange transaction fees", (2) regulation prohibiting exclusive debit network arrangements and routing restrictions for debit and (3) the creation of independent regulatory bodies with the authority to regulate consumer financial products and, potentially, broader aspects of payment card network operations (e.g., the ability to deem MasterCard "systematically important"). See also "Risk Factors—Legal and Regulatory Risks—New regulations in one jurisdiction or of one product may lead to new regulations in other jurisdictions or of other products" in Part I, Item 1A.

MasterCard continues to monitor the extent and pace of economic recovery around the world to identify opportunities for the continued growth of our business and to evaluate the evolution of the global payments industry. For example, in our Asia/Pacific and Latin American regions, we have now experienced several quarters of significant increases in dollar volume of activity on cards carrying our brands in those regions while in the U.S. we have observed mixed economic indicators, including retail spending and unemployment rates. Notwithstanding some encouraging trends, the extent and pace of economic recovery in various regions remains uncertain and the overall business environment may present challenges for MasterCard to grow its business.

Financial Results

During 2009, the Company: (1) modified its presentation of details of the Company's major revenue categories included within Management's Discussion and Analysis of Financial Condition and Results of Operations (the "MD&A") and (2) reclassified certain cardholder-related enhancement expenses. The modifications to the presentation within this MD&A of the detail of the Company's revenue categories did not result in any changes to the Company's historical financial statements and had no effect on the overall calculation of net revenue presented in the financial statements. The reclassification of certain cardholder-related enhancement expenses did not result in any impact to the Company's overall operating expenses.

Our operating results for the years ended December 31, 2010, 2009 and 2008, were as follows:

	For the Years Ended December 31,			Percent Increase (Decrease)	
	2010	2009	2008	2010	2009
	(in millions, except per share, percentages and GDV amounts)				
Revenues, net	\$ 5,539	\$ 5,099	\$ 4,992	8.6%	2.1%
General and administrative	1,852	1,935	1,996	(4.3)%	(3.1)%
Advertising and marketing	782	756	935	3.5%	(19.2)%
Litigation settlements	5	7	2,483	(26.2)%	(99.7)%
Depreciation and amortization	148	141	112	4.8%	26.2%
Total operating expenses	2,787	2,839	5,526	(1.8)%	(48.6)%
Operating income (loss)	2,752	2,260	(534)	21.8%	522.8%
Total other income (expense)	5	(42)	151	113.2%	(127.8)%
Income (loss) before income taxes	2,757	2,218	(383)	24.3%	678.8%
Income tax expense (benefit)	910	755	(129)	20.5%	684.3%
Net income (loss)	1,847	1,463	(254)	26.3%	676.0%
Income attributable to non-controlling interests	(1)	—	—	**	**
Net Income (Loss) Attributable to MasterCard	\$ 1,846	\$ 1,463	\$ (254)	26.2%	676.0%
Basic Earnings (Loss) per Share	\$ 14.10	\$ 11.19	\$ (1.94) ¹	26.0%	676.8%
Basic Weighted Average Shares	131	130	130	0.7%	(0.2)%
Diluted Earnings (Loss) per Share	\$ 14.05	\$ 11.16	\$ (1.94) ¹	25.9%	675.3%
Diluted Weighted Average Shares	131	130	130	0.8%	0.1%
Effective income tax rate	33.0%	34.1%	33.7%	**	**
Gross dollar volume ("GDV") on a U.S. dollar converted basis (in billions) ²	\$ 2,727	\$ 2,463	\$ 2,540	10.7%	(3.0)%
Processed transactions ³	23,052	22,401	20,951	2.9%	6.9%

** Not meaningful.

¹ As more fully described in Note 3 (Earnings Per Share) to the consolidated financial statements included in Part II, Item 8, on January 1, 2009, a new accounting standard was adopted related to EPS which required retrospective adjustment of EPS for the year ended December 31, 2008.

² GDV generated by Maestro and Cirrus cards is not included. The data for GDV is provided by MasterCard customers and includes information with respect to MasterCard-branded transactions that are not processed by MasterCard and for which MasterCard does not earn significant revenues. All data is subject to revision and amendment by MasterCard's customers subsequent to the date of its release, which revisions and amendments may be material.

- ³ Data represents all transactions processed by MasterCard, including PIN-based online debit transactions, regardless of brand. The numbers were updated in 2009 to exclude a small number of certain processed transactions initiated with cards that do not bear our brands, and in 2010 to exclude a small number of transactions that were processed by both of MasterCard's processing systems. All prior period data have been revised to be consistent with this revised methodology. Revenue was not impacted by these changes.

Impact of Foreign Currency Rates

Our overall operating results are impacted by changes in foreign currency exchange rates, especially the strengthening or weakening of the U.S. dollar versus the euro and Brazilian real. The functional currency of MasterCard Europe, our principal European operating subsidiary, is the euro, and the functional currency of our Brazilian subsidiary is the Brazilian real. Accordingly, the strengthening or weakening of the U.S. dollar versus the euro and Brazilian real impacts the translation of our European and Brazilian subsidiaries' operating results into the U.S. dollar. For 2010 as compared to 2009, the U.S. dollar average exchange rates strengthened against the euro and weakened against the Brazilian real. The net foreign currency impact of these changes unfavorably impacted net revenue growth by approximately 1 percentage point and favorably impacted expenses by approximately 1 percentage point in 2010. For 2009 as compared to 2008, the U.S. dollar average exchange rates strengthened against the euro and Brazilian real, which resulted in lower revenues and expenses.

In addition, changes in foreign currency exchange rates directly impact the calculation of gross dollar volume and gross euro volume ("GEV"), which are used in the calculation of our domestic assessments, cross-border volume fees and volume related rebates and incentives. In most non-European regions, GDV is calculated based on local currency spending volume converted to U.S. dollars using average exchange rates for the period. In Europe, GEV is calculated based on local currency spending volume converted to euros using average exchange rates for the period. As a result, our domestic assessments, cross-border volume fees and volume related rebates and incentives are impacted by the strengthening or weakening of the U.S. dollar versus most non-European local currencies and the strengthening or weakening of the euro versus European local currencies. The strengthening or weakening of the U.S. dollar is evident when GDV on a U.S. dollar converted basis is compared to GDV on a local currency basis. In 2010, GDV on a U.S. dollar converted basis increased 10.7%, versus GDV growth on a local currency basis of 9.1%. In 2009, GDV on a U.S. dollar converted basis declined 3.0%, versus GDV growth on a local currency basis of 1.7%.

Revenues

Revenue Descriptions

MasterCard's business model involves four participants in addition to us: cardholders, merchants, issuers (the cardholders' banks) and acquirers (the merchants' banks). Our gross revenues are typically based on the volume of activity on cards that carry our brands, the number of transactions we process for our customers or the nature of other payment-related services we provide to our customers. Our revenues are based upon transactional information accumulated by our systems or reported by our customers. Our primary revenue billing currencies are the U.S. dollar, euro and Brazilian real.

We process transactions denominated in more than 150 currencies through our global system, providing cardholders with the ability to utilize, and merchants to accept, MasterCard cards across multiple country borders. We process most of the cross-border transactions using MasterCard, Maestro and Cirrus-branded cards and, among our largest markets, process the majority of MasterCard-branded domestic transactions in the United States, United Kingdom, Canada and Brazil.

Our pricing is complex and is dependent on the nature of the volumes, types of transactions and other products and services we offer to our customers. A combination of the following factors determines the pricing:

- Domestic or cross-border

- Signature-based (credit and off-line debit) or PIN-based (on-line debit, including automated teller machine (“ATM”) cash withdrawals and retail purchases)
- Tiered pricing, with rates decreasing as customers meet incremental volume/transaction hurdles
- Geographic region or country
- Retail purchase or cash withdrawal

Cross-border transactions generate greater revenue than do domestic transactions since cross-border fees are higher than domestic fees. We review our pricing and implement pricing changes on an ongoing basis and expect pricing to continue to be a component of revenue growth in the future. In addition, standard pricing varies among our regional businesses, and such pricing can be customized further for our customers through incentive and rebate agreements.

The Company classifies its net revenues into the following five categories:

1. **Domestic assessments:** Domestic assessments are fees charged to issuers and acquirers based primarily on the volume of activity on cards that carry our brands where the merchant country and the cardholder country are the same. A portion of these assessments is estimated based on aggregate transaction information collected from our systems and projected customer performance and is calculated by converting the aggregate volume of usage (purchases, cash disbursements, balance transfers and convenience checks) from local currency to the billing currency and then multiplying by the specific price. In addition, domestic assessments include items such as card assessments, which are fees charged on the number of cards issued or assessments for specific purposes, such as acceptance development or market development programs. Acceptance development fees are charged primarily to U.S. issuers based on components of volume, and support our focus on developing merchant relationships and promoting acceptance at the point of sale.
2. **Cross-border volume fees:** Cross-border volume fees are charged to issuers and acquirers based on the volume of activity on cards that carry our brands where the merchant country and the cardholder country are different. Cross-border volume fees are calculated by converting the aggregate volume of usage (purchases and cash disbursements) from local currency to the billing currency and then multiplying by the specific price. Cross-border volume fees also include fees, charged to issuers, for performing currency conversion services.
3. **Transaction processing fees:** Transaction processing fees are charged for both domestic and cross-border transactions and are primarily based on the number of transactions. These fees are calculated by multiplying the number and type of transactions by the specific price for each service. Transaction processing fees include charges for the following:
 - *Transaction Switching—Authorization, Clearing and Settlement.*
 - a. *Authorization* refers to a process in which a transaction is approved by the issuer or, in certain circumstances such as when the issuer’s systems are unavailable or cannot be contacted, by MasterCard or others on behalf of the issuer in accordance with either the issuer’s instructions or applicable rules. MasterCard’s rules, which vary across regions, establish the circumstances under which merchants and acquirers must seek authorization of transactions. Fees for authorization are primarily paid by issuers.
 - b. *Clearing* refers to the exchange of financial transaction information between issuers and acquirers after a transaction has been completed. Fees for clearing are primarily paid by issuers.
 - c. *Settlement* refers to facilitating the exchange of funds between parties. Fees for settlement are primarily paid by issuers.

- *Connectivity fees* are charged to issuers and acquirers for network access, equipment and the transmission of authorization and settlement messages. These fees are based on the size of the data being transmitted through and the number of connections to the Company's network.
4. **Other revenues:** Other revenues for other payment-related services are primarily dependent on the nature of the products or services provided to our customers but are also impacted by other factors, such as contractual agreements. Examples of other revenues are fees associated with the following:
 - *Fraud products and services* used to prevent or detect fraudulent transactions. This includes warning bulletin fees which are charged to issuers and acquirers for listing invalid or fraudulent accounts either electronically or in paper form and for distributing this listing to merchants.
 - *Cardholder services fees* are for benefits provided with MasterCard-branded cards, such as insurance, telecommunications assistance for lost cards and locating automated teller machines.
 - *Consulting and research fees* are primarily generated by MasterCard Advisors, the Company's professional advisory services group. The Company's business agreements with certain customers and merchants may include consulting services as an incentive. The contra-revenue associated with these incentives is included in rebates and incentives.
 - The Company also charges for a variety of other payment-related services, including compliance and penalty fees, account and transaction enhancement services, holograms and publications.
 5. **Rebates and incentives (contra-revenue):** Rebates and incentives are provided to certain MasterCard customers and are recorded as contra-revenue in the same period that performance occurs. Performance periods vary depending on the type of rebate or incentive, including commitments to the agreement term, hurdles for volumes, transactions or issuance of new cards and the launch of new programs or the execution of marketing programs. Rebates and incentives are calculated based on estimated performance, the timing of new and renewed agreements and the terms of the related business agreements.

Revenue Analysis

In 2010 and 2009, gross revenues grew 12.5% and 4.0%, respectively. Revenue growth in 2010 was primarily due to increased dollar volume of activity on cards carrying our brands, higher pricing and increased transactions. The net foreign currency impact of changes in the U.S. dollar average exchange rates against the euro and the Brazilian real reduced revenue growth by approximately 1 percentage point in 2010. Revenue growth in 2009 was primarily due to changes in pricing, increased transactions and increases in the volume of activity on cards carrying our brands, partially offset by unfavorable foreign currency exchange impacts. Rebates and incentives as a percentage of gross revenues were 26.7%, 24.1% and 22.7% in 2010, 2009 and 2008, respectively. Our net revenues in 2010 and 2009 increased 8.6% and 2.1% versus 2009 and 2008, respectively.

Our revenues are primarily based on transactions and volumes, which are impacted by the number of transactions and the dollar amount of each transaction. In 2010, our processed transactions increased 2.9% and our volumes increased 9.1% on a local currency basis. In 2009, while our processed transactions increased 6.9%, our volumes only increased 1.7% on a local currency basis, reflecting a decline in the average amount per transaction. Our growth in processed transactions in 2010 was lower than in 2009 primarily due to debit portfolio losses in the U.S. and U.K.

Pricing changes increased net revenues by approximately 5 percentage points in 2010. These net pricing changes primarily related to increases in cross-border volume fees in October 2009 partially offset by approximately 3 percentage points attributable to increased cross-border rebates, increases in domestic assessments in April 2010, and increases in transaction processing fees in April 2009. The net pricing change also included an approximately 1 percentage point decrease relating to the October 2008 pricing changes which were repealed at the end of June 2009 as part of our interim arrangement with the European Commission. See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for more information.

The pricing structure for our acquirer revenues from cross-border transactions was simplified in the fourth quarter of 2010. Pursuant to the previous structure, MasterCard charged a cross-border volume fee but provided a rebate if MasterCard was allowed to perform the currency conversion. Beginning in October 2010, if MasterCard performs the currency conversion, the cross border volume fee charged is lower and no rebate is provided. This prospective change has no impact to net revenues.

Pricing changes increased net revenues by approximately 6 percentage points in 2009. The price increases primarily related to increases to transaction processing fees in April 2009 and cross-border volume fees in October 2009. The net pricing change included an approximately 1 percentage point decrease relating to an increase in cross-border rebates to encourage certain behaviors of customers and an approximately 1 percentage point decrease relating to the October 2008 pricing changes which were repealed at the end of June 2009 as part of our interim arrangement with the European Commission.

A significant portion of our revenue is concentrated among our five largest customers. In 2010, the net revenues from these customers were approximately \$1.5 billion, or 28%, of total net revenues. The loss of any of these customers or their significant card programs could adversely impact our revenues and net income. See “Risk Factors—Business Risks—Additional consolidation or other changes in or affecting the banking industry could result in a loss of business for MasterCard and create pressure on the fees we charge our customers, resulting in lower prices and/or more favorable terms for our customers, which may materially and adversely affect our revenue and profitability” in Part I, Item 1A. In addition, as part of our business strategy, MasterCard, among other efforts, enters into business agreements with customers. These agreements can be terminated in a variety of circumstances. See “Risk Factors—Business Risks—We face increasingly intense competitive pressure on the prices we charge our customers, which may materially and adversely affect our revenue and profitability” in Part I, Item 1A.

The significant components of our net revenues were as follows:

	For the Years Ended December 31,			Dollar Increase (Decrease)		Percent Increase (Decrease)	
	2010	2009	2008	2010	2009	2010	2009
	(in millions, except percentages)						
Domestic assessments	\$ 2,642	\$ 2,382	\$ 2,386	\$ 260	\$ (4)	10.9%	(0.2)%
Cross-border volume fees	1,927	1,509	1,547	418	(38)	27.7%	(2.5)%
Transaction processing fees	2,198	2,042	1,777	156	265	7.6%	14.9%
Other revenues	791	784	751	7	33	1.0%	4.4%
Gross revenues	7,558	6,717	6,461	841	256	12.5%	4.0%
Rebates and incentives (contra-revenues)	(2,019)	(1,618)	(1,469)	(401)	(149)	24.8%	10.1%
Net revenues	<u>\$ 5,539</u>	<u>\$ 5,099</u>	<u>\$ 4,992</u>	<u>\$ 440</u>	<u>\$ 107</u>	8.6%	2.1%

Domestic assessments—There was an increase in domestic assessments of 10.9% in 2010, as compared to a 0.2% decrease in 2009, due to:

- GDV increased 9.1% during 2010, when measured in local currency terms, and increased 10.7% when measured on a U.S. dollar-converted basis, versus 2009. In 2009, GDV increased 1.7% when measured in local currency terms, and declined 3.0% when measured on a U.S. dollar-converted basis, versus 2008.
- The net impact of pricing changes increased domestic assessments growth by approximately 4 percentage points in 2010 which included the April 2010 price increase. The October 2008 pricing changes which were repealed at the end of June 2009 as part of our interim arrangement with the European Commission had an approximate 1 percentage point unfavorable impact on domestic

assessments growth in 2010. In 2009, the effect of pricing changes increased domestic assessments growth by approximately 4 percentage points, of which approximately 1 percentage point was associated with the October 2008 pricing changes which were repealed at the end of June 2009. See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for more information.

- The net impact of foreign currency relating to the translation of domestic assessments from the euro and Brazilian real to U.S. dollars unfavorably impacted revenue growth by a minimal amount in 2010 and by approximately 2 percentage points in 2009.

Cross-border volume fees—There was an increase in cross-border volume fees of 27.7% in 2010, as compared to a 2.5% decrease in 2009, due to:

- Cross-border volumes increased 15.2% in 2010, when measured in local currency terms, and increased 15.1%, when measured on a U.S. dollar-converted basis. In 2009, cross-border volumes increased 0.2%, when measured in local currency terms, and decreased 6.2%, when measured on a U.S. dollar-converted basis.
- Pricing changes represented approximately a net 13 percentage points of cross-border revenue growth in 2010. This increase included approximately 18 percentage points related to pricing changes implemented in October 2009, partially offset by a decrease due to the pricing structure change in October 2010. Furthermore, the October 2008 pricing changes which were repealed at the end of June 2009 as part of our interim arrangement with the European Commission had an approximate 2 percentage point negative impact on 2010 cross-border revenue growth.

The decrease in 2009 cross-border volume fees was partially offset by approximately 7 percentage points relating to pricing changes. During 2009, the cross-border pricing actions also included an increase to cross-border rebates as discussed in the rebates and incentives discussion below. In addition, approximately 1 percentage point of the 7 percentage point pricing increase was associated with certain pricing changes implemented in October 2008 and repealed at the end of June 2009 as part of our interim arrangement with the European Commission. See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for more information.

- The net impact of foreign currency relating to the translation of cross-border volume fees from the euro and Brazilian real to U.S. dollars unfavorably impacted cross-border revenue growth by approximately 2 percentage points in both 2010 and 2009.

Transaction processing fees—The increases in transaction processing fees of 7.6% and 14.9% during 2010 and 2009, respectively, were due to:

- Pricing changes implemented in April 2009 represented approximately 3 percentage points of the increase in 2010 and approximately 8 percentage points of the increase in 2009.
- Processed transactions increased 2.9% and 6.9% during 2010 and 2009, respectively. Our growth in processed transactions in 2010 was lower than in 2009 due to the continuing effects of prior debit portfolio losses in the U.S. and U.K. Those debit portfolio losses impacted revenues to a lesser extent than the percentage decrease in the number of transactions due to the pricing of those products and portfolios.
- Growth in revenues was partially offset by the effects of transaction processing activities for which revenues are not driven by the number of transactions. Furthermore, the net impact of foreign currency relating to the translation of transaction processing fees from the euro and Brazilian real to U.S. dollars unfavorably impacted growth by approximately 1 percentage point in 2010 and by approximately 2 percentage points in 2009.

Other revenues—The increases in 2010 and 2009 of 1.0% and 4.4%, respectively, were due to:

- In 2010, there was a slight increase in consulting and cardholder services fees, partially offset by a decrease in fees from the excessive chargeback program and warning bulletins.
- In 2009 compared to 2008, there were increased compliance and penalty fees, implementation and cardholder services fees and fees for fraud products and services, partially offset by a decline in consulting and research fees.
- The net impact of foreign currency relating to the translation of other revenues from the euro and Brazilian real to U.S. dollars unfavorably impacted growth by approximately 1 percentage point in both 2010 and 2009.

Rebates and incentives—Rebates and incentives increased 24.8% and 10.1% in 2010 and 2009, respectively. Rebates and incentives as a percentage of gross revenues were 26.7%, 24.1% and 22.7% in 2010, 2009 and 2008, respectively. The amount of rebates and incentives increased due to the following:

- The 2010 increase was primarily due to higher rebates and incentives for certain new and renewed agreements as well as increased volumes. The Company intends to continue to enter into and maintain business agreements that provide rebates and incentives to certain customers and merchants. The 2009 growth in rebates and incentives was primarily driven by certain new and renewed agreements, some of which included shorter performance periods for specific customers. This was partially offset by reduced estimates for rebates and incentives for certain customers which did not achieve contractual performance hurdles, lower cross-border rebates due to a decline in cross-border volume growth and less marketing activity with merchants.
- Cross-border pricing actions in October 2009 as discussed above under “- Cross-border volume fees”, included an increase to cross-border rebates to encourage certain behaviors of our customers. In 2010, the increase in cross-border rebates contributed approximately 10 percentage points to the increase in rebates and incentives, partially offset by the effects of the pricing structure change in October 2010. The pricing actions in October 2009 contributed approximately 3 percentage points to the increase in rebates and incentives in 2009.
- There was a minimal net impact of foreign currency relating to the translation of rebates and incentives from the euro and Brazilian real to U.S. dollars in 2010. In 2009, the net impact of foreign currency relating to the translation of rebates and incentives from the euro and Brazilian real to U.S. dollars decreased rebates and incentives by approximately 1 percentage point.

Operating Expenses

Our operating expenses are comprised of general and administrative, advertising and marketing, litigation settlements and depreciation and amortization expenses. During 2009, the Company reclassified certain cardholder-related enhancement expenses, which were previously classified as advertising and marketing expenses, to general and administrative expenses. These cardholder benefit programs, such as insurance and card replacements, were previously deemed promotional features of the cards and over time have become standard product offerings in certain card categories. Approximately \$83 million of these expenses have been reclassified in 2008, to conform to the 2009 presentation.

The major components of our operating expenses were as follows:

	For the Years Ended December 31,			Dollar Increase (Decrease)		Percent Increase (Decrease)	
	2010	2009	2008	2010	2009	2010	2009
	(in millions, except percentages)						
General and administrative	\$1,852	\$1,935	\$1,996	\$(83)	\$ (61)	(4.3)%	(3.1)%
Advertising and marketing	782	756	935	26	(179)	3.5%	(19.2)%
Litigation settlements	5	7	2,483	(2)	(2,476)	(26.2)%	(99.7)%
Depreciation and amortization	148	141	112	7	29	4.8%	26.2%
Total operating expenses	<u>\$2,787</u>	<u>\$2,839</u>	<u>\$5,526</u>	<u>\$(52)</u>	<u>\$(2,687)</u>	(1.8)%	(48.6)%
Total operating expenses as a percentage of net revenues	50.3%	55.7%	110.7%				

Operating expenses decreased \$52 million, or 1.8%, in 2010, compared to 2009, primarily due to lower general and administrative expenses, partially offset by increased advertising and marketing expenses. The impact of foreign currency relating to translation from the euro and Brazilian real to U.S. dollars reduced operating expenses by approximately 1 percentage point in 2010.

Operating expenses decreased approximately \$2.7 billion in 2009, compared to 2008. These changes in operating expenses were primarily due to decreased litigation settlements in 2009. In addition, in 2009, MasterCard initiated resource realignment programs, which increased personnel costs due to severance-related expenses, and implemented contingency plans, which reduced certain other operating expenses. The following table compares and reconciles operating expenses, excluding the Litigation Settlements, which is a non-GAAP financial measure, to the operating expenses including the Litigation Settlements, which is the most directly comparable GAAP measurement. Management believes this analysis may be helpful in evaluating ongoing operating expenses and allows for a more meaningful comparison between periods.

	For the year ended December 31, 2009			For the year ended December 31, 2008			Percent Increase (Decrease) Actual	Percent Increase (Decrease) Non-GAAP
	Actual	Special Items	Non-GAAP	Actual	Special Items	Non-GAAP		
	(in millions, except percentages)							
General and administrative	\$1,935	\$—	\$1,935	\$1,996	\$ —	\$1,996	(3.1)%	(3.1)%
Advertising and marketing	756	—	756	935	—	935	(19.2)%	(19.2)%
Litigation settlements	7	(7)	—	2,483	(2,483)	—	(99.7)	**
Depreciation and amortization ..	141	—	141	112	—	112	26.2%	26.2%
Total operating expenses	<u>\$2,839</u>	<u>\$ (7)</u>	<u>\$2,832</u>	<u>\$5,526</u>	<u>\$(2,483)</u>	<u>\$3,043</u>	(48.6)%	(6.9)%
Total operating expenses as a percentage of net revenues ...	55.7%		55.5%	110.7%		61.0%		

* Note that figures in the above table may not sum due to rounding.

** Not meaningful, see “—Litigation Settlements” for more information.

General and Administrative

The major components of general and administrative expenses were as follows:

	For the Years Ended December 31,			Dollar Increase (Decrease)		Percent Increase (Decrease)	
	2010	2009	2008	2010	2009	2010	2009
	(in millions, except percentages)						
Personnel	\$1,219	\$1,365	\$1,290	\$(146)	\$ 75	(10.7)%	5.8%
Professional fees	204	158	218	46	(60)	28.9%	(27.5)%
Telecommunications	57	69	78	(12)	(9)	(16.6)%	(11.5)%
Data processing	90	86	78	4	8	4.8%	10.3%
Travel and entertainment	58	44	87	14	(43)	31.7%	(48.9)%
Other	224	213	245	11	(32)	4.7%	(13.5)%
General and administrative expenses ..	<u>\$1,852</u>	<u>\$1,935</u>	<u>\$1,996</u>	<u>\$ (83)</u>	<u>\$(61)</u>	(4.3)%	(3.1)%

- Personnel expense decreased 10.7% in 2010 compared to 2009. The decline was primarily due to lower severance expense due to a realignment of resources in 2009, lower pension and other retirement-related expenses, and lower share-based compensation expense, partially offset by higher short-term incentive compensation expense. Personnel expense increased 5.8% in 2009 compared to 2008 primarily due to higher costs for severance and pension. Personnel expense included \$39 million, \$139 million and \$33 million for severance-related charges in 2010, 2009 and 2008, respectively. The increased severance costs in 2009 were the result of realignment of our resources and were partially offset by lower contractor costs and reduced payroll costs due to reduced staffing levels. The increased pension costs were primarily due to lower investment returns in 2008.
- Professional fees consist primarily of legal costs to defend our outstanding litigation and third-party consulting services related to strategic initiatives. Professional fees increased 28.9% in 2010 versus 2009 driven by costs including the evaluation and execution of acquisition, e-Commerce and other strategic opportunities. Professional fees decreased 27.5% in 2009 versus 2008 due to lower legal fees associated with the Litigation Settlements during 2008 and decreased usage of third-party consulting services.
- Telecommunications expense consists of expenses to support our global payments system infrastructure as well as our other telecommunication needs. These expenses vary with business volume growth, system upgrades and usage.
- Data processing consists of expenses to operate and maintain MasterCard's computer systems. These expenses vary with business volume growth, system upgrades and usage.
- Travel and entertainment expenses are incurred primarily for travel to customer and regional meetings. In 2010, these expenses increased reflecting business development efforts. Cost containment measures resulted in lower travel and entertainment expenses in 2009 versus 2008.
- Other expenses include rental expense for our facilities, foreign exchange gains and losses, charges for impairment of assets and other miscellaneous administrative expenses. The increase in 2010 includes increased expenses from foreign currency remeasurement and foreign exchange risk management related to the DataCash acquisition and the write-off of an uncollectible receivable, partially offset by the 2009 asset impairment which was not repeated in 2010. The decrease in 2009 was primarily driven by favorable fluctuations in foreign exchange rates partially offset by charges for impairment of assets.
- The impact of foreign currency relating to the translation of amounts from the euro and the Brazilian real to U.S. dollars reduced general and administrative expenses by approximately 1 percentage point in 2010 and had a minimal impact in 2009.

Advertising and Marketing

Our brands, principally MasterCard, are valuable strategic assets that drive card acceptance and usage and facilitate our ability to successfully introduce new service offerings and access new markets globally. Our advertising and marketing strategy is to increase global MasterCard brand awareness, preference and usage through integrated advertising, sponsorship, promotional, interactive media and public relations programs on a global scale. We will also continue to invest in marketing programs at the regional and local levels and sponsor diverse events aimed at multiple target audiences.

Advertising and marketing expenses increased \$26 million, or 3.5%, in 2010 mainly due to customer-specific initiatives and sponsorships. In 2009, advertising and marketing expenses decreased \$179 million, or 19.2%, primarily due to cost management initiatives and market realities. Additionally, the impact of foreign currency relating to the translation of amounts from the euro and the Brazilian real to U.S. dollars reduced advertising and marketing expenses by approximately 1 percentage point and 2 percentage points in 2010 and 2009, respectively.

Litigation Settlements

Expense for litigation settlements was \$5.0 million, \$7.0 million and \$2.5 billion for the years ended December 31, 2010, 2009 and 2008, respectively. See Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 for information on litigation settlements.

In 2008, MasterCard and Visa Inc. ("Visa") entered into a settlement agreement with Discover (the "Discover Settlement") relating to the U.S. federal antitrust litigation amongst the parties. The Discover Settlement ended all litigation among the parties for a total of \$2.8 billion. Previously, MasterCard and Visa entered into a judgment sharing agreement. In accordance with the terms of the judgment sharing agreement, MasterCard's share of the Discover Settlement was \$863 million, which was paid to Discover in November 2008. Additionally, in connection with the Discover Settlement, Morgan Stanley, Discover's former parent company, paid MasterCard \$35 million in November 2008, pursuant to a separate agreement. The net pre-tax expense of \$828 million was recorded in litigation settlements in 2008.

Also in 2008, MasterCard entered into a settlement agreement with American Express which ended all existing litigation between American Express and MasterCard (the "American Express Settlement"). Under the terms of the American Express Settlement, beginning on September 15, 2008, MasterCard is required to pay American Express up to \$150 million each quarter for 12 quarters, payable in cash on the 15th day of the last month of each quarter, for a maximum amount of \$1.8 billion. The charge is based on MasterCard's assumption that American Express will achieve certain financial performance hurdles. The quarterly payments will be in an amount equal to 15% of American Express' United States Global Network Services billings during the quarter, up to a maximum of \$150 million per quarter. If, however, the payment for any quarter is less than \$150 million, the maximum payment for subsequent quarters will be increased by the difference between \$150 million and the lesser amount that was paid in any quarter in which there was a shortfall. MasterCard recorded the present value of \$1.8 billion, at a 5.75% discount rate, or \$1.6 billion, pre-tax, in 2008.

In 2003, MasterCard entered into a settlement agreement (the "U.S. Merchant Lawsuit Settlement") related to the U.S. merchant lawsuit described under the caption "U.S. Merchant and Consumer Litigations" in Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8 and recorded a pre-tax charge of \$721 million consisting of (i) the monetary amount of the U.S. Merchant Lawsuit Settlement (discounted at 8 percent over the payment term), (ii) certain additional costs in connection with, and in order to comply with, other requirements of the U.S. Merchant Lawsuit Settlement, and (iii) costs to address the merchants who opted not to participate in the plaintiff class in the U.S. merchant lawsuit. The \$721 million pre-tax charge amount was an estimate, which was subsequently revised based on the approval of the U.S. Merchant Lawsuit Settlement agreement by the court and other factors. On July 1, 2009, MasterCard entered into

an agreement (the "Prepayment Agreement") with plaintiffs of the U.S. Merchant Lawsuit Settlement whereby MasterCard agreed to make a prepayment of its remaining \$400 million in payment obligations at a discounted amount of \$335 million. The Company paid \$335 million on September 30, 2009, in accordance with the Prepayment Agreement.

We recorded liabilities for these and certain other litigation settlements in 2010 and prior years. Total liabilities for litigation settlements changed from December 31, 2008, as follows:

	(in millions)
Balance as of December 31, 2008	\$1,736
Interest accretion on U.S. Merchant Lawsuit Settlement	21
Interest accretion on American Express Settlement	66
Payments on American Express Settlement	(600)
Payment on U.S. Merchant Lawsuit Settlement	(335)
Gain on prepayment of U.S. Merchant Lawsuit Settlement	(14)
Other payments, accruals and accretion, net	(4)
Balance as of December 31, 2009	870
Interest accretion on American Express Settlement	35
Payments on American Express Settlement	(600)
Other payments, accruals and accretion, net	(3)
Balance as of December 31, 2010	<u>\$ 302</u>

Depreciation and Amortization

Depreciation and amortization expenses increased \$7 million, or 4.8%, and \$29 million, or 26.2%, in 2010 and 2009, respectively. The net increases in depreciation and amortization expense in both years reflected increased investments in data center equipment, capitalized software and leasehold and building improvements. Additionally, in 2010, the increase included the amortization of intangible assets from the DataCash acquisition. See Note 2 (Acquisition of DataCash Group plc) to the consolidated financial statements included in Part II, Item 8. In 2009, the increase included depreciation on the Company's global technology and operations center, which was acquired under a capital lease arrangement in 2009. We expect that depreciation and amortization will continue to increase as we continue to invest in property, plant and equipment and software.

Other Income (Expense)

Other income (expense) is comprised primarily of investment income, interest expense and other gains and losses. The components of other income (expense) for the years ended December 31, 2010, 2009 and 2008 were as shown below:

	For the Years Ended December 31,			Dollar Increase (Decrease)		Percent Increase (Decrease)	
	2010	2009	2008	2010	2009	2010	2009
	(in millions, except percentages)						
Investment income, net	\$ 57	\$ 58	\$ 183	\$ (1)	\$(125)	(0.7)%	(68.5)%
Interest expense	(52)	(115)	(104)	(63)	11	(55.1)%	11.1%
Other income (expense), net	—	15	72	(15)	(57)	(100.1)%	(78.7)%
Total other income (expense)	<u>\$ 5</u>	<u>\$ (42)</u>	<u>\$ 151</u>	<u>\$ 47</u>	<u>\$(193)</u>	113.2%	(127.8)%

- Investment income decreased \$1 million in 2010, reflecting lower interest rates offset by increased cash balances and realized gains on sales of investments. In 2009, investment income decreased \$125 million primarily due to lower interest income as a result of lower interest rates compared to 2008, and a

realized gain from the sale of the Company's RedeCard S.A. investment in 2008. The Company sold the remaining 22% of its shares of common stock in RedeCard S.A., and realized gains of \$86 million in 2008.

- Interest expenses decreased \$63 million in 2010 due to a decrease in interest on litigation settlements and on uncertain tax positions. Interest expense increased \$11 million in 2009 due to interest accretion associated with the American Express Settlement partially offset by lower interest accretion on the U.S. Merchant Lawsuit Settlement. Additionally, in 2008 there was higher interest expense on uncertain tax positions.
- Other income decreased \$15 million in 2010 compared to 2009 primarily due to a gain in 2009 of approximately \$14 million on the prepayment of the Company's remaining obligation on the U.S. Merchant Lawsuit Settlement, with no comparable events in 2010. Other income decreased in 2009 due to a \$75 million gain related to the termination of a customer business agreement that was recognized in 2008. See Note 26 (Other Income) to the consolidated financial statements included in Part II, Item 8 for additional discussion.

Income Taxes

The effective income tax rates for the years ended December 31, 2010, 2009 and 2008 were 33.0%, 34.1%, and 33.7%, respectively. The tax rate for 2010 was lower than the tax rate for 2009 due primarily to the 2010 impact of actual and anticipated repatriations from foreign subsidiaries, partially offset by discrete adjustments in 2010 and 2009. The tax rate for 2009 was higher than the tax rate for 2008 due primarily to litigation settlement charges recorded in 2008, which resulted in a pretax loss in a higher tax rate jurisdiction and pretax income in lower tax jurisdictions. In addition, deferred tax assets were remeasured and reduced by \$15 million and \$21 million in 2009 and 2008, respectively, due to changes in our state effective tax rate. As a result of the remeasurements, our income tax expense was increased for the same amounts.

The components impacting the effective income tax rates as compared to the U.S. federal statutory tax rate of 35.0% are as follows:

	For the years ended December 31,					
	2010		2009		2008	
	Dollar Amount	Percent	Dollar Amount	Percent	Dollar Amount	Percent
	(in millions, except percentages)					
Income (loss) before income tax expense	\$2,757		\$2,218		\$(383)	
Federal statutory tax	965	35.0%	776	35.0%	(134)	35.0%
State tax effect, net of federal benefit	19	0.7	25	1.1	11	(2.9)
Foreign tax effect, net of federal benefit	(24)	(0.9)	(22)	(1.0)	2	(0.5)
Non-deductible expenses and other differences	23	0.9	(18)	(0.7)	2	(0.7)
Tax exempt income	(5)	(0.2)	(6)	(0.3)	(10)	2.8
Foreign repatriation	(68)	(2.5)	—	—	—	—
Income tax expense (benefit)	<u>\$ 910</u>	<u>33.0%</u>	<u>\$ 755</u>	<u>34.1%</u>	<u>\$(129)</u>	<u>33.7%</u>

The Company's GAAP effective income tax rate for 2008 was significantly affected by the tax benefits related to the charges for the Litigation Settlements. Due to the non-recurring nature of these items, the Company believes that the calculation of the 2009 and 2008 effective tax rates, excluding the impacts of the Litigation Settlements, which are non-GAAP financial measures, will be helpful in comparing effective tax rates for 2009 and 2008, which are the most directly comparable GAAP measures.

	GAAP effective tax rate calculation			Non-GAAP effective tax rate calculation	
	2010	2009	2008	2009	2008
	(in millions, except percentages)				
Income (loss) before income taxes	\$2,757	\$2,218	\$(383)	\$2,218	\$(383)
Income tax expense (benefit) ¹	910	755	(129)	7	2,483
Net income (loss)	<u>\$1,847</u>	<u>\$1,463</u>	<u>\$(254)</u>	<u>\$2,225</u>	<u>\$2,100</u>
Effective tax rate	33.0%	34.1%	33.7%	755	(129)
				(2)	(941)
				<u>758</u>	<u>812</u>
				<u>\$1,467</u>	<u>\$1,288</u>
Non-GAAP effective tax rate				34.1%	38.7%

* Note that figures in the above table may not sum due to rounding.

¹ The Litigation Settlements will be deductible in future periods as payments are made and are therefore considered in the calculation of non-GAAP income tax expense.

During 2010, the Company's unrecognized tax benefits related to tax positions taken during the current and prior periods increased by \$19 million. The increase in the Company's unrecognized tax benefits for 2010 is primarily due to judgments related to current year tax positions. As of December 31, 2010, the Company's unrecognized tax benefits related to positions taken during the current and prior periods were \$165 million, all of which would reduce the Company's effective tax rate if recognized.

The Company's operations are conducted in various geographies with different tax rates. As the Company's operations evolve, this may impact the Company's future effective tax rate. As a result of the Company's expansion in its business activities in Asia Pacific (with its regional headquarters in Singapore), it received a tax incentive grant from the Singapore Ministry of Finance. The incentive is effective as of January 1, 2010, and provides for a 5% income tax rate based on annual taxable income in excess of a base amount for a 10-year period. The Company did not recognize significant tax benefits in 2010 as a result of the incentive as its expansion commenced in November 2010. The Company continues to explore additional opportunities in this region which may result in a tax rate potentially lower than 5%.

Liquidity and Capital Resources

We need liquidity and access to capital to fund our global operations; to provide for credit and settlement risk; to finance capital expenditures; to make continued investments in our business and to service our obligations related to litigation settlements. At December 31, 2010 and 2009, we had \$3.9 billion and \$2.9 billion, respectively, of cash and cash equivalents and current available-for-sale securities to use for our operations. Our equity was \$5.2 billion and \$3.5 billion as of December 31, 2010 and 2009, respectively.

On August 19, 2010, MasterCard entered into an agreement to acquire all the outstanding shares of DataCash Group plc, a European payment service provider. Pursuant to the terms of the acquisition agreement, the Company acquired DataCash on October 22, 2010 at a purchase price of 334 million U.K. pound sterling, or \$534 million.

On December 9, 2010, MasterCard entered into an agreement to acquire Travelex CPM. Pursuant to the terms of the acquisition agreement, the Company is expected to acquire Travelex CPM at a purchase price of approximately 290 million U.K. pound sterling, or approximately \$458 million, with contingent consideration (an "earn-out") of up to an additional 35 million U.K. pound sterling, or approximately \$55 million, if certain performance targets are met. The acquisition is expected to be consummated in the first half of 2011.

In September 2010, the Company's Board of Directors authorized a plan for the Company to repurchase up to \$1 billion of its Class A common stock in open market transactions. The Company did not repurchase any shares under this plan during 2010. As of February 16, 2011, the Company had completed the repurchase of approximately 0.3 million shares of its Class A common stock at a cost of approximately \$75 million. The timing and actual number of shares repurchased will depend on a variety of factors, including legal requirements, price and economic and market conditions.

We believe that the cash generated from operations, our borrowing capacity and our access to capital resources are sufficient to meet our future operating capital needs and litigation settlement obligations. Our liquidity and access to capital could be negatively impacted by the adverse outcome of any of the legal or regulatory proceedings to which we are still a party. See "Risk Factors-Legal and Regulatory Risks" in Part I, Item 1A; Note 20 (Obligations Under Litigation Settlements) and Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements included in Part II, Item 8; and "—Business Environment" in Part II, Item 7 for additional discussion of these and other risks facing our business.

Cash Flow

The table below shows a summary of the cash flows from operating, investing and financing activities:

	2010	2009	2008	Percent Increase (Decrease)	
				2010	2009
	(in millions, except percentages)				
Cash Flow Data:					
Net cash provided by operating activities	\$1,697	\$1,378	\$ 413	23.1%	233.5%
Net cash (used in) provided by investing activities	(641)	(664)	202	(3.5)%	(429.4)%
Net cash provided by (used in) financing activities	19	(185)	(751)	110.9%	(75.4)%
Balance Sheet Data:					
Current assets	\$6,454	\$5,003	\$4,312	29.0%	16.0%
Current liabilities	3,143	3,167	2,990	(0.7)%	5.9%
Long-term liabilities	478	791	1,553	(39.8)%	(49.1)%
Equity	5,216	3,512	1,932	48.6%	81.8%

Net cash provided by operating activities for the year ended December 31, 2010 was \$1.7 billion, compared to \$1.4 billion and \$413 million in 2009 and 2008, respectively. In 2010, cash from operations was primarily due to operating income, an increase in settlements due to customers, and an increase in accrued expenses, partially offset by litigation settlement payments, an increase in accounts receivable and income taxes receivable and the effect of stock units withheld for taxes. In 2009, cash from operations was primarily due to operating income, collections of accounts receivable and income taxes receivable and increases in accrued expenses for personnel and advertising costs, partially offset by approximately \$946 million in litigation settlement payments. In 2008, cash from operations resulted from an increase of \$2.5 billion in litigation settlement obligations, partially offset by \$1.3 billion in payments for litigation settlements and increases in accounts receivable and income taxes receivable.

Net cash used in investing activities in 2010 primarily related to the DataCash acquisition and expenditures for our global network, partially offset by net cash inflows from investment security activities. Net cash used in investing activities in 2009 primarily related to net purchases of investment securities and expenditures for our global network. Net cash provided by investing activities in 2008 primarily related to net sales of investment securities, partially offset by expenditures for our payment card network and an acquisition of a business.

The auction rate securities ("ARS") market was illiquid as of December 31, 2010 and 2009 and therefore our ARS are classified as long-term available-for-sale securities. We had \$118 million and \$212 million of ARS, at amortized cost, as of December 31, 2010 and 2009, respectively. Although the ARS market is illiquid, issuer call and redemption activity at par occurred periodically during 2010 and 2009. See Note 6 (Investment Securities) to the consolidated financial statements included in Part II, Item 8 for more information.

Net cash used in financing activities in 2010 and 2009 included the payment of dividends offset by cash provided by the tax benefit from share based compensation. The repayment of debt in 2009 and 2008 utilized cash of \$149 million and \$80 million, respectively. In addition, the acquisition of 2.8 million shares of our Class A common stock in 2008 under share repurchase programs utilized approximately \$650 million. See Note 16 (Consolidation of Variable Interest Entity), Note 15 (Debt) and Note 17 (Stockholders' Equity) to the consolidated financial statements included in Part II, Item 8 for more information on our debt repayments of \$149 million and \$80 million and the stock repurchases, respectively.

Dividends

On December 7, 2010, our Board of Directors declared a quarterly cash dividend of \$0.15 per share payable on February 9, 2011 to holders of record on January 10, 2011 of our Class A common stock and Class B common stock. The aggregate amount payable for this dividend was \$20 million as of December 31, 2010.

On February 8, 2011, our Board of Directors declared a quarterly cash dividend of \$0.15 per share payable on May 9, 2011 to holders of record on April 8, 2011 of our Class A common stock and Class B common stock. The aggregate amount needed for this dividend is estimated to be \$20 million. The declaration and payment of future dividends will be at the sole discretion of our Board of Directors after taking into account various factors, including our financial condition, settlement guarantees, operating results, available cash and anticipated cash needs.

Credit Availability

On November 22, 2010, the Company entered into a committed three-year unsecured \$2.75 billion revolving credit facility (the "Credit Facility") with certain financial institutions. The Credit Facility, which expires on November 22, 2013, replaced the Company's prior credit facility which was to expire on April 26, 2011 (the "Prior Credit Facility"). The available funding under the Prior Credit Facility was \$2.5 billion from April 28, 2006 through April 27, 2010 and then decreased to \$2 billion for the remaining period of the Prior Credit Facility agreement. Borrowings under the Credit Facility are available to provide liquidity for general corporate purposes, including providing liquidity in the event of one or more settlement failures by our customers. The facility fee and borrowing cost under the Credit Facility are contingent upon our credit rating. At December 31, 2010, the applicable facility fee was 20 basis points on the average daily commitment (whether or not utilized). In addition to the facility fee, interest on borrowings under the Credit Facility would be charged at the London Interbank Offered Rate (LIBOR) plus an applicable margin of 130 basis points or an alternate base rate plus 30 basis points.

The Credit Facility contains customary representations, warranties and affirmative and negative covenants, including a maximum level of consolidated debt to earnings before interest, taxes, depreciation and amortization (EBITDA) financial covenant and events of default. MasterCard was in compliance with the covenants of the

Credit Facility and had no borrowings under the Credit Facility at December 31, 2010. MasterCard was in compliance with the covenants of the Prior Credit Facility and had no borrowings under the Prior Credit Facility at December 31, 2009. The majority of Credit Facility lenders are members or affiliates of members of MasterCard International.

On November 4, 2009, the Company filed a universal shelf registration statement to provide additional access to capital, if needed. Pursuant to the shelf registration statement, the Company may from time to time offer to sell debt securities, preferred stock or Class A common stock in one or more offerings.

On January 5, 2009, HSBC Bank plc ("HSBC") notified the Company that, effective December 31, 2008, it had terminated an uncommitted credit agreement totaling 100 million euros between HSBC and MasterCard Europe. There was no borrowing under this facility at December 31, 2008.

Future Obligations

In addition to the \$458 million commitment to purchase Travelex CPM, the following table summarizes our obligations as of December 31, 2010 that are expected to impact liquidity and cash flow in future periods. We believe we will be able to fund these obligations through cash generated from operations and our existing balances of cash and cash equivalents.

	Payments Due by Period				
	Total	2011	2012-2013	2014-2015	2016 and thereafter
	(in millions)				
Capital leases ¹	\$ 50	\$ 7	\$ 43	\$—	\$—
Operating leases ²	97	26	36	19	16
Sponsorship, licensing and other ^{3,4}	534	330	182	21	1
Litigation settlements ⁵	308	304	4	—	—
Debt ⁶	20	20	—	—	—
Total	\$1,009	\$687	\$265	\$ 40	\$ 17

* Note that totals in above table may not sum due to rounding.

¹ Mostly related to certain property, plant and equipment. The capital lease for our global technology and operations center located in O'Fallon, Missouri has been excluded from this table; see Note 9 (Property, Plant and Equipment) to the consolidated financial statements included in Part II, Item 8 for further discussion. There is a capital lease for the Kansas City, Missouri co-processing data center.

² We enter into operating leases in the normal course of business. Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional lease agreements.

³ Amounts primarily relate to sponsorships with certain organizations to promote the MasterCard brand. The amounts included are fixed and non-cancelable. In addition, these amounts include amounts due in accordance with merchant agreements for future marketing, computer hardware maintenance, software licenses and other service agreements. Future cash payments that will become due to our customers under agreements which provide pricing rebates on our standard fees and other incentives in exchange for transaction volumes are not included in the table because the amounts due are indeterminable and contingent until such time as performance has occurred. MasterCard has accrued \$666 million as of December 31, 2010 related to customer and merchant agreements.

⁴ Includes current liability of \$4 million relating to the accounting for uncertainty in income taxes. Due to the high degree of uncertainty regarding the timing of the non-current liabilities for uncertainties in income taxes, we are unable to make reasonable estimates of the period of cash settlements with the respective taxing authority.

- ⁵ Represents amounts due in accordance with the American Express Settlement and other litigation settlements. The American Express Settlement requires two remaining quarterly payments in the first half of 2011 of \$150 million each.
- ⁶ Debt primarily represents amounts due for the acquisition of MasterCard France. We also have various credit facilities for which there were no outstanding balances at December 31, 2010 that, among other things, would provide liquidity in the event of settlement failures by our members. Our debt obligations would change if one or more of our members failed and we borrowed under these credit facilities to settle on our members' behalf or for other reasons.

Seasonality

Historically, our quarterly gross revenues have been positively impacted in the fourth quarter by increases in purchase volume related to the holiday shopping period, with corresponding higher rebates and incentives to our customers. Also, operating expenses have historically been higher in the fourth quarter due to additional advertising and promotions related to the holiday period. The economic crisis in 2008 caused our operating results to diverge from these historical trends as gross revenues in the fourth quarter of 2008 were negatively impacted by lower purchase volumes and transactions. In response, MasterCard accelerated its cost savings initiatives in the quarter, with particular focus on advertising, personnel and travel expenses. The results for the fourth quarters of 2009 and 2010 were more consistent with the historical trends.

Critical Accounting Estimates

Our accounting policies are integral to understanding our results of operations and financial condition. We are required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. We have established detailed policies and control procedures to ensure that the methods used to make estimates and assumptions are well controlled and are applied consistently from period to period. The following is a brief description of our current accounting policies involving significant management judgments.

Financial Statement Caption/ Critical Accounting Estimate	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
Revenue Recognition		
Domestic assessments require an estimate of our customers' quarterly GDV or GEV to recognize quarterly domestic assessments.	Customers' GDV and GEV are estimated by using historical performance, transactional information accumulated from our systems and discussions with our customers.	If customers' actual performance is not consistent with our estimates of their performance, realized revenues may be materially different than initially estimated. Historically, our estimates have differed from the actual performance by less than 5% of the estimates on a quarterly basis.
Domestic assessments included an estimate representing 13% of total domestic assessments in each of 2010, 2009 and 2008 and 6% of total net revenues in 2010, 2009 and 2008.	Such estimates are subsequently validated against the GDV or GEV reported by our customers. Differences are adjusted in the period the customer reports.	
Our revenue recognition policies are fully described in Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements in Part II, Item 8 of this Report.		

**Financial Statement Caption/
Critical Accounting Estimate**

Assumptions/Approach Used

**Effect if Actual Results Differ
from Assumptions**

Rebates and incentives are generally recorded as contra-revenue based on our estimate of each customer's performance in a given period and according to the terms of the related customer agreements. Examples of the customer performance items requiring estimation include GDV or GEV, transactions, issuance of new cards, launch of new programs or the execution of marketing programs.

In addition, certain customer agreements include prepayment of rebates and incentives. Amortization of prepayments and other assets may be on straight-line basis over the life of the agreement or based on customer performance depending on the terms of the related customer agreements.

Legal and Regulatory Matters

We are party to legal and regulatory proceedings with respect to a variety of matters. Except as described in Note 20 (Obligations Under Litigation Settlements) and Note 22 (Legal and Regulatory Proceedings) to the consolidated financial statements in Part II, Item 8 of this Report, MasterCard does not believe that any legal or regulatory proceedings to which it is a party would have a material adverse impact on its business or prospects.

Our estimates of each customer's performance are based on historical customer performance, transactional information accumulated from our systems and discussions with our customers.

Such estimates are subsequently validated by information reported by our customers. Differences are adjusted in the period the customer reports.

If customers' actual performance is not consistent with our estimates of their performance, contra-revenues may be materially different than initially estimated.

We evaluate the likelihood of an unfavorable outcome of the legal or regulatory proceedings to which we are party. Our judgments are subjective based on the status of the legal or regulatory proceedings, the merits of our defenses and consultation with in-house and outside legal counsel.

Due to the inherent uncertainties of the legal and regulatory process in the multiple jurisdictions in which we operate, our judgments may be materially different than the actual outcomes.

Financial Statement Caption/ Critical Accounting Estimate	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
Income Taxes		
<p>In calculating our effective tax rate, we need to make estimates regarding the timing and amount of taxable and deductible items which will adjust the pretax income earned in various tax jurisdictions.</p>	<p>Through our interpretation of local tax regulations, adjustments to pretax income for income earned in various tax jurisdictions are reflected within various tax filings.</p>	<p>Although we believe that our estimates and judgments discussed herein are reasonable, actual results may differ by a material amount.</p>
<p>We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized.</p>	<p>We considered projected future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance.</p>	<p>If it is determined that we are able to realize deferred tax assets in excess of the net carrying value or to the extent we are unable to realize a deferred tax asset, we would adjust the valuation allowance with a corresponding increase or decrease to earnings.</p>
<p>We record tax liabilities for uncertain tax positions taken, or expected to be taken, which may not be sustained or may only be partially sustained, upon examination by the relevant taxing authorities.</p>	<p>We considered all relevant facts and current authorities in the tax law in assessing whether any benefit resulting from an uncertain tax position was more likely than not to be sustained and, if so, how current law impacts the amount reflected within these financial statements.</p>	<p>If upon examination, we realize a tax benefit which is not fully sustained or is more favorably sustained, this would decrease or increase earnings in the period. In certain situations, the Company will have offsetting tax credits or taxes in other jurisdictions.</p>
<p>We do not record U.S. income tax expense for foreign earnings which we intend to reinvest indefinitely to expand our international operations.</p>	<p>We considered business plans, planning opportunities, and expected future outcomes in assessing the needs for future expansion and support of our international operations.</p>	<p>If our business plans change or our future outcomes differ from our expectations, U.S. income tax expense and our effective tax rate could increase or decrease in that period.</p>
Asset Impairment Analyses		
<i>Prepaid Customer and Merchant Incentives</i>		
<p>We prepay certain customer and merchant business incentives. In the event of customer or merchant business failure, these incentives may not have future economic benefits for our business.</p>	<p>Our estimates of customer performance are based on historical customer performance, discussions with our customer and our expectations for the future.</p>	<p>If events or changes in circumstances occur, additional impairment charges related to our prepaid customer and merchant incentives may be incurred. The carrying value of prepaid customer and merchant incentives was \$497 million at December 31, 2010.</p>
<p>Impairment analysis is performed quarterly or whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The impairment analysis for each customer requires an estimation of our customer's future performance and an assessment of the agreement terms to determine the future net cash flows expected from the customer agreement.</p>		

Financial Statement Caption/ Critical Accounting Estimate	Assumptions/Approach Used	Effect if Actual Results Differ from Assumptions
<i>Goodwill and Intangible Assets (excluding Capitalized Software)</i>	We utilized a weighted income and market approach for determining the fair values of our reporting units. Our significant valuation-related judgments related to goodwill and intangible asset impairment tests include, as applicable, forecasting cash flows, selection of discount rates and selection of comparable companies. We used both internal and external data to make these judgments.	If market conditions or business conditions change in the future, we may be exposed to impairment charges associated with goodwill and/or intangible assets. The net carrying value of goodwill and intangible assets, excluding capitalized software, was \$971 million, including \$194 million of unamortizable customer relationships, as of December 31, 2010.
We perform analyses of goodwill and indefinite-lived intangible assets on an annual basis or sooner if indicators of impairment exist. We review intangible assets with finite lives for impairment based on undiscounted cash flows when events or changes in circumstances indicate that their carrying amounts may not be recoverable. Goodwill and intangible assets are assigned to our reporting units. The fair value of each reporting unit is compared to the carrying value of the respective reporting unit. Our goodwill policies are fully described in Note 1 (Summary of Significant Accounting Policies) to the consolidated financial statements in Part II, Item 8 of this report.	We used internal data and estimates regarding changes in our customer relationships and future cash flows to assess the indefinite life and assess fair value.	If a definite life is deemed to be more appropriate, it would require amortization of the customer relationships which would result in a decline in future net income.

Recent Accounting Pronouncements

Transfers of financial assets—In June 2009, the accounting standard for transfers and servicing of financial assets and extinguishments of liabilities was amended. The change eliminates the qualifying special purpose entity concept, establishes a new unit of account definition that must be met for the transfer of portions of financial assets to be eligible for sale accounting, clarifies and changes the derecognition criteria for a transfer to be accounted for as a sale, changes the amount of gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor, and requires additional new disclosures. The Company adopted the new standard upon its effective date of January 1, 2010. The adoption did not have an impact on the Company's financial position or results of operations.

Variable interest entities—In June 2009, there was a revision to the accounting standard for the consolidation of variable interest entities. The revision eliminates the exemption for qualifying special purpose entities, requires a new qualitative approach for determining whether a reporting entity should consolidate a variable interest entity, and changes the requirement of when to reassess whether a reporting entity should consolidate a variable interest entity. During February 2010, the scope of the revised standard was modified to indefinitely exclude certain entities from the requirement to be assessed for consolidation. The Company adopted the new standard upon its effective date of January 1, 2010. The adoption did not have an impact on the Company's financial position or results of operations.

Revenue arrangements with multiple deliverables—In September 2009, the accounting standard for the allocation of revenue in arrangements involving multiple deliverables was amended. Current accounting standards require companies to allocate revenue based on the fair value of each deliverable, even though such deliverables may not be sold separately either by the company itself or other vendors. The new accounting standard eliminates (i) the residual method of revenue allocation and (ii) the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. The Company will adopt the revised accounting standard effective January 1, 2011 via prospective adoption. The Company does not expect the adoption to have a material impact on the Company's financial position or results of operations.

Fair value disclosures—In January 2010, fair value disclosure requirements were amended to require detailed disclosures about transfers to and from Level 1 and 2 of the Valuation Hierarchy effective January 1, 2010 and disclosures regarding purchases, sales, issuances, and settlements on a "gross" basis within the Level 3 (of the Valuation Hierarchy) reconciliation effective January 1, 2011. The Company adopted the new guidance for disclosures about transfers to and from Level 1 and 2 of the Valuation Hierarchy effective January 1, 2010. The adoption did not have an impact on the Company's financial position or results of operations. The Company will adopt the guidance that requires disclosure of a reconciliation of purchases, sales, issuances, and settlements on a "gross" basis within Level 3 (of the Valuation Hierarchy) effective January 1, 2011, as required, and the adoption will have no impact on the Company's financial position or results of operations.

Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses—In July 2010, a new accounting standard was issued. This standard provides new disclosure guidance that will require companies to provide more information about the credit quality of their financing receivables in the disclosures to financial statements including, but not limited to, significant purchases and sales of financing receivables, aging information and credit quality indicators. The Company adopted this accounting standard upon its effective date, periods ending on or after December 15, 2010, and the adoption had no impact on the Company's financial position or results of operations.

Impairment testing for goodwill—In December 2010, a new accounting standard was issued. This standard requires Step 2 of the goodwill impairment test to be performed for reporting units with zero or negative carrying amounts if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The provisions for this pronouncement are effective for fiscal years beginning after December 15, 2010, with no early adoption permitted. The Company will adopt this accounting standard on January 1, 2011, and does not anticipate that this adoption will have an impact on the Company's financial position or results of operations.

Business combinations—In December 2010, a new accounting standard was issued. This standard requires a company to disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period, only when comparative financial statements are presented. The disclosure provisions are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The Company will adopt this accounting standard on January 1, 2011, and the adoption will have no impact on the Company's financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the potential for economic losses to be incurred on market risk sensitive instruments arising from adverse changes in market factors such as interest rates, foreign currency exchange rates and equity price risk. We have limited exposure to market risk from changes in interest rates, foreign exchange rates and equity price risk. Management establishes and oversees the implementation of policies governing our funding, investments and use of derivative financial instruments. We monitor risk exposures on an ongoing basis. There

were no material changes in our market risk exposures at December 31, 2010 as compared to December 31, 2009. The Wall Street Reform and Consumer Protection Act includes provisions related to derivative financial instruments and the Company is determining what impact, if any, such provisions will have on the Company's financial position or results of operations.

Foreign Exchange Risk

We enter into forward contracts to manage foreign exchange risk associated with anticipated receipts and disbursements which are either transacted in a non-functional currency or valued based on a currency other than our functional currencies. We also enter into forward contracts to offset possible changes in value due to foreign exchange fluctuations of assets and liabilities denominated in foreign currencies. The objective of this activity is to reduce our exposure to transaction gains and losses resulting from fluctuations of foreign currencies against our functional currencies, principally the U.S. dollar and euro. The terms of the forward contracts are generally less than 18 months.

The table below shows a summary of derivative contracts classified by functional currency:

U.S. Dollar Functional Currency (in millions)

	December 31, 2010		December 31, 2009	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
Commitments to purchase foreign currency	\$ 36	\$ 1	\$38	\$—
Commitments to sell foreign currency	129	(2)	50	(1)

Euro Functional Currency (in millions)

	December 31, 2010		December 31, 2009	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
Commitments to purchase foreign currency	\$ 2	\$—	\$16	\$—
Commitments to sell foreign currency	14	—	45	—

U.K. Pound Sterling Functional Currency (in millions)

	December 31, 2010		December 31, 2009	
	Notional	Estimated Fair Value	Notional	Estimated Fair Value
Commitments to purchase foreign currency	\$—	\$—	\$—	\$—
Commitments to sell foreign currency	5	—	—	—

Our settlement activities are subject to foreign exchange risk resulting from foreign exchange rate fluctuations. This risk is limited to the typical one business day timeframe between setting the foreign exchange rates and clearing the financial transactions and by confining the supported settlement currencies to the U.S. dollar or one of 16 other transaction currencies. The remaining 134 transaction currencies are settled in one of the supported settlement currencies or require local settlement netting arrangements that minimize our foreign exchange exposure.

Interest Rate Risk

Our interest rate sensitive assets are our investments in debt securities, which we generally hold as available-for-sale investments. Our general policy is to invest in high quality securities, while providing adequate liquidity and maintaining diversification to avoid significant exposure. The fair value and maturity distribution of the Company's available for sale investments as of December 31 was as follows:

Financial Instrument	Summary Terms	Fair Market Value at December 31, 2010	No Contractual Maturity	Maturity					
				(in millions)					
				2011	2012	2013	2014	2015	2016 and thereafter
Municipal bonds	fixed interest	\$315	\$—	\$ 8	\$ 33	\$ 93	\$ 69	\$ 55	\$ 57
Short-term bond funds	fixed/variable interest	516	516	—	—	—	—	—	—
Auction rate securities	variable interest	106	—	—	—	—	—	—	106
Total		<u>\$937</u>	<u>\$516</u>	<u>\$ 8</u>	<u>\$ 33</u>	<u>\$ 93</u>	<u>\$ 69</u>	<u>\$ 55</u>	<u>\$163</u>

Financial Instrument	Summary Terms	Fair Market Value at December 31, 2009	No Contractual Maturity	Maturity					
				(in millions)					
				2010	2011	2012	2013	2014	2015 and thereafter
Municipal bonds	fixed interest	\$ 514	\$—	\$ 28	\$ 97	\$ 96	\$120	\$ 80	\$ 93
Short-term bond funds	fixed/variable interest	310	310	—	—	—	—	—	—
Auction rate securities	variable interest	180	—	—	—	—	—	—	180
Total		<u>\$1,004</u>	<u>\$310</u>	<u>\$ 28</u>	<u>\$ 97</u>	<u>\$ 96</u>	<u>\$120</u>	<u>\$ 80</u>	<u>\$273</u>

At December 31, 2010, we have a credit facility which provides liquidity for general corporate purposes, including providing liquidity in the event of one or more settlement failures by the Company's customers. This credit facility has variable rates, which are applied to the borrowing based on terms and conditions set forth in the agreement. We had no borrowings under this facility at December 31, 2010 or 2009. See Note 15 (Debt) to the consolidated financial statements in Part II, Item 8 for additional information.

Equity Price Risk

The Company did not have significant equity price risk as of December 31, 2010 and 2009.

Item 8. *Financial Statements and Supplementary Data*

MASTERCARD INCORPORATED

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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MasterCard Incorporated	
<i>As of December 31, 2010 and 2009 and for the years ended December 31, 2010, 2009 and 2008</i>	
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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of MasterCard Incorporated ("MasterCard") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has assessed the effectiveness of MasterCard's internal control over financial reporting as of December 31, 2010. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its report entitled *Internal Control—Integrated Framework*. Management has concluded that, based on its assessment, MasterCard's internal control over financial reporting was effective as of December 31, 2010. The effectiveness of MasterCard's internal control over financial reporting as of December 31, 2010 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears on the next page.

[PRICEWATERHOUSECOOPERS letterhead]

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
of MasterCard Incorporated:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of MasterCard Incorporated and its subsidiaries at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

New York, New York
February 24, 2011

MASTERCARD INCORPORATED
CONSOLIDATED BALANCE SHEET

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	(in millions, except share data)	
ASSETS		
Cash and cash equivalents	\$ 3,067	\$ 2,055
Investment securities available-for-sale, at fair value	831	824
Investment securities held-to-maturity	300	—
Accounts receivable	650	536
Settlement due from customers	497	459
Restricted security deposits held for customers	493	446
Prepaid expenses	315	313
Deferred income taxes	216	244
Other current assets	85	126
Total Current Assets	<u>6,454</u>	<u>5,003</u>
Property, plant and equipment, at cost, net of accumulated depreciation	439	449
Deferred income taxes	5	264
Goodwill	677	309
Other intangible assets, net of accumulated amortization	530	415
Auction rate securities available-for-sale, at fair value	106	180
Investment securities held-to-maturity	36	338
Prepaid expenses	365	328
Other assets	225	184
Total Assets	<u>\$ 8,837</u>	<u>\$ 7,470</u>
LIABILITIES AND EQUITY		
Accounts payable	\$ 272	\$ 290
Settlement due to customers	636	478
Restricted security deposits held for customers	493	446
Obligations under litigation settlements	298	607
Accrued expenses	1,315	1,225
Other current liabilities	129	121
Total Current Liabilities	<u>3,143</u>	<u>3,167</u>
Deferred income taxes	74	80
Obligations under litigation settlements	4	263
Long-term debt	—	22
Other liabilities	400	426
Total Liabilities	<u>3,621</u>	<u>3,958</u>
Commitments and Contingencies (Notes 19, 20 and 22)		
Stockholders' Equity		
Class A common stock, \$.0001 par value; authorized 3,000,000,000 shares, 129,436,818 and 116,534,029 shares issued and 122,696,228 and 109,793,439 outstanding, respectively	—	—
Class B common stock, \$.0001 par value; authorized 1,200,000,000 shares, 8,202,380 and 19,977,657 issued and outstanding, respectively	—	—
Class M common stock, \$.0001 par value; authorized 0 and 1,000,000 shares, 0 and 1,812 shares issued and outstanding, respectively	—	—
Additional paid-in-capital	3,445	3,412
Class A treasury stock, at cost, 6,740,590 shares, respectively	(1,250)	(1,250)
Retained earnings	2,915	1,148
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustments	105	212
Defined benefit pension and other postretirement plans, net of tax	(12)	(15)
Investment securities available-for-sale, net of tax	2	(3)
Total accumulated other comprehensive income	<u>95</u>	<u>194</u>
Total Stockholders' Equity	<u>5,205</u>	<u>3,504</u>
Non-controlling interests	11	8
Total Equity	<u>5,216</u>	<u>3,512</u>
Total Liabilities and Equity	<u>\$ 8,837</u>	<u>\$ 7,470</u>

The accompanying notes are an integral part of these consolidated financial statements.

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF OPERATIONS

	For the Years Ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<small>(in millions, except per share data)</small>		
Revenues, net	\$5,539	\$5,099	\$4,992
Operating Expenses			
General and administrative	1,852	1,935	1,996
Advertising and marketing	782	756	935
Litigation settlements	5	7	2,483
Depreciation and amortization	148	141	112
Total operating expenses	<u>2,787</u>	<u>2,839</u>	<u>5,526</u>
Operating income (loss)	2,752	2,260	(534)
Other Income (Expense)			
Investment income, net	57	58	183
Interest expense	(52)	(115)	(104)
Other income (expense), net	—	15	72
Total other income (expense)	<u>5</u>	<u>(42)</u>	<u>151</u>
Income (loss) before income taxes	2,757	2,218	(383)
Income tax expense (benefit)	910	755	(129)
Net income (loss)	1,847	1,463	(254)
Income attributable to non-controlling interests	(1)	—	—
Net Income (Loss) Attributable to MasterCard	<u>\$1,846</u>	<u>\$1,463</u>	<u>\$ (254)</u>
Basic Earnings (Loss) per Share (Note 3)	<u>\$14.10</u>	<u>\$11.19</u>	<u>\$ (1.94)</u>
Basic Weighted Average Shares Outstanding (Note 3)	<u>131</u>	<u>130</u>	<u>130</u>
Diluted Earnings (Loss) per Share (Note 3)	<u>\$14.05</u>	<u>\$11.16</u>	<u>\$ (1.94)</u>
Diluted Weighted Average Shares Outstanding (Note 3)	<u>131</u>	<u>130</u>	<u>130</u>

The accompanying notes are an integral part of these consolidated financial statements.

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>For the Years Ended December 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Operating Activities			
Net income (loss)	\$1,847	\$1,463	\$ (254)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	148	141	112
Gain on sale of Redecard S.A. available-for-sale securities	—	—	(86)
Share based payments	63	88	61
Stock units withheld for taxes	(126)	(28)	(67)
Tax benefit for share based compensation	(85)	(39)	(48)
Impairment of assets	4	16	13
Accretion of imputed interest on litigation settlements	35	86	77
Deferred income taxes	248	337	(484)
Other	2	(11)	15
Changes in operating assets and liabilities:			
Accounts receivable	(115)	122	(116)
Income taxes receivable	(50)	190	(198)
Settlement due from customers	(61)	54	183
Prepaid expenses	(48)	(113)	(101)
Obligations under litigation settlement	(603)	(939)	1,255
Accounts payable	(19)	34	8
Settlement due to customers	186	(66)	(53)
Accrued expenses	265	82	51
Net change in other assets and liabilities	6	(39)	45
Net cash provided by operating activities	<u>1,697</u>	<u>1,378</u>	<u>413</u>
Investing Activities			
Acquisition of business, net of cash acquired	(498)	(3)	(82)
Purchases of property, plant and equipment	(61)	(57)	(76)
Capitalized software	(90)	(83)	(95)
Purchases of investment securities available-for-sale	(329)	(333)	(520)
Purchases of investment securities held-to-maturity	—	(300)	—
Proceeds from sales of investment securities, available-for-sale	297	98	965
Proceeds from maturities of available-for-sale securities	110	36	12
Investment in nonmarketable equity investments	(67)	(18)	—
Other investing activities	(3)	(4)	(2)
Net cash (used in) provided by investing activities	<u>(641)</u>	<u>(664)</u>	<u>202</u>
Financing Activities			
Tax benefit for share based compensation	85	39	48
Exercise of stock options	11	9	9
Dividends paid	(79)	(79)	(79)
Investment in (redemption of) non-controlling interest	2	(5)	—
Purchase of treasury stock	—	—	(649)
Payment of debt	—	(149)	(80)
Net cash provided by (used in) financing activities	<u>19</u>	<u>(185)</u>	<u>(751)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(63)</u>	<u>21</u>	<u>(18)</u>
Net increase (decrease) in cash and cash equivalents	1,012	550	(154)
Cash and cash equivalents—beginning of period	2,055	1,505	1,659
Cash and cash equivalents—end of period	<u>\$3,067</u>	<u>\$2,055</u>	<u>\$1,505</u>

The accompanying notes are an integral part of these consolidated financial statements.

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Total	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income, net of tax	Common Shares		Additional Paid-In Capital	Treasury Stock	Non-Controlling Interests
				Class A	Class B			
	(in millions, except per share data)							
Balance at December 31, 2007	\$3,032	\$ 38	\$ 278	\$—	\$—	\$3,312	\$ (601)	\$ 5
Net loss	(254)	(254)	—	—	—	—	—	—
Other comprehensive loss, net of tax	(169)	—	(169)	—	—	—	—	—
Cash dividends declared on Class A and Class B common stock, \$0.60 per share	(79)	(20)	—	—	—	(59)	—	—
Share based payments	61	—	—	—	—	61	—	—
Stock units withheld for taxes	(67)	—	—	—	—	(67)	—	—
Tax benefit for share based compensation	48	—	—	—	—	48	—	—
Purchases of treasury stock	(649)	—	—	—	—	—	(649)	—
Conversion of Class B to Class A common stock	—	—	—	—	—	—	—	—
Exercise of stock options	9	—	—	—	—	9	—	—
Balance at December 31, 2008	1,932	(236)	109	—	—	3,304	(1,250)	5
Redemption of non-controlling interest	(5)	—	—	—	—	—	—	(5)
Investment in majority owned entity	8	—	—	—	—	—	—	8
Net income	1,463	1,463	—	—	—	—	—	—
Other comprehensive income, net of tax	85	—	85	—	—	—	—	—
Cash dividends declared on Class A and Class B common stock, \$0.60 per share	(79)	(79)	—	—	—	—	—	—
Share based payments	88	—	—	—	—	88	—	—
Stock units withheld for taxes	(28)	—	—	—	—	(28)	—	—
Tax benefit for share based compensation	39	—	—	—	—	39	—	—
Conversion of Class B to Class A common stock	—	—	—	—	—	—	—	—
Exercise of stock options	9	—	—	—	—	9	—	—
Balance at December 31, 2009	3,512	1,148	194	—	—	3,412	(1,250)	8
Investment in majority owned entity	2	—	—	—	—	—	—	2
Net income	1,847	1,846	—	—	—	—	—	1
Other comprehensive loss, net of tax	(99)	—	(99)	—	—	—	—	—
Cash dividends declared on Class A and Class B common stock, \$0.60 per share	(79)	(79)	—	—	—	—	—	—
Share based payments	63	—	—	—	—	63	—	—
Stock units withheld for taxes	(126)	—	—	—	—	(126)	—	—
Tax benefit for share based compensation	85	—	—	—	—	85	—	—
Conversion of Class B to Class A common stock	—	—	—	—	—	—	—	—
Exercise of stock options	11	—	—	—	—	11	—	—
Balance at December 31, 2010	<u>\$5,216</u>	<u>\$2,915</u>	<u>\$ 95</u>	<u>\$—</u>	<u>\$—</u>	<u>\$3,445</u>	<u>\$(1,250)</u>	<u>\$ 11</u>

The accompanying notes are an integral part of these consolidated financial statements.

MASTERCARD INCORPORATED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the Years Ended December 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Net Income (Loss)	\$1,847	\$1,463	\$(254)
Other comprehensive income (loss):			
Foreign currency translation adjustments	(107)	37	(41)
Defined benefit pension and postretirement plans	5	45	(63)
Income tax effect	<u>(2)</u>	<u>(17)</u>	<u>23</u>
	3	28	(40)
Investment securities available-for-sale	17	33	(52)
Income tax effect	<u>(6)</u>	<u>(12)</u>	<u>18</u>
	11	21	(34)
Reclassification adjustment for investment securities available-for-sale	(9)	(2)	(84)
Income tax effect	<u>3</u>	<u>1</u>	<u>30</u>
	(6)	(1)	(54)
Other comprehensive income (loss), net of tax	<u>(99)</u>	<u>85</u>	<u>(169)</u>
Comprehensive Income (Loss)	1,748	1,548	(423)
Income attributable to non-controlling interests	(1)	—	—
Comprehensive Income (Loss) Attributable to MasterCard	<u><u>\$1,747</u></u>	<u><u>\$1,548</u></u>	<u><u>\$(423)</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization—MasterCard Incorporated and its consolidated subsidiaries, including MasterCard International Incorporated (“MasterCard International”) and MasterCard Europe sprl (“MasterCard Europe”) (together, “MasterCard” or the “Company”), provide payment solutions, including transaction processing and related services to customers principally in support of their credit, deposit access (debit), prepaid, electronic cash and Automated Teller Machine (“ATM”) payment card programs, and travelers cheque programs. Our financial institution customers are generally either principal members (“principal members”) of MasterCard International, which participate directly in MasterCard International’s business, or affiliate members (“affiliate members”) of MasterCard International, which participate indirectly in MasterCard International’s business through a principal member.

Consolidation and basis of presentation—The consolidated financial statements include the accounts of MasterCard and its majority-owned and controlled entities, including any variable interest entities for which the Company is the primary beneficiary. Intercompany transactions and balances are eliminated in consolidation. The Company follows accounting principles generally accepted in the United States of America (“GAAP”).

The Company is a variable interest holder in certain entities that do not have sufficient equity at risk to finance their activities without additional subordinated financial support from other parties or whose equity investors lack the ability to control the entity’s activities (referred to as VIEs). These variable interests arise from contractual, ownership or other monetary interests in the entities. The Company consolidates a VIE if it is the primary beneficiary, defined as the entity that has both the power to direct the activities that most significantly impact the VIE’s economic performance and a variable interest that could potentially be significant to the VIE. To determine whether or not a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of the Company’s involvement with the VIE. The Company assesses whether or not it is the primary beneficiary of a VIE on an on-going basis. Investments in variable interest entities for which the Company is not considered the primary beneficiary are not consolidated and are accounted for as equity method or cost method investments. See Note 16 (Consolidation of Variable Interest Entity) for further discussion.

Non-controlling interest represents the equity interest not owned by the Company and is recorded for consolidated entities in which the Company owns less than 100% of the interests. Non-controlling interests are reported as a component of equity. In addition, changes in a parent’s ownership interest while the parent retains its controlling interest are accounted for as equity transactions, and upon a gain or loss of control, retained ownership interests are remeasured at fair value, with any gain or loss recognized in earnings.

The Company accounts for investments in common stock or in-substance common stock under the equity method of accounting when it has the ability to exercise significant influence over the investee, generally when it holds 20% or more of the common stock in the entity. MasterCard’s share of net earnings or losses of entities accounted for under the equity method of accounting is included in other income (expense) on the consolidated statement of operations. The Company accounts for investments under the historical cost method of accounting when it does not exercise significant influence, generally when it holds less than 20% ownership in the common stock of the entity. Investments for which the equity method or historical cost method of accounting are used are recorded in other assets on the consolidated balance sheet.

Reclassification of prior period amounts—Certain prior period amounts have been reclassified to conform to the 2010 presentation. Additionally, in 2009, the Company reclassified amounts that primarily related to the adoption of certain accounting standards and the reclassification of certain cardholder-related enhancement expenses, which were previously classified as advertising and marketing expenses, to general and administrative

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

expenses. These cardholder benefit program expenses, such as insurance and card replacements, were previously deemed promotional features of the cards and over time have become standard product offerings in certain card categories. Approximately \$83 million of these expenses were reclassified for the year ended December 31, 2008 to conform to the 2009 presentation.

Use of estimates—The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Management has established detailed policies and control procedures to ensure the methods used to make estimates are well controlled and applied consistently from period to period. Actual results may differ from these estimates.

Fair value—The Company measures certain financial assets and liabilities at fair value on a recurring basis by estimating the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When valuing liabilities, the Company also considers the Company's creditworthiness. The Company classifies these recurring fair value measurements into a three-level hierarchy ("Valuation Hierarchy") and discloses the significant assumptions utilized in measuring all of its assets and liabilities at fair value.

The Valuation Hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the Valuation Hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of the Valuation Hierarchy are as follows:

- Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2—inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in inactive markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Certain assets and liabilities are measured at fair value on a nonrecurring basis. The Company's non financial assets and liabilities measured at fair value on a nonrecurring basis include property, plant and equipment, goodwill and other intangible assets. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The valuation methods for goodwill and other intangible assets involve assumptions concerning comparable company multiples, discount rates, growth projections and other assumptions of future business conditions. As the assumptions employed to measure these assets and liabilities on a nonrecurring basis are based on management's judgment using internal and external data, these fair value determinations are classified in Level 3 of the Valuation Hierarchy. See Note 5 (Fair Value) for information about methods and assumptions. The Company has not elected to apply the fair value option to its eligible financial assets and liabilities.

Cash and cash equivalents—Cash and cash equivalents include certain liquid investments with a maturity of three months or less from the date of purchase. Cash equivalents are recorded at cost, which approximates fair value.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Restricted Cash—The Company classifies cash as restricted when the cash is unavailable for withdrawal or usage. Restrictions may include legally restricted deposits, contracts entered into with others, or the Company's statements of intention with regard to particular deposits.

Investment securities—The Company classifies investments in debt securities as held-to-maturity or available-for-sale and classifies investments in equity securities as available-for-sale or trading. Available-for-sale securities that are available to meet the Company's current operational needs are classified as current assets. Available-for-sale securities that are not available to meet the Company's current operational needs are classified as non-current assets.

Investments in debt securities are classified as held-to-maturity when the Company has the intent and ability to hold the debt securities to maturity and are stated at amortized cost. Investments in debt securities not classified as held-to-maturity are classified as available-for-sale and are carried at fair value, with unrealized gains and losses, net of applicable taxes, recorded as a separate component of other comprehensive income (loss) on the consolidated statement of comprehensive income (loss). Net realized gains and losses on debt securities are recognized in investment income on the consolidated statement of operations.

The fair values of the Company's short-term bond funds are based on quoted prices for identical investments in active markets and are therefore included in Level 1 of the Valuation Hierarchy. The fair values of the Company's available-for-sale municipal bonds are based on quoted prices for similar assets in active markets and are therefore included in Level 2 of the Valuation Hierarchy. The fair value determination for the Company's Auction Rate Securities ("ARS") is based primarily on an income approach and is therefore included in Level 3 of the Valuation Hierarchy. See Note 5 (Fair Value) and Note 6 (Investment Securities) for additional disclosures related to the fair value standard.

The Company has incorporated the considerations of guidance pertaining to determining the fair value of financial assets in inactive markets in its assessment of the fair value of its ARS as of December 31, 2010 and 2009. The guidance provides consideration of how management's internal cash flow and discount rate assumptions should be considered when measuring fair value when relevant observable data does not exist, how observable market information in a market that is not active should be considered when measuring fair value and how the use of market quotes should be considered when assessing the relevance of observable and unobservable data available to measure fair value. See Note 5 (Fair Value) for further detail.

Investments in equity securities classified as available-for-sale are carried at fair value, with unrealized gains and losses, net of applicable taxes, recorded as a separate component of other comprehensive income (loss) on the consolidated statement of comprehensive income (loss). Net realized gains and losses on available-for-sale equity securities are recognized in investment income on the consolidated statement of operations. The specific identification method is used to determine realized gains and losses.

Available-for-sale debt and equity securities are evaluated for other than temporary impairment on an ongoing basis. If an investment is determined to be other than temporarily impaired, realized losses are recognized in investment income on the consolidated statements of operations.

Settlement due from/due to customers—The Company operates systems for clearing and settling payment transactions among MasterCard International members. Net settlements are generally cleared daily among members through settlement cash accounts by wire transfer or other bank clearing means. However, some transactions may not settle until subsequent business days, resulting in amounts due from and due to MasterCard International members.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Restricted security deposits held for MasterCard International members—MasterCard requires and holds cash deposits and certificates of deposit from certain members of MasterCard International as collateral for settlement of their transactions. These assets are fully offset by corresponding liabilities included on the consolidated balance sheet. However, the majority of collateral for settlement is typically in the form of standby letters of credit and bank guarantees which are not recorded on the balance sheet.

Property, plant and equipment—Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of equipment and furniture and fixtures is computed using the straight-line method over the related estimated useful lives of the assets, generally ranging from two to five years. Amortization of leasehold improvements is generally computed using the straight-line method over the lesser of the estimated useful lives of the improvements or the terms of the related leases. Capital leases are amortized using the straight-line method over the lives of the leases. Depreciation on buildings is calculated using the straight-line method over an estimated useful life of 30 years. Amortization of leasehold improvements and capital leases is included in depreciation expense.

The Company evaluates the recoverability of all long-lived assets whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the carrying value of the asset cannot be recovered from estimated future cash flows, undiscounted and without interest, the fair value of the asset is calculated using the present value of estimated net future cash flows. If the carrying amount of the asset exceeds its fair value, an impairment is recorded.

Leases—The Company enters into operating and capital leases for the use of premises, software and equipment. Rent expense related to lease agreements which contain lease incentives is recorded on a straight-line basis.

Business combinations—The Company accounts for businesses acquired in business combinations under the acquisition method of accounting. The Company measures the tangible and intangible identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, at their fair values as of that date. Acquisition-related costs are expensed separately from the business combination and are included in general and administrative expenses. Any excess of purchase price over the fair value of net assets acquired, including identifiable intangible assets, is recorded as goodwill.

Goodwill—Goodwill represents the excess of cost over net assets acquired in connection with the acquisition of businesses accounted for as business combinations. The Company tests its goodwill for impairment annually as of October 1, or sooner if indicators of impairment exist. The impairment evaluation utilizes a two step approach. The first step is to determine if the carrying value of the reporting unit including its goodwill exceeds its fair value. If so, the second step measures the amount of the impairment loss. Impairment charges, if any, are recorded in general and administrative expenses on the consolidated statement of operations. See Note 10 (Goodwill) for additional information on the Company's goodwill.

Intangible assets—Intangible assets consist of capitalized software costs, trademarks, tradenames, customer relationships and other intangible assets, which have finite lives, and customer relationships related to the acquisition of Europay International S.A. in 2002, which have indefinite lives. Intangible assets with finite useful lives are amortized over their estimated useful lives, which range from 1 to 10 years, under the straight-line method. For capitalized software, MasterCard capitalizes average internal costs incurred for payroll and payroll related expenses by department for the employees who directly devote time to the design, development and testing phases of each capitalized software project.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The Company reviews intangible assets with finite lives for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. Impairment losses are recognized when the expected undiscounted cash flows of an asset group are less than the carrying value. Impairment charges are recorded in general and administrative expense on the consolidated statement of operations. Intangible assets with indefinite lives are tested for impairment annually as of October 1, or sooner if indicators of impairment exist. Impairment exists if the fair value of the indefinite-lived intangible asset is less than carrying value. See Note 11 (Other Intangible Assets) for further detail on impairment charges and other information regarding intangible assets.

Treasury stock—The Company records the repurchase of shares of common stock at cost based on the settlement date of the transaction. These shares are classified as treasury stock, which is a reduction to stockholders' equity. Treasury stock is included in authorized and issued shares but excluded from outstanding shares.

Litigation—The Company is a party to certain legal and regulatory proceedings with respect to a variety of matters. Except as described in Note 20 (Obligations Under Litigation Settlements) and Note 22 (Legal and Regulatory Proceedings), MasterCard does not believe that any legal or regulatory proceedings to which it is a party would have a material adverse impact on its business or prospects. The Company evaluates the likelihood of an unfavorable outcome of all legal or regulatory proceedings to which it is a party and accrues a loss contingency when the loss is probable and reasonably estimable. These judgments are subjective based on the status of the legal or regulatory proceedings, the merits of its defenses and consultation with in-house and external legal counsel. The actual outcomes of these proceedings may materially differ from the Company's judgments. Legal costs are expensed as incurred and recorded in general and administrative expenses.

Settlement and other risk management—MasterCard has global risk management policies and procedures, which include risk standards to provide a framework for managing the Company's settlement exposure. Settlement risk is the legal exposure due to the difference in timing between the payment transaction date and subsequent settlement. MasterCard International's rules generally guarantee the payment of certain MasterCard, Cirrus and Maestro-branded transactions between its principal members. The term and amount of the guarantee are unlimited. Settlement exposure under the guarantee is short term and typically limited to a few days. In the event that MasterCard International effects a payment on behalf of a failed member, MasterCard International may seek an assignment of the underlying receivables. Subject to approval by the Company's Board of Directors, members may be charged for the amount of any settlement losses incurred during the ordinary activities of the Company. MasterCard has also guaranteed the payment of MasterCard-branded travelers cheques in the event of issuer default. The term of the guarantee is unlimited, while the amount is limited to cheques issued but not yet cashed. The Company may also have other guarantee obligations in the course of its business. The Company accounts for each of its guarantees issued or modified after December 31, 2002, the adoption date of the relevant accounting standard, by recording the guarantee at its fair value at the inception or modification of the guarantee through earnings. To the extent that a guarantee is modified subsequent to the inception of the guarantee, the Company remeasures the fair value of the guarantee at the date of modification through earnings.

The Company enters into business agreements in the ordinary course of business under which the Company agrees to indemnify third parties against damages, losses and expenses incurred in connection with legal and other proceedings arising from relationships or transactions with the Company. As the extent of the Company's obligations under these agreements depends entirely upon the occurrence of future events, the Company's potential future liability under these agreements is not determinable. See Note 5 (Fair Value) and Note 23 (Settlement and Other Risk Management).

Derivative financial instruments—The Company accounts for all derivatives, whether designated in hedging relationships or not, by recording them on the balance sheet at fair value in other assets and other liabilities, regardless of the purpose or intent for holding them. The Company's foreign exchange forward contracts are

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

included in level 2 of the Valuation Hierarchy as the fair value of these contracts are based on broker quotes for the same or similar instruments. Changes in the fair value of derivative instruments are reported in current-period earnings. The Company did not have any derivative contracts accounted for under hedge accounting as of December 31, 2010 and 2009.

Income taxes—The Company follows an asset and liability based approach in accounting for income taxes as required under GAAP. Deferred income tax assets and liabilities are recorded to reflect the tax consequences on future years of temporary differences between the financial statement carrying amounts and income tax bases of assets and liabilities. Deferred income taxes are displayed as separate line items or are included in other current liabilities on the consolidated balance sheet. Valuation allowances are provided against assets which are not more likely than not to be realized. The Company recognizes all material tax positions, including all significant uncertain tax positions in which it is more likely than not that the position will be sustained based on its technical merits and if challenged by the relevant taxing authorities. At each balance sheet date, unresolved uncertain tax positions are reassessed to determine whether subsequent developments require a change in the amount of recognized tax benefit. The allowance for uncertain tax positions is recorded in other current and noncurrent liabilities on the consolidated balance sheet.

The Company records interest expense related to income tax matters as interest expense in its statement of operations. The company includes penalties related to income tax matters in the income tax provision.

The Company does not provide for U.S. federal income tax and foreign withholding taxes on undistributed earnings from non-U.S. subsidiaries when such earnings are intended to be reinvested indefinitely outside of the U.S.

Revenue recognition—Revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured. Revenues are generally based upon transactional information accumulated by our systems or reported by our customers. The Company's revenues are based on the volume of activity on cards that carry the Company's brands, the number of transactions processed or the nature of other payment-related services.

Volume-based revenues (domestic assessments and cross-border volume fees) are recorded as revenue in the period they are earned, which is when the related volume is generated on the cards. Certain quarterly revenues are estimated based upon aggregate transaction information and historical and projected customer quarterly volumes. Actual results may differ from these estimates. Transaction-based revenues (transaction processing fees) are calculated by multiplying the number and type of transactions by the specific price for each service. Transaction-based fees are recognized as revenue in the same period as the related transactions occur. Other payment-related services are dependent on the nature of the products or services provided to our customers and are recognized as revenue in the same period as the related transactions occur or services are rendered.

MasterCard has business agreements with certain customers that provide for fee rebates when the customers meet certain volume hurdles as well as other support incentives such as marketing, which are tied to performance. Rebates and incentives are recorded as a reduction of revenue in the same period as the revenue is earned or performance has occurred. Rebates and incentives are calculated on a monthly basis based upon estimated performance and the terms of the related business agreements. In addition, MasterCard may incur costs directly related to the acquisition of the contract, which are deferred and amortized over the life of the contract.

Pension and other postretirement plans—Compensation cost of an employee's pension benefit is recognized in general and administrative expenses on the projected unit credit method over the employee's approximate service period. The unit credit cost method is utilized for funding purposes.

The Company recognizes the overfunded or underfunded status of its single-employer defined benefit plan or postretirement plan as an asset or liability in its balance sheet and recognizes changes in the funded status in the year in which the changes occur through comprehensive income. The Company also measures the funded status of a plan as of the date of its year-end balance sheet.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Share based payments—The Company recognizes the fair value of all share-based payments to employees in its financial statements. The Company uses the straight-line method of attribution for expensing equity awards. Compensation expense is recorded net of estimated forfeitures. Estimates are adjusted as appropriate. The Company recognizes a realized tax benefit associated with dividends on certain equity shares and options as an increase to additional paid-in capital. The benefit is included in the pool of excess tax benefits available to absorb potential future tax liabilities on share based payment awards.

Advertising expense—The cost of media advertising is expensed when the advertising takes place. Advertising production costs are expensed as incurred. Promotional items are expensed at the time the promotional event occurs. Sponsorship costs are recognized over the period of benefit based on the estimated value of certain events.

Foreign currency translation—The Company's functional currencies include the U.S. dollar, the euro, the Brazilian real, the Australian dollar, and the U.K. pound sterling. For foreign currency remeasurement from each local currency into the appropriate functional currency, monetary assets and liabilities are remeasured to U.S. dollars using current exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are recorded at historical exchange rates, and revenue and expense accounts are remeasured at a weighted average exchange rate for the period. Resulting exchange gains and losses related to remeasurement are included in general and administrative expenses in the consolidated statement of operations.

Where a non-U.S. currency is the functional currency, translation from that functional currency to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate for the period. Resulting translation adjustments are reported as a component of other comprehensive income (loss).

Earnings (loss) per share—A new accounting standard related to instruments granted in share-based payment transactions became effective for the Company on January 1, 2009, resulting in the retrospective adjustment of earnings per share ("EPS") for prior periods. See Note 3 (Earnings (Loss) Per Share) for further detail.

Recent accounting pronouncements

Transfers of financial assets—In June 2009, the accounting standard for transfers and servicing of financial assets and extinguishments of liabilities was amended. The change eliminates the qualifying special purpose entity concept, establishes a new unit of account definition that must be met for the transfer of portions of financial assets to be eligible for sale accounting, clarifies and changes the derecognition criteria for a transfer to be accounted for as a sale, changes the amount of gain or loss on a transfer of financial assets accounted for as a sale when beneficial interests are received by the transferor, and requires additional new disclosures. The Company adopted the new standard upon its effective date of January 1, 2010. The adoption did not have an impact on the Company's financial position or results of operations.

Variable interest entities—In June 2009, there was a revision to the accounting standard for the consolidation of variable interest entities. The revision eliminates the exemption for qualifying special purpose entities, requires a new qualitative approach for determining whether a reporting entity should consolidate a variable interest entity, and changes the requirement of when to reassess whether a reporting entity should consolidate a variable interest entity. During February 2010, the scope of the revised standard was modified to indefinitely exclude certain entities from the requirement to be assessed for consolidation. The Company adopted the new standard upon its effective date of January 1, 2010. The adoption did not have an impact on the Company's financial position or results of operations.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Revenue arrangements with multiple deliverables—In September 2009, the accounting standard for the allocation of revenue in arrangements involving multiple deliverables was amended. Current accounting standards require companies to allocate revenue based on the fair value of each deliverable, even though such deliverables may not be sold separately either by the company itself or other vendors. The new accounting standard eliminates (i) the residual method of revenue allocation and (ii) the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the overall arrangement fee that is attributable to items that already have been delivered. The Company will adopt the revised accounting standard effective January 1, 2011 via prospective adoption. The Company does not expect the adoption to have a material impact on the Company's financial position or results of operations.

Fair value disclosures—In January 2010, fair value disclosure requirements were amended to require detailed disclosures about transfers to and from Level 1 and 2 of the Valuation Hierarchy effective January 1, 2010 and disclosures regarding purchases, sales, issuances, and settlements on a "gross" basis within the Level 3 (of the Valuation Hierarchy) reconciliation effective January 1, 2011. The Company adopted the new guidance for disclosures about transfers to and from Level 1 and 2 of the Valuation Hierarchy effective January 1, 2010. The adoption did not have an impact on the Company's financial position or results of operations. The Company will adopt the guidance that requires disclosure of a reconciliation of purchases, sales, issuances, and settlements on a "gross" basis within Level 3 (of the Valuation Hierarchy) effective January 1, 2011, as required, and the adoption will have no impact on the Company's financial position or results of operations.

Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses—In July 2010, a new accounting standard was issued. This standard provides new disclosure guidance that will require companies to provide more information about the credit quality of their financing receivables in the disclosures to financial statements including, but not limited to, significant purchases and sales of financing receivables, aging information and credit quality indicators. The Company adopted this accounting standard upon its effective date, periods ending on or after December 15, 2010, and the adoption had no impact on the Company's financial position or results of operations.

Impairment testing for goodwill—In December 2010, a new accounting standard was issued. This standard requires Step 2 of the goodwill impairment test to be performed for reporting units with zero or negative carrying amounts if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The provisions for this pronouncement are effective for fiscal years beginning after December 15, 2010, with no early adoption permitted. The Company will adopt this accounting standard on January 1, 2011, and does not anticipate that this adoption will have an impact on the Company's financial position or results of operations.

Business combinations—In December 2010, a new accounting standard was issued. This standard requires a company to disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period, only when comparative financial statements are presented. The disclosure provisions are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The Company will adopt this accounting standard on January 1, 2011, and the adoption will have no impact on the Company's financial position or results of operations.

Note 2. Acquisition of DataCash Group plc

On August 19, 2010, MasterCard entered into an agreement to acquire all the outstanding shares of DataCash Group plc ("DataCash"), a European payment service provider. Pursuant to the terms of the acquisition agreement, the Company acquired DataCash on October 22, 2010 at a purchase price of 334 million U.K. pound sterling, or \$534 million. There was no contingent consideration related to the acquisition.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

DataCash provides e-Commerce merchants with the ability to process secure payments across the world. DataCash develops and provides outsourced electronic payments solutions, fraud prevention, alternative payment options, back-office reconciliation and solutions for merchants selling via multiple channels. DataCash also has a fraud solutions and technology platform. MasterCard believes the acquisition of DataCash will create a long-term growth platform in the e-Commerce category while enhancing existing MasterCard payment products and expanding its global presence in the internet gateway business.

MasterCard had exposure to foreign exchange rate fluctuations related to the DataCash acquisition price. As a result, the Company purchased foreign currency option contracts to limit the risk. See Note 24 (Foreign Exchange Risk Management) for further details.

The following table summarizes the purchase price allocation for the DataCash acquisition:

	Fair Value at October 22, 2010
	(in millions)
Current assets	\$ 48
Property, plant and equipment	3
Intangible assets	129
Goodwill	402
Other assets	7
Total assets acquired	589
Current liabilities	(24)
Non-current liabilities	(31)
Total liabilities assumed	(55)
Net assets acquired	\$534

Purchase consideration has been allocated to the tangible and identifiable intangible assets and to liabilities assumed based on their respective fair values on October 22, 2010, the acquisition date. The excess of purchase consideration over net assets acquired was recorded as goodwill. The Company expects value from expanding the Company's e-Commerce payment and related electronic payments solutions, fraud prevention, alternative payment options, back-office reconciliation and solutions for merchants selling via multiple channels, and other synergies. None of the \$402 million of goodwill is expected to be deductible for tax purposes.

Intangible assets consist of developed technologies, customer relationships, tradenames and non-compete agreements, which have useful lives ranging from 1 to 10 years. See Note 11 (Other Intangible Assets). The following table summarizes the fair value of the acquired intangible assets:

	Fair Value at October 22, 2010	Weighted-Average Useful Life
	(in millions)	(in years)
Customer relationships	\$ 74	7
Developed technologies	42	5
Tradenames	11	5
Non-compete agreements	2	1
Total intangible assets	\$129	

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

In connection with the acquisition, the Company recognized \$7 million of acquisition-related expenses during the year ended December 31, 2010, which consisted primarily of professional fees related to closing the transaction. These amounts were included in general and administrative expenses. The consolidated financial statements include the operating results of DataCash from the date of the acquisition.

Note 3. Earnings (Loss) Per Share (“EPS”)

On January 1, 2009, an accounting standard related to the EPS effects of instruments granted in share-based payment transactions became effective for the Company resulting in the retrospective adjustment of EPS for prior periods. In accordance with this accounting standard, unvested share-based payment awards which receive non-forfeitable dividend rights, or dividend equivalents, are considered participating securities and are required to be included in computing EPS under the two-class method. The Company declared non-forfeitable dividends on unvested restricted stock units and contingently issuable performance stock units (“Unvested Units”) which were granted prior to 2009. The Company has therefore calculated EPS under the two-class method pursuant to this accounting standard.

The components of basic and diluted EPS for common shares under the two-class method for each of the years ended December 31 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions, except per share data)		
Numerator:			
Net income (loss) attributable to MasterCard	\$1,846	\$1,463	\$ (254)
Less: Net income (loss) allocated to Unvested Units	<u>3</u>	<u>9</u>	<u>(1)</u>
Net income (loss) attributable to MasterCard allocated to common shares	<u>\$1,843</u>	<u>\$1,454</u>	<u>\$ (253)</u>
Denominator:			
Basic EPS weighted average shares outstanding	131	130	130
Dilutive stock options and restricted stock units	<u>—</u>	<u>—</u>	<u>—</u>
Diluted EPS weighted-average shares outstanding	<u>131</u>	<u>130</u>	<u>130</u>
Earnings (Loss) per Share:			
Basic	<u>\$14.10</u>	<u>\$11.19</u>	<u>\$(1.94)</u>
Diluted	<u>\$14.05</u>	<u>\$11.16</u>	<u>\$(1.94)</u>

The calculation of diluted EPS excluded the following share-based payment awards because the effect would be antidilutive for each of the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in thousands)		
Stock options	204	251	705
Restricted stock units	11	—	—

MASTERCARD INCORPORATED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Note 4. Supplemental Cash Flows

The following table includes supplemental cash flow disclosures for each of the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Cash paid for income taxes	\$540	\$ 457	\$ 493 ¹
Cash paid for interest	3	11	14
Cash paid for legal settlements (Notes 20 and 22)	607	946	1,263
Non-cash investing and financing activities:			
Dividend declared but not yet paid	20	20	20
Municipal bonds cancelled	—	154 ²	—
Revenue bonds received	—	(154) ³	—
Building and land assets recorded pursuant to capital lease	—	(154) ³	—
Capital lease obligation	—	154 ³	—
Fair value of assets acquired, net of original investment, cash paid and cash acquired	553 ⁴	17	124
Fair value of liabilities assumed related to investments in affiliates	55 ⁴	15 ⁵	43 ⁶
Fair value of non-controlling interest acquired	2	8	—

- ¹ \$198 million of these payments were recorded as an income tax receivable as of December 31, 2008.
- ² See Note 16 (Consolidation of Variable Interest Entity) for further details.
- ³ See Note 9 (Property, Plant, and Equipment) for further details.
- ⁴ See Note 2 (Acquisition of DataCash Group plc) for further details.
- ⁵ Includes \$9 million to be extinguished in 2013 and 2016 for future benefits to be provided by MasterCard in the establishment of a joint venture.
- ⁶ Includes \$20 million due in 2011 relating to the MasterCard France acquisition.

Note 5. Fair Value

In accordance with accounting requirements for fair value, the Company is disclosing the estimated fair values as of December 31, 2010 and 2009 of the assets and liabilities that are within the scope of the accounting guidance, as well as the methods and significant assumptions used to estimate the fair value of those financial instruments. Furthermore, the Company classifies its fair value measurements in the Valuation Hierarchy. No transfers were made among the three levels in the Valuation Hierarchy during the year ended December 31, 2010.

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Financial Instruments—Recurring Measurements

The distribution of the fair values of the Company's financial instruments which are measured at fair value on a recurring basis within the Valuation Hierarchy is as follows:

	December 31, 2010			Fair Value
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in millions)			
Municipal bonds ¹	\$—	\$315	\$—	\$ 315
Taxable short-term bond funds	516	—	—	516
Auction rate securities	—	—	106	106
Foreign currency derivative contracts	—	(1)	—	(1)
Total	\$516	\$314	\$106	\$ 936

	December 31, 2009			Fair Value
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in millions)			
Municipal bonds ¹	\$—	\$514	\$—	\$ 514
Taxable short-term bond funds	310	—	—	310
Auction rate securities	—	—	180	180
Foreign currency derivative contracts	—	(1)	—	(1)
Total	\$310	\$513	\$180	\$1,003

¹ Available-for-sale municipal bonds are carried at fair value and are included in the above tables. However, held-to-maturity municipal bonds are carried at amortized cost and excluded from the above tables.

The fair values of the Company's available-for-sale municipal bonds are based on quoted prices for similar assets in active markets and are therefore included in Level 2 of the Valuation Hierarchy.

The fair values of the Company's short-term bond funds are based on quoted prices for identical investments in active markets and are therefore included in Level 1 of the Valuation Hierarchy.

The Company's auction rate securities ("ARS") investments have been classified within Level 3 of the Valuation Hierarchy as their valuation requires substantial judgment and estimation of factors that are not currently observable in the market due to the lack of trading in the securities. This valuation may be revised in future periods as market conditions evolve. The Company has considered the lack of liquidity in the ARS market and the lack of comparable, orderly transactions when estimating the fair value of its ARS portfolio. Therefore, the Company used the income approach, which included a discounted cash flow analysis of the estimated future cash flows adjusted by a risk premium, to estimate the fair value of its ARS portfolio. The Company estimated the fair value of its ARS portfolio to be 10% and 15% discounts to the par value as of December 31, 2010 and 2009, respectively. When a determination is made to classify a financial instrument within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. However, the fair value determination for Level 3 financial instruments may include observable components.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The Company's foreign currency derivative contracts have been classified within Level 2 of the valuation hierarchy, as the fair value is based on broker quotes for the same or similar derivative instruments. See Note 24 (Foreign Exchange Risk Management) for further details.

Financial Instruments—Non-Recurring Measurements

Certain financial instruments are carried on the consolidated balance sheet at cost, which approximates fair value due to their short-term, highly liquid nature. These instruments include cash and cash equivalents, accounts receivable, settlement due from customers, restricted security deposits held for customers, prepaid expenses, accounts payable, settlement due to customers and accrued expenses.

Investment Securities Held-to-Maturity

The Company utilizes quoted prices for identical or similar securities from active markets to estimate the fair value of its held-to-maturity securities. See Note 6 (Investment Securities) for fair value disclosure.

Debt

The Company estimates the fair value of its debt by applying a current discount rate to the remaining cash flows under the terms of the debt. As of December 31, 2010, the carrying value on the consolidated balance sheet and the fair value each totaled \$20 million. As of December 31, 2009, the carrying value on the consolidated balance sheet and the fair value each totaled \$22 million. As of December 31, 2010, the carrying value of the current portion of the Company's debt is included in other current liabilities on the consolidated balance sheet. During 2009, the Company repaid \$149 million of notes payable classified as short-term debt at December 31, 2008 related to its variable interest entity. See Note 16 (Consolidation of Variable Interest Entity) for further discussion.

Obligations Under Litigation Settlements

The Company estimates the fair values of its obligations under litigation settlements by applying a current discount rate to the remaining cash flows under the terms of the litigation settlements. At December 31, 2010 and 2009, the carrying values on the consolidated balance sheet totaled \$302 million and \$870 million, respectively, and the fair values totaled \$307 million and \$895 million, respectively, for these obligations. For additional information regarding the Company's obligations under litigation settlements, see Note 20 (Obligations Under Litigation Settlements).

Settlement and Other Guarantee Liabilities

The Company estimates the fair values of its settlement and other guarantees by applying market assumptions for relevant though not directly comparable undertakings, as the latter are not observable in the market given the proprietary nature of such guarantees. Additionally, loss probability and severity profiles against the Company's gross and net settlement exposures are considered. At December 31, 2010 and 2009, the carrying value of settlement and other guarantee liabilities were de minimis. The estimated fair value of settlement and other guarantee liabilities as of December 31, 2010 was approximately \$45 million. The estimated fair value of settlement and other guarantee liabilities as of December 31, 2009 was de minimis. For additional information regarding the Company's settlement and other guarantee liabilities, see Note 23 (Settlement and Other Risk Management).

Refunding Revenue Bonds

The Company holds refunding revenue bonds with the same payment terms, and which contain the right of set-off with, a capital lease obligation related to the Company's global technology and operations center located

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

in O'Fallon, Missouri, called Winghaven. The Company has netted the refunding revenue bonds and the corresponding capital lease obligation in the consolidated balance sheet and estimates that the carrying value approximates the fair value for these bonds. See Note 9 (Property, Plant and Equipment) for further details.

Non-Financial Instruments

Certain assets and liabilities are measured at fair value on a nonrecurring basis. The Company's nonfinancial assets and liabilities measured at fair value on a nonrecurring basis include property, plant and equipment, goodwill and other intangible assets. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment.

The valuation methods for goodwill and other intangible assets involve assumptions concerning comparable company multiples, discount rates, growth projections and other assumptions of future business conditions. The Company uses a weighted income and market approach for estimating the fair values of its reporting units. As the assumptions employed to measure these assets on a nonrecurring basis are based on management's judgment using internal and external data, these fair value determinations are classified in Level 3 of the Valuation Hierarchy.

Note 6. Investment Securities

Amortized Costs and Fair Values—Available-for-Sale Investment Securities:

The major classes of the Company's available-for-sale investment securities, for which unrealized gains and losses are recorded as a separate component of other comprehensive income (loss) on the consolidated statement of comprehensive income (loss), and their respective cost bases and fair values as of December 31, 2010 and 2009 were as follows:

	December 31, 2010			Fair Value
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss ¹	
	(in millions)			
Municipal bonds	\$ 305	\$ 10	\$—	\$ 315
Taxable short-term bond funds	511	5	—	516
Auction rate securities	118	—	(12)	106
Total	\$ 934	\$ 15	\$ (12)	\$ 937

	December 31, 2009			Fair Value
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss ¹	
	(in millions)			
Municipal bonds	\$ 492	\$ 22	\$—	\$ 514
Taxable short-term bond funds	306	4	—	310
Auction rate securities	212	—	(32)	180
Total	\$1,010	\$ 26	\$ (32)	\$1,004

¹ The unrealized losses relate to ARS, which have been in an unrealized loss position longer than 12 months but have not been deemed other-than-temporarily impaired.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The municipal bond portfolio is comprised of tax exempt bonds and is diversified across states and sectors. The portfolio has an average credit quality of double-A.

The short-term bond funds invest in fixed income securities, including corporate bonds, mortgage-backed securities and asset-backed securities.

The Company holds investments in ARS. Interest on these securities is exempt from U.S. federal income tax and the interest rate on the securities typically resets every 35 days. The securities are fully collateralized by student loans with guarantees, ranging from approximately 95% to 98% of principal and interest, by the U.S. government via the Department of Education.

Beginning on February 11, 2008, the auction mechanism that normally provided liquidity to the ARS investments began to fail. Since mid-February 2008, all investment positions in the Company's ARS investment portfolio have experienced failed auctions. The securities for which auctions have failed have continued to pay interest in accordance with the contractual terms of such instruments and will continue to accrue interest and be auctioned at each respective reset date until the auction succeeds, the issuer redeems the securities or they mature. During 2008, ARS were reclassified as Level 3 from Level 2. As of December 31, 2010, the ARS market remained illiquid, but issuer call and redemption activity in the ARS student loan sector has occurred periodically since the auctions began to fail. During 2010 and 2009, the Company did not sell any ARS in the auction market, but there were calls at par.

The table below includes a roll-forward of the Company's ARS investments from January 1, 2009 to December 31, 2010.

	Significant Unobservable Inputs (Level 3) <u>(in millions)</u>
Fair value, December 31, 2008	\$192
Calls, at par	(28)
Recovery of unrealized losses due to issuer calls	5
Increase in fair value	<u>11</u>
Fair value, December 31, 2009	180
Calls, at par	(94)
Recovery of unrealized losses due to issuer calls	13
Increase in fair value	<u>7</u>
Fair value, December 31, 2010	<u>\$106</u>

The Company evaluated the estimated impairment of its ARS portfolio to determine if it was other-than-temporary. The Company considered several factors including, but not limited to, the following: (1) the reasons for the decline in value (changes in interest rates, credit event, or market fluctuations); (2) assessments as to whether it is more likely than not that it will hold and not be required to sell the investments for a sufficient period of time to allow for recovery of the cost basis; (3) whether the decline is substantial; and (4) the historical and anticipated duration of the events causing the decline in value. The evaluation for other-than-temporary impairments is a quantitative and qualitative process, which is subject to various risks and uncertainties. The risks and uncertainties include changes in credit quality, market liquidity, timing and amounts of issuer calls and interest rates. As of December 31, 2010, the Company believed that the unrealized losses on the ARS were not related to credit quality but rather due to the lack of liquidity in the market. The Company believes that it is more

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

likely than not that the Company will hold and not be required to sell its ARS investments until recovery of their cost bases which may be at maturity or earlier if called. Therefore MasterCard does not consider the unrealized losses to be other-than-temporary. The Company estimated 10% and 15% price discounts to the par value of the ARS portfolio at December 31, 2010 and 2009, respectively. The pre-tax impairment included in accumulated other comprehensive income related to the Company's ARS was \$12 million and \$32 million as of December 31, 2010 and 2009, respectively. A hypothetical increase of 100 basis points in the discount rate used in the discounted cash flow analysis would have increased the impairment by \$2 million and \$23 million as of December 31, 2010 and 2009, respectively.

Carrying and Fair Values—Held-to-Maturity Investment Securities:

As of December 31, 2010, the Company also owned held-to-maturity investment securities, which consisted of U.S. Treasury notes and a municipal bond yielding interest at 5.0% per annum. The municipal bond relates to the Company's back-up processing center in Kansas City, Missouri. The Company cancelled \$154 million of short-term municipal bonds related to its global technology and operations center located in O'Fallon, Missouri, called Winghamen, on March 1, 2009, as further discussed in Note 16 (Consolidation of Variable Interest Entity). The carrying value, gross unrecorded gains and fair value of held-to-maturity investment securities were as follows at December 31:

	<u>2010</u>	<u>2009</u>
	(in millions)	
Carrying value	\$336	\$338
Gross unrecorded gains	<u>2</u>	<u>2</u>
Fair value	<u>\$338</u>	<u>\$340</u>

Investment Maturities:

The maturity distribution based on the contractual terms of the Company's investment securities at December 31, 2010 was as follows:

	<u>Available-For-Sale</u>		<u>Held-To-Maturity</u>	
	<u>Amortized</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	Cost	Value	Value	Value
	(in millions)			
Due within 1 year	\$ 8	\$ 8	\$300	\$300
Due after 1 year through 5 years	242	251	36	38
Due after 5 years through 10 years	59	60	—	—
Due after 10 years	114	102	—	—
No contractual maturity	<u>511</u>	<u>516</u>	<u>—</u>	<u>—</u>
Total	<u>\$934</u>	<u>\$937</u>	<u>\$336</u>	<u>\$338</u>

All securities due after ten years are ARS. Taxable short-term bond funds have been included in the table above in the no contractual maturity category, as these investments do not have a stated maturity date; however, the short-term bond funds have daily liquidity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The table below summarizes the maturity ranges of the ARS portfolio, based on relative par value, as of December 31, 2010:

	<u>Par Amount</u>	<u>% of Total</u>
	(in millions)	
Due within 10 years	\$ 4	3%
Due year 11 through year 20	11	9%
Due year 21 through year 30	81	69%
Due after year 30	22	19%
Total	<u>\$118</u>	<u>100%</u>

Investment Income:

Components of net investment income were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Interest income	\$ 48	\$ 56	\$109
Dividend income	—	—	1
Investment securities available-for-sale:			
Gross realized gains	9	2	88
Gross realized losses	—	—	(4)
Other than temporary impairment on short-term bond fund	—	—	(11)
Total investment income, net	<u>\$ 57</u>	<u>\$ 58</u>	<u>\$183</u>

Interest income is generated from cash and cash equivalents, available-for-sale investment securities and held-to-maturity investment securities. Dividend income primarily consists of dividends received on the Company's cost method investments.

At December 31, 2008, the Company held investments in short-term bond funds, with underlying holdings in structured products such as mortgage-backed securities and asset-backed securities. During 2008, certain of these investments were deemed to be other-than-temporarily impaired and an impairment loss of \$11 million was recorded. Due to the high credit quality of the Company's other investment securities, no other investment securities were considered to be other-than-temporarily impaired in 2008.

During 2008, MasterCard sold all of its remaining shares of Redecard S.A. and realized a pre-tax gain, net of commissions, of \$86 million. This gain was included in investment income within the consolidated statements of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Note 7. Prepaid Expenses

Prepaid expenses consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
	(in millions)	
Customer and merchant incentives	\$ 497	\$ 445
Advertising	69	56
Income taxes	50	93
Data processing	31	29
Other	<u>33</u>	<u>18</u>
Total prepaid expenses	680	641
Prepaid expenses, current	<u>(315)</u>	<u>(313)</u>
Prepaid expenses, long-term	<u>\$ 365</u>	<u>\$ 328</u>

Prepaid customer and merchant incentives represent payments made to customers and merchants under business agreements.

Note 8. Other Assets

Other assets consisted of the following at December 31:

	<u>2010</u>	<u>2009</u>
	(in millions)	
Nonmarketable equity investments	\$107	\$ 35
Customer and merchant incentives	104	216
Income tax receivable	50	—
Cash surrender value of keyman life insurance	24	23
Other	<u>25</u>	<u>36</u>
Total other assets	310	310
Other assets, current	<u>(85)</u>	<u>(126)</u>
Other assets, long-term	<u>\$225</u>	<u>\$ 184</u>

Certain customer and merchant business agreements provide incentives upon entering into the agreement. As of December 31, 2010 and 2009, other assets included amounts to be paid for these incentives and the related liability was included in accrued expenses and other liabilities. Once the payment is made, the liability is relieved and the other asset is reclassified to a prepaid expense.

The Company accounts for investments in common stock or in-substance common stock under the equity method of accounting when it has the ability to exercise significant influence over the investee, generally when it holds 20% or more of the common stock in the entity. MasterCard's share of net earnings or losses of entities accounted for under the equity method of accounting is included in other income (expense) on the consolidated statement of operations. The Company accounts for investments under the historical cost method of accounting when it does not exercise significant influence, generally when it holds less than 20% ownership in the common stock of the entity. Investments for which the equity method or historical cost method of accounting are used are recorded in other assets on the consolidated balance sheet.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Note 9. Property, Plant and Equipment

Property, plant and equipment consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
	(in millions)	
Building and land	\$ 402	\$ 392
Equipment	265	255
Furniture and fixtures	50	52
Leasehold improvements	<u>54</u>	<u>54</u>
Property, plant and equipment	771	753
Less accumulated depreciation and amortization	<u>(332)</u>	<u>(304)</u>
Property, plant and equipment, net	<u>\$ 439</u>	<u>\$ 449</u>

Effective March 1, 2009, MasterCard executed a new ten-year lease between MasterCard, as tenant, and the Missouri Development Finance Board (“MDFB”), as landlord, for MasterCard’s global technology and operations center located in O’Fallon, Missouri, called Winghaven. See Note 16 (Consolidation of Variable Interest Entity) for further discussion. The lease includes a bargain purchase option and is thus classified as a capital lease. The building and land assets and capital lease obligation were recorded at \$154 million, which represented the lesser of the present value of the minimum lease payments or the fair value of the building and land assets. The Company received refunding revenue bonds issued by MDFB in the exact amount, \$154 million, and with the same payment terms as the capital lease and which contain the legal right of setoff with the capital lease. The Company has netted its investment in the MDFB refunding revenue bonds and the corresponding capital lease obligation in the consolidated balance sheet. The related leasehold improvements for Winghaven will continue to be amortized over the economic life of the improvements.

As of December 31, 2010 and 2009, capital leases of \$13 million and \$14 million, respectively, were included in equipment. Accumulated amortization of capital leases was \$7 million and \$6 million as of December 31, 2010 and 2009, respectively.

Depreciation expense for the above property, plant and equipment, including amortization for capital leases, was \$70 million, \$76 million and \$59 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Note 10. Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
	(in millions)	
Beginning balance	\$309	\$298
Goodwill acquired during the year	402	13
Foreign currency translation	(34)	9
Impairment losses	<u>—</u>	<u>(11)</u>
Ending balance	<u>\$677</u>	<u>\$309</u>

During 2010, the Company recognized \$402 million of goodwill in connection with its acquisition of DataCash. See Note 2 (Acquisition of DataCash Group plc) for further details.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The Company had no accumulated impairment losses for goodwill at December 31, 2010 or 2009. Based on annual impairment testing, no reporting units are at significant risk of future material goodwill impairment.

Note 11. Other Intangible Assets

The following table sets forth net intangible assets, other than goodwill, at December 31:

	2010		2009		Net Carrying Amount	
	Gross Carrying Amount	Accumulated Amortization	(in millions) Net Carrying Amount	Gross Carrying Amount		Accumulated Amortization
Amortized intangible assets:						
Capitalized software	\$ 683	\$(447)	\$236	\$582	\$(397)	\$185
Trademarks and tradenames	33	(22)	11	22	(22)	—
Customer relationships	91	(5)	86	22	(2)	20
Other	4	(1)	3	2	(1)	1
Total	811	(475)	336	628	(422)	206
Unamortized intangible assets:						
Customer relationships	194	—	194	209	—	209
Total	<u>\$1,005</u>	<u>\$(475)</u>	<u>\$530</u>	<u>\$837</u>	<u>\$(422)</u>	<u>\$415</u>

Additions to capitalized software in 2010 primarily related to internally developed software and the acquisition of DataCash. See Note 2 (Acquisition of DataCash Group plc) for further details. Amortizable customer relationships were added in 2010 due to the acquisition of DataCash. Certain intangible assets, including amortizable and unamortizable customer relationships and trademarks and tradenames, are denominated in foreign currencies. As such, the change in intangible assets includes a component attributable to foreign currency translation.

Amortization and impairment expense on the assets above amounted to the following for the years ended December 31:

	2010	2009	2008
	(in millions)		
Amortization	\$78	\$65	\$53
Capitalized software impairments	\$2	\$ 3	\$1
Intangible asset impairments (other than capitalized software)	\$—	\$ 2	\$—

The following table sets forth the estimated future amortization expense on amortizable intangible assets for the years ending December 31:

	(in millions)
2011	\$ 92
2012	77
2013	53
2014	33
2015 and thereafter	81
	<u>\$336</u>

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Note 12. *Accrued Expenses*

Accrued expenses consisted of the following at December 31:

	2010	2009
	(in millions)	
Customer and merchant incentives	\$ 666	\$ 598
Personnel costs	307	367
Advertising	162	131
Income taxes	79	32
Other	101	97
Total accrued expenses	\$1,315	\$1,225

Note 13. *Pension, Savings Plan and Other Benefits*

The Company maintains a non-contributory, qualified, defined benefit pension plan (the “Qualified Plan”) with a cash balance feature covering substantially all of its U.S. employees hired before July 1, 2007. In September 2010, the Company amended the Qualified Plan to phase out participant pay credit percentages in the years 2011 and 2012 and eliminate the pay credit beginning January 1, 2013. Plan participants will continue to earn interest credits. As a result of the amendment, the Company recognized a curtailment gain of \$6 million in the third quarter of 2010 and a reduction in pension liability of \$17 million. The Company also recognized corresponding effects in accumulated other comprehensive income and deferred taxes.

In 2008, the Qualified Plan experienced a steep decline in the fair value of plan assets which resulted in significant increases in the Company’s pension liability and contributed to other comprehensive loss as of December 31, 2008 and increased net periodic pension cost in 2009. During 2010 and 2009, Company contributions and favorable investment returns increased the Qualified Plan’s fair value of assets and resulted in significant decreases in the Company’s pension liability and contributed to other comprehensive income as of December 31, 2010 and 2009.

The Company also has an unfunded non-qualified supplemental executive retirement plan (the “Non-qualified Plan”) that provides certain key employees with supplemental retirement benefits in excess of limits imposed on qualified plans by U.S. tax laws. The Non-qualified Plan had settlement gains in 2009 and 2008 resulting from payments to participants. The term “Pension Plans” includes both the Qualified Plan and the Non-qualified Plan.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The Company uses a December 31 measurement date for its Pension Plans. The following table sets forth the Pension Plans' funded status, key assumptions and amounts recognized in the Company's consolidated balance sheet at December 31:

	<u>2010</u>	<u>2009</u>
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 235	\$ 217
Service cost	16	18
Interest cost	12	14
Voluntary plan participants' contributions	1	—
Actuarial (gain)/loss	19	(1)
Benefits paid	(26)	(13)
Curtailement	(17)	—
Projected benefit obligation at end of year	<u>\$ 240</u>	<u>\$ 235</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 214	\$ 149
Actual return on plan assets	27	44
Employer contribution	20	34
Voluntary plan participants' contributions	1	—
Benefits paid	(26)	(13)
Fair value of plan assets at end of year	<u>\$ 236</u>	<u>\$ 214</u>
Funded status		
Fair value of plan assets at end of year	\$ 236	\$ 214
Projected benefit obligation at end of year	240	235
Funded status at end of year	<u>\$ (4)</u>	<u>\$ (21)</u>
Amounts recognized on the consolidated balance sheet consist of:		
Prepaid expenses, long term	\$ 4	\$ —
Accrued expenses	(5)	—
Other liabilities, long term	(3)	(21)
	<u>\$ (4)</u>	<u>\$ (21)</u>
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial loss	\$ 37	\$ 48
Prior service credit	(4)	(12)
	<u>\$ 33</u>	<u>\$ 36</u>
Weighted-average assumptions used to determine end of year benefit obligations		
Discount rate	5.00%	5.50%
Rate of compensation increase—Qualified Plan/Non-Qualified Plan	5.37%/5.00%	5.37%/5.00%

The accumulated benefit obligation of the Pension Plans was \$239 million and \$216 million at December 31, 2010 and 2009, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

At December 31, 2010 only the Non-qualified Plan had benefit obligations in excess of plan assets, while at December 31, 2009 both of the Pension Plans had benefit obligations in excess of plan assets. The benefit obligations and plan assets of the Non-qualified Plan were as follows at December 31, 2010:

	(in millions)
Projected benefit obligation	\$ 9
Accumulated benefit obligation	8
Fair value of plan assets	—

The benefit obligations and plan assets of both the Qualified Plan and the Non-qualified Plan were as follows at December 31, 2009:

	(in millions)
Projected benefit obligation	\$235
Accumulated benefit obligation	216
Fair value of plan assets	214

Components of net periodic pension costs recorded in general and administrative expenses were as follows for each of the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Service cost	\$ 16	\$ 18	\$ 20
Interest cost	12	14	13
Expected return on plan assets	(17)	(13)	(16)
Curtailment gain	(6)	—	—
Settlement gain	—	(1)	(1)
Amortization:			
Actuarial loss	3	8	2
Prior service credit	(2)	(2)	(2)
Net periodic pension cost	<u>\$ 6</u>	<u>\$ 24</u>	<u>\$ 16</u>

Other changes in plan assets and benefit obligations recognized in other comprehensive income for the years ended December 31 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Curtailment gain	\$ (10)	\$—	\$—
Settlement gain	—	1	1
Current year actuarial (gain) loss	8	(32)	56
Amortization of actuarial loss	(3)	(8)	(2)
Amortization of prior service credit	2	2	2
Total recognized in other comprehensive income (loss)	<u>\$ (3)</u>	<u>\$ (37)</u>	<u>\$ 57</u>
Total recognized in net periodic benefit cost and other comprehensive income (loss)	<u>\$ 3</u>	<u>\$ (13)</u>	<u>\$ 73</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The estimated amounts that are expected to be amortized from accumulated other comprehensive income into net periodic benefit cost in 2011 are as follows:

	(in millions)
Actuarial loss	\$ 2
Prior service credit	<u>(2)</u>
Total	<u>\$—</u>

Weighted-average assumptions used to determine net periodic pension cost were as follows for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Discount rate	5.50%	6.00%	6.00%
Expected return on plan assets	8.00%	8.00%	8.00%
Rate of compensation increase—Qualified Plan/ Non-Qualified Plan	5.37%/5.00%	5.37%/5.00%	5.37%/5.00%

The Company's discount rate assumption is based on a yield curve derived from high quality corporate bonds, which is matched to the Pension Plans' expected cash flows.

For the Qualified Plan, the Company utilized an actuarial practice referred to as a building block method to determine the assumption for the expected weighted average return on plan assets. This method includes the following components: (1) compiling historical return data for both the equity and fixed income markets over the past ten, twenty and thirty year periods; (2) weighting the assets within our portfolio at December 31, 2010 by class; and (3) identifying expected rate of return on assets utilizing both current and historical market experience.

Plan assets are managed with a long-term perspective intended to ensure that there is an adequate level of assets to support benefit payments to participants over the life of the Qualified Plan. The Company periodically conducts asset-liability studies to establish the preferred target asset allocation. Plan assets are managed within established asset allocation ranges, toward targets of 40% large/medium cap U.S. equity, 15% small cap U.S. equity, 15% non-U.S. equity and 30% fixed income, with periodic rebalancing to maintain plan assets within the target asset allocation ranges. Plan assets are managed by external investment managers. The majority of investment risk is primarily related to equity exposure, but this investment allocation is diversified across several external investment managers. Investment manager performance is measured against benchmarks for each asset class and peer group on quarterly, one-, three- and five-year periods. An independent consultant assists management with investment manager selections and performance evaluations. The balance in cash and cash equivalents is available to pay expected benefit payments and expenses.

The Valuation Hierarchy of the Qualified Plan's assets is determined using a consistent application of the categorization measurements for the Company's financial instruments. See Note 1 (Summary of Significant Accounting Policies).

Mutual funds (including small cap U.S. equity securities and non-U.S. equity securities) are public investment vehicles valued at quoted market prices, which represent the net asset value of the shares held by the Qualified Plan and are therefore included in Level 1 of the Valuation Hierarchy. Commingled funds (including large/medium cap U.S. equity securities and fixed income securities) are valued at unit values provided by investment managers, which are based on the fair value of the underlying investments utilizing public information, independent external valuation from third-party services or third-party advisors, and are therefore included in Level 2 of the Valuation Hierarchy.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The following table sets forth by level, within the Valuation Hierarchy, the Qualified Plan's assets at fair value as of December 31, 2010 and 2009:

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2010
	(in millions)			
Mutual funds:				
Money market	\$ 3	\$—	\$—	\$ 3
Domestic small cap equity	36	—	—	36
International equity	35	—	—	35
Common and collective funds:				
Domestic large cap equity	—	94	—	94
Domestic core plus fixed income	—	68	—	68
Total	<u>\$ 74</u>	<u>\$162</u>	<u>\$—</u>	<u>\$236</u>
	(in millions)			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2009
Mutual funds:				
Money market	\$ 3	\$—	\$—	\$ 3
Domestic small cap equity	29	—	—	29
International equity	32	—	—	32
Common and collective funds:				
Domestic large cap equity	—	86	—	86
Domestic core plus fixed income	—	64	—	64
Total	<u>\$ 64</u>	<u>\$150</u>	<u>\$—</u>	<u>\$214</u>

Pursuant to the requirements of the Pension Protection Act of 2006, the Company did not have a mandatory contribution to the Qualified Plan in 2010, 2009 or 2008. However, the Company did make voluntary contributions of \$20 million, \$31 million and \$22 million to the Qualified Plan in 2010, 2009 and 2008, respectively. Although not required, the Company may voluntarily elect to contribute to the Qualified Plan in 2011. The Company does not make any contributions to the Non-qualified Plan other than funding benefit payments. The Company currently estimates that it may contribute \$20 million to the Qualified Plan in 2011.

The following table summarizes expected benefit payments through 2020 for the Pension Plans, including those payments expected to be paid from the Company's general assets. Since the majority of the benefit payments are made in the form of lump-sum distributions, actual benefit payments may differ from expected benefit payments.

	(in millions)
2011	\$19
2012	15
2013	16
2014	15
2015	13
2016 – 2020	63

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Substantially all of the Company's U.S. employees are eligible to participate in a defined contribution savings plan (the "Savings Plan") sponsored by the Company. The Savings Plan allows employees to contribute a portion of their base compensation on a pre-tax and after-tax basis in accordance with specified guidelines. The Company matches a percentage of employees' contributions up to certain limits. In addition, the Company has several defined contribution plans outside of the United States. The Company's contribution expense related to all of its defined contribution plans was \$33 million, \$41 million and \$35 million for 2010, 2009 and 2008, respectively.

Note 14. Postemployment and Postretirement Benefits

The Company maintains a postretirement plan (the "Postretirement Plan") providing health coverage and life insurance benefits for substantially all of its U.S. employees hired before July 1, 2007.

In 2009, the Company recorded a \$4 million expense as a result of enhanced postretirement medical benefits under the Postretirement Plan provided to employees that chose to participate in a voluntary transition program.

The Company uses a December 31 measurement date for its Postretirement Plan. The following table presents the status of the Company's Postretirement Plan recognized in the Company's consolidated balance sheet at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
	(in millions)	
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 60	\$ 60
Service cost	1	2
Interest cost	3	4
Plan participants' contributions	1	—
Actuarial (gain) loss	(2)	(8)
Gross benefits paid	(3)	(2)
Enhanced termination benefits	—	4
Projected benefit obligation at end of year	<u>\$ 60</u>	<u>\$ 60</u>
Change in plan assets		
Employer contributions	\$ 2	\$ 2
Plan participants' contributions	1	—
Net benefits paid	(3)	(2)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ —</u>
Funded status		
Projected benefit obligation	\$ (60)	\$ (60)
Funded status at end of year	<u>\$ (60)</u>	<u>\$ (60)</u>
Amounts recognized on the consolidated balance sheet consist of:		
Accrued expenses	\$ (3)	\$ (3)
Other liabilities, long-term	(57)	(57)
	<u>\$ (60)</u>	<u>\$ (60)</u>
Amounts recognized in accumulated other comprehensive income consist of:		
Net actuarial gain	\$ (15)	\$ (14)
Transition obligation	—	1
	<u>\$ (15)</u>	<u>\$ (13)</u>
Weighted-average assumptions used to determine end of year benefit obligation		
Discount rate	5.25%	5.75%
Rate of compensation increase	5.37%	5.37%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The assumed health care cost trend rates at December 31 for the Postretirement Plan were as follows:

	<u>2010</u>	<u>2009</u>
Health care cost trend rate assumed for next year	7.50%	7.50%
Rate to which the cost trend rate is expected to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2016	2015

Components of net periodic benefit costs recorded in general and administrative expenses for each of the years ended December 31 for the Postretirement Plan were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Service cost	\$ 1	\$ 2	\$ 2
Interest cost	3	4	4
Amortization of actuarial gain	(1)	—	(1)
Enhanced termination benefits	—	4	—
Net periodic postretirement benefit cost	<u>\$ 3</u>	<u>\$ 10</u>	<u>\$ 5</u>

Other changes in plan assets and benefit obligations for the Postretirement Plan that were recognized in other comprehensive income for the years ended December 31 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Current year actuarial (gain) loss	\$(2)	\$ (8)	\$ 4
Amortization of actuarial gain	1	—	1
Total recognized in other comprehensive income (loss)	<u>\$(1)</u>	<u>\$ (8)</u>	<u>\$ 5</u>
Total recognized in net periodic benefit cost and other comprehensive income (loss)	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 10</u>

The estimated actuarial gain that is expected to be amortized for the Postretirement Plan from accumulated other comprehensive income into net periodic benefit cost in 2011 is \$1 million.

The weighted-average assumptions for the Postretirement Plan which were used to determine net periodic postretirement benefit cost for the years ended December 31 were:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Discount rate	5.75%	6.00%	6.25%
Rate of compensation increase	5.37%	5.37%	5.37%

The assumed health care cost trend rates have a significant effect on the amounts reported for the Postretirement Plan. A one-percentage point change in assumed health care cost trend rates for 2010 would have the following effects:

	<u>1% increase</u>	<u>1% decrease</u>
	(in millions)	
Effect on postretirement obligation	\$ 6	\$ (5)

The effect on total service and interest cost components would be less than \$1 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The Company does not make any contributions to its Postretirement Plan other than funding benefit payments. The following table summarizes expected net benefit payments from the Company's general assets through 2020:

	<u>Benefit Payments</u>	<u>Expected Subsidy Receipts</u> (in millions)	<u>Net Benefit Payments</u>
2011	\$ 3	\$—	\$ 3
2012	4	—	4
2013	4	—	4
2014	4	—	4
2015	4	—	4
2016 – 2020	21	1	20

The Company provides limited postemployment benefits to eligible former U.S. employees, primarily severance under a formal severance plan (the "Severance Plan"). The Company accounts for severance expense by accruing the expected cost of the severance benefits expected to be provided to former employees after employment over their relevant service periods. The Company updates the assumptions in determining the severance accrual by evaluating the actual severance activity and long-term trends underlying the assumptions. As a result of updating the assumptions, the Company recorded incremental severance expense related to the Severance Plan of \$3 million in each of the years 2010, 2009 and 2008. These amounts were part of total severance expenses of \$39 million, \$135 million and \$33 million in 2010, 2009 and 2008, respectively, included in general and administrative expenses in the accompanying consolidated statement of operations.

Note 15. Debt

On November 22, 2010, the Company entered into a committed three-year unsecured \$2.75 billion revolving credit facility (the "Credit Facility") with certain financial institutions. The Credit Facility, which expires on November 22, 2013, replaced the Company's prior credit facility which was to expire on April 26, 2011 (the "Prior Credit Facility"). The available funding under the Prior Credit Facility was \$2.5 billion from April 28, 2006 through April 27, 2010 and then decreased to \$2 billion for the remaining period of the Prior Credit Facility agreement. Borrowings under the Credit Facility are available to provide liquidity for general corporate purposes, including providing liquidity in the event of one or more settlement failures by the Company's customers. The facility fee and borrowing cost under the Credit Facility are contingent upon the Company's credit rating. At December 31, 2010, the applicable facility fee was 20 basis points on the average daily commitment (whether or not utilized). In addition to the facility fee, interest on borrowings under the Credit Facility would be charged at the London Interbank Offered Rate (LIBOR) plus an applicable margin of 130 basis points or an alternate base rate plus 30 basis points.

The Credit Facility contains customary representations, warranties and affirmative and negative covenants, including a maximum level of consolidated debt to earnings before interest, taxes, depreciation and amortization (EBITDA) financial covenant and events of default. MasterCard was in compliance with the covenants of the Credit Facility and had no borrowings under the Credit Facility at December 31, 2010. MasterCard was in compliance with the covenants of the Prior Credit Facility and had no borrowings under the Prior Credit Facility at December 31, 2009. The majority of Credit Facility lenders are members or affiliates of members of MasterCard International.

In June 1998, MasterCard International issued ten-year unsecured, subordinated notes (the "Notes") paying a fixed interest rate of 6.67% per annum. MasterCard repaid the entire principal amount of \$80 million on June 30, 2008 pursuant to the terms of the Notes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

At December 31, 2008, the Company's consolidated balance sheet included \$149 million in short-term debt relating to the Company's Variable Interest Entity. See Note 16 (Consolidation of Variable Interest Entity) for more information. On March 2, 2009, the Company repaid this short-term debt.

On January 5, 2009, HSBC Bank plc ("HSBC") notified the Company that, effective December 31, 2008, it had terminated an uncommitted credit agreement totaling 100 million euros between HSBC and MasterCard Europe. There were no borrowings under this agreement at December 31, 2008.

Note 16. Consolidation of Variable Interest Entity

As discussed in Note 9 (Property, Plant and Equipment), the Company executed a new lease agreement for Winghaven, effective March 1, 2009. In conjunction with entering into the new lease agreement, the Company terminated the original synthetic lease agreement for Winghaven, which included a ten-year term with MCI O'Fallon 1999 Trust (the "Trust") as the lessor. The Trust, which was a variable interest entity, was established for a single discrete purpose, was not an operating entity, had a limited life and had no employees. The Trust had financed Winghaven through a combination of a third party equity investment in the amount of \$5 million and the issuance of 7.36 percent Series A Senior Secured Notes (the "Secured Notes") with an aggregate principal amount of \$149 million and a maturity date of September 1, 2009. MasterCard International executed a guarantee of 85.15 percent of the aggregate principal amount of the Secured Notes outstanding, for a total of \$127 million. Additionally, upon the occurrence of specific events of default, MasterCard International guaranteed the repayment of the total outstanding principal and interest on the Secured Notes and agreed to take ownership of the facility. During 2004, MasterCard Incorporated became party to the guarantee and assumed certain covenant compliance obligations, including financial reporting and maintenance of a certain level of consolidated net worth. As the primary beneficiary of the Trust, the Company had consolidated the assets and liabilities of the Trust in its consolidated financial statements.

Effective March 1, 2009, the aggregate outstanding principal and accrued interest on the Secured Notes was repaid, the investor equity was redeemed, and the guarantee obligations of MasterCard International and MasterCard Incorporated were terminated. The aggregate principal amount and interest plus a "make-whole" amount repaid to the holders of Secured Notes and the equity investor was \$165 million. The "make-whole" amount of \$5 million included in the repayment represented the discounted value of the remaining principal and interest on the Secured Notes, less the outstanding principal balance and an equity investor premium. Also as a result of the transaction, \$154 million of short-term municipal bonds classified as held-to-maturity investments were cancelled.

The Trust is no longer considered a variable interest entity and is no longer consolidated by the Company. During the period when the Trust was a consolidated entity within the years ended December 31, 2009 and 2008, its operations had no impact on net income. However, interest income and interest expense were increased by \$7 million and \$11 million in 2009 and 2008, respectively. The Company did not provide any financial or other support that it was not contractually required to provide during the years ended December 31, 2009 or 2008.

The Company has additional investments in VIEs for which the Company is not the primary beneficiary. These investments are not consolidated and are accounted for under the equity method of accounting and recorded in other assets on the consolidated balance sheet.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

Note 17. Stockholders' Equity

Initial Public Offering (“IPO”)

On May 31, 2006, MasterCard transitioned to a new ownership and governance structure upon the closing of its IPO and issuance of a new class of the Company's common stock. Prior to the IPO, the Company's capital stock was privately held by certain of its customers that were principal members of MasterCard International. All stockholders held shares of Class A redeemable common stock.

Immediately prior to the closing of the IPO, MasterCard Incorporated filed an amended and restated certificate of incorporation (the “certificate of incorporation”). The certificate of incorporation authorized 4.5 billion shares, consisting of the following new classes of capital stock:

Class	Par Value	Authorized Shares (in millions)	Dividend and Voting Rights
A	\$.0001 per share	3,000	<ul style="list-style-type: none"> • One vote per share • Dividend rights
B	\$.0001 per share	1,200	<ul style="list-style-type: none"> • Non-voting • Dividend rights
M	\$.0001 per share	1	<ul style="list-style-type: none"> • Generally non-voting, but can elect up to three, but not more than one-quarter, of the members of the Company's Board of Directors and approve specified significant corporate actions (e.g., the sale of all of the assets of the Company) • No dividend rights
Preferred	\$.0001 per share	300	<ul style="list-style-type: none"> • No shares issued or outstanding. Dividend and voting rights are to be determined by the Board of Directors of the Company upon issuance.

The certificate of incorporation also provided for the immediate reclassification of all of the Company's 100 million outstanding shares of existing Class A redeemable common stock, causing each of its existing stockholders to receive 1.35 shares of the Company's newly issued Class B common stock for each share of common stock that they held prior to the reclassification as well as a single share of Class M common stock. The Company paid stockholders an aggregate of \$27 thousand in lieu of issuing fractional shares that resulted from the reclassification. This resulted in the issuance of 135 million shares of Class B common stock and 2 thousand shares of Class M common stock.

The Company issued 66.1 million newly authorized shares of Class A common stock in the IPO, including 4.6 million shares sold to the underwriters pursuant to an option to purchase additional shares, at a price of \$39 per share. The Company received net proceeds from the IPO of \$2.4 billion. The Company issued and retired one share of Class M common stock at the inception or termination, respectively, of each principal membership of MasterCard International. All outstanding Class M common stock were to be transferred to the Company and retired and unavailable for issue or reissue on the day on which the outstanding shares of Class B common stock represented less than 15% of the total outstanding shares of Class A common stock and Class B common stock. As further described below, all Class M common stock was retired during 2010.

The MasterCard Foundation

In connection and simultaneously with the IPO, the Company issued and donated 13.5 million newly authorized shares of Class A common stock to The MasterCard Foundation (the “Foundation”). The Foundation

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

is a private charitable foundation incorporated in Canada that is controlled by directors who are independent of the Company and its principal members. Under the terms of the donation, the Foundation became able to resell the donated shares in May 2010 beginning on the fourth anniversary of the IPO and to the extent necessary to meet charitable disbursement requirements dictated by Canadian tax law. Under Canadian tax law, the Foundation is generally required to disburse at least 3.5% of its assets not used in administration each year for qualified charitable disbursements. However, the Foundation obtained permission from the Canadian tax authorities to defer the giving requirements for up to ten years. The Foundation, at its discretion, may decide to meet its disbursement obligations on an annual basis or to settle previously accumulated obligations during any given year. The Foundation will be permitted to sell all of its remaining shares beginning twenty years and eleven months after the consummation of the IPO.

Ownership and Governance Structure

Equity ownership and voting power of the Company's shares were allocated as follows as of December 31:

	2010		2009	
	Equity Ownership	General Voting Power	Equity Ownership	General Voting Power
Public Investors (Class A stockholders)	83.5%	89.1%	74.2%	87.7%
Principal or Affiliate Members (Class B stockholders)	6.3%	0.0%	15.4%	0.0%
Foundation (Class A stockholders)	10.2%	10.9%	10.4%	12.3%

Class B Common Stock Conversions

At the annual meeting of stockholders of the Company on June 7, 2007, the Company's stockholders approved amendments to the Company's certificate of incorporation designed to facilitate an accelerated, orderly conversion of Class B common stock into Class A common stock for subsequent sale prior to May 2010. Through "conversion transactions," in amounts and at times designated by the Company, current holders of shares of Class B common stock who elected to participate were eligible to convert their shares, on a one-for-one basis, into shares of Class A common stock for subsequent sale or transfer to public investors, within a 30 day "transitory" ownership period. Holders of Class B common stock were not allowed to participate in any vote of holders of Class A common stock during this "transitory" ownership period. The number of shares of Class B common stock eligible for conversion transactions was limited to an annual aggregate number of up to 10% of the total combined outstanding shares of Class A common stock and Class B common stock, based upon the total number of shares outstanding as of December 31 of the prior calendar year. In addition, prior to May 31, 2010, a conversion transaction was not permitted that would have caused the number of shares of Class B common stock to represent less than 15% of the total number of outstanding shares of Class A common stock and Class B common stock outstanding.

During 2007, the Company implemented and completed two separate conversion programs in which 11.4 million shares, of an eligible 13.4 million shares, of Class B common stock were converted into an equal number of shares of Class A common stock and subsequently sold or transferred to public investors.

In February 2008, the Company's Board of Directors authorized the conversion and sale or transfer of up to 13.1 million shares of Class B common stock into Class A common stock in one or more conversion programs during 2008. In May 2008, the Company implemented and completed a conversion program in which all of the 13.1 million authorized shares of Class B common stock were converted into an equal number of shares of Class A common stock and subsequently sold or transferred by participating holders of Class B common stock to public investors.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

In February 2009, the Company's Board of Directors authorized the conversion and sale or transfer of up to 11 million shares of Class B common stock into Class A common stock. In May 2009, the Company implemented and completed a conversion program in which 10.9 million shares of Class B common stock were converted into an equal number of shares of Class A common stock and subsequently sold or transferred to public investors.

Commencing on May 31, 2010, the fourth anniversary of the IPO, each share of Class B common stock became eligible for conversion, at the holder's option, into a share of Class A common stock on a one-for-one basis. In February 2010, the Company's Board of Directors authorized programs to facilitate conversions of shares of Class B common stock (without limits as to the number of shares) on a one-for-one basis into shares of Class A common stock for subsequent sale or transfer to public investors, beginning after May 31, 2010. The conversion programs followed the expiration on May 31, 2010 of a 4-year post-IPO restriction period with respect to the conversion of shares of Class B common stock. In June 2010, the Company implemented and completed the first 2010 conversion program which consisted of four one-week periods, during which approximately 8 million shares of Class B common stock were converted on a one-for-one basis into shares of Class A common stock for subsequent sale or transfer to public investors in accordance with the terms of both the program and the Company's certificate of incorporation. In July 2010, the Company commenced a subsequent, continuous conversion program for the remaining shares of Class B common stock, featuring an "open window" for elections of any size.

Retirement of Class M Common Stock

Effective June 1, 2010, shares of the Company's Class A common stock and Class B common stock represented approximately 90.4% and 9.6%, respectively, of the aggregate outstanding shares of the Class A common stock and Class B common stock. This level of Class B ownership represented the first time the outstanding shares of the Class B common stock represented less than 15% of the aggregate outstanding shares of the Class A common stock and Class B common stock. Accordingly, pursuant to the Company's amended and restated certificate of incorporation in effect at that time, all outstanding shares of the Company's Class M common stock were automatically transferred to the Company and retired, and are no longer available for issue or reissue. Additionally, the Company no longer has authority to issue additional shares of Class M common stock. Although the Class M common stock was generally non-voting, the holders of Class M common stock had (prior to the retirement of such class) the right to elect up to three of the Company's directors (but not more than one-quarter of all directors) and approve specified significant corporate actions under the Company's certificate of incorporation. The retirement of the Class M common stock had no effect on the Company's financial position or basic or diluted EPS. As of December 31, 2010, approximately 8.2 million shares of Class B common stock had not been converted into shares of Class A common stock and remained outstanding (representing 6.3% of the aggregate shares outstanding).

Stock Repurchase Programs

In April 2007, the Company's Board of Directors authorized a plan for the Company to repurchase up to \$500 million of its Class A common stock in open market transactions during 2007. On October 29, 2007, the Company's Board of Directors amended the share repurchase plan to authorize the Company to repurchase an incremental \$750 million (aggregate for the entire repurchase program of \$1.25 billion) of its Class A common stock in open market transactions through June 30, 2008. As of December 31, 2007, approximately 3.9 million shares of Class A common stock had been repurchased at a cost of \$601 million. During 2008, the Company repurchased approximately 2.8 million shares of Class A common stock at a cost of \$649 million, completing its aggregate authorized share repurchase program of \$1.25 billion.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

In September 2010, the Company’s Board of Directors authorized a plan for the Company to repurchase up to \$1 billion of its Class A common stock in open market transactions. The Company did not repurchase any shares under this plan during 2010. As of February 16, 2011, the Company had completed the repurchase of approximately 0.3 million shares of its Class A common stock at a cost of approximately \$75 million.

Note 18. Share Based Payment and Other Benefits

In May 2006, the Company implemented the MasterCard Incorporated 2006 Long-Term Incentive Plan, which was amended and restated as of October 13, 2008 (the “LTIP”). The LTIP is a shareholder-approved omnibus plan that permits the grant of various types of equity awards to employees.

The Company has granted restricted stock units (“RSUs”), non-qualified stock options (“options”) and performance stock units (“PSUs”) under the LTIP. The RSUs generally vest after three to four years. The options, which expire ten years from the date of grant, generally vest ratably over four years from the date of grant. The PSUs generally vest after three years. Additionally, the Company made a one-time grant to all non-executive management employees upon the IPO for a total of approximately 440 thousand RSUs (the “Founders’ Grant”). The Founders’ Grant RSUs vested three years from the date of grant. The Company uses the straight-line method of attribution for expensing equity awards. Compensation expense is recorded net of estimated forfeitures. Estimates are adjusted as appropriate.

Upon termination of employment, excluding retirement, all of a participant’s unvested awards are forfeited. However, when a participant terminates employment due to retirement, the participant generally retains all of their awards without providing additional service to the Company. Eligible retirement is dependent upon age and years of service, as follows: age 55 with ten years of service, age 60 with five years of service and age 65 with two years of service. Compensation expense is recognized over the shorter of the vesting periods stated in the LTIP, or the date the individual becomes eligible to retire.

There are 11,550,000 shares of Class A common stock reserved for equity awards under the LTIP. Although the LTIP permits the issuance of shares of Class B common stock, no such shares have been reserved for issuance. Shares issued as a result of option exercises and the conversions of RSUs and PSUs are expected to be funded primarily with the issuance of new shares of Class A common stock.

Stock Options

The fair value of each option is estimated on the date of grant using a Black-Scholes option pricing model. The following table presents the weighted-average assumptions used in the valuation and the resulting weighted-average fair value per option granted for the years ended December 31:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Risk-free rate of return	2.7%	2.5%	3.2%
Expected term (in years)	6.25	6.17	6.25
Expected volatility	32.7%	41.7%	37.9%
Expected dividend yield	0.3%	0.4%	0.3%
Weighted-average fair value per option granted	\$84.62	\$71.03	\$78.54

The risk-free rate of return was based on the U.S. Treasury yield curve in effect on the date of grant. The Company utilizes the simplified method for calculating the expected term of the option based on the vesting terms and the contractual life of the option. The expected volatility for options granted during 2010 and 2009 was based on the average of the implied volatility of MasterCard and a blend of the historical volatility of MasterCard and the historical volatility of a group of companies that management believes is generally comparable to

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

MasterCard. The expected volatility for options granted during 2008 was based on the average of the implied volatility of MasterCard and the historical volatility of a group of companies that management believes is generally comparable to MasterCard. The expected dividend yields were based on the Company's expected annual dividend rate on the date of grant.

The following table summarizes the Company's option activity for the year ended December 31, 2010:

	<u>Options</u> (in thousands)	<u>Weighted-Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u> (in years)	<u>Aggregate Intrinsic Value</u> (in millions)
Outstanding at January 1, 2010	731	\$120		
Granted	182	\$232		
Exercised	(152)	\$ 72		
Forfeited/expired	(25)	\$163		
Outstanding at December 31, 2010	<u>736</u>	<u>\$156</u>	<u>7.4</u>	<u>\$52</u>
Exercisable at December 31, 2010	<u>305</u>	<u>\$111</u>	<u>6.4</u>	<u>\$35</u>
Options vested and expected to vest at December 31, 2010 ¹	<u>433</u>	<u>\$122</u>	<u>6.7</u>	<u>\$44</u>

¹ Includes options for participants that are eligible to retire and thus have fully earned their awards.

The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008 was \$26 million, \$22 million and \$37 million, respectively. As of December 31, 2010, there was \$12 million of total unrecognized compensation cost related to non-vested options. The cost is expected to be recognized over a weighted average period of 1.7 years.

Restricted Stock Units

The following table summarizes the Company's RSU activity for the year ended December 31, 2010:

	<u>Units</u> (in thousands)	<u>Weighted-Average Grant-Date Fair Value</u>	<u>Weighted Average Remaining Contractual Term</u> (in years)	<u>Aggregate Intrinsic Value</u> (in millions)
Outstanding at January 1, 2010	1,208	\$ 71		
Granted	186	\$231		
Converted	(936)	\$ 44		
Forfeited/expired	(41)	\$174		
Outstanding at December 31, 2010	<u>417</u>	<u>\$193</u>	<u>1.7</u>	<u>\$93</u>
RSUs vested at December 31, 2010 ¹	<u>31</u>	<u>\$174</u>	<u>1.3</u>	<u>\$ 7</u>

¹ Includes RSUs for participants that are eligible to retire and thus have fully earned their awards.

The fair value of each RSU is the closing stock price on the New York Stock Exchange of the Company's Class A common stock on the date of grant. The weighted-average grant-date fair value of RSUs granted during the years ended December 31, 2010, 2009 and 2008 was \$231, \$164 and \$209, respectively. Upon vesting a portion of the RSU award may be withheld to satisfy the minimum statutory withholding taxes. The remaining

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RSUs will be settled in shares of the Company's Class A common stock after the vesting period. The total intrinsic value of RSUs converted into shares of Class A common stock during the years ended December 31, 2010, 2009 and 2008 was \$234 million, \$91 million and \$194 million, respectively. As of December 31, 2010, there was \$40 million of total unrecognized compensation cost related to non-vested RSUs. The cost is expected to be recognized over a weighted average period of 2 years.

Performance Stock Units

The following table summarizes the Company's PSU activity for the year ended December 31, 2010:

	Units (in thousands)	Weighted-Average Grant-Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2010	1,027	\$145		
Granted	57	\$219		
Converted	(550)	\$106		
Forfeited/expired	(49)	\$187		
Outstanding at December 31, 2010	<u>485</u>	<u>\$192</u>	<u>0.5</u>	<u>\$109</u>
PSUs vested at December 31, 2010 ¹	<u>182</u>	<u>\$189</u>	<u>0.5</u>	<u>\$ 41</u>

¹ Includes PSUs for participants that are eligible to retire and thus have fully earned their awards.

The weighted-average grant-date fair value of PSUs granted during the years ended December 31, 2010, 2009 and 2008 was \$219, \$184 and \$192, respectively.

With regard to the performance stock units granted in 2010, whether or not the performance stock units vest will be based upon MasterCard performance against a predetermined return on equity goal, with an average of return on equity over the three-year period commencing January 1, 2010 yielding threshold, target or maximum performance, with a potential adjustment determined at the discretion of the MasterCard Human Resources and Compensation Committee of the Board of Directors using subjective quantitative and qualitative goals expected to be established at the beginning of each year in the performance period from 2010 through 2012. These goals are expected to include MasterCard performance against internal management metrics and external relative metrics.

With regard to the performance stock units granted in 2009, whether or not the performance stock units vest will be based upon MasterCard performance against a predetermined return on equity goal, with an average of return on equity over the three-year period commencing January 1, 2009 yielding threshold, target or maximum performance, with a potential adjustment determined at the discretion of the MasterCard Human Resources and Compensation Committee of the Board of Directors using subjective quantitative and qualitative goals expected to be established at the beginning of each year in the performance period from 2009 through 2011. These goals are expected to include MasterCard performance against internal management metrics and external relative metrics.

These performance stock units have been classified as equity awards, will be settled by delivering stock to the employees and contain service and performance conditions. The initial fair value of each PSU is the closing price on the New York Stock Exchange of the Company's Class A common stock on the date of grant. Given that the performance terms are subjective and not fixed on the date of grant, the performance units will be remeasured at the end of each reporting period, at fair value, until the time the performance conditions are fixed and the ultimate number of shares to be issued is determined. Estimates are adjusted as appropriate. Compensation

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expense is calculated using the number of performance stock units expected to vest; multiplied by the period ending price of a share of MasterCard's Class A common stock on the New York Stock Exchange; less previously recorded compensation expense.

With regard to the performance stock units granted in 2008, the ultimate number of shares to be received by the employee upon vesting will be determined by the Company's performance against predetermined net income (two-thirds weighting) and operating margin (one-third weighting) goals for the three-year period commencing January 1, 2008.

With regard to the performance stock units granted in 2007, the Company awarded 200% of the original number of shares granted and not forfeited prior to vesting based upon the Company's performance against equally weighted predetermined net income and return on equity goals for the three-year period commencing January 1, 2007 and ending December 31, 2009.

In 2010, 550 thousand PSUs were converted into shares of Class A common stock. The total intrinsic value of PSUs converted into shares of Class A common stock during the year ended December 31, 2010, was \$123 million. There were no PSUs converted into shares of Class A common stock during the years ended December 31, 2009 and 2008.

As of December 31, 2010, there was \$8 million of total unrecognized compensation cost related to non-vested PSUs. The cost is expected to be recognized over a weighted average period of 1.2 years.

Additional Information

For the years ended December 31, 2010, 2009 and 2008, the Company recorded compensation expense for all equity awards of \$62 million, \$87 million and \$60 million, respectively. The total income tax benefit recognized for the equity awards was \$22 million, \$30 million and \$21 million for the years ended December 31, 2010, 2009 and 2008, respectively. The income tax benefit related to options exercised during 2010, 2009 and 2008 was \$8 million, \$8 million and \$13 million, respectively. The additional paid-in capital balance attributed to the equity awards was \$156 million, \$197 million and \$136 million as of December 31, 2010, 2009 and 2008, respectively.

On July 18, 2006, the Company's stockholders approved the MasterCard Incorporated 2006 Non-Employee Director Equity Compensation Plan, which was amended and restated as of October 13, 2008 (the "Director Plan"). The Director Plan provides for awards of Deferred Stock Units ("DSUs") to each director of the Company who is not a current employee of the Company. There are 100 thousand shares of Class A common stock reserved for DSU awards under the Director Plan. During the years ended December 31, 2010, 2009 and 2008, the Company granted 5 thousand, 7 thousand and 4 thousand DSUs, respectively. The fair value of the DSUs was based on the closing stock price on the New York Stock Exchange of the Company's Class A common stock on the date of grant. The weighted average grant-date fair value of DSUs granted during the years ended December 31, 2010, 2009 and 2008 was \$217, \$168 and \$285, respectively. The DSUs vested immediately upon grant and will be settled in shares of the Company's Class A common stock on the fourth anniversary of the date of grant. Accordingly, the Company recorded general and administrative expense of \$1 million for the DSUs for each of the years ended December 31, 2010, 2009 and 2008. The total income tax benefit recognized in the income statement for DSUs was less than \$1 million for each of the years ended December 31, 2010, 2009 and 2008. During the year ended December 31, 2010, there were approximately 25 thousand DSUs converted into shares of Class A common stock. The total intrinsic value of these DSUs converted into shares of Class A common stock was \$5 million. There were no DSUs converted into shares of Class A Common stock during the years ended December 31, 2009 and 2008.

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Note 19. Commitments

On December 9, 2010, MasterCard entered into an agreement to acquire the prepaid card program management operations of Travelex Holdings Ltd. (“Travelex CPM”) for 290 million U.K. pound sterling, or approximately \$458 million, with contingent consideration (an “earn-out”) of up to an additional 35 million U.K. pound sterling, or approximately \$55 million, if certain performance targets are met. The acquisition agreement is subject to conditions precedent to the consummation of the transaction, which is expected to occur during the first half of 2011.

In addition to the commitment to purchase Travelex CPM, at December 31, 2010, the Company had the following future minimum payments due under non-cancelable agreements:

	<u>Total</u>	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Sponsorship, Licensing & Other</u>
			(in millions)	
2011	\$359	\$ 7	\$26	\$326
2012	173	5	23	145
2013	88	38	13	37
2014	26	—	10	16
2015	14	—	9	5
Thereafter	17	—	16	1
Total	<u>\$677</u>	<u>\$ 50</u>	<u>\$97</u>	<u>\$530</u>

Included in the table above are capital leases with imputed interest expense of \$5 million and a net present value of minimum lease payments of \$45 million. In addition, at December 31, 2010, \$96 million of the future minimum payments in the table above for leases, sponsorship, licensing and other agreements was accrued. Consolidated rental expense for the Company’s office space, which is recognized on a straight line basis over the life of the lease, was approximately \$27 million, \$40 million and \$43 million for the years ended December 31, 2010, 2009 and 2008, respectively. Consolidated lease expense for automobiles, computer equipment and office equipment was \$8 million, \$9 million and \$8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

In January 2003, MasterCard purchased a building in Kansas City, Missouri for approximately \$24 million. The building is a co-processing data center which replaced a back-up data center in Lake Success, New York. During 2003, MasterCard entered into agreements with the City of Kansas City for (i) the sale-leaseback of the building and related equipment which totaled \$36 million and (ii) the purchase of municipal bonds for the same amount which have been classified as investment securities held-to-maturity. The agreements enabled MasterCard to secure state and local financial benefits. No gain or loss was recorded in connection with the agreements. The leaseback has been accounted for as a capital lease as the agreement contains a bargain purchase option at the end of the ten-year lease term on April 1, 2013. The building and related equipment are being depreciated over their estimated economic life in accordance with the Company’s policy. Rent of \$2 million is due annually and is equal to the interest due on the municipal bonds. The future minimum lease payments are \$40 million and are included in the table above. A portion of the building was subleased to the original building owner for a five-year term with a renewal option. This sublease expires on June 30, 2011. As of December 31, 2010, the future minimum sublease rental income is \$1 million.

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Note 20. Obligations Under Litigation Settlements

On October 27, 2008, MasterCard and Visa Inc. (“Visa”) entered into a settlement agreement (the “Discover Settlement”) with Discover Financial Services, Inc. (“Discover”) relating to the U.S. federal antitrust litigation amongst the parties. The Discover Settlement ended all litigation among the parties for a total of \$2.75 billion. In July 2008, MasterCard and Visa had entered into a judgment sharing agreement that allocated responsibility for any judgment or settlement of the Discover action among the parties. Accordingly, the MasterCard share of the Discover Settlement was \$863 million, which was paid to Discover in November 2008. In addition, in connection with the Discover Settlement, Morgan Stanley, Discover’s former parent company, paid MasterCard \$35 million in November 2008, pursuant to a separate agreement. The net impact of \$828 million is included in litigation settlements for the year ended December 31, 2008.

On June 24, 2008, MasterCard entered into a settlement agreement (the “American Express Settlement”) with American Express Company (“American Express”) relating to the U.S. federal antitrust litigation between MasterCard and American Express. The American Express Settlement ended all existing litigation between MasterCard and American Express. Under the terms of the American Express Settlement, MasterCard is obligated to make 12 quarterly payments of up to \$150 million per quarter beginning in the third quarter of 2008. MasterCard’s maximum nominal payments will total \$1.8 billion. The amount of each quarterly payment is contingent on the performance of American Express’s U.S. Global Network Services business. The quarterly payments will be in an amount equal to 15% of American Express’s U.S. Global Network Services billings during the quarter, up to a maximum of \$150 million per quarter. If, however, the payment for any quarter is less than \$150 million, the maximum payment for subsequent quarters will be increased by the difference between \$150 million and the lesser amount that was paid in any quarter in which there was a shortfall. MasterCard assumes American Express will achieve these financial hurdles. MasterCard recorded the present value of \$1.8 billion, at a 5.75% discount rate, or \$1.6 billion for the year ended December 31, 2008. As of December 31, 2010, the Company has two quarterly payments for a total of \$300 million remaining.

In 2003, MasterCard entered into a settlement agreement (the “U.S. Merchant Lawsuit Settlement”) related to the U.S. merchant lawsuit described under the caption “U.S. Merchant and Consumer Litigations” in Note 22 (Legal and Regulatory Proceedings) and contract disputes with certain customers. Under the terms of the U.S. Merchant Lawsuit Settlement, the Company was required to pay \$125 million in 2003 and \$100 million annually each December from 2004 through 2012. On July 1, 2009, MasterCard entered into an agreement (the “Prepayment Agreement”) with plaintiffs of the U.S. Merchant Lawsuit Settlement whereby MasterCard agreed to make a prepayment of its remaining \$400 million in payment obligations at a discounted amount of \$335 million on September 30, 2009. The Company made the prepayment at the discounted amount of \$335 million on September 30, 2009, after the Prepayment Agreement became final. In addition, in 2003, several other lawsuits were initiated by merchants who opted not to participate in the plaintiff class in the U.S. merchant lawsuit. The “opt-out” merchant lawsuits were not covered by the terms of the U.S. Merchant Lawsuit Settlement and all have been individually settled.

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We recorded liabilities for these and certain litigation settlements in 2010 and prior years. Total liabilities for litigation settlements changed from December 31, 2008, as follows:

	(in millions)
Balance as of December 31, 2008	\$1,736
Interest accretion on U.S. Merchant Lawsuit Settlement	21
Interest accretion on American Express Settlement	66
Payments on American Express Settlement	(600)
Payment on U.S. Merchant Lawsuit Settlement	(335)
Gain on prepayment of U.S. Merchant Lawsuit Settlement	(14)
Other payments, accruals and accretion, net	<u>(4)</u>
Balance as of December 31, 2009	870
Interest accretion on American Express Settlement	35
Payments on American Express Settlement	(600)
Other payments, accruals and accretion, net	<u>(3)</u>
Balance as of December 31, 2010	<u>\$ 302</u>

See Note 22 (Legal and Regulatory Proceedings) for additional discussion regarding the Company's legal proceedings.

Note 21. Income Tax

The total income tax provision for the years ended December 31 is comprised of the following components:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Current			
Federal	\$379	\$160	\$ 119
State and local	17	18	13
Foreign	<u>301</u>	<u>240</u>	<u>223</u>
	697	418	355
Deferred			
Federal	225	308	(482)
State and local	8	21	2
Foreign	<u>(20)</u>	<u>8</u>	<u>(4)</u>
	<u>213</u>	<u>337</u>	<u>(484)</u>
Total income tax expense (benefit)	<u>\$910</u>	<u>\$755</u>	<u>\$(129)</u>

The domestic and foreign components of earnings (loss) before income taxes for the years ended December 31 are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
United States	\$2,198	\$1,482	\$(986)
Foreign	<u>559</u>	<u>736</u>	<u>603</u>
	<u>\$2,757</u>	<u>\$2,218</u>	<u>\$(383)</u>

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MasterCard has not provided for U.S. federal income and foreign withholding taxes on approximately \$1.5 billion of undistributed earnings from non-U.S. subsidiaries as of December 31, 2010 because such earnings are intended to be reinvested indefinitely outside of the United States. If these earnings were distributed, foreign tax credits may become available under current law to reduce the resulting U.S. income tax liability; however, the amount of the tax and credits is not practically determinable.

The provision for income taxes differs from the amount of income tax determined by applying the appropriate statutory U.S. federal income tax rate to pretax income (loss) for the years ended December 31, as a result of the following:

	2010		2009		2008	
	Amount	Percent	Amount	Percent	Amount	Percent
	(in millions, except percentages)					
Income (loss) before income tax expense	\$2,757		\$2,218		\$(383)	
Federal statutory tax	965	35.0%	776	35.0%	(134)	35.0%
State tax effect, net of federal benefit	19	0.7%	25	1.1%	11	(2.9)
Foreign tax effect, net of federal benefit	(24)	(0.9)%	(22)	(1.0)%	2	(0.5)
Non-deductible expenses and other differences	23	0.9%	(18)	(0.7)%	2	(0.7)
Tax exempt income	(5)	(0.2)%	(6)	(0.3)%	(10)	2.8
Foreign repatriation	(68)	(2.5)%	—	—%	—	—
Income tax expense (benefit)	<u>\$ 910</u>	<u>33.0%</u>	<u>\$ 755</u>	<u>34.1%</u>	<u>\$(129)</u>	<u>33.7%</u>

Effective Income Tax Rate

The effective income tax rates for the years ended December 31, 2010, 2009 and 2008 were 33.0%, 34.1% and 33.7%, respectively. The tax rate for 2010 was lower than the tax rate for 2009 due primarily to the impact of actual and anticipated repatriations from foreign subsidiaries, partially offset by discrete adjustments in 2010 and 2009. The tax rate for 2009 was higher than the tax rate for 2008 due primarily to litigation settlement charges recorded in 2008, which resulted in a pretax loss in a higher tax rate jurisdiction and pretax income in lower tax rate jurisdictions.

Deferred Taxes

Deferred tax assets and liabilities represent the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. The net deferred tax asset at December 31 was comprised of the following:

	Assets (Liabilities)			
	2010		2009	
	Current	Non-current	Current	Non-current
	(in millions)			
Accrued liabilities (including litigation settlements)	\$133	\$ 4	\$240	\$114
Deferred compensation and benefits	34	30	20	51
Stock based compensation	27	26	—	59
Intangible assets	(6)	(92)	—	(52)
Property, plant and equipment	—	(107)	—	(63)
State taxes and other credits	36	62	9	54
Other items	(8)	26	(25)	33
Valuation allowance	—	(18)	—	(12)
	<u>\$216</u>	<u>\$ (69)</u>	<u>\$244</u>	<u>\$184</u>

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The net increase in the valuation allowance during 2010 was \$6 million. The 2010 and 2009 valuation allowances relate primarily to the Company's ability to recognize tax benefits associated with certain foreign net operating losses. The recognition of these benefits is dependent upon the future taxable income in such foreign jurisdictions and the ability under tax law in these jurisdictions to utilize net operating losses following a change in control.

A reconciliation of the beginning and ending balance for the Company's unrecognized tax benefits for the years ended December 31, is as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(in millions)		
Beginning balance	\$146	\$163	\$135
Additions:			
Current year tax positions	22	19	20
Prior year tax positions	15	10	16
Reductions:			
Prior year tax positions, due to changes in judgments	(12)	(18)	(3)
Settlements with tax authorities	(6)	(16)	(1)
Expired statute of limitations	—	(12)	(4)
Ending balance	<u>\$165</u>	<u>\$146</u>	<u>\$163</u>

The entire balance of \$165 million of unrecognized tax benefits, if recognized, would reduce the effective tax rate. There are no positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will increase or decrease significantly within the next twelve months.

The Company is subject to tax in the United States, Belgium and various state and other foreign jurisdictions. With few exceptions, the Company is no longer subject to federal, state, local and foreign examinations by tax authorities for years before 2002.

It is the Company's policy to account for interest expense related to income tax matters as interest expense in its statement of operations, and to include penalties related to income tax matters in the income tax provision. For the years ended December 31, 2010, 2009 and 2008, the Company recorded tax-related interest income of \$5 million and tax-related interest expense of \$5 million and \$8 million, respectively, in its consolidated statement of operations. At December 31, 2010 and 2009, the Company had a net income tax-related interest payable of \$17 million and \$19 million, respectively, in its consolidated balance sheet. At December 31, 2010 and 2009, the amounts the Company had recognized for penalties payable in its consolidated balance sheet were not significant.

Note 22. Legal and Regulatory Proceedings

MasterCard is a party to legal and regulatory proceedings with respect to a variety of matters in the ordinary course of business. Some of these proceedings involve complex claims that are subject to substantial uncertainties and unascertainable damages. Therefore, the probability of loss and an estimation of damages are not possible to ascertain at present. While these types of contingencies are generally resolved over long periods of time, the probability of loss or an estimation of damages can change due to discrete or a combination of developments, which could result in a material adverse effect on our results of operations, cash flows or financial condition. Except as discussed below, MasterCard has not established reserves for any of these proceedings. MasterCard has recorded liabilities for certain legal proceedings which have been settled through contractual agreements. Except as described below, MasterCard does not believe that any legal or regulatory proceedings to

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which it is a party would have a material impact on its results of operations, financial position, or cash flows. Although MasterCard believes that it has strong defenses for the pending litigations and regulatory proceedings described below, it could in the future incur judgments and/or fines, enter into settlements of claims or be required to change its business practices in ways that could have a material adverse effect on its results of operations, financial position or cash flows. Notwithstanding MasterCard's belief, in the event it were found liable in a large class-action lawsuit or on the basis of a claim entitling the plaintiff to treble damages or under which it were jointly and severally liable, charges it may be required to record could be significant and could materially and adversely affect its results of operations, cash flow and financial condition, or, in certain circumstances, even cause MasterCard to become insolvent. Moreover, an adverse outcome in a regulatory proceeding could result in fines and/or lead to the filing of civil damage claims and possibly result in damage awards in amounts that could be significant and could materially and adversely affect the Company's results of operations, cash flows and financial condition.

Department of Justice Antitrust Litigation and Related Private Litigations

In October 1998, the U.S. Department of Justice ("DOJ") filed suit against MasterCard International, Visa U.S.A., Inc. and Visa International Corp. in the U.S. District Court for the Southern District of New York alleging that both MasterCard's and Visa's governance structure and policies violated U.S. federal antitrust laws. First, the DOJ claimed that "dual governance"—the situation where a financial institution has a representative on the Board of Directors of MasterCard or Visa while a portion of its card portfolio is issued under the brand of the other association—was anti-competitive and acted to limit innovation within the payment card industry. Second, the DOJ challenged MasterCard's Competitive Programs Policy ("CPP") and a Visa bylaw provision that prohibited financial institutions participating in the respective associations from issuing competing proprietary payment cards (such as American Express or Discover). The DOJ alleged that MasterCard's CPP and Visa's bylaw provision acted to restrain competition.

In October 2001, District Court Judge Barbara Jones issued an opinion upholding the legality and pro-competitive nature of dual governance. However, the judge also held that MasterCard's CPP and the Visa bylaw constituted unlawful restraints of trade under the federal antitrust laws. In November 2001, the judge issued a final judgment that ordered MasterCard to repeal the CPP insofar as it applies to issuers and enjoined MasterCard from enacting or enforcing any bylaw, rule, policy or practice that prohibits its issuers from issuing general purpose credit or debit cards in the United States on any other general purpose card network. The Second Circuit upheld the final judgment and the Supreme Court denied certiorari.

Shortly after the Supreme Court's denial of certiorari, both American Express and Discover Financial Services, Inc. filed complaints against MasterCard and Visa in which they alleged that the implementation and enforcement of MasterCard's CPP and Visa's bylaw provision violated U.S. federal antitrust laws. In June 2008, MasterCard entered into a settlement agreement with American Express to resolve all current litigation between American Express and MasterCard. Under the terms of the settlement agreement, MasterCard is obligated to make twelve quarterly payments of up to \$150 million per quarter with the first payment having been made in September 2008. See Note 20 (Obligations under Litigation Settlements) for additional discussion. In October 2008, MasterCard and Visa entered into a settlement agreement with Discover (the "Discover Settlement"), ending all litigation between the parties for a total of approximately \$2.8 billion. The MasterCard share of the settlement, paid to Discover in November 2008, was approximately \$863 million. In addition, in connection with the Discover Settlement and pursuant to a separate agreement, Morgan Stanley, Discover's former parent company, paid MasterCard \$35 million in November 2008.

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In April 2005, a complaint was filed in California state court on behalf of a putative class of consumers under California unfair competition law (Section 17200) and the Cartwright Act (the "Attridge action"). The claims in this action seek to piggyback on the portion of the DOJ antitrust litigation discussed above with regard to the district court's findings concerning MasterCard's CPP and Visa's related bylaw. MasterCard and Visa moved to dismiss the complaint and the court granted the defendants' motion to dismiss the plaintiffs' Cartwright Act claims but denied the defendants' motion to dismiss the plaintiffs' Section 17200 unfair competition claims. MasterCard filed an answer to the complaint in June 2006 and the parties have proceeded with discovery. In September 2009, MasterCard executed a settlement agreement that is subject to court approval in the California consumer litigations (see "—U.S. Merchant and Consumer Litigations"). The agreement includes a release that the parties believe encompasses the claims asserted in the Attridge action. On August 23, 2010, the court in the California consumer actions executed an order granting final approval to the settlement. The plaintiff from the Attridge action and three other objectors have filed a notice that they intend to appeal the settlement approval order. At this time, it is not possible to determine the outcome of, or estimate the liability related to, the Attridge action and no incremental provision for losses has been provided in connection with it.

Currency Conversion Litigations

MasterCard International, together with Visa U.S.A., Inc. and Visa International Corp., are defendants in a state court lawsuit in California. The lawsuit alleges that MasterCard and Visa wrongfully imposed an asserted one percent currency conversion "fee" on every credit card transaction by U.S. MasterCard and Visa cardholders involving the purchase of goods or services in a foreign country, and that such alleged "fee" is unlawful. This action, titled *Schwartz v. Visa Int'l Corp., et al.* (the "Schwartz action"), was brought in the Superior Court of California in February 2000, purportedly on behalf of the general public. MasterCard International, Visa U.S.A., Inc., Visa International Corp., several member banks including Citibank (South Dakota), N.A., Chase Manhattan Bank USA, N.A., Bank of America, N.A. (USA), MBNA, and Citicorp Diners Club Inc. are also defendants in a number of federal putative class actions that allege, among other things, violations of federal antitrust laws based on the asserted one percent currency conversion "fee." Pursuant to an order of the Judicial Panel on Multidistrict Litigation, the federal complaints have been consolidated in MDL No. 1409 (the "MDL action") before Judge William H. Pauley III in the U.S. District Court for the Southern District of New York.

In July 2006, MasterCard and the other defendants in the MDL action entered into agreements settling the MDL action and related matters, as well as the Schwartz matter. Pursuant to the settlement agreements, MasterCard paid approximately \$72 million to be used for the defendants' settlement fund to settle the MDL action and approximately \$13 million to settle the Schwartz matter. In November 2006, Judge Pauley granted preliminary approval of the settlement agreements, which were subject to both final approval by Judge Pauley and resolution of all appeals. Subsequently in November 2006, the plaintiff in one of the New York state court cases appealed the preliminary approval of the settlement agreement to the U.S. Court of Appeals for the Second Circuit. In November 2009, Judge Pauley signed a Final Judgment and Order of Dismissal granting final approval to the settlement agreements, and subsequently the same plaintiff in the New York state cases filed notice of appeal of final settlement approval in the MDL action. Within the time period for appeal in the MDL action, twelve other such notices of appeal were filed. Subsequently, several plaintiffs have requested to withdraw their appeals. Briefing on the remaining appeals is ongoing. With regard to other state court currency conversion actions, MasterCard has reached agreements in principle with the plaintiffs for a total of approximately \$4 million, which has been accrued. Settlement agreements have been executed with plaintiffs in the Ohio, Pennsylvania, Florida, Texas, Arkansas, Tennessee, Arizona, New York, Minnesota, Illinois and Missouri actions. At this time, it is not possible to predict with certainty the ultimate resolution of these matters.

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U.S. Merchant and Consumer Litigations

Commencing in October 1996, several class action suits were brought by a number of U.S. merchants against MasterCard International and Visa U.S.A., Inc. challenging certain aspects of the payment card industry under U.S. federal antitrust law. Those suits were later consolidated in the U.S. District Court for the Eastern District of New York. The plaintiffs claimed that MasterCard's "Honor All Cards" rule (and a similar Visa rule), which required merchants who accept MasterCard cards to accept for payment every validly presented MasterCard card, constituted an illegal tying arrangement in violation of Section 1 of the Sherman Act. Plaintiffs claimed that MasterCard and Visa unlawfully tied acceptance of debit cards to acceptance of credit cards. In June 2003, MasterCard International signed a settlement agreement to settle the claims brought by the plaintiffs in this matter, which the Court approved in December 2003. In January 2005, the Second Circuit Court of Appeals issued an order affirming the District Court's approval of the settlement agreement thus making it final. In July 2009, MasterCard International entered into an agreement with the plaintiffs to prepay MasterCard International's remaining payment obligations under the settlement agreement at a discount. In August 2009, the court entered a final order approving the prepayment agreement. The agreement became final pursuant to its terms in September 2009 as there were no appeals of the court's approval, and the prepayment was subsequently made in September 2009.

In addition, individual or multiple complaints have been brought in nineteen different states and the District of Columbia alleging state unfair competition, consumer protection and common law claims against MasterCard International (and Visa) on behalf of putative classes of consumers. The claims in these actions largely mirror the allegations made in the U.S. merchant lawsuit and assert that merchants, faced with excessive merchant discount fees, have passed these overcharges to consumers in the form of higher prices on goods and services sold. MasterCard has been successful in dismissing cases in seventeen of the jurisdictions as courts have granted MasterCard's motions to dismiss for failure to state a claim or plaintiffs have voluntarily dismissed their complaints. However, there are outstanding cases in New Mexico and California. On June 9, 2010, the court issued an order granting MasterCard's motion to dismiss the complaint in the New Mexico action. The plaintiffs have filed a notice of appeal of that decision. With respect to the California state actions, and as discussed above under "Department of Justice Antitrust Litigation and Related Private Litigations," in September 2009, the parties to the California state court actions executed a settlement agreement which required a payment by MasterCard of \$6 million, subject to approval by the California state court. On August 23, 2010, the court executed an order granting final approval of the settlement, subsequent to which MasterCard made the payment required by the settlement agreement. The plaintiff from the Attridge action described above under "Department of Justice Antitrust Litigation and Related Private Litigations" and three other objectors have filed a notice that they intend to appeal the settlement approval order.

At this time, it is not possible to determine the outcome of, or, except as indicated above in the California consumer action, estimate the liability related to, the remaining consumer cases and no provision for losses has been provided in connection with them. The consumer class actions are not covered by the terms of the settlement agreement in the U.S. merchant lawsuit.

Interchange Litigation and Regulatory Proceedings

Interchange fees represent a sharing of payment system costs among the financial institutions participating in a four-party payment card system such as MasterCard's. Typically, interchange fees are paid by the acquirer to the issuer in connection with purchase transactions initiated with the payment system's cards. These fees reimburse the issuer for a portion of the costs incurred by it in providing services which are of benefit to all participants in the system, including acquirers and merchants. MasterCard or its customer financial institutions establish default interchange fees in certain circumstances that apply when there is no other interchange fee

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arrangement between the issuer and the acquirer. MasterCard establishes a variety of interchange rates depending on such considerations as the location and the type of transaction, and collects the interchange fee on behalf of the institutions entitled to receive it and remits the interchange fee to eligible institutions. As described more fully below, MasterCard's interchange fees are subject to regulatory and/or legal review and/or challenges in a number of jurisdictions. At this time, it is not possible to determine the ultimate resolution of, or estimate the liability related to, any of the interchange proceedings described below. Except as described below, no provision for losses has been provided in connection with them.

United States. In June 2005, a purported class action lawsuit was filed by a group of merchants in the U.S. District Court of Connecticut against MasterCard International Incorporated, Visa U.S.A., Inc., Visa International Service Association and a number of member banks alleging, among other things, that MasterCard's and Visa's purported setting of interchange fees violates Section 1 of the Sherman Act, which prohibits contracts, combinations and conspiracies that unreasonably restrain trade. In addition, the complaint alleges MasterCard's and Visa's purported tying and bundling of transaction fees also constitutes a violation of Section 1 of the Sherman Act. The suit seeks treble damages in an unspecified amount, attorneys' fees and injunctive relief. Since the filing of this complaint, there have been approximately fifty similar complaints (the majority of which are styled as class actions, although a few complaints are on behalf of individual plaintiffs) filed on behalf of merchants against MasterCard and Visa (and in some cases, certain member banks) in federal courts in California, New York, Wisconsin, Pennsylvania, New Jersey, Ohio, Kentucky and Connecticut. In October 2005, the Judicial Panel on Multidistrict Litigation issued an order transferring these cases to Judge Gleeson of the U.S. District Court for the Eastern District of New York for coordination of pre-trial proceedings in MDL No. 1720. In April 2006, the group of purported class plaintiffs filed a First Amended Class Action Complaint. Taken together, the claims in the First Amended Class Action Complaint and in the complaints brought on the behalf of the individual merchants are generally brought under both Section 1 of the Sherman Act and Section 2 of the Sherman Act, which prohibits monopolization and attempts or conspiracies to monopolize a particular industry. Specifically, the complaints contain some or all of the following claims: (1) that MasterCard's and Visa's setting of interchange fees (for both credit and off-line debit transactions) violates Section 1 of the Sherman Act; (2) that MasterCard and Visa have enacted and enforced various rules, including the no surcharge rule and purported anti-steering rules, in violation of Section 1 or 2 of the Sherman Act; (3) that MasterCard's and Visa's purported bundling of the acceptance of premium credit cards to standard credit cards constitutes an unlawful tying arrangement; and (4) that MasterCard and Visa have unlawfully tied and bundled transaction fees. In addition to the claims brought under federal antitrust law, some of these complaints contain certain unfair competition law claims under state law based upon the same conduct described above. These interchange-related litigations seek treble damages, as well as attorneys' fees and injunctive relief. In June 2006, MasterCard answered the complaint and moved to dismiss or, alternatively, moved to strike the pre-2004 damage claims that were contained in the First Amended Class Action Complaint and moved to dismiss the Section 2 claims that were brought in the individual merchant complaints. In January 2008, the district court dismissed the plaintiffs' pre-2004 damage claims. In May 2008, the court denied MasterCard's motion to dismiss the Section 2 monopolization claims. Fact discovery has been proceeding and was generally completed by November 2008. Briefs have been submitted on plaintiffs' motion for class certification. The court heard oral argument on the plaintiffs' class certification motion in November 2009. The parties are awaiting a decision on the motion.

In January 2009, the class plaintiffs filed a Second Consolidated Class Action Complaint. The allegations and claims in this complaint generally mirror those in the first amended class action complaint described above although plaintiffs have added additional claims brought under Sections 1 and 2 of the Sherman Act against MasterCard, Visa and a number of banks alleging, among other things, that the networks and banks have continued to fix interchange fees following each network's initial public offering. In March 2009, MasterCard and the other defendants in the action filed a motion to dismiss the Second Consolidated Class Action Complaint

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in its entirety, or alternatively, to narrow the claims in the complaint. The parties have fully briefed the motion and the court heard oral argument on the motion in November 2009. The parties are awaiting decisions on the motions.

In July 2006, the group of purported class plaintiffs filed a supplemental complaint alleging that MasterCard's initial public offering of its Class A Common Stock in May 2006 (the "IPO") and certain purported agreements entered into between MasterCard and its member financial institutions in connection with the IPO: (1) violate Section 7 of the Clayton Act because their effect allegedly may be to substantially lessen competition, (2) violate Section 1 of the Sherman Act because they allegedly constitute an unlawful combination in restraint of trade and (3) constitute a fraudulent conveyance because the member banks are allegedly attempting to release without adequate consideration from the member banks MasterCard's right to assess the member banks for MasterCard's litigation liabilities in these interchange-related litigations and in other antitrust litigations pending against it. The plaintiffs seek unspecified damages and an order reversing and unwinding the IPO. In September 2006, MasterCard moved to dismiss all of the claims contained in the supplemental complaint. In November 2008, the district court granted MasterCard's motion to dismiss the plaintiffs' supplemental complaint in its entirety with leave to file an amended complaint. In January 2009, the class plaintiffs repled their complaint directed at MasterCard's IPO by filing a First Amended Supplemental Class Action Complaint. The causes of action in the complaint generally mirror those in the plaintiffs' original IPO-related complaint although the plaintiffs have attempted to expand their factual allegations based upon discovery that has been garnered in the case. The class plaintiffs seek treble damages and injunctive relief including, but not limited to, an order reversing and unwinding the IPO. In March 2009, MasterCard filed a motion to dismiss the First Amended Supplemental Class Action Complaint in its entirety. The parties have fully briefed the motion to dismiss and the court heard oral argument on the motion in November 2009. The parties are awaiting a decision on the motion. In July 2009, the class plaintiffs and individual plaintiffs served confidential expert reports detailing the plaintiffs' theories of liability and alleging damages in the tens of billions of dollars. The defendants served their expert reports in December 2009 countering the plaintiffs' assertions of liability and damages. In February 2011, both the defendants and the plaintiffs served a number of dispositive motions seeking summary judgment on all or portions of the claims in the complaints. Briefing on these motions is scheduled to be completed in June 2011. No trial date has been scheduled, however, the court has asked the parties to consider a trial date of September 12, 2012. The parties have also entered into court-recommended mediation and anticipate scheduling a number of mediation sessions in the coming months. It is not possible to predict whether the mediation will be successful or not.

On February 7, 2011, MasterCard and MasterCard International Incorporated entered into each of: (1) an omnibus judgment sharing and settlement sharing agreement with Visa Inc., Visa U.S.A. Inc. and Visa International Service Association and a number of member banks; and (2) a MasterCard settlement and judgment sharing agreement with a number of member banks. The agreements provide for the apportionment of certain costs and liabilities which MasterCard, the Visa parties and the member banks may incur, jointly and/or severally, in the event of an adverse judgment or settlement of one or all of the cases in the interchange merchant litigations. Among a number of scenarios addressed by the agreements, in the event of a global settlement involving the Visa parties, the member banks and MasterCard, MasterCard would pay 12% of the monetary portion of the settlement. In the event of a settlement involving only MasterCard and the member banks with respect to their issuance of MasterCard cards, MasterCard would pay 36% of the monetary portion of such settlement.

In October 2008, the Antitrust Division of the DOJ issued a civil investigative demand to MasterCard and other payment industry participants seeking information regarding certain rules relating to merchant point of acceptance rules. Subsequently, MasterCard received requests for similar information from ten State Attorneys General. On October 1, 2010, MasterCard, the DOJ and seven of the State Attorneys General executed a stipulation and proposed final judgment, subject to court review and approval, pursuant to which MasterCard

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agreed to make certain modifications to its rules to conform to MasterCard's existing business practices, and therefore to specify, among other things, the ways in which merchants may steer customers to preferred payment forms. The proposed settlement would resolve the DOJ's investigation, and all ten State Attorneys General have closed their investigations of MasterCard. The parties are currently awaiting court approval of the settlement.

European Union. In September 2003, the European Commission issued a Statement of Objections challenging MasterCard Europe's cross-border default interchange fees. In June 2006, the European Commission issued a supplemental Statement of Objections covering credit, debit and commercial card fees. In November 2006, the European Commission held hearings on MasterCard Europe's cross-border default interchange fees. In March 2007, the European Commission issued a Letter of Facts, also covering credit, debit and commercial card fees and discussing its views on the impact of the IPO on the case. MasterCard Europe responded to the Statements of Objections and Letter of Facts and made presentations on a variety of issues at the hearings.

The European Commission announced its decision in December 2007. The decision applies to MasterCard's default cross-border interchange fees for MasterCard and Maestro branded consumer payment card transactions in the European Economic Area ("EEA") (the European Commission refers to these as "MasterCard's MIF"), but not to commercial card transactions (the European Commission stated publicly that it has not yet finished its investigation of commercial card interchange fees). The decision applies to MasterCard's MIF for cross-border consumer card payments and to any domestic consumer card transactions that default to MasterCard's MIF, of which currently there are none. The decision required MasterCard to stop applying the MasterCard MIF, to refrain from repeating the conduct, and not apply its then recently adopted (but never implemented) Maestro SEPA and Intra-Eurozone default interchange fees to debit card payment transactions within the Eurozone. MasterCard understood that the decision gave MasterCard until June 21, 2008 to comply, with the possibility that the European Commission could have extended this time at its discretion. The decision also required MasterCard to issue certain specific notices to financial institutions and other entities that participate in its MasterCard and Maestro payment systems in the EEA and make certain specific public announcements regarding the steps it has taken to comply. The decision did not impose a fine on MasterCard, but provides for a daily penalty of up to 3.5% of MasterCard's daily consolidated global turnover in the preceding business year (which MasterCard estimates to be approximately \$0.5 million U.S. per day) in the event that MasterCard fails to comply. In March 2008, MasterCard filed an application for annulment of the European Commission's decision with the General Court of the European Union.

The December 2007 decision against MasterCard permits MasterCard to establish other default cross-border interchange fees for MasterCard and Maestro branded consumer payment card transactions in the EEA if MasterCard can demonstrate by empirical proof to the European Commission's satisfaction that the new interchange fees create efficiencies that outweigh the restriction of competition alleged by the European Commission, that consumers get a fair share of the benefits of the new interchange fees, that there are no less restrictive means of achieving the efficiencies of MasterCard's payment systems, and that competition is not eliminated altogether. In March 2008, MasterCard entered into discussions with the European Commission about, among other things, the nature of the empirical proof it would require for MasterCard to establish other default cross-border interchange fees consistent with the decision and so as to understand more fully the European Commission's position as to how it may comply with the decision. MasterCard requested an extension of time to comply with the decision and, in April 2008, the European Commission informed MasterCard that it had rejected such request. In June 2008, MasterCard announced that, effective June 21, 2008, MasterCard would temporarily repeal its then current default intra-EEA cross-border consumer card interchange fees in conformity with the decision. In October 2008, MasterCard received an information request from the European Commission in connection with the decision concerning certain pricing changes that MasterCard implemented as of October 1, 2008. MasterCard submitted its response in November 2008.

In March 2009, MasterCard gave certain undertakings to the European Commission and, in response, in April 2009, the Commissioner for competition policy and DG Competition informed MasterCard that, subject to

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MasterCard's fulfilling its undertakings, they do not intend to pursue proceedings for non-compliance with or circumvention of the decision of December 2007 or for infringing the antitrust laws in relation to the October 2008 pricing changes, the introduction of new cross-border consumer default interchange fees or any of the other MasterCard undertakings. MasterCard's undertakings include: (1) repealing the October 2008 pricing changes; (2) adopting a specific methodology for the setting of cross-border consumer default interchange fees; (3) establishing new default cross-border consumer interchange fees as of July 1, 2009 such that the weighted average interchange fee for credit card transactions does not exceed 30 basis points and for debit card transactions does not exceed 20 basis points; (4) introducing a new rule prohibiting its acquirers from requiring merchants to process all of their MasterCard and Maestro transactions with the acquirer; and (5) introducing a new rule requiring its acquirers to provide merchants with certain pricing information in connection with MasterCard and Maestro transactions. The undertakings will be effective until a final decision by the General Court of the European Union regarding MasterCard's application for annulment of the European Commission's December 2007 decision.

Although MasterCard believes that any other business practices it would implement in response to the decision would be in compliance with the December 2007 decision, the European Commission may deem any such practice not in compliance with the decision, or in violation of European competition law, in which case MasterCard may be assessed fines for the period that it is not in compliance. Furthermore, because a balancing mechanism like default cross-border interchange fees constitutes an essential element of MasterCard Europe's operations, the December 2007 decision could also significantly impact MasterCard International's European customers' and MasterCard Europe's business. The European Commission decision could also lead to additional competition authorities in European Union member states commencing investigations or proceedings regarding domestic interchange fees or, in certain jurisdictions, regulation. In addition, the European Commission's decision could lead to the filing of private actions against MasterCard Europe by merchants and/or consumers which, if MasterCard is unsuccessful in its application for annulment of the decision, could result in MasterCard owing substantial damages.

United Kingdom. In September 2001, the Office of Fair Trading of the United Kingdom ("OFT") issued a Rule 14 Notice under the U.K. Competition Act 1998 challenging the MasterCard default interchange fees and multilateral service fee ("MSF"), the fee paid by issuers to acquirers when a customer uses a MasterCard-branded card in the United Kingdom either at an ATM or over the counter to obtain a cash advance. Until November 2004, the interchange fees and MSF were established by MasterCard U.K. Members Forum Limited ("MMF") (formerly MasterCard Europay U.K. Ltd.) for domestic credit card transactions in the United Kingdom. The notice contained preliminary conclusions to the effect that the MasterCard U.K. default interchange fees and MSF infringed U.K. competition law and did not qualify for an exemption in their present forms. In February 2003, the OFT issued a supplemental Rule 14 Notice, which also contained preliminary conclusions challenging MasterCard's U.K. interchange fees (but not the MSF) under the Competition Act. In November 2004, the OFT issued a third notice (now called a Statement of Objections) claiming that the interchange fees infringed U.K. and European Union competition law.

Subsequently in November 2004, MasterCard's board of directors adopted a resolution withdrawing the authority of the U.K. members to set domestic MasterCard interchange fees and MSFs and conferring such authority on MasterCard's President and Chief Executive Officer.

In September 2005, the OFT issued its decision, concluding that MasterCard's U.K. interchange fees that were established by MMF prior to November 18, 2004 contravene U.K. and European Union competition law. The OFT decided not to impose penalties on MasterCard or MMF. MMF and MasterCard appealed the OFT's decision to the U.K. Competition Appeals Tribunal. In June 2006, the U.K. Competition Appeals Tribunal set aside the OFT's decision, following the OFT's request to the Tribunal to withdraw the decision and end its case against MasterCard's U.K. default interchange fees in place prior to November 18, 2004.

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Shortly thereafter, the OFT commenced a new investigation of MasterCard's current U.K. default credit card interchange fees and announced in February 2007 that the investigation would also cover so-called "immediate debit" cards. To date, the OFT has issued a number of requests for information to MasterCard Europe and financial institutions that participate in MasterCard's payment system in the United Kingdom. MasterCard understands that the OFT is considering whether to commence a formal proceeding through the issuance of a Statement of Objections. The OFT has informed MasterCard that it does not intend to issue such a Statement of Objections prior to the judgment of the General Court of the European Union with respect to MasterCard's appeal of the December 2007 cross-border interchange fee decision of the European Commission. If the OFT ultimately determines that any of MasterCard's U.K. interchange fees contravene U.K. and European Union competition law, it may issue a new decision and possibly levy fines accruing from the date of its first decision. MasterCard would likely appeal a negative decision by the OFT in any future proceeding to the Competition Appeals Tribunal. Such an OFT decision could lead to the filing of private actions against MasterCard by merchants and/or consumers which, if its appeal of such an OFT decision were to fail, could result in an award or awards of substantial damages and could have a significant adverse impact on the revenues of MasterCard International's U.K. customers and MasterCard's overall business in the U.K.

Poland. In April 2001, in response to merchant complaints, the Polish Office for Protection of Competition and Consumers (the "PCA") initiated an investigation of MasterCard's domestic credit and debit card default interchange fees. MasterCard Europe filed several submissions and met with the PCA in connection with the investigation. In January 2007, the PCA issued a decision that MasterCard's interchange fees are unlawful under Polish competition law, and imposed fines on MasterCard's licensed financial institutions. As part of this decision, the PCA also decided that MasterCard had not violated the law. MasterCard and the financial institutions appealed the decision to the court of first instance. In November 2008, the court of first instance reversed the decision of the PCA and also rejected MasterCard's appeal on the basis that MasterCard did not have a legal interest in the PCA's decision because its conduct was not found to be in breach of the relevant competition laws. MasterCard has appealed this part of the court of first instance's decision because it has significant interest in the outcome of the case. The PCA appealed the other parts of the decision. On April 22, 2010, the court of appeals issued an oral decision (followed by a written decision on May 25, 2010) in which it reinstated MasterCard's appeal, reversed a specific finding of the court of first instance and sent the case back to the court of first instance for further proceedings. If on appeal the PCA's decision is ultimately allowed to stand, it could have a significant adverse impact on the revenues of MasterCard's Polish customers and on MasterCard's overall business in Poland.

Hungary. In January 2008, the Hungarian Competition Authority ("HCA") notified MasterCard that it had commenced a formal investigation of MasterCard Europe's domestic interchange fees. This followed an informal investigation that the HCA had been conducting since the middle of 2007. In July 2009, the HCA issued to MasterCard a Preliminary Position that MasterCard Europe's historic domestic interchange fees violate Hungarian competition law. MasterCard responded to the Preliminary Position both in writing and at a hearing which was held in September 2009. Subsequently in September 2009, the HCA ruled that MasterCard's historic interchange fees violated the law and fined MasterCard Europe approximately \$3 million, which was paid during the fourth quarter of 2009. In December 2009, the HCA issued its formal decision and MasterCard appealed the decision to the Hungarian courts. On September 24, 2010, the HCA filed its reply to MasterCard's appeal, while MasterCard filed its response in October 2010. On October 29, 2010, the Hungarian appeals court stayed the proceeding until MasterCard's appeal to the General Court of the European Union of the European Commission's December 2007 cross-border interchange fee decision is finally decided. If the HCA's decision is not reversed on appeal, it could have a significant adverse impact on the revenues of MasterCard's Hungarian customers and on MasterCard's overall business in Hungary.

Italy. In July 2009, the Italian Competition Authority ("ICA") commenced a proceeding against MasterCard and a number of its customers concerning MasterCard Europe's domestic interchange fees in Italy.

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MasterCard, as well as each of the banks involved in the proceeding, offered to give certain undertakings to the ICA, which were rejected (which rejection MasterCard appealed to the Administrative Court). On May 28, 2010, the ICA issued a Statement of Objections to MasterCard and the banks. On November 3, 2010, the ICA adopted a decision in which it determined that MasterCard Europe's domestic interchange fees violate European Union competition law, fined MasterCard €2.7 million and ordered MasterCard to refrain in the future from maintaining interchange fees that are not based on economic justifications linked to efficiency criteria and to eliminate any anticompetitive clauses from its licensing agreements. MasterCard has appealed the ICA's interchange fee decision to the Administrative Court. On November 16, 2010, the Administrative Court announced its judgment that the ICA had improperly rejected MasterCard's proposed undertakings and annulled the ICA's rejection decision (which decision the ICA has appealed to the Council of State). If the Administrative Court's judgment is overturned and the ICA's interchange fee decision is not reversed on appeal, the ICA's decision could have a significant adverse impact on the revenues of MasterCard's Italian customers and on MasterCard's overall business in Italy.

Canada. On December 15, 2010, the Canadian Competition Bureau (the "CCB") filed an application with the Canadian Competition Tribunal to strike down MasterCard rules related to interchange fees, including the "honor all cards" and "no surcharge" rules. Also in December 2010, MasterCard learned that a purported class action lawsuit had been commenced against it in Quebec on behalf of Canadian merchants and consumers. The suit essentially repeats the allegations and arguments of the CCB application to the Canadian Competition Tribunal and seeks compensatory and punitive damages in unspecified amounts, as well as injunctive relief. If the CCB's challenges and/or the class action law suit were ultimately successful, such negative decisions could have a significant adverse impact on the revenues of MasterCard's Canadian customers and on MasterCard's overall business in Canada.

Australia. In 2002, the Reserve Bank of Australia ("RBA") announced regulations under the Payments Systems (Regulation) Act of 1998 applicable to four-party credit card payment systems in Australia, including MasterCard's. Those regulations, among other things, mandate the use of a formula for determining domestic interchange fees that effectively caps their weighted average at 50 basis points. Operators of three-party systems, such as American Express and Diners Club, were unaffected by the interchange fee regulation. In 2007, the RBA commenced a review of such regulations and, in September 2008, the RBA released its final conclusions. These indicated that the RBA was willing to withdraw its regulations if MasterCard and Visa made certain undertakings regarding the future levels of their respective credit card interchange fees and other practices, including their "honor all cards" rules. If the undertakings were not made, the RBA said it would consider imposing in 2009 additional regulations that could further reduce the domestic interchange fees of MasterCard and Visa in Australia. In August 2009, the RBA announced that it had decided not to withdraw its regulations and that it would maintain them in their current form pending further consideration of the regulations. MasterCard plans to continue discussions with the RBA as to the nature of the undertakings that MasterCard may be willing to provide. The effect of the undertakings or any such additional regulations could put MasterCard at an even greater competitive disadvantage relative to competitors in Australia that purportedly do not operate four-party systems or, in the case of the undertakings, possibly increase MasterCard's legal exposure under Australian competition laws, which could have a significant adverse impact on MasterCard's business in Australia.

South Africa. In August 2006, the South Africa Competition Commission created a special body, the Jali Enquiry (the "Enquiry"), to examine competition in the payments industry in South Africa, including interchange fees. After nearly two years of investigation, including several rounds of public hearings in which MasterCard participated, in June 2008, the Enquiry published an Executive Summary of its findings. The Enquiry's full report was made public in December 2008. The Enquiry recommends, among other things, that an independent authority be established to set payment card interchange fees in South Africa and that payment systems' (including MasterCard's) respective "honor all cards" rules be modified to give merchants greater freedom to choose which types of cards to accept. Following the issuance of the Enquiry's report, the South African Reserve

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Bank (“SARB”), the South African Treasury and the South African Competition Commission informed MasterCard that they were actively considering what, if any, action they would take in response to the Enquiry’s recommendations. In September 2010, the SARB informed MasterCard that it intended to appoint an independent consultant to make a recommendation on a simplified interchange structure for all payment systems in South Africa, including MasterCard’s. Such an interchange structure, if adopted, could have a significant adverse impact on the revenues of MasterCard’s South African customers and on MasterCard’s overall business in South Africa.

Other Jurisdictions. In January 2006, a German retailers association filed a complaint with the Federal Cartel Office (“FCO”) in Germany concerning MasterCard’s domestic default interchange fees. The complaint alleges that MasterCard’s German domestic interchange fees are not transparent to merchants and include so-called “extraneous costs”. In December 2009, the FCO sent MasterCard a questionnaire concerning its domestic interchange fees.

MasterCard is aware that regulatory authorities and/or central banks in certain other jurisdictions including Belgium, Brazil, Colombia, Czech Republic, Estonia, France, Israel, Latvia, the Netherlands, Norway, Slovakia, Turkey and Venezuela are reviewing MasterCard’s and/or its members’ interchange fees and/or related practices (such as the “honor all cards” rule) and may seek to regulate the establishment of such fees and/or such practices.

Other Regulatory Proceedings

In addition to challenges to interchange fees, MasterCard’s standards and operations are also subject to regulatory and/or legal review and/or challenges in a number of jurisdictions. At this time, it is not possible to determine the ultimate resolution of, or estimate the liability related to, any of the proceedings described below. Except as described below, no provision for losses has been provided in connection with them.

Switzerland. On July 2, 2010, MasterCard received a notice from the Swiss Competition Authority (“WEKO”) that, based upon complaints, WEKO had opened an investigation of MasterCard’s domestic debit acquirer fees to determine whether to order MasterCard to discontinue charging the fees. In July 2010, MasterCard responded to the notice and filed additional comments. On September 1, 2010, the WEKO issued a decision in which it rejected the complaints and declined to open proceedings on the matter.

Ukraine. On June 5, 2010, the Ukrainian Competition Authority (the “UCA”) issued MasterCard a comprehensive information request concerning its rules and domestic fees in response to a complaint filed by a Ukrainian banking association. MasterCard is cooperating with the UCA’s investigation.

Netherlands. On February 11, 2011, the Netherlands Competition Authority issued MasterCard a Statement of Objections challenging MasterCard co-branding and co-residency rules and policies. The co-branding rules being challenged prohibit, in some cases, financial institutions licensed by MasterCard from placing other payment systems’ brands on MasterCard cards. The co-residency rules being challenged prohibit, in some cases, licensed financial institutions from encoding other payment systems’ applications on the electronic “chip” in MasterCard cards. MasterCard’s response to the Statement of Objection is due by March 11, 2011.

Note 23. Settlement and Other Risk Management

MasterCard International’s rules generally guarantee the payment of certain MasterCard, Cirrus and Maestro branded transactions between its principal members. The term and amount of the guarantee are unlimited. Settlement risk is the exposure to members under MasterCard International’s rules (“Settlement Exposure”), due to the difference in timing between the payment transaction date and subsequent settlement. The duration of this exposure is short term and typically limited to a few days. Settlement Exposure is estimated using the average daily card volumes during the quarter multiplied by the estimated number of days to settle. The

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Company has global risk management policies and procedures, which include risk standards, to provide a framework for managing the Company's settlement risk. Member-reported transaction data and the transaction clearing data underlying the settlement risk calculation may be revised in subsequent reporting periods.

In the event that MasterCard International effects a payment on behalf of a failed member, MasterCard International may seek an assignment of the underlying receivables. Subject to approval by the Board of Directors, members may be charged for the amount of any settlement loss incurred during the ordinary activities of the Company.

MasterCard requires certain members that are not in compliance with the Company's risk standards in effect at the time of review to post collateral, typically in the form of cash, letters of credit, or guarantees. This requirement is based on management review of the individual risk circumstances for each member that is out of compliance. In addition to these amounts, MasterCard holds collateral to cover variability and future growth in member programs. The Company also holds collateral to pay merchants in the event of merchant bank/acquirer failure. Although it is not contractually obligated under MasterCard International's standards to effect such payments to merchants, the Company may elect to do so to protect brand integrity. MasterCard monitors its credit risk portfolio on a regular basis and the adequacy of collateral on hand. Additionally, from time to time, the Company reviews its risk management methodology and standards. As such, the amounts of estimated settlement risk are revised as necessary.

Estimated Settlement Exposure, and the portion of the Company's uncollateralized Settlement Exposure for MasterCard-branded transactions that relates to members that are deemed not to be in compliance with, or that are under review in connection with, the Company's risk management standards, were as follows:

	2010	2009
	(in millions)	
MasterCard-branded transactions:		
Gross Settlement Exposure	\$28,509	\$25,279
Collateral held for Settlement Exposure	(2,993)	(2,688)
Net uncollateralized Settlement Exposure	\$25,516	\$22,591
Uncollateralized Settlement Exposure attributable to non-compliant members		
	\$ 273	\$ 205
Cirrus and Maestro transactions:		
Gross Settlement Exposure	\$ 2,962	\$ 3,830

Although MasterCard holds collateral at the member level, the Cirrus and Maestro estimated Settlement Exposures are calculated at the regional level. Therefore, these Settlement Exposures are reported on a gross basis, rather than net of collateral.

Of the total estimated Settlement Exposure under the MasterCard brand, net of collateral, the U.S. accounted for approximately 35% and 37% at December 31, 2010 and 2009, respectively. With the exception of Brazil, which was 12% at December 31, 2010, no individual country other than the United States accounted for more than 10% of total uncollateralized Settlement Exposure at either December 31, 2010 or 2009. Of the total uncollateralized Settlement Exposure attributable to non-compliant members, five members represented approximately 66% and 57% at December 31, 2010 and 2009, respectively.

MasterCard guarantees the payment of MasterCard-branded travelers cheques in the event of issuer default. The guarantee estimate is based on all outstanding MasterCard-branded travelers cheques, reduced by an actuarial determination of cheques that are not anticipated to be presented for payment. The term of the guarantee is unlimited, while the amount is limited to cheques issued but not yet cashed. MasterCard calculated its

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

MasterCard-branded travelers cheques exposure under this guarantee as \$361 million and \$401 million at December 31, 2010 and 2009, respectively. The reduction in travelers cheques exposure is attributable to MasterCard branded travelers cheques no longer being issued.

A significant portion of the Company's travelers cheques risk is concentrated in one MasterCard travelers cheques issuer. MasterCard obtained an unlimited guarantee estimated at \$280 million and \$313 million at December 31, 2010 and 2009, respectively, from a financial institution that is a member, to cover all of the exposure of outstanding travelers cheques with respect to such issuer. In addition, MasterCard obtained a limited guarantee estimated at \$13 million and \$14 million as of December 31, 2010 and 2009, respectively, from a financial institution that is a member in order to cover the exposure of outstanding travelers cheques with respect to another issuer. These guarantee amounts have also been reduced by an actuarial determination of travelers cheques that are not anticipated to be presented for payment.

Beginning in 2008, many of the Company's financial institution customers were directly and adversely impacted by the unprecedented events that occurred in the financial markets around the world. The ongoing economic turmoil presents increased risk that the Company may have to perform under its settlement and travelers cheque guarantees. General economic conditions and political conditions in countries in which MasterCard operates may also affect the Company's settlement risk. The Company's global risk management policies and procedures, which are revised and enhanced from time to time, continue to be effective as evidenced by the historically low level of losses that the Company has experienced from customer financial institution failures.

MasterCard provides a guarantee to a financial institution that is also a principal member, indemnifying the financial institution from losses stemming from failures of DataCash customers to perform duties. The amount of the guarantee was estimated at 13 million U.K. pound sterling, or approximately \$20 million, as of December 31, 2010.

The Company enters into business agreements in the ordinary course of business under which the Company agrees to indemnify third parties against damages, losses and expenses incurred in connection with legal and other proceedings arising from relationships or transactions with the Company. As the extent of the Company's obligations under these agreements depends entirely upon the occurrence of future events, the Company's potential future liability under these agreements is not determinable. See Note 5 (Fair Value).

Note 24. Foreign Exchange Risk Management

The Company enters into foreign currency forward contracts to manage risk associated with anticipated receipts and disbursements which are either transacted in a non-functional currency or valued based on a currency other than its functional currencies. The Company also enters into foreign currency forward contracts to offset possible changes in value due to foreign exchange fluctuations of assets and liabilities denominated in foreign currencies. The objective of this activity is to reduce the Company's exposure to transaction gains and losses resulting from fluctuations of foreign currencies against its functional currencies. On January 1, 2009, the Company adopted the new disclosure requirements for derivative instruments and hedging activities. This adoption had no impact on the Company's financial position or results of operations; it required additional financial statement disclosures. The Company has applied these disclosure requirements on a prospective basis. Accordingly, disclosures related to periods prior to the date of adoption have not been presented.

MasterCard purchased U.K. pound sterling option contracts to limit the foreign exchange risk related to the DataCash acquisition. The Company completed its acquisition of DataCash on October 22, 2010. See Note 2 (Acquisition of DataCash Group plc) for further details.

The Company does not designate foreign currency derivatives as hedging instruments pursuant to the accounting standards for derivative instruments and hedging activities. The Company records the change in the estimated fair value of the outstanding derivatives at the end of the reporting period to its consolidated balance sheet and consolidated statement of operations.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

As of December 31, 2010, all contracts to purchase and sell foreign currency had been entered into with customers of MasterCard. MasterCard's derivative contracts are classified by functional currency as summarized below:

U.S. Dollar Functional Currency

	December 31, 2010		December 31, 2009	
	Notional	Estimated Fair Value ¹	Notional	Estimated Fair Value ¹
	(in millions)			
Commitments to purchase foreign currency	\$ 36	\$ 1 ¹	\$38	\$— ¹
Commitments to sell foreign currency	129	(2) ¹	50	(1) ¹
<i>Balance Sheet Location:</i>				
<i>Accounts Receivable</i>		\$ 1		\$ 1
<i>Other Current Liabilities</i>		(2)		(2)

Euro Functional Currency

	December 31, 2010		December 31, 2009	
	Notional	Estimated Fair Value ¹	Notional	Estimated Fair Value ¹
	(in millions)			
Commitments to purchase foreign currency	\$ 2	\$—	\$16	\$—
Commitments to sell foreign currency	14	—	45	—
<i>Balance Sheet Location:</i>				
<i>Accounts Receivable</i>		\$—		\$—
<i>Other Current Liabilities</i>		—		—

U.K. Pound Sterling Functional Currency

	December 31, 2010		December 31, 2009	
	Notional	Estimated Fair Value ¹	Notional	Estimated Fair Value ¹
	(in millions)			
Commitments to purchase foreign currency	\$—	\$—	\$—	\$—
Commitments to sell foreign currency	5	—	—	—
<i>Balance Sheet Location:</i>				
<i>Accounts Receivable</i>		\$—		\$—
<i>Other Current Liabilities</i>		—		—

Amount and Location of Gain (Loss) Recognized in Income during the Year Ended December 31,

	2010	2009
	(in millions)	
Derivatives Not Designated As Hedging Instruments		
Foreign Currency Derivative Contracts		
General and administrative		\$(17) \$(12)
Revenues		(3) (6)
Total		<u>\$(20)</u> <u>\$(18)</u>

¹ Amounts represent gross fair value amounts while these amounts may be netted for actual balance sheet presentation.

MASTERCARD INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—continued

The currencies underlying the foreign currency forward contracts consist primarily of the Australian dollar, Canadian dollar, Chinese renminbi, Mexican peso and U.K. pound sterling. The fair value of the foreign currency forward contracts and foreign currency option contracts generally reflects the estimated amounts that the Company would receive or (pay), on a pre-tax basis, to terminate the contracts at the reporting date based on broker quotes for the same or similar instruments. The terms of the foreign currency forward contracts are generally less than 18 months. The Company had no deferred gains or losses in accumulated other comprehensive income as of December 31, 2010 and 2009 as there were no derivative contracts accounted for under hedge accounting.

The Company's derivative financial instruments are subject to both credit and market risk. Credit risk is the risk of loss due to failure of the counterparty to perform its obligations in accordance with contractual terms. Market risk is the risk of loss due to the potential change in an instrument's value caused by fluctuations in interest rates and other variables related to currency exchange rates. Credit and market risk related to derivative instruments were not material at December 31, 2010 and 2009.

Generally, the Company does not obtain collateral related to derivatives because of the high credit ratings of the counterparties. The amount of loss the Company would incur if the counterparties failed to perform according to the terms of the contracts is not considered material.

Note 25. Segment Reporting

MasterCard has one reportable segment, "Payment Solutions." All of the Company's activities are interrelated, and each activity is dependent upon and supportive of the other. Accordingly, all significant operating decisions are based upon analyses of MasterCard as one operating segment. The President and Chief Executive Officer has been identified as the chief operating decision-maker.

Revenue by geographic market is based on the location of the Company's customer that issued the cards which are generating the revenue. Revenue generated in the U.S. was approximately 41.6%, 42.4% and 44.1% of net revenues in 2010, 2009 and 2008, respectively. No individual country, other than the U.S., generated more than 10% of total revenues in those periods. MasterCard does not maintain or measure long-lived assets by geographic location.

MasterCard did not have any one customer that generated greater than 10% of net revenues in 2010, 2009 or 2008.

Note 26. Other Income

During the year ended December 31, 2009, the Company recognized a gain of \$14 million on the prepayment of the Company's remaining obligation on a litigation settlement. During the year ended December 31, 2008, the Company recognized \$75 million pre-tax, in other income, related to the termination of a customer business agreement for a customer exiting a specific line of business.

MASTERCARD INCORPORATED
SUMMARY OF QUARTERLY DATA (Unaudited)
(In thousands, except per share data)

	2010 Quarter Ended				2010 Total
	March 31	June 30	September 30	December 31 ¹	
	(in millions, except per share amounts)				
Revenues, net	\$1,308	\$1,365	\$1,428	\$1,438	\$5,539
Operating income	700	717	766	569	2,752
Net income attributable to MasterCard	455	458	518	415	1,846
Basic earnings per share	\$ 3.47	\$ 3.50	\$ 3.96	\$ 3.17	\$14.10
Weighted average shares outstanding (basic)	130	131	131	131	131
Diluted earnings per share	\$ 3.46	\$ 3.49	\$ 3.94	\$ 3.16	\$14.05
Weighted average shares outstanding (diluted)	131	131	131	131	131

	2009 Quarter Ended				2009 Total
	March 31	June 30	September 30	December 31 ¹	
	(in millions, except per share amounts)				
Revenues, net	\$1,156	\$1,280	\$1,364	\$1,299	\$5,099
Operating income	561	557	673	469	2,260
Net income attributable to MasterCard	367	349	452	295	1,463
Basic earnings per share	\$ 2.81	\$ 2.67	\$ 3.46	\$ 2.25	\$11.19
Weighted average shares outstanding (basic)	130	130	130	130	130
Diluted earnings per share	\$ 2.80	\$ 2.67	\$ 3.45	\$ 2.24	\$11.16
Weighted average shares outstanding (diluted)	130	130	130	130	130

¹ Portions of our business can be seasonal. Our gross revenue has historically reflected progressively increased card purchasing volume throughout the year, particularly in the fourth quarter during the holiday shopping period. Similarly, customer and merchant incentives, which are recorded as contra-revenue, and advertising and marketing expenses have historically increased in the fourth quarter, generally causing our profitability to decline.

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

Not applicable.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

MasterCard Incorporated's management, including the President and Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the Company's President and Chief Executive Officer and Chief Financial Officer concluded that MasterCard Incorporated's disclosure controls and procedures were effective as of the end of the period covered by this Report at the reasonable assurance level to accomplish their objectives of (i) recording, processing, summarizing and reporting information that is required to be disclosed in its reports under the Securities Exchange Act of 1934, as amended, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) ensuring that information required to be disclosed in such reports is accumulated and communicated to MasterCard Incorporated's management, including its President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure.

Internal Control over Financial Reporting

In addition, MasterCard Incorporated's management assessed the effectiveness of MasterCard's internal control over financial reporting as of December 31, 2010. Management's report on internal control over financial reporting is included in Item 8. The attestation report of PricewaterhouseCoopers LLP, our independent registered public accounting firm, is also included in Part II, Item 8.

There was no change in MasterCard's internal control over financial reporting that occurred during the three months ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, MasterCard's internal control over financial reporting.

Item 9B. *Other Information*

Not applicable.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance*

The information required by this Item with respect to our directors and executive officers, code of ethics, procedures for recommending nominees, audit committee, audit committee financial experts and compliance with Section 16(a) of the Exchange Act will appear in our definitive proxy statement to be filed with the SEC and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held on June 7, 2011 (the "Proxy Statement").

The aforementioned information in the Proxy Statement is incorporated by reference into this Report.

Item 11. *Executive Compensation*

The information required by this Item with respect to executive officer and director compensation will appear in the Proxy Statement and is incorporated by reference into this Report.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item with respect to security ownership of certain beneficial owners and management equity and compensation plans will appear in the Proxy Statement and is incorporated by reference into this Report.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this Item with respect to transactions with related persons, the review, approval or ratification of such transactions and director independence will appear in the Proxy Statement and is incorporated by reference into this Report.

Item 14. *Principal Accounting Fees and Services*

The information required by this Item with respect to auditors' services and fees will appear in the Proxy Statement and is incorporated by reference into this Report.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) The following documents are filed as part of this Report:

1. Consolidated Financial Statements

See Index to Consolidated Financial Statements in Part II, Item 8 of this Report.

2. Consolidated Financial Statement Schedules

None.

3. The following exhibits are filed as part of this Report or, where indicated, were previously filed and are hereby incorporated by reference:

Refer to the Exhibit Index herein.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

MASTERCARD INCORPORATED

(Registrant)

Date: February 24, 2011

By: /s/ AJAY BANGA
Ajay Banga
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Date: February 24, 2011

/s/ AJAY BANGA
Ajay Banga
President and Chief Executive Officer; Director
(Principal Executive Officer)

Date: February 24, 2011

/s/ MARTINA HUND-MEJEAN
Martina Hund-Mejean
Chief Financial Officer
(Principal Financial Officer)

Date: February 24, 2011

/s/ MELISSA J. BALLENGER
Melissa J. Ballenger
Corporate Controller
(Principal Accounting Officer)

Date: February 24, 2011

/s/ SILVIO BARZI
Silvio Barzi
Director

Date: February 24, 2011

/s/ DAVID R. CARLUCCI
David R. Carlucci
Director

Date: February 24, 2011

/s/ STEVEN J. FREIBERG
Steven J. Freiberg
Director

Date: February 24, 2011

/s/ RICHARD HAYTHORNTHWAITE
Richard Haythornthwaite
Chairman of the Board; Director

Date: February 24, 2011

/s/ NANCY J. KARCH
Nancy J. Karch
Director

Date: February 24, 2011

/s/ MARC OLIVIÉ

Marc Olivié
Director

Date: February 24, 2011

/s/ JOSÉ OCTAVIO REYES LAGUNES

José Octavio Reyes Lagunes
Director

Date: February 24, 2011

/s/ MARK SCHWARTZ

Mark Schwartz
Director

Date: February 24, 2011

/s/ JACKSON TAI

Jackson Tai
Director

Date: February 24, 2011

/s/ EDWARD SUNING TIAN

Edward Suning Tian
Director

EXHIBIT INDEX

- 3.1(a) Amended and Restated Certificate of Incorporation of MasterCard Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed September 23, 2010 (File No. 001-32877)).
- 3.1(b) Amended and Restated Bylaws of MasterCard Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed September 23, 2010 (File No. 001-32877)).
- 3.2(a) Amended and Restated Certificate of Incorporation of MasterCard International Incorporated (incorporated by reference to Exhibit 3.2 (a) to the Company's Quarterly Report on Form 10-Q filed August 2, 2006 (File No. 001-32877)).
- 3.2(b) Amended and Restated Bylaws of MasterCard International Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed November 3, 2009 (File No. 001-32877)).
- 10.1 \$2,750,000,000 Credit Agreement, dated as of November 22, 2010, among MasterCard Incorporated, the several lenders from time to time parties thereto, Citibank, N.A., as managing administrative agent, and JPMorgan Chase Bank, N.A. as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 23, 2010 (File No. 001-32877)).
- 10.2 Lease, dated as of April 1, 2003, between MasterCard International, LLC and City of Kansas City, Missouri relating to the Kansas City facility (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed August 8, 2003 (File No. 000-50250)).
- 10.3+ Employment Agreement between MasterCard International Incorporated and Ajay Banga, dated as of July 1, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 8, 2010 (File No. 001-32877)).
- 10.4+ Employment Agreement between Noah J. Hanft and MasterCard International dated December 30, 2008 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 2, 2009 (File No. 001-32877)).
- 10.5+ Employment Agreement between Chris A. McWilton and MasterCard International dated December 30, 2008 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed January 2, 2009 (File No. 001-32877)).
- 10.6+ Employment Agreement between Martina Hund-Mejean and MasterCard International dated December 30, 2008 (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed January 2, 2009 (File No. 001-32877)).
- 10.7+ Description of Employment Arrangement with Gary Flood (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed February 18, 2010 (File No. 001-32877)).
- 10.8+ Employment Agreement between Robert W. Selander and MasterCard International dated December 31, 2008 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 2, 2009 (File No. 001-32877)).
- 10.8.1+ Transition Letter between Robert W. Selander and MasterCard Incorporated dated April 12, 2010 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 15, 2010 (File No. 001-32877)).

- 10.9+ MasterCard International Incorporated Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2008 (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K filed February 19, 2009 (File No. 001-32877)).
- 10.10+ MasterCard International Senior Executive Annual Incentive Compensation Plan, as amended and restated effective September 21, 2010 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed November 2, 2010 (File No. 001-32877)).
- 10.11+ MasterCard International Incorporated Restoration Program, as amended and restated January 1, 2007 unless otherwise provided (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed February 19, 2009 (File No. 001-32877)).
- 10.12+ MasterCard Incorporated Deferral Plan, as amended and restated effective December 1, 2008 for account balances established after December 31, 2004 (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed February 19, 2009 (File No. 001-32877)).
- 10.13+ MasterCard Incorporated 2006 Long Term Incentive Plan, amended and restated effective October 13, 2008 (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K filed February 19, 2009 (File No. 001-32877)).
- 10.14+ Form of Restricted Stock Unit Agreement for awards under 2006 Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed May 4, 2010 (File No. 001-32877)).
- 10.15+ Form of Stock Option Agreement for awards under 2006 Long Term Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed May 4, 2010 (File No. 001-32877)).
- 10.16+ Form of Performance Unit Agreement for awards under 2006 Long Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed May 4, 2010 (File No. 001-32877)).
- 10.17+ Form of MasterCard Incorporated Long Term Incentive Plan Non-Competition and Non-Solicitation Agreement for named executive officers (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed May 2, 2007 (File No. 001-32877)).
- 10.18+ MasterCard International Incorporated Executive Severance Plan, effective as of August 1, 2009 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 31, 2009 (File No. 001-32877)).
- 10.19+ MasterCard International Incorporated Change in Control Severance Plan, effective as of August 1, 2009 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 31, 2009 (File No. 001-32877)).
- 10.20+ Schedule of Non-Employee Directors' Annual Compensation (effective as of January 1, 2010) (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K filed February 18, 2010 (File No. 001-32877)).
- 10.21+ 2006 Non-Employee Director Equity Compensation Plan, amended and restated as of December 1, 2008 (incorporated by reference to Exhibit 10.31 to the Company's Annual Report on Form 10-K filed February 19, 2009 (File No. 001-32877)).

- 10.22+ Form of Deferred Stock Unit Agreement for awards under 2006 Non-Employee Director Equity Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed November 1, 2006 (File No. 001-32877)).
- 10.23 Form of Indemnification Agreement between MasterCard Incorporated and its directors (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed May 2, 2006 (File No. 000-50250)).
- 10.24 Form of Indemnification Agreement between MasterCard Incorporated and its director nominees (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed May 2, 2006 (File No. 000-50250)).
- 10.25 Deed of Gift between MasterCard Incorporated and The MasterCard Foundation (incorporated by reference to Exhibit 10.28 to Pre-Effective Amendment No. 5 to the Company's Registration Statement on Form S-1 filed May 3, 2006 (File No. 333-128337)).
- 10.26 Settlement Agreement, dated as of June 4, 2003, between MasterCard International Incorporated and Plaintiffs in the class action litigation entitled In Re Visa Check/MasterMoney Antitrust Litigation (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed August 8, 2003 (File No. 000-50250)).
- 10.27 Stipulation and Agreement of Settlement, dated July 20, 2006, between MasterCard Incorporated, the several defendants and the plaintiffs in the consolidated federal class action lawsuit titled In re Foreign Currency Conversion Fee Antitrust Litigation (MDL 1409), and the California state court action titled Schwartz v. Visa Int'l Corp., et al. (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 1, 2006 (File No. 001-32877)).
- 10.28 Release and Settlement Agreement, dated June 24, 2008, by and among MasterCard Incorporated, MasterCard International Incorporated and American Express (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed August 1, 2008. (File No. 001-32877)).
- 10.29* Judgment Sharing Agreement between MasterCard and Visa in the Discover Litigation, dated July 29, 2008, by and among MasterCard Incorporated, MasterCard International Incorporated, Visa Inc., Visa U.S.A. Inc. and Visa International Service Association (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed August 1, 2008. (File No. 001-32877)).
- 10.30 Release and Settlement Agreement dated as of October 27, 2008 by and among MasterCard, Discover and Visa (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed November 4, 2008. (File No. 001-32877)).
- 10.31 Agreement dated as of October 27, 2008, by and among MasterCard International Incorporated, MasterCard Incorporated, Morgan Stanley, Visa Inc., Visa U.S.A. Inc. and Visa International Association (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed November 4, 2008. (File No. 001-32877)).
- 10.32 Agreement to Prepay Future Payments at a Discount, dated as of July 1, 2009, by and between MasterCard International incorporated and Co-lead Counsel, acting collectively as binding representative and agent of the Plaintiffs (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 10-K filed July 2, 2009 (File No. 001-32877)).

- 10.33** Omnibus Agreement Regarding Interchange Litigation Judgment Sharing and Settlement Sharing, dated as of February 7, 2011, by and among MasterCard Incorporated, MasterCard International Incorporated, Visa Inc., Visa U.S.A. Inc., Visa International Service Association and MasterCard's customer banks that are parties thereto.
- 10.34** MasterCard Settlement and Judgment Sharing Agreement, dated as of February 7, 2011, by and among MasterCard Incorporated, MasterCard International Incorporated and MasterCard's customer banks that are parties thereto.
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 21 List of Subsidiaries of MasterCard Incorporated.
- 23.1 Consent of PricewaterhouseCoopers LLP.
- 31.1 Certification of Ajay Banga, President and Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Martina Hund-Mejean, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Ajay Banga, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Martina Hund-Mejean, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Scheme Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

+ Management contracts or compensatory plans or arrangements.

* Exhibit omits certain information that has been filed separately with the U.S. Securities and Exchange Commission and has been granted confidential treatment.

** The Company has applied for confidential treatment of portions of this exhibit. Accordingly, portions have been omitted and filed separately with the U.S. Securities and Exchange Commission.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and should not be relied upon for that purpose. In particular, any representations and warranties made by the Company in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

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MasterCard Board of Directors

Ajay Banga

President and Chief Executive Officer
MasterCard Incorporated

Silvio Barzi^{1, 2, 3}

Former Chairman
UniCredit Family Financing

David R. Carlucci^{2 (Chair)}

Former Chairman and Chief Executive Officer
IMS Health Incorporated

Steven J. Freiberg

Chief Executive Officer
E*TRADE Financial Corporation

Richard Haythornthwaite^{1, 3 (Chair)}

Non-Executive Chairman
Network Rail;
Chairman of the Board
MasterCard Incorporated

Nancy J. Karch^{1, 3}

Director Emeritus
McKinsey & Company

Marc Olivie^{1, 2}

President and Chief Executive Officer
W. C. Bradley Co.

José Octavio Reyes Lagunes²

President, Latin America Group
The Coca-Cola Company

Mark Schwartz^{1 (Chair), 3}

Chairman
MissionPoint Capital Partners LLC

Jackson P. Tai¹

Former Vice Chairman and Chief Executive Officer
DBS Group and DBS Bank Ltd.

Edward Suning Tian³

Chairman
China Broadband
Capital Partners, L.P.

MasterCard Executive Committee

Ajay Banga

President and Chief Executive Officer

Gary J. Flood

President, Global Products and Solutions

Noah J. Hanft

General Counsel, Corporate Secretary
and Chief Franchise Integrity Officer

Martina Hund-Mejean

Chief Financial Officer

Walt M. Macnee

President, International Markets

Chris A. McWilton

President, U.S. Markets

Robert Reeg

President, MasterCard Technologies

Stephanie E. Voquer

Chief Human Resources Officer

(1) Audit Committee

(2) Human Resources and Compensation Committee

(3) Nominating and Corporate Governance Committee

MasterCard Information and Resources

Major Offices

Corporate Headquarters
2000 Purchase Street
Purchase, New York 10577 U.S.A.
Telephone: 1.914.249.2000

**MasterCard Technologies
Headquarters**
St. Louis, Missouri, U.S.A.

**Asia/Pacific, Middle East, and Africa
Regional Headquarters**
Singapore

Canada Regional Headquarters
Toronto, Ontario, Canada

Europe Regional Headquarters
Waterloo, Belgium

**Latin America and Caribbean
Regional Headquarters**
Miami, Florida, U.S.A.

U.S. Regional Headquarters
Purchase, New York, U.S.A.

Shareholder Information

Investor Relations
1.914.249.4565
investor_relations@mastercard.com

Shareholder Information
Copies of the company's Annual Report on Form 10-K and Form 10-Q reports as filed with the U.S. Securities and Exchange Commission (SEC) are available upon request from the company.

Visit our website, www.mastercard.com, for updated news releases, stock performance, financial reports, recent investments, investment community presentations, SEC filings, corporate governance and other investor information.

Annual Meeting of Stockholders
The 2011 Annual Meeting of Stockholders of MasterCard Incorporated will be held on Tuesday, June 7, 8:30 a.m., at MasterCard Corporate Headquarters, 2000 Purchase Street, Purchase, New York.

Stock Listing and Symbol
New York Stock Exchange
Symbol: MA

Transfer Agent
BNY Mellon Shareowner Services
480 Washington Blvd., 27th Floor
Jersey City, New Jersey 07310-1900

For holders of Class A common stock:
U.S. Telephone: 1.800.837.7579
Non-U.S. Telephone: 1.201.680.6578

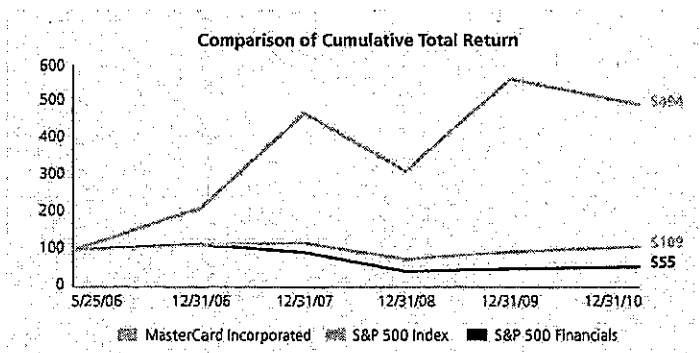
For holders of Class B common stock:
U.S. Telephone: 1.866.337.6318
Non-U.S. Telephone: 1.201.680.6656

Facsimile: 1.201.680.4668

**Independent Registered
Public Accounting Firm**
PricewaterhouseCoopers LLP
New York, New York

Stock Performance

*The graph to the right and the table below compare the cumulative total stockholder return of MasterCard Incorporated Class A common stock, the S&P 500 Index and the S&P 500 Financials for the period beginning on the close of trading on the New York Stock Exchange (NYSE) on May 25, 2006, and ending on the close of trading on the NYSE on December 31, 2010. The graph assumes a \$100 investment in our Class A common stock and each of the indices, and the reinvestment of dividends. MasterCard Incorporated's Class B common stock is not publicly traded or listed on any exchange or dealer quotation system.



Total Return to Shareholders (Includes reinvestment of dividends)

Company / Index	Base Period 5/25/06	Indexed Returns Years Ending				
		12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
MasterCard Incorporated	100.00	214.37	470.21	313.20	562.83	494.01
S&P 500 Index	100.00	112.65	118.84	74.87	94.68	108.95
S&P 500 Financials	100.00	114.73	93.36	41.72	48.90	54.83



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This annual report contains forward-looking information pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to MasterCard's future prospects, developments and business strategies and include, without limitation, statements relating to:

- MasterCard becoming the currency of choice;
- trends for the global economy and MasterCard's future growth prospects, which MasterCard believes to be promising;
- opportunities created by demographic and secular trends, which MasterCard believes to be favorable, including trends related to growth outside of the United States, the growing influence and purchasing power of youth and growing urbanization;
- the replacement of cash and checks representing MasterCard's largest growth opportunity, and MasterCard's strategies and potential to seize related opportunities in debit, commercial, e-commerce (including through the acquisition of the DataCash Group) and mobile; and
- MasterCard's agreement to purchase the prepaid program management business of Traveler.

Although MasterCard believes that its expectations are based on reasonable assumptions, it can give no assurance that its objectives will be achieved. Actual results may differ materially from such forward-looking statements for a number of reasons, including changes in financial condition, estimates, expectations or assumptions, or changes in general economic or industry conditions, or other circumstances such as those set forth in MasterCard Incorporated's filings with the Securities and Exchange Commission (SEC), including its Annual Report on Form 10-K for the year ended December 31, 2010 (which is included in this annual report), Quarterly Reports on Form 10-Q and Current Reports on Form 8-K that it has filed with the SEC in 2011. MasterCard's forward-looking statements speak only as of the date they are made, and MasterCard undertakes no obligation to update publicly or revise any forward-looking information.

www.mastercard.com



**This is Exhibit "B" referred to in the
Witness Statement of KEVIN J. STANTON**



Third Session
Fortieth Parliament, 2010-11

SENATE OF CANADA

*Proceedings of the Standing
Senate Committee on*

**Banking, Trade and
Commerce**

Chair:

The Honourable MICHAEL A. MEIGHEN

Wednesday, March 2, 2011
Thursday, March 3, 2011

Issue No. 19

Sixth and seventh meetings on:

Bill S-201, An Act to amend the Office of the
Superintendent of Financial Institutions Act
(credit and debit cards)

WITNESSES:
(*See back cover*)

Troisième session de la
quarantième législature, 2010-2011

SÉNAT DU CANADA

*Délibérations du Comité
sénatorial permanent des*

**Banques et du
commerce**

Président :

L'honorable MICHAEL A. MEIGHEN

Le mercredi 2 mars 2011
Le jeudi 3 mars 2011

Fascicule n° 19

Sixième et septième réunions concernant :

Le projet de loi S-201, Loi modifiant la Loi sur le
Bureau du surintendant des institutions financières
(cartes de crédit et de débit)

TÉMOINS :
(*Voir à l'endos*)

STANDING SENATE COMMITTEE ON
BANKING, TRADE AND COMMERCE

The Honourable Michael A. Meighen, *Chair*

The Honourable Céline Hervieux-Payette, P.C., *Deputy Chair*
and

The Honourable Senators:

Banks	* LeBreton, P.C.
* Cowan	(or Comeau)
(or Tardif)	Massicotte
Gerstein	Mockler
Greene	Oliver
Harb	Ringuette
Kochhar	Smith (<i>Saurel</i>)

* Ex officio members
(Quorum 4)

Changes in membership of the committee:

Pursuant to rule 85(4), membership of the committee was amended as follows:

The Honourable Senator Banks replaced the Honourable Senator Moore (*March 1, 2011*).

The Honourable Senator Oliver replaced the Honourable Senator Marshall (*February 25, 2011*).

COMITÉ SÉNATORIAL PERMANENT DES
BANQUES ET DU COMMERCE

Président : L'honorable Michael A. Meighen

Vice-présidente : L'honorable Céline Hervieux-Payette, C.P.
et

Les honorables sénateurs :

Banks	* LeBreton, C.P.
* Cowan	(ou Comeau)
(ou Tardif)	Massicotte
Gerstein	Mockler
Greene	Oliver
Harb	Ringuette
Kochhar	Smith (<i>Saurel</i>)

* Membres d'office
(Quorum 4)

Modifications de la composition du comité :

Conformément à l'article 85(4) du Règlement, la liste des membres du comité est modifiée, ainsi qu'il suit :

L'honorable sénateur Banks a remplacé l'honorable sénateur Moore (*le 1^{er} mars 2011*).

L'honorable sénateur Oliver a remplacé l'honorable sénateur Marshall (*le 25 février 2011*).

OTTAWA, Thursday, March 3, 2011
(42)

[English]

The Standing Senate Committee on Banking, Trade and Commerce met this day at 10:35 a.m., in room 9, Victoria Building, the chair, the Honourable Michael A. Meighen, presiding.

Members of the committee present: The Honourable Senators Banks, Gerstein, Greene, Harb, Hervieux-Payette, P.C., Kochhar, Meighen, Mockler, Oliver, Ringuette and Smith (*Saurel*) (11).

In attendance: John Bulmer and Adriane Yong, Analysts, Parliamentary Information and research service.

Also in attendance: The official reporters of the Senate.

Pursuant to the order of reference adopted by the Senate on Tuesday, March 30, 2010, the committee continued its examination of Bill S-201, An Act to amend the Office of the Superintendent of Financial Institutions Act (credit and debit cards). (*For complete text of the order of reference, see proceedings of the committee, Issue No. 9.*)

WITNESSES:

Bank of Canada:

Charles Spencer, Director, Business Knowledge and International Relations, Currency Department;

Carlos Arango, Principal Researcher, Currency Department.

It was agreed that the following letter be tabled by the Honourable Senator Ringuette as an exhibit:

Letter addressed to the clerk of the Standing Senate Committee on National Finance by Public Works and Government Services Canada (PWGSC). The document provides information requested by the Standing Senate Committee on National Finance during an appearance by Treasury Board Secretariat officials on February 15, 2011, in relation to the review of the Supplementary Estimates (C) 2010-2011. (Exhibit 1120-04-02-3.40/B1-S-201-19-11)

Mr. Spencer made a statement and, with Mr. Arango, answered questions.

At 11:55 a.m., the committee adjourned to the call of the chair.

ATTEST:

OTTAWA, le jeudi 3 mars 2011
(42)

[Traduction]

Le Comité sénatorial permanent des banques et du commerce se réunit aujourd'hui, à 10 h 35, dans la salle 9 de l'édifice Victoria, sous la présidence de l'honorable Michael A. Meighen (*président*).

Membres du comité présents : Les honorables sénateurs Banks, Gerstein, Greene, Harb, Hervieux-Payette, C.P., Kochhar, Meighen, Mockler, Oliver, Ringuette et Smith (*Saurel*) (11).

Également présents : John Bulmer et Adriane Yong, analystes, Service d'information et de recherche parlementaires.

Aussi présents : Les sténographes officiels du Sénat.

Conformément à l'ordre de renvoi adopté par le Sénat le mardi 30 mars 2010, le comité poursuit son examen du projet de loi S-201, Loi modifiant la Loi sur le Bureau du surintendant des institutions financières (cartes de crédit et de débit). (*Le texte intégral de l'ordre de renvoi figure au fascicule n° 9 des délibérations du comité.*)

TÉMOINS :

Banque du Canada :

Charles Spencer, directeur, Savoir institutionnel et relations internationales, Département de la monnaie;

Carlos Arango, chercheur principal, Département de la monnaie.

Il est convenu que l'honorable sénateur Ringuette dépose la lettre suivante devant le comité :

Lettre adressée au greffier du Comité sénatorial permanent des finances nationales par Travaux publics et Services gouvernementaux Canada (TPSGC). Le document contient les informations demandées par le Comité sénatorial permanent des finances nationales, durant la comparution des représentants du Secrétariat du Conseil du Trésor le 15 février 2011, au sujet de l'examen du Budget supplémentaire des dépenses (C) 2010-2011. (Pièce 1120-04-02-3.40/B1-S-201-19-« 1 »).

M. Spencer fait une déclaration puis, aidé de M. Arango, répond aux questions.

À 11 h 55, le comité suspend ses travaux jusqu'à nouvelle convocation de la présidence.

ATTESTÉ :

Le greffier du comité,

Line Gravel,

Clerk of the Committee

OTTAWA, Thursday, March 3, 2011

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill S-201, An Act to amend the Office of the Superintendent of Financial Institutions Act (credit and debit cards), met this day at 10:35 a.m. to give consideration to the bill.

Senator Michael A. Meighen (*Chair*) in the chair.

[*English*]

The Chair: Honourable senators, good morning. My name is Michael Meighen. I am a senator from the province of Ontario and I have the honour to chair this committee. I will now introduce the senators who are present. On my right is Senator Percy Mockler from New Brunswick; next to him Senator Larry Smith, from Quebec; Senator Vim Kochhar from Ontario; and Senator Oliver from Nova Scotia. To my left is Senator Ringuette from New Brunswick, and Senator Banks from Alberta. Other senators will arrive and, if I have a chance, I will introduce them. However, they normally have their correct names in front of them on the name plates.

Today we are resuming our examination of Bill S-201, An Act to amend the Office of the Superintendent of Financial Institutions Act (credit and debit cards). Our colleague Senator Ringuette is the sponsor of this bill.

[*Translation*]

This bill amends the Office of the Superintendent of Financial Institutions Act to confer new duties on the superintendent, namely to control the use of credit and debit cards and to make recommendations on the subject. It provides for the presentation of a report to the minister and a response by the minister to the superintendent.

[*English*]

The Banking Committee started its public examination of Bill S-201 on June 23 last year. Today will be our seventh meeting devoted to hearing the views of witnesses on this proposed legislation.

For those who watch these proceedings from their homes on CPAC, transcripts of previous meetings and copies of committee reports are available online by going to the committee business link of the Parliament of Canada's website at www.parl.gc.ca.

Before I introduce the witnesses, I ask your permission to call on Senator Ringuette, who has a document she would like to table before we begin our session this morning. The floor is yours, Senator Ringuette.

Senator Ringuette: As a follow-up to our witness from the City of Ottawa and the cost of credit card use within municipal governments, the week after, as a member of the Standing Senate Committee on National Finance, we had before us representatives from the Treasury Board Secretariat of the federal government. I

OTTAWA, le jeudi 3 mars 2011

Le Comité sénatorial permanent des banques et du commerce, auquel a été renvoyé le projet de loi S-201, Loi modifiant la Loi sur le Bureau du surintendant des institutions financières (cartes de crédit et de débit), se réunit aujourd'hui, à 10 h 35, pour examiner le projet de loi.

Le sénateur Michael A. Meighen (*président*) occupe le fauteuil.

[*Traduction*]

Le président : Honorables sénateurs, bonjour. Je m'appelle Michael Meighen. Je suis un sénateur de l'Ontario et j'ai l'honneur de présider le comité. Je vais maintenant présenter les sénateurs qui sont parmi nous. À ma droite, le sénateur Percy Mockler, du Nouveau-Brunswick; à côté de lui, le sénateur Larry Smith, du Québec; ensuite, les sénateurs Vim Kochhar, de l'Ontario, et le sénateur Oliver, de la Nouvelle-Écosse. À ma gauche, le sénateur Ringuette, du Nouveau-Brunswick, et le sénateur Banks, de l'Alberta. D'autres sénateurs se joindront à nous et, si j'en ai l'occasion, je les présenterai, mais normalement, leur nom figure sur la plaque disposée à leur place.

Aujourd'hui, nous reprenons l'étude du projet de loi S-201, Loi modifiant la Loi sur le Bureau du surintendant des institutions financières (cartes de crédit et de débit), qui est parrainé par notre collègue, le sénateur Ringuette.

[*Français*]

Ce projet de loi modifie la Loi sur le Bureau du surintendant des institutions financières afin de confier au surintendant de nouvelles fonctions, à savoir contrôler l'utilisation des cartes de crédit et de débit et formuler des recommandations à ce sujet. Il prévoit la présentation d'un rapport au ministre ainsi qu'une réponse de ce dernier au surintendant.

[*Traduction*]

Le Comité des banques a entamé son étude publique du projet de loi S-201 le 23 juin dernier. Ce sera aujourd'hui la septième séance consacrée à l'audition de témoins qui exposeront leur opinion sur le projet de loi proposé.

À ceux qui suivent ces délibérations chez eux, sur la chaîne CPAC, je signale que la transcription des séances précédentes et les rapports du comité sont disponibles en ligne. Il suffit de suivre le lien des travaux des comités sur le site web du Parlement du Canada, à l'adresse www.parl.gc.ca.

Avant d'entendre les témoins, je vous demande la permission de donner la parole au sénateur Ringuette, qui voudrait déposer un document avant que nous ne commencions la séance de ce matin. À vous la parole, sénateur Ringuette.

Le sénateur Ringuette : Pour donner suite aux propos de notre témoin de la Ville d'Ottawa, qui a parlé du coût de l'utilisation des cartes de crédit pour les administrations municipales, la semaine suivante, comme membre du Comité sénatorial permanent des finances nationales, où comparaissaient des représentants du

asked them the following question: What is the cost to the federal government, its Crown corporation museum and parks, with regard to credit card acceptance fees and merchant fees? The answer that I received late yesterday afternoon is the following:

For fiscal year 2009/10, the Receiver General for Canada paid \$12,956,176 to cover credit card merchant fees for federal government departments that accept payment for goods and services by Visa, MasterCard and American Express. This figure does not include Crown Corporations, who do their own credit card procurement. Merchant acceptance fees for Parks Canada totaled \$799,370.

I would like to table the document that I received in both French and English so that all the members of our committee can have this information.

The Chair: Thank you, Senator Ringuette. Our clerk will have that distributed to all members. It will form part of the record of our hearings.

Colleagues, I will now return to the introduction of our witnesses. With us today, from the Bank of Canada, Currency Department, are Charles Spencer, Director, Business Knowledge and International Relations; and Carlos Arango, Principal Researcher. Our witnesses are the authors of a paper published in the *Bank of Canada Review* Winter 2008-09 entitled: "Merchants' Costs of Accepting Means of Payment: Is Cash the Least Costly?"

I think all members have received a copy of that paper.

Gentlemen, welcome to our committee. I should mention that, on my right, Senator Greene from Nova Scotia has just joined us, as has the deputy chair of the committee, Senator Hervieux-Payette from Quebec. Coming in right now is Senator Mac Harb from Ontario.

I understand both of you have an opening statement. Mr. Spencer will begin.

Charles Spencer, Director, Business Knowledge and International Relations, Currency Department, Bank of Canada: In the spirit of modesty and attribution, may I correct one aspect of your introduction? I do not have the honour of being a co-author of this report; it is Mr. Arango and his co-author, Varya Taylor, who is not here today. I work in the area that they work in, but I do not have their expertise in this field. Thank you for the thought, however.

Good morning, Mr. Chair and honourable senators. As the chair explained, I am a director in the currency department at the Bank of Canada. I am joined by Mr. Arango, who is the co-author of the *Bank of Canada Review* article on our merchant survey, which attracted the committee's attention to our work. We are

Secrétariat du Conseil du Trésor, j'ai posé la question suivante : combien les frais de traitement des transactions par carte de crédit coûtent-ils au gouvernement fédéral et à ses sociétés d'État, musées et parcs? Voici la réponse que j'ai reçue hier après-midi :

Le receveur général du Canada a versé 12 956 176 \$ afin de couvrir les frais de traitement des transactions par carte de crédit qui ont été engagés en 2009-2010, pour le compte des ministères fédéraux qui acceptent que leurs produits et leurs services soient payés par Visa, MasterCard ou American Express. Ce chiffre exclut toutefois les sociétés d'État, qui acquièrent elles-mêmes leurs propres services de cartes de crédit. En ce qui concerne, Parcs Canada, les frais de traitement des transactions par cartes de crédit ont totalisé 799 370 \$.

Je voudrais déposer ce document que j'ai reçu en français et en anglais pour que tous les membres du comité aient cette information.

Le président : Merci, sénateur Ringuette. La greffière fera distribuer le document à tous les membres du comité, et il fera partie du compte rendu de nos audiences.

Chers collègues, je reviens à la présentation des témoins. Nous accueillons aujourd'hui, du département de la monnaie de la Banque du Canada, Charles Spencer, directeur de Savoir institutionnel et relations internationales, et Carlos Arango, chercheur principal. Les témoins sont les auteurs d'un article publié dans la *Revue de la Banque du Canada* à l'hiver 2008-2009, « Coûts des divers modes de paiement : l'argent comptant est-il le moyen le moins onéreux pour les commerçants? »

Tous les membres du comité auront reçu un exemplaire de cet article.

Messieurs, bienvenue au comité. Je signale la présence, à ma droite, du sénateur Greene, de la Nouvelle-Écosse, qui vient de se joindre à nous, tout comme la vice-présidente du comité, le sénateur Hervieux-Payette, du Québec. Et voici qu'arrive maintenant le sénateur Mac Harb, de l'Ontario.

Je crois savoir que vous avez tous les deux une déclaration préliminaire à faire. Ce sera d'abord M. Spencer.

Charles Spencer, directeur, Savoir institutionnel et relations internationales, Département de la monnaie, Banque du Canada : Par souci de modestie et d'exactitude, puis-je me permettre de rectifier un détail de votre présentation? Je n'ai pas l'honneur d'être le coauteur du rapport. Il est signé par M. Arango et Varya Taylor, qui n'est pas ici aujourd'hui. Je travaille dans le même domaine qu'eux, mais je n'ai pas la même compétence qu'eux sur ce point précis. Merci tout de même d'avoir signalé cet article.

Bonjour, monsieur le président et honorables sénateurs. Comme le président l'a expliqué, je dirige le département de la monnaie à la Banque du Canada. Je suis accompagné de M. Arango, qui est coauteur de l'article de la *Revue de la Banque du Canada* consacré à notre enquête auprès des

pleased that the bank's research is proving to be of interest to the committee, and we hope we can assist your deliberations further this morning by summarizing it and discussing it with you.

[Translation]

Mr. Chair, I propose to review briefly the bank's mandate in this area and to explain why we conduct this kind of research. Dr. Arango will then provide a brief overview, from our perspective, of the use of cash relative to other means of payment in the Canadian economy, and that still means principally credit and debit cards. He will then summarize some key points from the merchant survey which we think may be relevant to your discussion, following which we are available for your questions.

I know that the committee hears regularly from the governor and senior deputy governor on monetary policy and the macro economy, so I am sure that I do not need to explain the Bank of Canada's role in those areas. However, the bank also has the responsibility under this act for issuing bank notes and for making all the necessary arrangements for their distribution across the country.

Because we are discussing retail payments today, it is probably useful to remind you that we are not responsible for coins, which falls to the Royal Canadian Mint.

[English]

While we are on the subject of what the bank does not do, I will point out that the bank has no oversight responsibilities over retail payment systems. It has that at the wholesale payments level, which includes most payments between financial institutions. The bank has an oversight role for those clearing systems that have been formally designated by the bank as systemically important. This is part of its responsibility for financial stability under the Payment Clearing and Settlement Act, under which the bank can designate a clearing system with the approval of the Minister of Finance. Before I hand over to Dr. Arango, I will explain why we do the kind of research that resulted in the article by him and his colleague, Varya Taylor, which led you to invite us here today.

As I mentioned earlier, the bank issues banknotes and makes arrangements for their distribution. In order to plan this work effectively, we have to understand how banknotes are used and how that use is likely to evolve in the future. Despite the expectations by some that cash would die out, the demand for banknotes has remained relatively stable over the last 20 years. The value of notes outstanding has grown more or less in line with the growth of the economy. Currently, there are approximately

commerçants et qui a attiré l'attention de votre comité sur notre travail. Nous sommes ravis de l'intérêt que vous portez aux recherches de la Banque, et nous espérons pouvoir vous fournir une aide supplémentaire dans vos délibérations de ce matin en résumant cet article et en en discutant avec vous.

[Français]

Monsieur le président, si vous le voulez bien, je passerai rapidement en revue le mandat de la banque dans le domaine des billets de banque et je vous expliquerai pourquoi nous effectuons ce type de recherche. M. Arango vous donnera ensuite un bref aperçu dans l'optique de notre institution, de la place de l'argent comptant dans l'économie canadienne par rapport aux autres modes de paiement, qui sont encore principalement les cartes de crédit et de débit. Il résumera certains points saillants de l'enquête auprès des détaillants qui, selon nous, pourrait éclairer vos discussions. Après quoi nous répondrons à vos questions.

Je sais que le comité entend régulièrement le gouverneur et le premier sous-gouverneur de la Banque du Canada au sujet de la politique monétaire et de la macroéconomie. Il n'est donc pas nécessaire que je vous parle du rôle de notre institution à ce chapitre. Cependant la banque est aussi responsable, aux termes de la loi qui la fonde, de l'émission des billets de banque et de tous les arrangements nécessaires à leur distribution d'un bout à l'autre du pays.

Comme nous allons discuter aujourd'hui des paiements de détail, il est probablement utile de rappeler que la production des pièces de monnaie n'est pas du ressort de la banque, mais de la Monnaie royale canadienne.

[Traduction]

Et puisque nous parlons de ce que la Banque ne fait pas, je vous dirai également qu'elle n'est pas chargée de surveiller les systèmes de règlement des paiements de détail. Pour les paiements de gros, c'est-à-dire la plupart des paiements entre les institutions financières, la Banque supervise les systèmes de compensation qui sont officiellement désignés par elle comme étant d'importance systémique. Dans le cadre de la responsabilité à l'égard de la stabilité financière qu'elle exerce aux termes de la Loi sur la compensation et le règlement des paiements, la Banque est en effet habilitée à attribuer cette désignation, avec l'approbation du ministre des Finances. Avant de céder la parole à M. Arango, je voudrais vous expliquer pourquoi nous effectuons le genre de recherches qui ont donné lieu à l'article qu'il a rédigé avec sa collègue Varya Taylor et qui vous a amenés à nous inviter aujourd'hui.

Comme je l'ai déjà dit, la Banque émet des billets de banque et prend les dispositions nécessaires à leur distribution. Pour planifier ces travaux de manière efficace, nous devons comprendre comment les billets sont utilisés et comment cette utilisation est susceptible d'évoluer à l'avenir. Bien que certains s'attendent à ce que l'argent liquide disparaisse, la demande de billets de banque est relativement stable depuis 20 ans. La valeur des billets en circulation a progressé à un rythme plus ou moins

\$58 billion in banknotes outstanding. However, as Dr. Arango will explain, the composition of the notes outstanding and their use have changed. Over the years, as part of its focus on banknotes, the bank has done a number of public surveys to study the use of cash compared to the use of other means of payment. We do this work in order to make long-term decisions about how to manage our banknote responsibilities, and to ensure that banknotes are meeting the needs of consumers, retailers and the economy. In doing this research, we also naturally learn things about the other payment instruments, and that was particularly true of the survey of merchants that Dr. Arango and Ms. Taylor conducted. Dr. Arango will provide a summary of the role of cash in Canada and the trends in retail payments; and he will highlight some of the conclusions from the survey of merchants, which might be helpful to the work of the committee. We have brought copies of the charts to which he will refer. I believe you have been provided with copies of the *Bank of Canada Review* article and a more technical paper that reports on the study in detail.

Mr. Chair, I ask Dr. Arango to make his presentation.

Carlos Arango, Principal Researcher, Currency Department, Bank of Canada: Good morning, Mr. Chair and honourable senators. I am pleased to have the opportunity to appear before you to present our research on merchants' acceptance perceptions and costs of retail payment instruments.

This presentation draws mostly from my joint research with Varya Taylor on a survey of 500 Canadian merchants that was commissioned by the Bank of Canada in 2006. I make the usual disclaimer that the views expressed in this presentation are those of the researchers and should not be attributed to the Bank of Canada. As well, I warn the committee that the retail payment environment has evolved over the last five years, and the results of a similar survey today likely would be quite different.

Developments worth noting in the past five years include: The introduction of chip cards, which increases security and enables payment features such as contactless card payments; the prospective introduction of mobile phone payment applications at the point of sale; the increasing use of premium reward credit cards with higher merchant acceptance fees; and the introduction of new regulations for the debit and credit card industries. I will discuss retail payments in Canada first.

Slide 2 shows that cash demand in Canada, expressed as the total value of notes outstanding as a percentage of GDP, gross domestic product, has remained fairly stable over the past 30 years at about 3 per cent. However, a closer look by denomination offers a

semblable à celui de l'économie, et on a à présent quelque 58 milliards de dollars de billets en circulation. Mais comme vous le dira M. Arango, l'utilisation des billets et leur répartition entre les différentes coupures ont changé. Au fil des ans, la Banque a effectué plusieurs enquêtes publiques dans le cadre de ses fonctions relatives aux billets, afin d'étudier l'utilisation des espèces par rapport aux autres modes de paiement. Nous menons ces travaux pour prendre les décisions à long terme qui nous permettent de nous acquitter de notre mandat à l'égard des billets de banque et de répondre aux besoins des consommateurs, des détaillants et de l'économie à ce chapitre. À la faveur de ces recherches, nous élargissons naturellement nos connaissances sur les autres instruments de paiement, ce qui est particulièrement vrai dans le cas de l'enquête menée par M. Arango et Mme Taylor. M. Arango va maintenant vous donner un bref aperçu du rôle de l'argent comptant au Canada et des tendances dans le domaine des paiements de détail, et il vous présentera certaines conclusions de l'enquête, qui pourraient être utiles à vos travaux. Nous vous avons apporté des copies des graphiques dont nous allons parler, et je crois que vous avez déjà reçu des exemplaires de l'article de la *Revue de la Banque du Canada*, ainsi que d'un article plus technique qui traite de cette étude en détail.

Monsieur le président, j'invite M. Arango à faire son exposé.

Carlos Arango, chercheur principal, Département de la monnaie, Banque du Canada : Bonjour, monsieur le président et honorables sénateurs. Je suis heureux de l'occasion qui m'est donnée de comparaître pour vous présenter les résultats de nos recherches sur les perceptions et le coût de l'acceptation par les commerçants des instruments de paiement de détail.

Cette présentation s'inspire surtout de recherches communes que j'ai réalisées avec Varya Taylor sur une enquête que la Banque du Canada a commandée auprès de 500 commerçants en 2006. Je fais la mise en garde habituelle : les opinions exprimées ici sont celles des chercheurs et elles ne doivent pas être attribuées à la Banque du Canada. J'adresse une autre mise en garde au comité : le cadre des paiements de détail a évolué au cours des cinq dernières années et si une enquête analogue était faite aujourd'hui, il est probable que les résultats seraient fort différents.

Les changements notables qui sont survenus ces cinq dernières années sont les suivants : l'implantation des cartes à puce, qui améliorent la sécurité et permettent des modalités comme le paiement par carte sans contact; la possibilité d'introduire les applications de paiement par téléphone mobile au lieu de vente; l'augmentation de l'utilisation des cartes de prestige avec récompenses dont les frais d'acceptation sont plus élevés pour le commerçant; l'implantation d'une nouvelle réglementation pour les secteurs de la carte de débit et de la carte de crédit. Je vais d'abord parler des paiements de détail au Canada.

La diapositive 2 montre que la demande de billets de banque au Canada, comme valeur totale des billets en circulation en pourcentage du PIB, c'est-à-dire le produit intérieur brut, reste plutôt stable depuis 30 ans, à 3 p. 100. Toutefois, un examen plus

different perspective. Higher denominations, such as the \$50 note and the \$100 note, relative to GDP, are represented by the top area in the graph.

Here we see an increase from 1.4 per cent to 2.5 per cent of GDP over the last three decades. Meanwhile, the demand for smaller denominations, such as the \$5, \$10 and \$20 notes, has declined from roughly 2 per cent to 1.2 per cent. This decline may indicate a reduction in the use of cash for retail payments as smaller banknote denominations are associated typically with retail trade, especially given that \$20 bills are the main notes dispensed at ATMs, automated teller machines.

Slide 3 provides some evidence that this may be the case. The decline in low-value denominations in circulation coincides with the growth in debit and credit card payments as a percentage of aggregate consumption from just 14 per cent in 1994 to over 50 per cent in 2009.

Unfortunately, unlike card payments there is no direct way to track cash payments. As a proxy for cash expenditures, slide 4 plots ATM cash withdrawals as a percentage of aggregate consumption over the last decade. The graph shows a decline in cash withdrawals from 16 per cent of consumption in 2001 to 12 per cent in 2009.

However, as reported in slide 5, cash is still the predominant payment method in terms of transaction volume according to preliminary results of our 2009 methods of payments survey of the public. This survey collects information on retail purchases, including payment method used, from 3,500 shopping diaries recorded by adult Canadians during a three-day period. Cash accounts for 54 per cent of total purchases recorded in the diaries. Based on a rough extrapolation, this could amount to at least 6 billion cash transactions compared to 2.5 billion for credit cards and 3.9 billion for debit cards in 2009.

One characteristic of retail payments that helps to explain some of the developments in the retail payment system is that they are two-sided markets. As depicted in slide 6, in two-sided retail payment markets, payment service providers require both consumers and merchants to be on board to create demand for their services. The key element of these markets are efficiency gains for both consumers and merchants if a third party coordinates their demands. Among the benefits of this coordination are the sharing of large set-up costs and the gains by both merchants and consumers if more of them adopt the payment instrument.

précis de la répartition entre les différentes coupures ouvre des perspectives différentes. Les coupures les plus élevées, comme les billets de 50 \$ et de 100 \$, par rapport au PIB, sont représentées par la partie supérieure du graphique.

Ici, nous voyons une progression de 1,4 à 2,5 p. 100 du PIB pendant les trois dernières décennies. Par ailleurs, la demande de plus petites coupures, celles de 5 \$, de 10 \$ et de 20 \$, a diminué, passant de 2 à 1,2 p. 100 du PIB. Ce fléchissement révèle peut-être une diminution de l'utilisation de l'argent liquide pour les paiements de détail, car les petites coupures sont le plus souvent associées au commerce de détail, d'autant plus que les billets de 20 \$ sont les billets les plus souvent offerts dans les guichets automatiques.

La diapositive 3 semble confirmer que c'est le cas. La diminution des coupures de faible valeur en circulation coïncide avec la croissance des paiements par carte de débit et de crédit comme pourcentage de la consommation globale : de 1994 à 2009, il est passé de 14 à plus de 50 p. 100.

Malheureusement, à la différence des paiements par carte, il n'y a aucun moyen direct de suivre l'évolution des paiements en liquide. La diapositive 4 utilise comme approximation des dépenses réglées comptant les retraits de numéraire aux guichets automatiques comme pourcentage de la consommation globale au cours des dix dernières années. Le graphique illustre une diminution de ces retraits, qui sont passés de 16 p. 100 de la consommation en 2001 à 12 p. 100 en 2009.

Toutefois, comme la diapositive 5 le montre, l'argent liquide demeure le mode de paiement qui prédomine comme pourcentage du volume des opérations, ainsi qu'en témoignent les résultats préliminaires de notre enquête de 2009 sur les méthodes de paiement dans le public. Cette enquête permet de recueillir de l'information sur les achats au détail, dont le mode de paiement utilisé, consignée pendant trois jours dans un journal des opérations par 3 500 Canadiens adultes. L'argent liquide a été utilisé dans 54 p. 100 des achats consignés dans ces journaux. Une extrapolation approximative indique que cela pourrait correspondre à au moins 6 milliards d'opérations en argent, contre 2,5 milliards pour les cartes de crédit et 3,9 milliards pour les cartes de débit en 2009.

Une caractéristique des paiements de détail qui aide à expliquer une partie de l'évolution du système de paiement de détail est qu'il s'agit d'un double marché. Comme la diapositive 6 le décrit, dans les doubles marchés des paiements de détail, les fournisseurs de services de paiement ont besoin de la participation aussi bien des consommateurs que des commerçants pour créer une demande pour leurs services. L'élément clé de ces marchés, ce sont les gains d'efficacité pour les consommateurs et les commerçants si un tiers coordonne leurs demandes. Parmi les avantages de cette coordination figurent le partage de coûts de mise en place importants et les gains à réaliser tant pour les commerçants que pour les consommateurs s'ils sont plus nombreux à adopter l'instrument de paiement.

Payment service suppliers set up fees and network rules to influence the entry into the network of both consumers and merchants. Consumers choose their payment instruments based on convenience in terms of speed, record keeping, access to funds, payment delay, as well as safety, fees and rewards. However, merchants must consider consumer payment preferences and what nearby competitors accept. Merchants' acceptance decisions would depend on the costs and efficiency gains from accepting a payment method; how much of the costs can be passed on to consumers in final prices for goods and services; and the impact on merchants' revenues.

To better understand the merchant side of retail payments, the bank commissioned a national survey of merchants on their accepted means of payment for point-of-sale transactions in 2006. The objectives of the survey are presented in slide 7.

They were to consider how merchants perceive retail payments in terms of costs, reliability and risks; second, to estimate the share of transactions represented by each payment method; and third, to assess the costs of accepting different retail payment methods.

As stated in slide 8, Ipsos Reid, the consulting firm that conducted the survey, held over 500, 20-minute interviews across Canada with senior-level merchant representatives familiar with the payments methods accepted. The sample was drawn by firm size — defined by number of employees, region and subsector — to reflect the diversity of the retail sector.

Because most merchants in Canada operate as independent small businesses, roughly half of the sample consisted of small merchants. As well, three-quarters of businesses surveyed were independently owned and operated.

The survey included a variety of subsectors such as gas stations, grocery stores, restaurants and general merchandise stores, but excluded merchants who did not have a physical store and were hypothetically unable to accept all three methods of payment — cash, credit and debit cards. It should be noted that the margin of error is relative high at plus/minus 4.4 per cent, with 95-per-cent confidence.

Slide 9 shows that, when asked which payment method merchants prefer their customers to use most often, 50 per cent of the respondents said debit cards. In comparison, 42 per cent favoured cash and only 6 per cent favoured credit cards.

In our research, we found that merchant preferences are significantly influenced by perceptions of risk and cost. In particular, as slide 10 shows, merchants perceive cash as the least costly, followed by debit cards, with credit cards perceived as

Les fournisseurs de services de paiement établissent des frais et les règles du réseau pour influencer l'adhésion des consommateurs et des commerçants à leur réseau. Les consommateurs choisissent les modes de paiement en fonction de la commodité des points de vue de la rapidité, de la tenue de livres, de l'accès aux fonds, du décalage du paiement ainsi que de la sécurité, des frais et des récompenses. Pour leur part, les commerçants doivent tenir compte des préférences du consommateur en matière de paiement et de ce que leurs concurrents voisins acceptent. Les décisions d'acceptation des commerçants dépendent des coûts et des gains d'efficacité qui vont de pair avec l'acceptation d'une méthode de paiement, de la part des coûts qu'il est possible de refiler aux consommateurs dans le prix final des biens et services et de l'impact sur les revenus du commerçant.

Pour mieux comprendre le point de vue des commerçants sur les paiements de détail, la banque a commandé en 2006 une enquête nationale auprès des commerçants sur les modes de paiement qu'ils acceptaient pour les opérations au point de vente. Les objectifs de l'enquête sont énoncés à la diapositive 7.

Il s'agissait de voir comment les commerçants perçoivent les paiements de détail des points de vue des coûts, de la fiabilité et des risques; deuxièmement, d'estimer la part des opérations dévolue à chaque mode de paiement; enfin, d'évaluer les coûts de l'acceptation de différents modes de paiement.

Comme on peut le voir à la diapositive 8, Ipsos Reid, firme de consultants à laquelle l'enquête a été confiée, a tenu plus de 500 entrevues de 20 minutes un peu partout au Canada avec des représentants de haut niveau des commerces qui connaissaient bien les modes de paiement acceptés. L'échantillon a été réparti selon la taille de l'entreprise, définie par ailleurs par le nombre d'employés, la région et le sous-secteur, pour refléter la diversité du secteur du commerce de détail.

Comme la plupart des commerçants au Canada sont de petites entreprises indépendantes, les petits commerçants constituaient environ la moitié de l'échantillon. En outre, les trois quarts des entreprises visées par l'enquête étaient de propriété indépendante et exploitées de façon indépendante.

L'enquête a visé divers sous-secteurs, comme des postes d'essence, des marchés d'alimentation, des restaurants et des marchands généraux, mais non ceux qui n'ont pas d'établissement matériel et qui ne pouvaient, hypothétiquement, accepter les trois modes de paiement : argent liquide, carte de crédit et carte de débit. À signaler que la marge d'erreur est relativement élevée : plus ou moins 4,4 p. 100 et un intervalle de confiance de 95 p. 100.

La diapositive 9 montre que, lorsqu'on leur demande quel mode de paiement ils souhaitent voir leurs clients utiliser le plus souvent, 50 p. 100 des enquêtés disent la carte de débit, tandis que 42 p. 100 préfèrent l'argent liquide et seulement 6 p. 100 la carte de crédit.

Nos recherches ont révélé que les préférences des commerçants sont nettement influencées par les perceptions du risque et des coûts. Plus précisément, la diapositive 10 montre que les commerçants ont l'impression que l'argent liquide est le mode le

the most costly of the three payment instruments. Debit cards, on the other hand, are perceived as the least risky in terms of counterfeiting, theft or fraud.

In spite of these differences in preferences and perceptions across merchants and payment methods, as shown in slide 11, close to 90 per cent of all merchants in the survey accept all major payment instruments — cash, debit and credit cards. The smallest merchants, measured by number of employees or by sales volume, are the least likely to accept card payments. Of those who do not accept debit cards, 52 per cent indicate set-up and processing costs as the main barriers. Merchants who do not accept credit cards cite lack of consumer demand and costs as the main barriers. These results confirm that merchant acceptance is influenced not only by costs, but also by what consumers like to pay with.

This is indeed the case in the survey, as stated in slide 12. We find that among merchants who accept all payment instruments, on average, annual sales are split almost equally between cash, debit and credit cards. However, payment shares vary across merchants.

Credit card payment shares are higher at stores with higher average transaction values, whereas cash and debit card shares are higher at low-transaction value stores. Furthermore, we found that credit card payments are more than one-third of annual sales for half of those merchants accepting all payment methods.

On the cost side, merchants usually face set-up costs and per-transaction and monthly fees when accepting card payments. As reported in slide 13, merchants pay around \$40 a month per terminal for their banking and payment-processing services, which may include cash services, card processing, terminal leasing and other related services.

The typical transaction fee for debit cards in the survey is 12 cents, and the typical fee for credit cards is 2 per cent. However, in the sample, credit card fees vary between 1.75 per cent and 2.5 per cent, whereas debit card fees vary between 7 cents and 25 cents.

As reported in slide 14, our research shows that part of this variation in fees is related to merchant characteristics. We found that merchants in retail trades with low-transaction values have the lowest debit card fees in the sample. As for credit cards, we found that merchants with higher sales volumes and average transaction values have significantly lower fees than their counterparts.

Cost perceptions in the survey reflect this fee structure. As stated in slide 15, although, on average, cash is considered the least costly payment instrument to handle, we found that cash is

moins coûteux, suivi par la carte de débit, tandis que la carte de crédit est perçue comme le plus onéreux des trois modes. Par ailleurs, la carte de débit est le mode perçu comme celui qui présente le moins de risques de contrefaçon, de vol ou de fraude.

Malgré ces différences dans les préférences et les perceptions chez les commerçants et parmi les modes de paiement, près de 90 p. 100 des commerçants interrogés acceptent, comme la diapositive 11 l'indique, tous les modes de paiement principaux : argent liquide, carte de débit et carte de crédit. Les petits commerces, considérés comme tels en fonction du nombre d'employés et du chiffre d'affaires, sont les moins portés à accepter les paiements par carte. Chez ceux qui n'acceptent pas la carte de débit, 52 p. 100 disent que les coûts d'installation et de traitement sont les principaux obstacles. Ces résultats confirment que l'acceptation par les commerçants est influencée non seulement par les coûts, mais aussi par les préférences des consommateurs.

Comme la diapositive 12 l'indique, c'est ce que l'enquête révèle. Nous constatons que, parmi les commerçants qui acceptent tous les modes de paiement, en moyenne, les ventes annuelles se répartissent presque également entre argent liquide, carte de débit et carte de crédit. Toutefois, les parts des divers modes varient d'un commerçant à l'autre.

La part des paiements par carte de crédit est plus élevée dans les magasins où la valeur moyenne des opérations est la plus forte, alors que les parts de l'argent liquide et de la carte de débit sont plus importantes dans les magasins où la valeur des achats est plus faible. Nous avons également constaté que les paiements par carte de crédit représentent plus du tiers du chiffre d'affaires pour la moitié des commerçants qui acceptent tous les modes de paiement.

Pour ce qui est coûts, les commerçants doivent habituellement assumer des coûts d'installation et des frais par opération ainsi que des frais mensuels lorsqu'ils acceptent des paiements par carte. La diapositive 13 en rend compte : les commerçants paient environ 40 \$ par mois par terminal pour leurs services bancaires et de traitement des paiements, ce qui peut englober les services relatifs à l'argent liquide, le traitement des paiements par carte, la location des terminaux et d'autres services connexes.

Les frais types des opérations, pour les cartes de débit, selon l'enquête, s'élèvent à 12 cents, et ceux de la carte de crédit sont de 2 p. 100. Toutefois, dans l'échantillon, les frais des cartes de crédit varient entre 1,75 et 2,5 p. 100, alors que ceux des cartes de débit fluctuent entre 7 cents et 25 cents.

Comme la diapositive 14 l'explique, nos recherches révèlent que cette variation des frais tient en partie aux caractéristiques du commerçant. Nous avons remarqué que les détaillants dont la valeur des opérations est faible ont les frais de carte de débit les plus bas de l'échantillon. Quant aux cartes de crédit, nous avons observé que les commerçants qui ont un chiffre d'affaires et une valeur moyenne des achats élevés doivent payer des frais nettement plus faibles que ceux des autres commerçants.

Les perceptions des coûts observées dans l'enquête reflètent cette structure de frais. Comme il est dit sur la diapositive 15, bien que, en moyenne, l'argent liquide soit considéré comme le mode

perceived as more costly than debit cards by merchants with higher total sales and average transaction values. More broadly, we found that debit and credit cards are perceived as less costly by merchants with higher annual sales.

This is consistent with the economies that large merchants have as they can spread their costs among large transaction volumes. It also reflects the finding that large merchants face lower card-per-transaction fees, as we saw before.

Finally, we also found that debit cards are perceived as less costly than credit cards the higher the average transaction value at the store. This is due, in part, to the fact that the debit card fee is a fixed per-transaction fee, whereas the credit card fee is a percentage of the value of the transaction.

So far, we have talked about merchants' perception of the costs of cash. To further explore how cash fares compared with debit and credit cards in terms of costs, we estimated the different marginal costs associated with each payment instrument. Slide 16 illustrates the methodology for the typical cash transaction in the sample of \$36.50.

For all payment instruments, the labour cost of tender time is included. We used the results of different studies on tender time conducted in 2004 and 2005, which show that cash transactions take the least time at the register, followed by pin debit and signature credit cards. For cash, we estimate the labour cost of the reconciliation time and the preparation time per transaction, based on average responses given by 33 retailers in follow-up interviews. We also included the value of time spent making cash deposits at the bank, which we assume is 20 minutes.

Bank fees include cash deposit fees and coin ordering, as reported by RBC, Royal Bank of Canada, in their public brochures. For debit and credit cards, we are taking the typical per-transaction fees as a benchmark. Theft and counterfeiting is based on a survey of retail crime, made by Ipsos Reid in 2008, and on counterfeits passed during this period.

Finally, float is the opportunity cost of funds in transit, based on short-term interest rates. For the survey's typical transaction value of \$36.50, debit card payments are the least costly at 19 cents, followed closely by cash at 25 cents and credit cards at 82 cents, but this ranking depends on the value of the transaction.

de paiement le moins onéreux, nous avons remarqué qu'il était perçu comme plus coûteux que la carte de débit par les commerçants qui ont le chiffre d'affaires et la valeur moyenne des opérations les plus élevés. De façon plus générale, nous avons observé que les cartes de débit et de crédit sont considérées comme moins onéreuses par les commerçants qui ont le chiffre d'affaires annuel le plus élevé.

Cela concorde avec les économies que les grands commerçants réalisent, puisqu'ils peuvent étaler leurs frais sur des volumes d'opérations considérables. Et cela reflète aussi le fait que, comme nous l'avons déjà vu, les grands commerçants ont des frais de carte par opération plus faibles.

Enfin, nous avons appris que les cartes de débit sont perçues comme moins onéreuses que les cartes de crédit lorsque la valeur moyenne des opérations est plus élevée, ce qui s'explique en partie par le fait que les frais des cartes de débit sont un montant fixe par opération, alors que ceux des cartes de crédit sont un pourcentage de la valeur de l'opération.

Jusqu'à maintenant, nous avons parlé de la perception que les commerçants se font des coûts du mode de paiement en argent liquide. Pour examiner de plus près la façon dont l'argent liquide se compare aux cartes de débit et de crédit sur le plan des coûts, nous avons estimé les coûts marginaux associés à chaque mode de paiement. La diapositive 16 illustre les méthodes suivies pour l'opération en liquide type de l'échantillon, d'un montant de 36,50 \$.

Pour tous les modes de paiement, il est tenu compte du coût de la main-d'œuvre pendant le temps de paiement. Nous avons utilisé à cette fin les résultats de différentes études sur le temps de paiement réalisées en 2004 et 2005. Elles montrent que les opérations en liquide demandent le moins de temps à la caisse, suivies des paiements par carte de débit avec NIP, puis des paiements par carte de crédit avec signature. Dans le cas des paiements en liquide, nous estimons le temps de travail consacré au rapprochement et à la préparation, par opération, en nous fondant sur les réponses moyennes de 33 détaillants au cours d'entrevues de suivi. Nous tenons compte également de la valeur du temps utilisé pour faire les dépôts à la banque. Nous avons supposé qu'il fallait 20 minutes.

Les frais bancaires comprennent les frais de dépôt d'argent et la commande de pièces de monnaie, selon l'information que la RBC, la Banque Royale du Canada, fournit dans ses brochures publiques. Dans le cas des cartes de débit et de crédit, nous prenons comme valeur repère les frais de transaction types. Les données sur le vol et la contrefaçon reposent sur une enquête sur la criminalité dans le commerce de détail réalisée par Ipsos Reid en 2008 et sur le nombre de billets contrefaits écoulés pendant cette période.

Enfin, le temps de compensation est le coût d'opportunité des fonds pendant le transit, fondé sur les taux d'intérêt à court terme. Pour l'opération type de l'enquête, d'une valeur de 36,50 \$, les paiements par carte de débit sont les moins coûteux, à 19 cents, suivis de près par le comptant, à 25 cents, alors que les paiements par carte de crédit coûtent 82 cents, mais ce classement dépend de la valeur de l'opération.

Slide 17 illustrates the differences in per-transaction costs between cash and debit cards as transaction value increases. For cash, we assume that all cost items increase with the transaction value, except tender time, deposit time at the bank, and coin ordering. The graph shows that, as the per-transaction cost of cash increases with transaction value, it crosses debit card per-transaction fees at different thresholds as debit card fees rise.

We found that cash is cheaper than debit cards at stores with average transaction values that are below \$12 if debit card fees are as low as 7 cents among the lowest in the survey; below \$23, if debit card fees are 12 cents, in the middle range; and below \$51 if debit card fees are as high as 25 cents among the highest in the survey. As for credit cards, at the survey values of the credit card fees, credit card costs are always above those of either cash or debit cards, depending on the transaction value.

To conclude, our research shows that the two-sided nature of retail payment markets is key to understanding the trade-offs merchants have in their payment instrument acceptance decisions. Merchants in low average value and small-scale retail activities are less likely to accept card payments. This is because consumers do not use cards as much for low transaction values and because it is relatively more costly to run electronic payments with low annual sales. Aside from acceptance, merchants have little influence over payment instrument shares and consumers' choices drive payment instrument usage at the point of sale with a strong dependence on transaction value.

Finally, our estimates suggest that debit card transactions are less costly than cash for a broad cross-section of merchants.

Thank you, once again, for inviting us to present this research. We will be happy to answer any questions that you may have.

The Chair: Thank you very much, Mr. Spencer and Dr. Arango. That is helpful. I think I speak for everyone when I say that it was very clear. It is much appreciated.

Before turning to my list of speakers, you cautioned us that this research was done in 2006. Am I correct?

Mr. Arango: That is correct.

La diapositive 17 illustre les différences de frais par opération entre le paiement en liquide et le paiement par carte de crédit lorsque la valeur de l'opération augmente. Pour le paiement comptant, nous supposons que tous les éléments des frais augmentent avec la valeur de l'opération, exception faite du temps de paiement, du temps de dépôt à la banque et de la commande de pièces de monnaie. Le graphique montre que, lorsque le coût par opération des paiements comptants augmente avec la valeur de l'opération, la courbe recoupe la ligne des frais par opération des paiements par carte de débit à des seuils différents, lorsque les frais des cartes de débit augmentent.

Nous avons observé que le paiement comptant est moins onéreux que le paiement par carte de débit dans les magasins où la valeur moyenne de l'opération est inférieure à 12 \$ si les frais des cartes de débit sont de seulement 7 cents, soit le niveau le plus bas observé dans l'enquête; inférieure à 23 \$, si les frais des cartes de débit sont de 12 cents, soit le niveau moyen; et inférieure à 51 \$, si les frais des cartes de débit sont de 25 cents, soit le niveau le plus élevé observé dans l'enquête. Quant aux cartes de crédit, si on se fie aux frais observés dans l'enquête, elles sont toujours plus onéreuses que le paiement en liquide ou par carte de débit, selon la valeur de l'opération.

Pour conclure, disons que nos recherches montrent que le double marché des paiements de détail est une caractéristique essentielle si on veut comprendre les compromis que les commerçants doivent faire lorsqu'il s'agit de décider d'accepter les divers modes de paiement. Les commerçants qui ont des activités de vente au détail de faible envergure et une valeur moyenne des opérations peu élevée sont moins portés à accepter les paiements par carte. C'est que les consommateurs ne se servent pas de leurs cartes autant pour les achats de faible valeur et qu'il est relativement plus coûteux d'offrir le paiement par voie électronique lorsque le chiffre d'affaires annuel est peu élevé. Hormis la décision d'accepter ou non les cartes, les commerçants ont peu d'influence sur la part des divers modes de paiement, et ce sont les choix des consommateurs qui déterminent l'utilisation des divers modes au point de vente, ce choix dépendant largement de la valeur de l'opération.

Enfin, nos estimations indiquent que les opérations par carte de débit sont moins onéreuses que le paiement comptant pour un large échantillon de commerçants.

Merci encore de nous avoir invités à présenter les résultats de ces recherches. Nous serons très heureux de répondre à vos questions.

Le président : Merci beaucoup, monsieur Spencer et monsieur Arango. Votre témoignage est utile. Je crois pouvoir exprimer le sentiment général en disant que l'exposé a été très clair. Nous vous en sommes très reconnaissants.

Avant de passer à la liste des sénateurs qui veulent intervenir, je rappelle que vous avez dit que ces recherches remontent à 2006. Est-ce exact?

M. Arango : C'est exact.

The Chair: Therefore, things probably are different in 2011. Have you any research to indicate any trends between 2006 and 2011 of which we should be cognizant?

Mr. Arango: Currently, we are doing surveys to the consumers, not to the merchants. Unfortunately, we do not have a recent survey on the merchant side. On the consumer side, we had one survey conducted in 2009, where we actually have more accurate estimates of what is happening on the acceptance side on the lower transaction-value ranges. From the consumers' point of view, when they do transaction values below \$15, they find that in 50 per cent of the cases they believe cards are not accepted at low-value transaction stores or purchases.

We also introduced a section in the *Canadian Financial Monitor*, which is an omnibus survey by Ipsos Reid on payment choices and behaviour by household. Unfortunately, we only introduced this survey in 2009, so we cannot have complete figures, year after year, on how things are changing now with the introduction of new technologies such as "contactless" payment. However, we will be able to have a close monitoring of current developments in the retail market with this survey.

Senator Ringuette: I have read your full report. It is very interesting. In your presentation, on slide 16 in regard to the variable cost, is the capital cost included in there or have you not added it to your figures because it might vary, or one merchant might buy or rent? Is the capital cost of the technology included in your costing here?

Mr. Arango: No, in this table we are reporting on only the variable costs of accepting different payment methods per transaction.

Senator Ringuette: We have heard in the last two meetings that we have had, especially from the witnesses from the treasury department of the City of Ottawa, about the huge cost for technology to meet the required security standards set by Visa and MasterCard. That would increase your cost here if it were included because it is not a cost that would be entailed in cash; it would certainly be required in regard to debit and the credit card system. The cost we have here would increase if you add the capital cost.

Mr. Arango: Right.

Senator Ringuette: Are you participating with the current task force on the payment system?

Mr. Spencer: The bank is represented at the round tables. We have not made a formal submission, but we have been consulted by the task force and we have a colleague who has sat on the round tables.

Senator Ringuette: Visa and MasterCard have indicated to us that they believe that their product is an electronic currency. Do you agree with that definition?

Le président : La situation est donc probablement différente en 2011. Y a-t-il des recherches dont nous devrions être au courant et qui révéleraient les tendances observées entre 2006 et 2011?

M. Arango : En ce moment, nous faisons des enquêtes auprès des consommateurs et non des commerçants. Malheureusement, nous n'avons aucune enquête récente auprès des commerçants. Du côté des consommateurs, nous avons réalisé une enquête en 2009. Elle a donné des estimations plus exactes de ce qui se passe du côté de l'acceptation des cartes pour les opérations de faible valeur. Lorsqu'ils font des achats de moins de 15 \$, les consommateurs croient dans 50 p. 100 des cas que les cartes ne sont pas acceptées dans les magasins où les opérations ou les achats sont de valeur peu élevée.

Nous avons également ajouté une rubrique au *Canadian Financial Monitor*, une enquête générale d'Ipsos Reid sur les choix de mode de paiement et le comportement par ménage. Malheureusement, nous n'avons entamé cette enquête qu'en 2009, de sorte que nous ne pouvons avoir des chiffres complets, année après année, sur l'évolution de la situation attribuable à l'implantation de nouvelles technologies, comme des opérations sans contact. Par contre, cette enquête nous permettra de suivre de près ce qui se passe actuellement dans le commerce de détail.

Le sénateur Ringuette : J'ai lu votre rapport intégralement et il est très intéressant. Dans votre exposé, à la diapositive 16 sur les frais variables, avez-vous tenu compte des frais d'immobilisation ou avez-vous évité de le faire parce qu'ils peuvent varier ou parce que certains commerçants peuvent louer le matériel au lieu de l'acheter? Tenez-vous compte des frais d'immobilisation de la technologie dans votre calcul des coûts?

M. Arango : Non, dans ce tableau, il n'est fait état que des frais variables par opération de l'acceptation des divers modes de paiement.

Le sénateur Ringuette : Au cours de nos deux dernières séances, nous avons entendu plus particulièrement les témoins du Trésor de la Ville d'Ottawa qui nous ont parlé du coût énorme de la technologie nécessaire pour respecter les exigences en matière de sécurité de Visa et de MasterCard. Cela ferait augmenter les coûts que vous présentez ici, car ce ne sont pas des coûts à absorber dans le cas des paiements en liquide. Mais ils sont inévitables dans le cas des systèmes de paiement par carte de débit et par carte de crédit. Les coûts présentés ici seraient plus élevés si on ajoutait le coût des immobilisations.

M. Arango : C'est juste.

Le sénateur Ringuette : Participez-vous aux recherches de l'actuel groupe de travail sur le système de paiement?

M. Spencer : La banque est représentée aux tables rondes. Nous n'avons pas fait de présentation officielle, mais le groupe de travail nous a consultés et nous avons un collègue qui siège aux tables rondes.

Le sénateur Ringuette : Visa et MasterCard nous ont dit que, à leur avis, leur produit est de l'argent électronique. Acceptez-vous cette définition?

Mr. Spencer: I am not sure there is a definition of "electronic currency." Our research and our responsibility in the currency department is conducted for non-electronic currency, which is currently paper money. The Royal Canadian Mint, of course, is responsible for metal money. I am not aware whether there is a standard definition of other forms of currency.

Senator Ringuette: Would you agree that any form of payment would be equal to currency? That is, whether it is gold or whatever, it is a form of currency?

Mr. Spencer: I think you can define anything as currency. A transaction is really an exchange of value. That can be done in a number of different ways. One of them is by passing a banknote across a counter. I am not sure what the definition of "currency" would entail. It is not a concept that we use beyond that.

Mr. Arango: On the research side, we always make a distinction between money and how you access money. When we do these types of studies talking about payment instruments, we are doing research more on the means of accessing your different money holdings. It could be cash, or it could be demand deposits at the bank, and so forth. That is an important distinction.

Senator Ringuette: You are involved in providing some kind of consultation with the task force. We all know that the future of electronic payments, whether it is with what I call the fantastic plastic, or with your cell phone, or maybe even a chip in my wrist, will replace your paper currency. You will have to move to the new mode of payment that is not necessarily paper based, but is electronic. Therefore, you have an electronic currency that is now in the global marketplace.

When will you make that move?

Mr. Spencer: I am not sure I fully understand the move that you are talking about. As Mr. Arango explained, the currency is the item that holds value; a transaction is the movement of that value. In our terms in the currency department, "currency" is banknotes. A transaction is that thing that happens across a retail counter.

We are quite certain that ways to move value around are evolving. As we said when we did this survey, the dominant means of payment in Canada, other than cash, credit cards or debit cards, we are seeing, not importantly from the point of view of volume but interestingly at the margins of the market, the introduction of contactless payments, the mooting of mobile phone payments, et cetera. All of those tools facilitate transactions.

I am not sure that the concept of currency applies to those transactions. Certainly, we in the currency department are not responsible for that. Our mandate is to manage banknotes for Canada and to ensure that we understand the environment in which they are being managed.

M. Spencer : Je ne suis pas sûr qu'il existe une définition de l'« argent électronique ». Nos recherches et notre responsabilité, au département de la monnaie, concernent l'argent non électronique, c'est-à-dire, actuellement, le papier-monnaie. Bien entendu, c'est la Monnaie royale canadienne qui s'occupe des pièces. Je ne suis pas au courant des définitions normalisées qui existeraient au sujet d'autres formes de monnaie.

Le sénateur Ringuette : Convenez-vous que toute forme de paiement est l'équivalent de la monnaie, c'est-à-dire que l'or ou autre chose est une forme de monnaie?

M. Spencer : On peut définir n'importe quoi comme monnaie. Une opération est au fond un échange de valeurs, et elle peut se faire de différentes manières. L'une d'elles consiste à remettre un billet de banque au comptoir. Je ne suis pas sûr de ce que recouvrirait la notion de « monnaie ». Ce n'est pas une notion que nous utilisons en dehors de ce cadre.

M. Arango : En recherche, nous faisons toujours une distinction entre l'argent et la façon d'y accéder. Lorsque nous réalisons ces études sur les modes de paiement, les recherches portent plutôt sur les moyens d'accéder aux différents types de réserve d'argent. Il peut s'agir d'argent liquide, de dépôts à vue à la banque, et ainsi de suite. La distinction est importante.

Le sénateur Ringuette : Vous avez donné des conseils au groupe de travail. Nous savons tous que l'avenir des paiements électroniques, qu'il s'agisse de ce que j'appelle le plastique fantastique, du téléphone cellulaire ou peut-être même d'une puce à mon poignet, va remplacer le papier-monnaie. Vous devrez passer au nouveau mode de paiement, qui n'utilise pas nécessairement le papier, mais plutôt l'électronique. Vous avez donc de l'argent électronique qui est utilisé sur le marché mondial.

Quand allez-vous faire ce changement?

M. Spencer : Je ne suis pas sûr de comprendre vraiment le changement dont vous parlez. Comme M. Arango l'a expliqué, la monnaie est ce qui incarne la valeur; une opération, c'est le déplacement de cette valeur. Pour nous, au département de la monnaie, la « monnaie », ce sont des billets de banque. L'opération, c'est ce qui se passe au comptoir du détaillant.

Nous sommes tout à fait certains que la façon d'échanger les valeurs évolue. Comme nous l'avons dit lorsque nous avons fait l'enquête, le mode de paiement qui domine au Canada, en dehors de l'argent liquide et des cartes de crédit et de débit, ce sont les paiements sans contact et les paiements par téléphone mobile, par exemple, qui ne sont pas importants du point de vue du volume mais se manifestent aux marges du marché. Tous ces outils facilitent les opérations.

Je ne suis pas sûr que la notion de monnaie s'applique à ces autres opérations, mais le département de la monnaie n'a aucune responsabilité à leur égard. Notre mandat est de gérer les billets de banque et de veiller à comprendre le contexte dans lequel ils sont gérés.

Senator Ringuette: Would you envision Visa, MasterCard and Interac systems as clearing systems for electronic payments?

Mr. Spencer: I am not an expert on payment and clearing systems, so the question is a little outside my field. Certainly, we do not have any research in our area that would shed light on that question.

Senator Ringuette: No research is being done by the Bank of Canada on that issue.

Mr. Spencer: I did not say that. I said that we in the currency department do not do that research. I am not aware of what research there is.

The bank's direct responsibility with clearing systems is limited to those that are designated under the Payment Clearing and Settlement Act. They are very large-value systems that act between the financial institutions. They have nothing, except at a very aggregate level, to do with the transactions that occur at the retail level or in networks that serve the retail level.

Senator Ringuette: A very high value of transactions occurs on a daily basis using Visa, MasterCard and debit. Interac has voluntarily adhered to the payment act regulations, but Visa and MasterCard have not done so.

Mr. Spencer: There are two different payment acts: The Payment Clearing and Settlement Act and the Canadian Payments Act. The Bank of Canada is not involved in the latter.

Senator Ringuette: The bank is responsible for the clearing system.

Mr. Spencer: It is responsible for overseeing a systemically important clearing system. It is part of our responsibility for financial stability. It goes to the macroprudential issues around the solvency of financial institutions. We deal with the clearing systems between those financial institutions.

Senator Ringuette: The Reserve Bank of Australia, and the federal reserve banks of New Zealand, the U.K., France, Sweden Argentina and Venezuela, I believe, are in the process of studying credit card fees. The Reserve Bank of Australia legislated caps on these fees seven years ago. I suppose the Bank of Canada networks with its counterparts in other countries. Have you looked at any of those studies?

Mr. Spencer: Certainly, we are in those networks and aware of the things that they have done. I do not think it would be appropriate for me to comment on their actions. The Reserve Bank of Australia has published reports on their processes, which, if the committee is not aware of them, would be interesting for you.

Le sénateur Ringuette : Considéreriez-vous les systèmes de Visa, de MasterCard et d'Interac comme des systèmes de compensation des paiements électroniques?

M. Spencer : Je ne suis pas un expert des systèmes de paiement et de compensation. Chose certaine, nous n'avons fait de notre côté aucune recherche susceptible de jeter un éclairage sur cette question.

Le sénateur Ringuette : La Banque du Canada ne fait donc aucune recherche sur la question.

M. Spencer : Je n'ai pas dit ça. J'ai dit que le département de la monnaie ne fait pas de recherches de cet ordre. Je ne sais pas quelles sont les recherches qui se font.

La responsabilité directe de la banque à l'égard des systèmes de compensation est limitée à ce que prévoit la Loi sur la compensation et le règlement des paiements. Ce sont des systèmes qui portent sur des valeurs très importantes et qui mettent en contact les institutions financières. Cela n'a rien à voir, sinon à un niveau de regroupement très élevé, avec les opérations au niveau du détail ou dans les réseaux qui sont au service du commerce de détail.

Le sénateur Ringuette : Il y a des opérations de valeur très élevée qui se font quotidiennement au moyen de Visa, de MasterCard et de la carte de débit. Interac s'est conformé volontairement au règlement d'application de la loi sur les paiements, mais Visa et MasterCard ne l'ont pas fait.

M. Spencer : Il y a deux lois différentes qui portent sur les paiements : la Loi sur la compensation et le règlement des paiements et la Loi canadienne sur les paiements, dont la Banque du Canada ne s'occupe pas.

Le sénateur Ringuette : La banque est responsable du système de compensation.

M. Spencer : Elle doit surveiller un système de compensation qui est important sur le plan systémique. Cela se rattache à sa responsabilité à l'égard de la stabilité financière. Cela se rapporte aux questions macroprudentielles qui gravitent autour de la solvabilité des institutions financières. Nous nous occupons des systèmes de compensation entre les institutions financières.

Le sénateur Ringuette : La Reserve Bank of Australia et les banques centrales de la Nouvelle-Zélande, du Royaume-Uni, de la France, de Suède, de l'Argentine et du Venezuela, je crois, sont en train d'étudier les frais des cartes de crédit. La Reserve Bank of Australia a plafonné ces frais par voie législative il y a sept ans. Je suppose que la Banque du Canada communique avec les banques centrales d'autres pays. Avez-vous examiné l'une ou l'autre de ces études?

M. Spencer : Certainement, nous faisons partie de ces réseaux et nous savons ce que les autres banques ont fait. Je ne crois pas qu'il convienne que je fasse quelque observation à ce sujet. La Reserve Bank of Australia a publié des rapports sur ses processus et ils pourraient intéresser le comité, s'il ne les connaît pas déjà.

Senator Ringuette: The committee will be in a conference call with them in the next two weeks.

I will return to slide 16, Dr. Arango. On the consumer side, you reported that a debit card system is the least costly for a merchant at 19 cents per transaction; a cash transaction in the amount of \$36 costs 25 cents; and a credit card transaction costs 82 cents. Since 2006 when you did this survey, I do not think there has been an increase in cash transactions. My last conversation with people from Interac indicated that the processing fee for debit cards is 12 cents per transaction. On the merchant side since 2006, the processing fees for credit cards have had quite an increase. It has almost doubled since 2006.

How much of an increase does that represent for a \$36 purchase? It no longer costs 82 cents to process that transaction. The processing fees that used to be at 0.76 per cent are now at least 2.5 percent.

Mr. Arango: I would have two points on this question. These calculations are done on a per-transaction basis. First, you are referring to the increase in the cost of accepting credit cards. That could be based on total numbers whereby the more people use credit cards, the total bill of credit cards will increase over time, but not necessarily the transaction cost of accepting the credit card fee.

Second, recently we have seen differentiated discount fees for different transaction types. That will make not one table but many different tables, depending on the various segments of the market, which will change the results; I agree with that.

Senator Ringuette: It will make a major increase. Do you expect to do a second survey so that we may have updated data on the real costs?

Mr. Arango: On the merchant side, we do not have plans for conducting a survey in the near future. Currently, we are working on the 2009 survey and conducting research on the consumer side of the use of different means of payment, which will form part of our projections for the demand for cash as we move into the new series of banknotes.

Mr. Spencer: Remember also, senator, that the objective of our research program is focused on cash. As you just said, it is unlikely that the merchant view of cash has changed significantly in the intervening period. We are more interested in focusing on places where the use of cash is likely to have changed, which means primarily the consumer side.

Senator Banks: I want to ensure that I understand correctly. The proportions on your slides 5 and 12 are different. I understand that slide 12 uses dollar values. Slide 5 says "volume." I presume that "volume" refers to the number of transactions regardless of their value.

Mr. Arango: That is correct.

Le sénateur Ringuette : Le comité aura une conférence téléphonique avec elles au cours des deux prochaines semaines.

J'en reviens à la diapositive 16, monsieur Arango. Du côté du consommateur, vous dites que le système de carte de débit est le moins onéreux pour le commerçant, à 19 cents par opération. Un paiement comptant de 36 \$ entraîne des frais de 25 cents, tandis qu'une opération avec carte de crédit coûte 82 cents. Depuis 2006, année de l'enquête, je ne crois pas que les frais liés aux opérations en liquide aient augmenté. D'après mes derniers échanges avec les représentants d'Interac, les frais de traitement pour les cartes de débit s'élèvent à 12 cents par opération. Du côté des commerçants, les frais de traitement pour les cartes de crédit ont beaucoup augmenté depuis 2006, puisqu'ils ont presque doublé.

Pour un achat de 36 \$, combien cette augmentation représente-t-elle? Les frais ne sont plus de 82 cents par transaction. Les frais de traitement, qui étaient autrefois de 0,76 p. 100 sont maintenant d'au moins 2,5 p. 100.

M. Arango : Deux points, dans cette question. Ces calculs se font par opération. D'abord, vous parlez du coût de l'acceptation des cartes de crédit. Cela serait fondé sur le nombre total, et plus les consommateurs utilisent les cartes de crédit, plus le total des frais des cartes de crédit augmente avec le temps, mais pas nécessairement les frais de transaction qu'entraîne l'acceptation des frais des cartes de crédit.

Deuxièmement, nous avons vu récemment des frais d'escompte différents pour divers types d'opération. Il faudrait alors non un seul tableau, mais un grand nombre de tableaux, selon les divers segments du marché, ce qui modifierait les résultats. Je suis d'accord là-dessus.

Le sénateur Ringuette : Il y aura une hausse majeure. Prévoyez-vous réaliser une deuxième enquête qui nous livrerait des données à jour sur les coûts réels?

M. Arango : Du côté des commerçants, nous ne prévoyons pas d'enquête dans un avenir rapproché. Actuellement, nous travaillons à l'enquête de 2009 et faisons des recherches sur l'utilisation des différents modes de paiement. Les résultats serviront à l'élaboration de nos projections sur la demande de numéraire lorsque nous sortirons la nouvelle série de billets de banque.

M. Spencer : N'oubliez pas non plus, sénateur, que notre programme de recherche est axé sur l'argent liquide. Comme vous venez de le dire, il est peu probable que l'idée que les commerçants se font de l'argent liquide ait beaucoup évolué entre-temps. Nous nous intéressons plutôt aux endroits où l'utilisation de l'argent liquide a probablement évolué, ce qui veut dire surtout du côté des consommateurs.

Le sénateur Banks : Je veux être sûr de bien comprendre. Les proportions indiquées dans les diapositives 5 et 12 sont différentes. Je comprends qu'on utilise des dollars dans la diapositive 12, alors qu'il est question de « volume » dans la diapositive 5. Je présume qu'on entend par « volume » le nombre d'opérations sans égard à leur valeur.

M. Arango : C'est exact.

Senator Banks: That explains the difference in the proportions.

Mr. Arango: That is correct.

Senator Banks: You said that you omitted online transactions.

Mr. Arango: Yes.

Senator Banks: I understand why, because you are dealing with currency and it is not currency, in the sense that you described it.

Have you any idea how significant that part of the market is? I do not know what I mean by the "market," but how significant online purchases are? I assume they are growing. I assume that it is the same approximate charges — I do not know whether you looked at this — obtained through the use of credit cards in online shopping that they do if I am standing in front of the counter; is that so, or do we know?

Mr. Arango: I think we are aware of some surveys done in that regard. Statistics Canada issues some of these surveys on Internet activity and access to the Internet.

There is also another survey we can follow up to the committee that is measuring what is the online activity and which means of payment are used. In our research, we do not have any idea of the growth or the developments in online shopping.

Senator Banks: When you were looking at the survey of merchants and their costs — if I were operating a credit card, I guess I would do the same thing — aside from the fact that they can do it and aside from the fact of profitability, is there an operational cost rationale that explains the difference between a flat-fee transaction for debit cards on the one hand and a percentage fee for credit card transactions on the other?

I would do it too, if I was the proprietor of Visa and could get away with it, but are you aware of a cost factor that would cause them to do that?

Mr. Arango: There are some studies that look into how to decompose the interchange fee and the discount fee that we can submit to the committee. Actually, they kind of disaggregate what is in the interchange fee and what else is in the total discount that is charged to the merchant.

What I can talk to in those studies is they assume that part of that is to fund the other side of the market, which is the rewards programs, and part of that could be covering some of the risk costs associated with credit card handling.

Senator Banks: And the cost of the money, because sometimes those transactions are larger.

Mr. Arango: Correct.

Senator Banks: As we heard yesterday, it is the cost of the money.

Le sénateur Banks : C'est ce qui explique que les proportions soient différentes.

M. Arango : Effectivement.

Le sénateur Banks : Vous dites avoir laissé de côté les opérations en ligne.

M. Arango : C'est un fait.

Le sénateur Banks : Je comprends pourquoi. Vous vous occupez de la monnaie, et il ne s'agit pas là de monnaie ainsi que vous l'avez décrite.

Avez-vous une idée de l'importance de cette partie du marché? Je ne sais pas trop ce que je veux dire par « marché », mais quelle est l'importance des achats en ligne? Je présume qu'ils sont en progression. J'ignore si vous avez examiné la question, mais je présume que les frais sont à peu près les mêmes, que les cartes de crédit servent à des achats en ligne ou dans un point de vente. Est-ce exact? Savons-nous à quoi nous en tenir?

M. Arango : Je crois que nous sommes au courant d'enquêtes qui auraient été faites à cet égard. Statistique Canada publie certaines de ces enquêtes sur l'activité sur Internet et l'accès à Internet.

Il y a aussi une autre enquête que nous pourrions communiquer au comité et qui mesure l'activité en ligne et l'utilisation des divers modes de paiement. Nos propres recherches ne permettent pas de se faire la moindre idée de la croissance ou de l'évolution des achats en ligne.

Le sénateur Banks : Quand vous avez examiné l'enquête auprès des commerçants et sur leurs frais — si j'exploitais une carte de crédit, je ferais sans doute la même chose — mis à part le fait que la chose est possible et mis à part la rentabilité, avez-vous remarqué une justification des frais de fonctionnement qui explique la différence entre les frais uniformes exigés pour les opérations avec carte de débit et les frais au pourcentage des opérations avec carte de crédit?

J'agis de la même façon, si j'étais le propriétaire de Visa et pouvais m'en tirer, mais y a-t-il un facteur de coût qui justifie l'imposition de frais au pourcentage?

M. Arango : Il y a des études qui décomposent les frais d'interchange et les frais d'escompte. Nous pouvons les communiquer au comité. En fait, elles décomposent les éléments qui se trouvent dans les frais d'interchange et les autres éléments qui sont englobés dans l'escompte total imposé au commerçant.

Je peux dire de ces études qu'elles présument qu'une partie des frais sert à financer l'autre partie du marché, c'est-à-dire les programmes de récompenses, et une autre partie les risques liés à l'utilisation de la carte de crédit.

Le sénateur Banks : Et le coût de l'argent, car il arrive que les opérations portent sur de plus gros montants.

M. Arango : Exact.

Le sénateur Banks : Comme nous l'avons appris hier, c'est le coût de l'argent.

Mr. Spencer: I think you had an interesting answer to that question yesterday, that the services offered for those two cards to the consumer and to the merchant are different; therefore, presumably they have different inputs and different values and different costs. They are the best people positioned to explain to you why the business models for those two means of payment are different.

Senator Banks: And they did.

Mr. Arango, is it reasonable to infer to the reason that the larger the cost of the item or service being purchased, the less likely people are to use cash, simply because if we are going to buy an airline ticket for \$3,000 or \$700, we probably do not have that in our pocket. Is it as simple as that?

Mr. Arango: There are many reasons why people may prefer credit cards to cash for larger transaction items. In our 2009 survey, we disaggregate the different attributes of the alternative means of payment to consumers to estimate and pin down what are the marginal benefits to consumers of these different attributes.

We are still undergoing this research. Once we have final results, when it is public, we will provide that to the committee.

Senator Banks: I do not get any points when I use cash.

Senator Kochhar: I am looking at your slide 16, Mr. Arango. There are three modes of payment — cash, debit and credit. The cash payment is more expensive than debit for the merchant, but most small merchants, when they get cash, do not feel it is costing them any money — it is just a perception.

Debit, by virtue of what it means, you pay with your card and it is debited to your account right away and money is realized, so merchants like that, even though it costs them money to realize that instant cash. People pay by credit card because, unless they are paying within 25 or 30 days, they have leverage to expand their ability to finance anything.

In this electronic age, have you ever thought of giving currency notes? You give a card, loaded with \$100 or \$500 and you can take that card, which is as good as currency; it is easier to carry, much less chance of losing it, if there is a code or PIN number on that, when you make a payment. Do you think banks might consider that in the future?

Mr. Spencer: That is an interesting question. It is a large public policy question, and it comes down to when is a banknote not a banknote. It is a piece of paper that says \$50. If we were to issue instead a card that said \$50, would that still be a banknote?

M. Spencer : On vous a fait une réponse intéressante à cette question hier : les services offerts par les deux cartes au consommateur et au commerçant sont différents. Par conséquent, on peut présumer que les facteurs, les valeurs et les coûts sont différents. Ces gens-là sont les mieux placés pour vous expliquer pourquoi les modèles d'affaires des deux modèles de services de paiement sont différents.

Le sénateur Banks : Et ils l'ont fait.

Monsieur Arango, est-il raisonnable de déduire que, plus le coût de l'article ou du service acheté est important, moins il est probable que le consommateur paiera en argent liquide, simplement parce que, s'il achète un billet d'avion à 3 000 \$ ou même à 700 \$, il n'a probablement pas cet argent dans ses poches. Est-ce que c'est aussi simple que cela?

M. Arango : Il y a bien des raisons qui poussent les consommateurs à opter pour la carte de crédit plutôt que l'argent liquide lorsqu'il s'agit d'un gros achat. Dans notre enquête de 2009, nous dissociions les différentes caractéristiques des divers modes de paiement pour les consommateurs afin d'estimer et de définir les avantages complémentaires des différentes caractéristiques.

Nous poursuivons ces recherches. Dès que nous aurons les résultats finals et qu'ils seront rendus publics, nous les communiquerons au comité.

Le sénateur Banks : Je n'obtiens aucun point, lorsque je paie en argent comptant.

Le sénateur Kochhar : Je regarde votre diapositive 16, monsieur Arango. Il y a trois modes de paiement : argent comptant, débit et crédit. Le paiement en argent comptant coûte plus cher au commerçant que la carte de débit, mais la plupart des commerçants n'ont pas l'impression, lorsqu'ils se font payer en liquide, que cela leur coûte de l'argent. C'est une simple impression.

Le débit, le mot le dit, consiste à payer avec sa carte, et le montant est immédiatement débité au compte bancaire et l'argent est versé. Cela plaît au commerçant, même si cela leur coûte quelque chose pour obtenir cet argent instantanément. Les consommateurs utilisent la carte de crédit parce que, à moins qu'ils n'acquittent le solde dans les 25 ou 30 jours, ils peuvent augmenter ainsi leur capacité de financer n'importe quoi.

À l'ère de l'électronique qui est la nôtre, avez-vous jamais pensé à émettre des cartes de monnaie? Vous émettriez une carte qui contient 100 \$ ou 500 \$ et le consommateur pourrait utiliser cette carte comme de l'argent liquide? C'est plus facile à porter, il y a bien moins de risques de la perdre, s'il s'y trouve un code ou un NIP, lorsqu'on fait un paiement. Pensez-vous que les banques pourraient envisager cette formule un jour?

M. Spencer : Question intéressante. C'est une grande proposition de politique d'intérêt public et il s'agit de savoir quand un billet de banque n'est pas un billet de banque. C'est un bout de papier qui dit 50 \$. Si, à la place, nous émettions une carte du même montant, est-ce que ce serait encore un billet de banque?

All I can say about that is we are not there yet. We are planning to issue a new series of banknotes starting this year, which will still be banknotes and will not have any electronic components on them.

Senator Oliver: Any different denominations?

Mr. Spencer: No. I cannot tell you too much about the new series yet because we are going to be giving out a lot more information, but the denomination structure will stay the same.

Senator Kochhar: Do you think it is possible in the next 30 years, 40 years, that we will make it easier?

Mr. Spencer: Central bankers are trained not to answer hypothetical questions, especially ones that go out 30 years or 40 years.

The Chair: Politicians have no such constraints.

Senator Ringuette: Electronic currency is already here.

Senator L. Smith: In reading the reports, when you started the study and the study that you are doing now for consumers, what was your objective? What did you want to get out of it?

We have seen some of the learnings from it. However, regarding the purpose of the studies, what were you expecting to achieve?

Mr. Arango: Our main objective is to understand the demand for cash, the use of cash in the future. We are in the middle of innovation in retail payments; things are changing. Understanding the two sides of the market is important to us. Understanding what are the motivations for merchants to accept alternative means of payment that could be close substitutes to cash in the future is really important to understand what would happen with the demand for cash in making our annual and long-term plans for the issuing of banknotes at the bank.

Senator L. Smith: For the consumer side, now that you have started it as of 2009, is that a continuation of that?

Mr. Arango: It is a continuation on the other side to understand how incentives by consumers may change their decisions — how different fees, the structure of fees also on debit cards, how they matter for consumers, as we find debit cards are closer substitutes to cash, especially for lower-value transaction purchases.

Mr. Spencer: Mr. Arango has explained it well. It really comes down to the banknote business. We have a responsibility to make the right decisions. We exist fundamentally to supply banknotes — it says in our mandate and our annual report — that Canadians can use with confidence and that they can get at when they need to. We have to make sure there is a supply of secure banknotes that people can use. To do that, we must make some long-term decisions. We only issue, for example, a new

Tout ce que je peux dire, c'est que nous n'en sommes pas encore là. Nous prévoyons commencer à émettre une nouvelle série de billets de banque cette année. Il s'agira toujours de billets de banque, sans aucun élément électronique.

Le sénateur Oliver : Y a-t-il des coupures différentes?

M. Spencer : Non. Je ne peux pas encore vous en dire beaucoup sur la nouvelle série. Nous fournirons beaucoup plus d'information, mais la structure des coupures restera la même.

Le sénateur Kochhar : Est-il possible que, d'ici 30 ou 40 ans, nous facilitions les choses?

M. Spencer : Les responsables des banques centrales apprennent à ne pas répondre aux questions hypothétiques, surtout celles qui portent sur une période de 30 ou 40 ans.

Le président : Les hommes et les femmes politiques n'ont pas ces contraintes.

Le sénateur Ringuette : L'argent électronique existe déjà.

Le sénateur L. Smith : Je lis les rapports. Quand vous avez entrepris cette étude et celle que vous faites maintenant sur les consommateurs, quel était votre objectif? Que vouliez-vous en retirer?

Nous avons quelques enseignements qui en ont été tirés, mais en ce qui concerne la raison d'être de ces études, qu'espériez-vous obtenir?

M. Arango : Nous cherchions surtout à comprendre la demande de numéraire, l'utilisation qui se ferait de la monnaie à l'avenir. Nous sommes au beau milieu des innovations dans les paiements de détail. La situation évolue. Il est important pour nous de comprendre les deux volets du marché. Il est important de comprendre les raisons pour lesquelles les commerçants acceptent des modes de paiement différents qui pourraient se substituer à l'argent liquide si nous voulons vraiment saisir ce qu'il adviendra de la demande de monnaie dans nos plans annuels et à long terme d'émissions de monnaie à la banque.

Le sénateur L. Smith : Du côté des consommateurs, vous avez amorcé une étude en 2009? Est-ce que c'est la suite de la même démarche?

M. Arango : C'est la suite, mais de l'autre côté, puisqu'il s'agit de comprendre comment les consommateurs peuvent être portés à modifier leurs décisions : comment des frais différents, comment la structure des frais des cartes de débit peuvent importer aux consommateurs, car nous constatons que les cartes de débit sont un substitut proche de l'argent liquide, surtout pour les achats de faible valeur.

M. Spencer : M. Arango a donné une bonne explication. C'est au fond une question de billets de banque. Nous devons prendre les bonnes décisions. Notre raison d'être fondamentale est de fournir des billets de banque. Il est dit dans notre mandat et notre rapport annuel que les Canadiens doivent pouvoir utiliser les billets avec confiance et en obtenir quand ils en ont besoin. Nous devons veiller à ce qu'il y ait un bon approvisionnement en billets de banque dont les Canadiens peuvent se servir. Pour cela, nous

series of banknotes every eight years. We have been at work on the current series for five years. We had to decide then what it would look like and how it would be structured. We also operate cash processing systems at the central bank that have a lifespan of up to 20 years. It is important for us to have a good sense as to what the outlook for cash will be for the next 8 years or even 20 years to ensure we are positioned to meet that demand and to do it efficiently.

Senator Oliver: I want to go to the main reason that brings you before this committee today, namely, a bill that is before this committee. The bill's title is Bill S-201. The title of that bill reads as follows: Bill S-201, An Act to amend the Office of the Superintendent of Financial Institutions Act (credit and debit cards).

I would like to know if the bank — that is, you — has an opinion as to whether or not they see a role for OSFI, Office of the Superintendent of Financial Institutions, in the regulation of debit and credit cards.

Mr. Spencer: The short answer to your question is no. The bank participates with the Department of Finance and OSFI, as well as CDIC, Canada Deposit Insurance Corporation, and the Financial Consumer Agency of Canada, FCAC, in decisions on the financial regulation, if you like, the financial environment and the government's involvement in it. However, the bank's mandate touches this only in two areas. One is financial stability, which I described before, namely, the payment and clearing systems; the other is the supply of banknotes. Beyond that, it is up to OSFI, the Department of Finance and the other agencies to decide how best to handle an issue like this.

Senator Oliver: Fundamentally, do you not see a new role for OSFI in relation to debit and credit cards?

Mr. Spencer: No, I did not say that. I said that the bank does not have a view on that.

Senator Ringuette: Nice try.

[Translation]

Senator Hervieux-Payette: Earlier you mentioned fraud or theft involving cash. Credit cards previously had no personal identification numbers, or PINs, which limit the risk of fraud, counterfeiting and identity theft. Did you evaluate that fact from a security standpoint in your studies?

Your study was conducted in 2006, and PINs were not yet very widespread at that time. Banks implemented that system much later than Europe, for example. It seems to me this aspect is not

devons prendre des décisions qui portent sur le long terme. Par exemple, nous n'émettons qu'à tous les huit ans une nouvelle série de billets de banque. Nous travaillons à la série actuelle depuis cinq ans. Nous avons dû décider de l'aspect des billets et de la structure des coupures. Nous exploitons aussi des systèmes de traitement de l'argent liquide à la banque centrale, des systèmes qui ont une durée de vie d'au plus 20 ans. Il est important pour nous d'avoir une bonne idée de ce que sera le contexte de la monnaie pendant les huit prochaines années ou même d'ici 20 ans pour être en mesure de répondre à la demande et de le faire de façon efficace.

Le sénateur Oliver : Je voudrais en venir à la raison principale de votre comparution devant le comité, c'est-à-dire un projet de loi actuellement à l'étude. Il s'agit du projet de loi S-201 et il s'intitule Loi modifiant la Loi sur le Bureau du surintendant des institutions financières (cartes de crédit et de débit).

Je voudrais savoir si la banque, c'est-à-dire vous, pense que le Bureau du surintendant des institutions financières, le BSIF, a un rôle à jouer dans la réglementation des cartes de débit et de crédit.

M. Spencer : La réponse brève, c'est non. La banque participe avec le ministère des Finances et le BSIF ainsi que la SADC, c'est-à-dire la Société d'assurance-dépôts du Canada, et l'ACFC, c'est-à-dire l'Agence de la consommation en matière financière du Canada, aux décisions sur la réglementation en matière financière, si on veut, sur le contexte financier et l'intervention de l'État dans ce contexte. Toutefois, le mandat de la banque ne touche que deux questions. L'une est la stabilité financière, que j'ai déjà décrite, soit les systèmes de paiement et de compensation, et l'autre est l'approvisionnement en billets de banque. En dehors de cela, il appartient au BSIF, au ministère des Finances et à d'autres organismes de décider des meilleurs moyens de gérer une question comme celle-ci.

Le sénateur Oliver : Fondamentalement, vous ne croyez pas que le BSIF a un nouveau rôle à jouer relativement aux cartes de débit et de crédit?

M. Spencer : Non, je n'ai pas dit cela. J'ai dit que la banque n'avait pas d'opinion à exprimer sur la question.

Le sénateur Ringuette : Bien essayé.

[Français]

Le sénateur Hervieux-Payette : Vous parliez tantôt de fraude ou de vol en ce qui concerne l'argent comptant. Auparavant, les cartes de crédit n'avaient pas de numéro d'identification personnel, un NIP, qui limite les risques de fraude, de contrefaçon et de vol d'identité. Avez-vous évalué ce fait au niveau sécuritaire lors de vos études?

Votre étude a été faite en 2006, et le NIP n'était pas encore très répandu à ce moment-là. Nos banques ont implanté ce système très tard, si on compare avec l'Europe, par exemple. Il me semble

included in your studies, and that surprises me. There were a lot of credit card thefts before PINs came in. Do you not want to analyze the impact of this new security tool?

[English]

Mr. Arango: The way we are calculating that is in the item charge backs. For debit cards, our assumption is that the liability is not on the merchant side if there is fraud, unless there is mismanagement of information on debit cards inside the merchant's premises.

For credit cards, most of what we are accounting as fraud is all the losses that retailers get when there is a charge back and they have to face the cost of a transaction that is disputed by a consumer.

[Translation]

Mr. Spencer: You are entirely right; as we said earlier, a number of things have changed since 2006, and the introduction of the PIN is an example of that. I also believe that one of the witnesses representing the credit card industry mentioned that liability shift was a game changer, especially for credit cards. However, all means of payment represent a risk to merchants. In some cases, it is very small, but there is nevertheless a risk of counterfeiting, and it is our duty to minimize that risk. There are risks of physical theft or loss, and there are also risks of fraud in other areas. With the technical developments in the card industry, the situation has appreciably changed, from my personal perspective, since 2006.

Senator Hervieux-Payette: I get the impression that thieves have modernized. They used to print money in their basements, whereas they are now involved in types of electronic money such as credit cards. That is the new trend.

The prime rate has been constant for some time now, and interest rates are quite low. I remember a time when the prime rate was 10 per cent and the credit card rate 19.5 per cent, whereas now the prime rate is 2 per cent and the credit card rate is still as high as 19.5 per cent to 29.5 per cent.

When you are talking about billions of dollars in transactions, this is money that is not productive; that is to say that it will not be reinvested elsewhere. It winds up in the hands of those who have collected it. Obviously, if we have more, we will buy more. We are not talking about small amounts here; we are talking about very large amounts. That is where we will see our next study, which will not give us the cost of credit column. My colleague tells us that this is in the order of \$36.50. I bought a car with my credit card, and I can tell you that my dealer was not very happy. I took advantage of the points, knowing that I was paying for them, but I do not believe this kind of transaction would be acceptable everywhere.

que cet aspect n'est pas présent lors de vos études et cela m'étonne. Le nombre de vols de cartes de crédit était considérable avant l'avènement de ce fameux NIP. N'aviez-vous pas envie d'analyser l'impact de ce nouvel outil de sécurité?

[Traduction]

M. Arango : Notre façon de faire ce calcul, c'est de tenir compte de la rétrofacturation. Dans le cas des cartes de débit, notre hypothèse, c'est que la responsabilité ne se trouve pas du côté du commerçant, s'il y a fraude, à moins qu'il n'y ait une mauvaise gestion de l'information sur les cartes de débit dans ses locaux.

En ce qui concerne les cartes de crédit, la majeure partie de ce que nous considérons comme de la fraude, ce sont toutes les pertes subies par les détaillants lorsqu'il y a rétrofacturation et qu'ils doivent assumer le coût d'une opération contestée par le consommateur.

[Français]

M. Spencer : Vous avez parfaitement raison, comme nous l'avons dit tantôt, plusieurs choses ont changé depuis 2006 et l'introduction du NIP en est un exemple. D'ailleurs, je crois que l'un des témoins représentant l'industrie des cartes de crédit a mentionné le « liability shift » comme modifiant la donne, pour les cartes de crédit surtout. Cependant, le risque pour le marchand existe avec tous les moyens de paiement. Dans certains cas, c'est très maigre, mais malgré tout, il y a un risque de contrefaçon et c'est notre devoir de minimiser ce risque. Il y a les risques de vol physique ou de perte et il y a aussi les risques de fraude dans les autres domaines. Effectivement, avec les développements techniques dans l'industrie des cartes, la situation a sensiblement changé, selon ma perspective personnelle, depuis 2006.

Le sénateur Hervieux-Payette : J'ai l'impression que les voleurs se sont modernisés. Auparavant, ils fabriquaient plus de monnaies dans leur sous-sol tandis qu'aujourd'hui, il s'agit de monnaies électroniques comme les cartes de crédit. C'est la nouvelle tendance.

Le taux de base est constant depuis un certain temps et les taux d'intérêt sont assez bas. Je me souviens d'un temps où le taux de base était de 10 p. 100 et celui des cartes de crédit de 19,5 p. 100, alors que maintenant, le taux de base est de 2 p. 100 et celui des cartes de crédit toujours aussi haut que 19,5 à 29,5 p. 100.

Quand on parle de milliards de dollars de transactions, c'est de l'argent qui n'est pas productif, c'est-à-dire qu'il ne sera pas réinvesti ailleurs. Il se retrouve entre les mains de ceux qui ont collecté cet argent. Évidemment, s'il nous en reste plus, on va acheter plus. On ne parle pas de petits montants ici, on parle de très gros montants. C'est là où l'on verra votre prochaine étude qui ne nous donnera pas la colonne au point de vue du crédit en termes de coût. Ma collègue nous dit que c'est de l'ordre de 36,50 \$. J'ai acheté une voiture avec ma carte de crédit et je peux vous dire que mon concessionnaire n'était pas tellement heureux. J'ai profité des points sachant que je les paye, mais je ne crois pas que ce genre d'opération serait acceptable partout.

It is hard to understand changes in the prime rate relative to what the credit cards charge us, particularly with a PIN that cuts down on fraud. Under the old system, in 2006, fraud was more frequent and counterfeiting more easily achievable.

However, I would like to know the reason why the interest rates applied are still so high today. How can a big store like The Bay, for example, justify its latest increase from 28.5 per cent to 29.5 per cent? Are those decisions based on the situation of the Canadian economy? How does the Bank of Canada explain this increase? People increasingly use cards; they find it reasonable to pay a cost to use a debit card, but we wonder about credit card costs. You conducted studies on taxpayer indebtedness. We all know that, if we have a \$500 credit card balance to which an interest rate of 19.5 per cent must be applied, if we do not pay by the end of the month, it will be costly.

Have you conducted any studies that would explain this variance? Where do these additional costs come from?

Mr. Spencer: In response to your last question, no, we have not conducted any studies. I will go back to an answer that I gave to one of your colleagues. The interest rate on credit cards, like fees, is determined by the credit card providers. I advise you to ask them how their costs are constituted. As for the difference between those rates and the prime rate set by the Bank of Canada, you are entering the field of monetary policy there. I must emphasize that I am not a member of the Board of Governors and therefore not a member of the group that makes those decisions.

However, the rates set by the bank are based on our prime objective of controlling and ensuring a stable rate of inflation. There is definitely a relationship between the prime rate and the other interest rates in the economy, but other factors also enter into the determination of those variances. Fundamentally, it is the people who determine those various variances who should explain how they reach their decisions.

Senator Hervieux-Payette: I am going to accept your suggestion and put the question to others. We are unable to explain to our fellow citizens why this variance has grown so significantly.

[English]

The Chair: The last questioner on my list on the first round is Senator Gerstein.

Senator Gerstein: Thank you, witnesses. I would like to return, Mr. Spencer, to my colleague Senator Oliver's rather excellent question, in my view. I suspect that the bank looks at any bill that would be initiated by either the other place or the Senate when it comes to the issue of finance, which this is in some way or another.

C'est difficile de comprendre l'évolution entre le taux de base et ce que les cartes de crédit nous demandent, surtout avec un NIP qui réduit les fraudes. Sous l'ancien régime, en 2006, les fraudes étaient plus fréquentes et les contrefaçons plus aisément réalisables.

Cela dit, j'aimerais connaître la raison pour laquelle les taux d'intérêt appliqués sont si élevés encore aujourd'hui. Comment un grand magasin comme La Baie, par exemple, peut justifier sa dernière hausse de 28,5 à 29,5 p. 100? La situation de l'économie canadienne est-elle à la base de ces décisions? Comment la Banque du Canada explique-t-elle cette augmentation? Les gens utilisent de plus en plus de cartes, ils trouvent raisonnable de payer un coût pour la carte de débit, mais on se pose des questions au sujet des coûts pour les cartes de crédit. Vous avez fait des études sur l'endettement des contribuables. Nous savons tous que si nous avons un solde de 500 \$ sur notre carte de crédit et qu'on doit y appliquer un taux d'intérêt de 19,5 p. 100, si on ne peut payer à la fin de chaque mois, ça va coûter cher.

Avez-vous fait des études qui expliqueraient cet écart? D'où viennent ces coûts additionnels?

M. Spencer : En réponse à votre dernière question, non, on n'avait pas fait d'études. Je reviens à une réponse que j'ai donnée à un de vos collègues. Les taux d'intérêt sur les cartes de crédit, comme les frais, sont déterminés par les fournisseurs de ces cartes. Je vous conseille de leur demander la constitution de leurs coûts. En ce qui concerne l'écart entre ces taux et le taux de base établi par la Banque du Canada, vous entrez dans le domaine de la politique monétaire. Je dois souligner que je ne suis pas membre du conseil des gouverneurs, donc je ne fais pas partie du groupe qui prend ces décisions.

Cela dit, les taux établis par la banque sont axés vers notre objectif primordial de contrôler et d'assurer un taux stable d'inflation. Il y a certainement une relation entre ce taux de base et les autres taux d'intérêt dans l'économie, mais il y a aussi plusieurs autres facteurs qui entrent dans la détermination de ces écarts. Fondamentalement, ce sont les gens qui établissent ces divers écarts qui doivent expliquer comment ils arrivent à leurs décisions.

Le sénateur Hervieux-Payette : Je vais accepter votre suggestion et je poserai la question à d'autres. Nous-mêmes, nous ne sommes pas en mesure d'expliquer à nos concitoyens pourquoi cet écart s'est agrandi de façon aussi importante.

[Traduction]

Le président : Le dernier nom que j'ai sur la liste pour le premier tour est celui du sénateur Gerstein.

Le sénateur Gerstein : Merci aux témoins. Monsieur Spencer, je voudrais en revenir à la question de mon collègue, le sénateur Oliver, qui était excellente, selon moi. Je présume que la banque étudie tout projet de loi émanant de l'autre endroit ou du Sénat lorsqu'il s'agit de questions de finances, ce qui est le cas ici, d'une façon ou d'une autre.

Mr. Spencer, without expressing an opinion, either on behalf of the bank or, for that matter, personally, when you read Bill S-201, what came on your radar screen? Did you take a look at it and say, "Look, this just has nothing to do with us; I do not know why we are appearing here?" Is there something in it that twiggged your attention? I am certainly not interested in your opinion, but I might be interested in what attracted your attention, if anything.

Mr. Spencer: Leaving aesthetic issues aside, what attracted our attention was not the bill but a request from this committee to appear. The research that Dr. Arango and Varya Taylor had done had attracted members' attention and they thought we could shed some light on this area and, in particular, on the perceptions of merchants. We have a number of studies on the use of cash but it was the merchants' perspective that we thought about.

Speaking personally, Bill S-201 was not on my radar screen at all until the committee's attention was drawn to our work and we received the invitation.

Senator Gerstein: Thank you. That was very helpful.

The Chair: The first questioner on the second round is Senator Ringuette.

Senator Ringuette: I will approach the issue from a different angle and ask you why the U.S. reserve bank has conducted a study and is looking at imposing caps on Visa and MasterCard debit cards in the U.S? Why did the reserve bank, which is your counterpart in Australia, do a study of credit card fees seven years ago and introduce legislation to cap these fees at "a reasonable rate?" Why, as of yet, has not the Bank of Canada looked into these same issues as your counterparts in New Zealand and the U.S. have done?

Mr. Spencer: There are two parts to that question. Any explanation as to why the fed and the RBA, Reserve Bank of Australia, did what they did coming from me would be second hand. As you are already planning to do, it would be much better to ask them directly and to amplify the reasons for why they published that. It is fairer to ask why we have not done the same. The answer I can give you to that is that the responsibilities of central banks are arranged differently in different countries. I am not an expert in this field, but my understanding is that both the Federal Reserve Board and the RBA have broader supervisory and regulatory responsibilities than does the Bank of Canada. In the Canadian regime, these responsibilities are divided among the Bank of Canada, CDIC, OSFI, FCAC, and the Department of Finance has the umbrella.

In the Canadian context, the bank, given its lack of involvement in the retail sector except for the provision of banknotes, is not the right body to ask that question.

Monsieur Spencer, sans exprimer d'opinion au nom de la banque ni même d'opinion personnelle, du reste, lorsque vous avez lu le projet de loi S-201, qu'est-ce qui vous est venu à l'esprit? Vous êtes-vous dit : « Cela n'a rien à voir avec nous et je me demande pourquoi nous comparaissons? » Y a-t-il dans cette mesure quelque chose qui est apparu sur votre écran radar? Je ne cherche pas à connaître votre opinion, mais à savoir si quelque chose a retenu votre attention et quoi.

M. Spencer : Laissons de côté les questions d'esthétique. Ce qui a attiré notre attention, ce n'est pas le projet de loi, mais la demande qui nous a été faite de comparaître devant le comité. Les recherches de M. Arango et de Varya Taylor avaient attiré l'attention des membres du comité, et ils ont pensé que nous pourrions apporter un certain éclairage dans ce domaine et notamment sur les perceptions des commerçants. Nous avons fait un certain nombre d'études sur l'utilisation de la monnaie, mais c'est au point de vue des commerçants que nous avons pensé.

Pour ma part, le projet de loi S-201 n'est pas apparu sur mon écran radar jusqu'à ce que le comité s'intéresse à nos travaux et que nous recevions une invitation.

Le sénateur Gerstein : Merci. Voilà qui est très utile.

Le président : Au deuxième tour, c'est le nom du sénateur Ringuette qui est le premier.

Le sénateur Ringuette : Je vais aborder la question sous un angle différent et vous demander pourquoi la Reserve Bank des États-Unis a fait une étude et envisagé de plafonner les frais des cartes de débit Visa et MasterCard aux États-Unis. Pourquoi la Reserve Bank, qui est votre pendant en Australie, a-t-elle fait une étude des frais des cartes de crédit, il y a sept ans et a-t-elle plafonné ces frais par voie législative à un « taux raisonnable »? Pourquoi la Banque du Canada n'a-t-elle pas encore examiné les mêmes questions que les institutions comparables en Nouvelle-Zélande et aux États-Unis?

M. Spencer : La question est double. Toute explication que je pourrais donner des raisons qui ont poussé la Fed et la RBA, soit la Reserve Bank of Australia, à agir comme elles l'ont fait serait du oui-dire. Il serait nettement préférable de le leur demander directement, comme vous prévoyez déjà le faire, et de leur demander de préciser pourquoi ils ont donné de l'information à ce sujet. Il serait plus juste de me demander pourquoi nous n'avons pas fait la même chose. Ce que je peux répondre, c'est que les responsabilités des banques centrales ne sont pas structurées de la même façon dans tous les pays. Je ne suis pas un expert de la question, mais je crois savoir que la Federal Reserve Board et la RBA ont des responsabilités de surveillance et de réglementation plus étendues que celles de la Banque du Canada. Dans le régime canadien, ces responsabilités sont divisées entre la Banque du Canada, la SADC, le BSIF, l'ACFC, et c'est le ministère des Finances qui surveille tout.

Dans le contexte canadien, étant donné que la banque ne s'occupe pas du secteur du détail si ce n'est pour fournir les billets de banque, ce n'est pas l'institution à laquelle il faut adresser cette question.

Senator Ringuette: Except if, like in the U.S. and in Australia, the government would mandate you to do so?

Mr. Spencer: If the minister is interested in that, we would, of course, be all ears.

Senator Banks: I have a short supplementary. Do not interest rates contribute to the determination of inflation rates?

Mr. Spencer: Absolutely.

Senator Banks: You said you were concerned with the inflation rates, quite properly.

Mr. Spencer: Yes, we are. You are now getting into a technical field in terms of the determination of inflation. Being not an economist myself, I am not qualified to answer. Therefore, I would like to decline that question.

The Chair: As our distinguished colleague from the Library of Parliament pointed out this morning, while the bank can probably control inflation, it is difficult to see how it could produce inflation. The government can by perhaps printing money, but I am not sure the bank can. That might be something to discuss with the governor when he appears before us in April. We always look forward to his visits.

Senator Harb: First, I want to thank you very much. You have done the committee an excellent service in bringing forward that information because it helps us greatly to see where the money flows, where the transactions go, what the merchants like and do not like, and the costs.

I was interested in page 20 in your merchant costs of accepting means of payment. You took here \$36.50 and you did some amazingly smart analyses in terms of actual costs to the merchant. You figured out that the most costly is the credit and the least costly is the debit. What really intrigued me was the float. Can you tell me what the float is and what the coin ordering cost is, as well as the cash deposit fee?

I think we have an idea in terms of what the cash deposit fee is. However, do merchants pay for the coin ordering?

Mr. Arango: They pay for that. It depends on the package that merchants have with their financial institutions. Some might have a fee to cover all these services, but there are also fees per order that they must pay with the financial institution or the other cash processors.

Senator Harb: What is the float?

Mr. Arango: We calculate the float, for instance for cash, as the time that merchants spend to bring cash sales to the bank. Merchants may do that in the same day, some merchants may do that the next day, and some merchants may keep the money for

Le sénateur Ringuette : Sauf si, comme aux États-Unis et en Australie, le gouvernement vous accorde un mandat en ce sens?

M. Spencer : Si le ministre est intéressé, nous serons tout à fait à l'écoute, bien sûr.

Le sénateur Banks : J'ai une brève question complémentaire à poser. Les taux d'intérêt contribuent-ils à l'établissement des taux d'inflation?

M. Spencer : Absolument.

Le sénateur Banks : Vous avez dit que vous étiez, fort justement, préoccupés par les taux d'inflation.

M. Spencer : Oui, nous le sommes. Vous entrez maintenant dans le domaine technique du calcul de l'inflation. Comme je ne suis pas économiste, je n'ai pas compétence pour répondre. Je demande donc à m'abstenir.

Le président : Comme notre distingué collègue de la Bibliothèque du Parlement l'a signalé ce matin, bien que la banque puisse probablement contrôler l'inflation, il est difficile de voir comment elle pourrait la produire. Le gouvernement pourrait peut-être le faire en faisant marcher la planche à billets, mais je ne suis pas sûr que la banque le puisse. Ce pourrait être une question à discuter avec le gouverneur lorsqu'il comparaitra, en avril. Nous avons toujours hâte de le rencontrer.

Le sénateur Harb : Avant toute chose, merci beaucoup. Vous avez rendu au comité un excellent service en lui procurant cette information. Elle nous aide beaucoup à comprendre où va l'argent, ce qu'il advient des opérations, ce qui plaît ou déplaît aux commerçants et quels sont les coûts.

J'ai été intéressé par la page 20, portant sur le coût d'acceptation des modes de paiement par les commerçants. Vous avez pris un montant de 36,50 \$ et vous avez fait des analyses étonnamment brillantes des coûts réels pour le commerçant. Vous avez conclu que la carte de crédit est le mode le plus onéreux et que le moins coûteux, c'est la carte de débit. Ce qui m'a intrigué, c'est le temps de compensation. De quoi s'agit-il? Que veulent dire également les coûts de la commande de monnaie et les frais de dépôt d'argent?

Je crois que nous avons une idée de ce que sont les frais de dépôt d'argent, mais les commerçants doivent-ils payer pour commander de la monnaie?

M. Arango : Ils doivent payer ce service. Cela dépend de l'entente que les commerçants peuvent avoir avec leur institution financière. Certains peuvent avoir un forfait qui couvre tous les services, mais il y a aussi des frais par commande à payer à l'institution financière ou à d'autres entités qui traitent l'argent liquide.

Le sénateur Harb : Qu'est-ce que le temps de compensation?

M. Arango : Nous calculons la période que met le commerçant à déposer à la banque le produit de ses ventes. Il peut faire le dépôt le même jour ou le lendemain. Des commerçants attendent trois ou quatre jours ou encore toute une semaine. À partir de la

three or four days or a week. Looking at an average of the frequency of deposits, we calculate how much cash they hold on average and then we put an interest cost on that.

Senator Harb: You pay for printing the currency, you print the money and the banks, I presume, bring in their old, used cash and then they will give it to you and you give them new currency. Do you charge them for that service or is it done pro bono?

Mr. Spencer: It is primarily a public service. There are some fees to incent them to do this efficiently. For example, we have an interest in making sure that the notes in circulation are of good quality, so if they bring in worn notes, which is what they are supposed to do, we will happily give them new ones. If they bring in notes — and this is hypothetical because they are really quite good at this — simply because they do not want to carry them any more then we may charge them at least the transport and the processing, or some fee in relation to that.

By and large, we supply banknotes to meet the demand and we carry the costs of producing them and delivering them to the banks.

Senator Harb: I believe Canada ranks internationally among the highest in the world in the use of debit; would that be a correct statement?

In a sense, we do have a vested interest as you as a bank and we as a committee to encourage more people to use debit, because you can save money on not printing money; is that right? Every time you print money, in essence, you are paying for it; it is a cost for you.

Mr. Spencer: It is a little more complicated than that because we also make quite a lot of money on banknotes in the form of seigniorage, because it costs us currently about 9 cents to print a note and the \$20 bill in your pocket represents a \$20 interest-free loan to us. We paid 9 cents to get that note to you, we take the \$20 and invest it and, if you look at the bank's income statement, you will see that the revenue from the securities in which we invest the proceeds of the sale or the loan of the banknotes is the largest source of income for the bank, and that far more than covers the bank's operating costs. The balance is turned over to the Receiver General.

Senator Harb: Now then, the merchants make more on debit and you make more on cash. If people use more cash, then you are making more money?

Mr. Spencer: That is true but we do not view ourselves as competitors in this business. We are providing a service of banknotes and we provide it to demand. We see our role as promoting the correct use of banknotes, the prevention of counterfeiting and the efficient running of a cash system, but our success measure does not include how many banknotes we have outstanding. That is a function of what the economy demands, and we simply meet that demand as efficiently as we can.

fréquence moyenne des dépôts, nous calculons le montant qu'ils conservent en moyenne et nous attribuons un coût en intérêts à ce montant.

Le sénateur Harb : Vous payez pour imprimer des billets, et les banques, je présume, vous apportent les vieux billets et vous leur en donnez de nouveaux en échange. Leur facturez-vous ce service ou est-ce gratuit?

M. Spencer : C'est avant tout un service public. Il y a certains frais, de façon à les inciter à agir efficacement. Par exemple, nous avons intérêt à veiller à ce que les billets en circulation soient en bon état. Lorsque les banques nous apportent de vieux billets usés, ce qu'elles sont censées faire, nous leur en remettons des neufs avec plaisir. C'est hypothétique, car elles font très bien ce travail, mais si elles apportent des billets simplement parce qu'elles ne veulent pas les détenir, alors nous leur faisons payer au moins le transport et le traitement et il y a certains frais à cet égard.

Généralement, nous fournissons des billets de banque pour répondre à la demande et nous assumons les coûts de la production et de leur livraison dans les banques.

Le sénateur Harb : Je crois que le Canada est l'un des pays où on utilise le plus la carte de débit. Est-ce exact?

En un sens, la banque et le comité ont tout intérêt à favoriser les paiements par carte de débit, car vous économisez de l'argent en évitant d'imprimer des billets, n'est-ce pas? Au fond, chaque fois que vous imprimez de la monnaie, vous devez payer. C'est un coût pour vous.

M. Spencer : C'est un peu plus compliqué. Nous faisons aussi beaucoup d'argent grâce au seigneurage. En ce moment, l'impression d'un billet nous coûte environ 9 cents, et le billet de 20 \$ qui se trouve dans votre poche est un prêt de 20 \$ sans intérêt que vous nous faites. Nous avons payé 9 cents pour vous donner le billet, et nous investissons ces 20 \$. Si vous étudiez l'état des revenus de la banque, vous constaterez que les revenus des titres dans lesquels nous investissons le produit de la vente ou du prêt des billets sont la source la plus importante de revenu de la banque et que ce revenu est bien supérieur à ses frais de fonctionnement. Le solde est versé au receveur général.

Le sénateur Harb : En somme, les commerçants gagnent plus lorsqu'on paie par carte de débit et vous gagnez plus si on paie en liquide. Si les gens paient davantage en argent liquide, vous faites plus d'argent?

M. Spencer : C'est exact, mais nous ne nous considérons pas comme des concurrents dans ce domaine. Nous fournissons un service de billets de banque et nous satisfaisons la demande. Nous estimons que notre rôle consiste à promouvoir le bon usage des billets de banque, la prévention de la fraude et le fonctionnement efficace d'un système de monnaie, mais la mesure de notre réussite ne dépend pas du nombre de billets en circulation. C'est une fonction des exigences de l'économie et nous nous contentons de répondre à la demande le plus efficacement possible.

Senator Harb: I love this report, I think it is absolutely fabulous and I hope you publicize it more so the public will see the cost. You are doing a great service, both for the merchants as well as to Canadians so thank you.

Mr. Spencer: It is on our website.

The Chair: Perhaps we as a committee can help in that respect, Senator Harb, by publicizing it.

I think I speak for everyone when I say that we consider ourselves fortunate to have had the benefit of your input today, Mr. Spencer and Dr. Arango, and Canada is fortunate to have people such as you at our central bank. Thank you for fielding some challenging questions and numerous points of view. You did yourselves proud and we appreciate it.

Colleagues, this meeting is adjourned.

(The committee adjourned.)

Le sénateur Harb : J'aime beaucoup ce rapport et il me semble absolument fabuleux. J'espère que vous le ferez davantage connaître pour que le public voie quels sont les coûts. Vous rendez un excellent service aussi bien aux commerçants qu'à l'ensemble des Canadiens. Merci.

M. Spencer : Le rapport est sur notre site web.

Le président : Le comité pourrait peut-être se rendre utile à cet égard, sénateur Harb, en faisant connaître le rapport.

Je crois pouvoir dire au nom de tous que nous estimons avoir eu beaucoup de chance de recevoir votre témoignage aujourd'hui, monsieur Spencer et monsieur Arango, et le Canada a de la chance d'avoir des gens tels que vous à la banque centrale. Merci d'avoir répondu à des questions très difficiles et à des points de vue nombreux. Vous vous en tirez avec les honneurs, et nous vous en savons gré.

Chers collègues, la séance est levée.

(La séance est levée.)

WITNESSES

Wednesday, March 2, 2011

Moneris Solutions:

Jim Baumgartner, President and Chief Executive Officer;
Fern Glowinsky, Senior Vice-President, General Counsel and
Corporate Secretary.

TD Merchant Services:

Jeff van Duynhoven, President.

Chase Paymentech Solutions:

Sam Jawad, President.

Global Payments Canada GP:

Jordan Cohen, President.

Thursday, March 3, 2011

Bank of Canada:

Charles Spencer, Director, Business Knowledge and International
Relations, Currency Department;
Carlos Arango, Principal Researcher, Currency Department.

TÉMOINS

Le mercredi 2 mars 2011

Moneris Solutions :

Jim Baumgartner, président et chef de la direction;
Fern Glowinsky, vice-présidente principale, avocate et secrétaire
générale.

TD Merchant Services :

Jeff van Duynhoven, président.

Chase Paymentech Solutions :

Sam Jawad, président.

Global Payments Canada GP :

Jordan Cohen, président.

Le jeudi 3 mars 2011

Banque du Canada :

Charles Spencer, directeur, Savoir institutionnel et relations
internationales, Département de la monnaie;
Carlos Arango, chercheur principal, Département de la monnaie.

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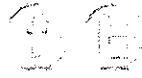
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2012-2

Why Is Cash (Still) So Entrenched? Insights from the Bank of Canada's 2009 Methods-of-Payment Survey

by Carlos Arango, Dylan Hogg and Alyssa Lee

www.bank-banque-canada.ca

Bank of Canada Discussion Paper 2012-2

February 2012

**Why Is Cash (Still) So Entrenched?
Insights from the Bank of Canada's
2009 Methods-of-Payment Survey**

by

Carlos Arango, Dylan Hogg and Alyssa Lee

Currency Department
Bank of Canada
Ottawa, Ontario, Canada K1A 0G9
carango@bankofcanada.ca
dhogg@bankofcanada.ca
alyssalee@bankofcanada.ca

Bank of Canada discussion papers are completed research studies on a wide variety of technical subjects relevant to central bank policy. The views expressed in this paper are those of the authors. No responsibility for them should be attributed to the Bank of Canada.

Acknowledgements

The authors are grateful for the helpful comments and suggestions provided by Ben Fung, Lorraine Charbonneau, Kim Huynh and Gerald Stuber. We also thank participants at the International Association of Currency Affairs' second and third Central Bank Forum on Payment Surveys, at the Oesterreichische Nationalbank workshop on Consumer Payment Choice and the Demand for Money (2010), and at the Canadian Payments Association annual conference (2010). The authors would also like to thank Angelika Welte and Leonard Sabetti for their valuable research assistance.

Abstract

The authors present key insights from the Bank of Canada's 2009 Methods-of-Payment survey. In the survey, about 6,800 participants completed a questionnaire with detailed information regarding their personal finances, as well as their use and perceptions of different payment methods. In addition, about 3,500 participants completed a 3-day diary recording information on each transaction, including the value and the payment instrument chosen. One of the main findings from the diaries is that, even though debit and credit cards account for close to 80 per cent of all transactions in terms of total value, cash is still the predominant payment method in terms of volume, accounting for 54 per cent of all transactions. Using the payment records from the diaries, the authors estimate a simple model of choice between cash and other payment methods. The results suggest that the main reasons why cash is still a popular payment instrument in Canada, especially for small-value transactions, are its wide acceptance among merchants, high ease of use or speed, low handling costs, simplicity as a tool to control spending, and anonymity.

JEL classification: E41, D12, L81

Bank classification: Bank notes; Financial services

Résumé

Les auteurs présentent les points clés de l'enquête sur les modes de paiement menée par la Banque du Canada en 2009. Environ 6 800 participants ont alors répondu à un questionnaire détaillé sur leurs finances personnelles ainsi que sur leur usage et leurs perceptions de diverses méthodes de paiement. En outre, quelque 3 500 participants ont tenu un journal où ils ont consigné pendant trois jours des renseignements sur chacun de leurs achats, notamment sa valeur et l'instrument de paiement employé. L'analyse de ces journaux fait ressortir que même si les règlements par cartes de débit et de crédit représentent près de 80 % des transactions en valeur, l'argent comptant domine toujours pour ce qui est du volume, puisque 54 % des transactions sont réglées en espèces. À l'aide des informations contenues dans les journaux d'achats, les auteurs estiment un modèle simple dans lequel les acheteurs ont le choix entre l'argent liquide et d'autres méthodes de paiement. D'après les résultats du modèle, le règlement en argent comptant reste un mode de paiement populaire au Canada, surtout pour les transactions de faible montant, parce qu'il est bien accepté par les commerçants, qu'il est commode, rapide, peu coûteux et anonyme et qu'il facilite la gestion d'un budget.

Classification JEL : E41, D12, L81

Classification de la Banque : Billets de banque; Services financiers

1. Introduction

The payments landscape in Canada has changed markedly over the past two decades. Cash was the most important instrument for retail payment in the first half of the 1990s (Chart 1). However, the way Canadians pay has changed since then, and cash now accounts for only a fifth of total payments in terms of value. The decline in the use of cash can be attributed to a number of factors. First, the introduction of debit card payments at the point of sale (POS) during the 1990s provided consumers with a safe and convenient substitute for cash. As a result, the number of debit card transactions experienced rapid growth well into the early 2000s. During the past decade, the share of credit cards has grown strongly as more merchants have begun to accept them and more consumers make use of credit cards with increasingly generous rewards programs.

New innovations are part of the changing payments landscape and many of them possess features that could further reduce cash usage. Examples include the increased ease of use or speed at the checkout with stored-value cards or contactless¹ card payments; the enabling of debit and credit payments through mobile phones² for both POS and person-to-person transactions; and the growth of e-commerce, where paper-based payment methods such as cash may become increasingly irrelevant.

These developments are of particular interest to the Bank of Canada. As the sole issuer of Canadian bank notes, the Bank seeks to understand how cash is used, how efficient it is relative to alternative methods of payment (MOP) and the likely evolution of cash usage in the future. Answering these questions is vital for the Bank's long-term planning and, more broadly, for payments system policy. New developments in the retail payment system raise important issues related to efficiency, safety, financial soundness and competition. To better understand these issues, the Bank has commissioned a number of surveys to gather information about key players in retail payments, such as consumers and merchants.³ The latest effort is the 2009 MOP survey, which includes a shopping diary where consumers record their purchases and payment instruments used over a 3-day period. One of the main findings from the survey is that cash is still the predominant payment instrument in terms of volume, accounting for 53.8 per cent of all transactions recorded in the diaries.

This paper uses the 2009 MOP survey data to study the main factors underlying the high frequency of cash usage for day-to-day payments. More specifically, we estimate a discrete-choice model of cash versus other payment methods. The results suggest that cash is still

¹ Contactless refers to a feature that can be found on some debit and credit cards, where a consumer simply waves or taps the card over a terminal to pay for a purchase without the need to swipe, enter a PIN or sign anything.

² Payment through a mobile phone is often linked ultimately to a person's credit card or bank account.

³ See Taylor (2006) and Arango and Taylor (2008–09, 2009a).

frequently used in Canada because of the following factors:

1. Cards are perceived by consumers as not being widely accepted. Indeed, where cash, debit and credit are *all* accepted, consumers are 30 per cent less likely to use cash. Cash use is especially high for transactions below \$25, where perceived card acceptance is substantially lower.
2. Cash has several characteristics that make it more appealing to consumers than other payment methods. In particular, consumers prefer to use cash because they find it fast, cheap, safe against fraud and convenient for budget-control purposes. Ease of use or speed, in particular, accounts for at least a third of the share of cash payments for transactions below \$25.

However, consumers are quite sensitive to cash withdrawal costs. We show that the more cash individuals hold at the beginning of the 3-day shopping period, all things equal, the more likely they are to use cash. Yet, the higher the value of the transaction relative to the initial cash holdings, the more likely it is that people will hold on to their cash. Clearly, consumers dislike the possibility of running out of cash, since they may incur costs in terms of time, effort and fees to get more.

The results suggest that one main reason for paying with cash is because “consumers have to,” since they perceive that other payment alternatives are not accepted. However, another reason is that “consumers like to” use cash because they find it convenient and safe.

This paper is organized as follows. In the next section we provide a brief description of the 2009 MOP survey. In section 3 we provide a detailed account of the survey results and stylized facts on consumers’ payment instrument use. Section 4 presents a model of cash usage at the point of sale.⁴ Section 5 discusses the empirical results. Section 6 concludes.

2. The 2009 Methods-of-Payment Survey

In 2004, the Bank of Canada conducted its first consumer payments survey to study the public’s perceptions and use of cash and other payment instruments. This phone survey provided valuable information regarding people’s cash-handling behaviour and the factors influencing payment demand. Taylor (2006) finds that cash was the most frequently used payment method: 73 per cent of survey respondents indicated using cash at least once a week, followed by debit cards (64 per cent) and credit cards (36 per cent). Using the same survey, Arango and Taylor (2009b) show that differences in perceptions of convenience and risk of cash relative to cards were

⁴ In this paper, point of sale is used loosely to mean purchases where there is a buyer and a seller involved but there is not a need for a physical location or particular trading technology to finalize a transaction.

significant determinants of cash use. However, the authors acknowledge that more precise information would be required to determine how and why Canadians use cash the way they do.

The 2009 MOP survey builds on the results obtained from the 2004 public survey. The Bank commissioned Ipsos Reid to conduct the 2009 survey. It focuses on methods of payment used for personal day-to-day purchases of goods and services, excluding bill payments and work-related activities. The sample was drawn from Ipsos Reid access panels (directories of people willing to participate in surveys on a regular basis) using stratified random sampling⁵ of 18- to 75-year-old Canadian residents. The 2009 MOP survey's main features are:

1. A survey questionnaire of 52 questions to collect information about individuals' personal finances, socioeconomic characteristics, payment habits, and their perceptions and attitudes toward different payment attributes such as speed, record keeping, privacy, safety and access to credit.⁶
2. A 3-day shopping diary to collect information about the frequency of use of different payment instruments and various transaction characteristics (e.g., transaction values; type of goods and services purchased; type of payment instruments accepted by merchants).⁷

The survey was administered over the course of November 2009, so the diaries represent a month's worth of transactional data.⁸ The final data set includes about 6,800 survey questionnaires, 3,500 diaries, and 16,000 transactions.

3. Drivers of Cash Usage: Survey Highlights

One of the most salient results from the diaries is that, although credit cards dominate household retail payments in terms of value (accounting for 40.1 per cent), cash is still the predominant payment instrument in terms of volume (i.e., the number of transactions), accounting for 53.8 per cent of all transactions in the diaries (Chart 2). However, Table 1 shows that the prevalence of cash is concentrated in lower-value transactions. In fact, the average cash transaction in the diaries is \$16.9, whereas it is \$51.3 and \$84.4 for the average debit and credit card transactions, respectively.

⁵ Stratified sampling involves dividing the population into homogeneous, mutually exclusive groups called "strata," and then taking independent samples from each stratum.

⁶ Some of the questions in the questionnaire are based on the Survey of Consumer Payment Choice of the Federal Reserve Bank of Boston, which collaborated with the Bank of Canada in the development of the survey instruments (Foster et al. 2010).

⁷ Such methodology has been used by a handful of central banks (including those for Austria, the Netherlands, Germany and Australia) as a key tool for estimating the volume and value shares of cash use in their economy and to monitor developments in retail payment usage (Mooslechner, Stix and Wagner 2006; Jonker and Kosse 2009; Hoffmann et al. 2009).

⁸ See Arango and Welte (forthcoming) for a detailed discussion of the survey methodology and main results.

Using the survey results, a back-of-the-envelope calculation of the volume of cash payments in the Canadian economy yields 7.7 billion transactions compared with the card networks data of 2.6 billion and 3.9 billion for credit and debit cards, respectively, in 2009.⁹ Moreover, 81 per cent of this volume of cash payments, as estimated from the diaries, is for values of less than \$25.

We use the rich data from the survey to study why cash is still so entrenched in terms of transaction volumes. To do so, it is useful to think of retail payment systems as two-sided markets: a payment service provider must attract consumers to use the payment instrument and merchants to accept it.¹⁰ Suppliers of payment services therefore require both buyers and sellers to create the demand for their services. Consumers must find some benefit in the use of a payment instrument, while merchants must find it profitable to incur the costs of accepting it. Therefore, to understand why consumers pay the way they do at the point of sale, one has to control for the types of payment instruments available to consumers and their respective benefits and costs in different transactions.

3.1 Cash is still frequently used even where debit and credit cards are accepted

One important consideration in the use of a particular payment method is its degree of acceptance by merchants. As Arango and Taylor (2008–09, 2009a) show, cash is indeed cheapest for merchants in terms of variable costs at stores where the average transaction value is below \$23. They also show that cash is preferred by those small merchants that tend to process high volumes of low-value transactions. These results are consistent with the 2009 MOP findings regarding payments acceptance. To gauge how restricted consumers feel about their use of different payment instruments, the 2009 MOP survey questionnaire asked about perceptions regarding levels of acceptance for different payment instruments on a scale from 1 (not accepted anywhere) to 5 (accepted everywhere). As Chart 3 shows, 83 per cent of survey respondents perceive that cash is accepted everywhere, whereas only half of the individuals perceive that credit and debit cards are accepted everywhere. Hence, consumers seem to face more uncertainty about merchants' acceptance of cards than of merchants' acceptance of cash.

Furthermore, in the diaries, respondents were asked to report on the payment methods they perceived were accepted at the time of purchase. Table 2 shows the proportion of transactions

⁹ We can obtain two estimates of total payment volumes by dividing the debit and credit card volumes reported by the card networks by their shares estimated from the diaries; multiplying the average of these two volume estimates by the cash share yields 7.7 billion cash transactions.

¹⁰ The two-sided market approach to payments has a long tradition in the literature. This approach highlights the issues associated with the coordination of buyers' and sellers' needs and incentives to participate in a payment system. Baxter (1983) and Rochet and Tirole (2002, 2003) set out the theoretical framework that has since been used extensively to study the important issues associated with the pricing of payment services (e.g., interchange fees), payment system participation, and competition and strategic interaction among participants (see Rochet and Tirole 2006 for a review of the two-sided markets approach, and Bolt and Chakravorti 2008 for a review of this approach applied to payments and its implications for government intervention).

where an individual thought cards were accepted, broken down by the dollar value of the transaction and the size of the merchant. We find that perceived card acceptance increases with both merchant size and transaction value.¹¹

To gauge the extent to which cash usage could be explained by merchant acceptance, we compare the frequency of cash payments in the diary (all transactions) with the frequency of cash payments when respondents perceive that all payment methods are accepted. Chart 4 shows that the proportion of transactions made with cash is lower when it is perceived that all major payment instruments are accepted.

These results demonstrate that an understanding of cash usage is a complex matter. The fact that consumers are less likely to use cash when they perceive that all payment methods are accepted supports the idea that, in some cases, cash is used because of necessity rather than desire. However, even after acceptance is taken into account, cash is still frequently used for low-value transactions, which means that consumers still value some of the attributes that differentiate cash from cards. For example, roughly 50 per cent of the transactions below \$25 are still paid for with cash, even though it is perceived that all MOP are accepted (Chart 4).

3.2 Demographics may mask more fundamental reasons for payment choices

Having controlled for the consumer perception of merchant acceptance, we next examine the consumer decision. The survey results confirm many of the demographic traits on cash usage found in previous studies. For example, those 55 years of age or older make 59 per cent of their transactions with cash, whereas those 34 or younger make only 48.9 per cent with cash. Those in the highest income bracket make about 47.4 per cent of their diary purchases with cash, compared with 65.2 per cent for incomes below \$30 thousand (Table 3, column I). Therefore, the following question arises: Does the adoption and use of electronic alternatives to cash depend on demographic transitions, as new cohorts of individuals become more comfortable adopting and using them and real income levels rise?

Column II of Table 3 shows that the link between payment usage and income may be partly due to different shopping patterns. Columns I and II of Table 3 show that there is a negative correlation between average transaction values and cash payment shares. The fact that higher-income individuals undertake higher-value transactions may help explain why they use credit cards more intensively. Lower-income consumers, who make mostly smaller-value purchases, may shop more frequently at locations where only cash is accepted, becoming more cash intensive.

¹¹ Royston (2009) imputation techniques were used for about 10 per cent of the transactions in the diaries, to deal with missing values in the response to the diary question on which payment methods the individual believed were not accepted.

Column III of Table 3 shows that another reason for the differences in payment usage by income may be that low-income individuals have less access to alternative payment instruments, such as credit cards. An individual typically must meet a set of requirements based on their income and credit history before being accepted.¹² Moreover, column IV of Table 3 shows that higher-income individuals are more likely to have credit cards with rewards and, hence, have stronger incentives to make more intensive use of such cards.

In summary, there are underlying structural reasons that help explain why people with differing demographic traits have different payment patterns.

3.3 Beyond demographics: relative benefits and costs of alternative payment methods

One of the key features of the 2009 MOP survey is that it explores in detail the factors that could be considered as building blocks of consumers' preferences for different payment instruments. Chart 5 shows that security (in terms of fraud/theft/counterfeiting), as well as ease of use at the time of payment (in terms of time spent and the nuisance of having to make change, remember a PIN or sign for a purchase), are the top considerations for consumers when choosing a payment method. This is followed by costs (in terms of fees) and overall acceptance. A second set of attributes could be associated with cash flow and tracking expenditures such as anonymity, record keeping and the possibility of delaying the actual payment. Finally, controlling overspending and the potential to earn rewards rank near the bottom in terms of overall importance.

The survey also asked participants to rate different payment methods on a scale from 1 to 5 in terms of ease of use, costs, tracking spending and risks. As Table 4 shows, cash ranks highest in terms of ease of use and lowest costs, but lower in terms of record keeping (tracking). Debit and credit cards rank similarly, in most respects.

More importantly, we find a significant correlation between consumers' cash perceptions relative to alternative payment methods and payment intensity. Respondents who perceive that cash is relatively easier to use, better at tracking spending and cheaper than cards use relatively more cash compared to other payment instruments. The perceptions regarding cash relative to those regarding cards across demographic groups also provide clues about the demographic payment traits found in the literature. Table 5 reports the share of cash payments by demographic categories together with the average perception responses of cash relative to cards by payment instrument attribute. Numbers above (below) one represent measures above (below) the sample average. The table presents the puzzling result that older people use cash more intensively than

¹² In contrast, debit card ownership usually requires only that a person have a bank account. The percentage of people with at least one debit card did not vary to a significant degree by income in the survey.

younger people, despite the fact that older people have a relatively less favourable opinion about cash in terms of ease of use, risk of theft and acceptance. This may imply that older people pay with cash because they have to, rather than because they like cash relative to cards. In contrast, for high-income individuals, the limited record keeping capabilities and the higher risks of cash seem to weigh more heavily than the relatively higher costs and lower acceptance they associate with cards.

4. A Logit Model of the Choice of Cash at the Point of Sale

Simple bivariate correlations are illustrative, but as the previous section suggests, it is hard to draw firm conclusions from them. Age and income, for example, are associated with higher transaction values, which favour the use of cards as opposed to cash. Hence, in this section we use a simple logit model to analyze the determinants of an individual's choice of whether to use cash at the point of sale. The logit model exploits the information revealed in consumers' actual payment choices shown in the diaries to infer the underlying structure of their preferences.¹³ The logit model allows us to separate the age and income effects from other factors such as payment instrument attributes, perceptions and transaction characteristics.

4.1 The logit model

The logit model starts with the assumption that consumers obtain a certain level of utility or satisfaction, y^* , by using cash in a given transaction. This utility is derived from the benefits that consumers experience using cash, such as speed and wide acceptance, net of the handling costs relative to other payment instruments. By using cash, for instance, consumers incur withdrawal costs and face certain risks of theft or loss.¹⁴ In contrast, by using other payment methods, consumers may earn rewards and have access to credit, but may still be subject to certain risks of fraud.

However, instead of y^* , the data provide information on only the actual payment instrument choices made for a transaction, y . If $y = 1$ cash is used, this implies that the net benefit of cash relative to its alternatives is positive ($y^* > 0$). Otherwise, $y = 0$; i.e., consumers are better off choosing one of the alternatives to cash available to them, mainly credit or debit cards.¹⁵

If the utility function is of the form

¹³ In the context of binary choices, the results of models such as the probit one produce very similar predictions.

¹⁴ We do not consider the opportunity cost of holding cash balances, since the survey does not provide data for interest rates on savings accounts. However, this opportunity cost is likely to have been low in 2009, since Canadian short-term interest rates were close to zero in 2009 and cash holdings on hand were low (\$70, on average; see Arango and Welte forthcoming).

¹⁵ Although any MOP could be recorded in the diaries (e.g., cheques, stored-value cards, travellers cheques or online PayPal), 98 per cent of the transactions were conducted using either cash, debit or credit cards.

$$y^* = X'\beta + \varepsilon, \quad (1)$$

with an unobservable component ε that follows a logistic distribution $F(\varepsilon)$, and $X'\beta$, which are observable factors that shift consumers' utility, then the probability that an individual chooses cash for a particular purchase is

$$\Pr(y = 1|X) = \Pr(y^* > 0|X) = \Pr(\varepsilon > -X'\beta) = \frac{e^{X'\beta}}{1+e^{X'\beta}}. \quad (2)$$

We estimate the model using the maximum likelihood function of the logit model, modified to use the survey weighting factors. This function is called the pseudomaximum likelihood function (Archer and Lemeshow 2006):

$$\ln L(\beta|x_i) = \sum_{i=1}^n \left\{ (1 - y_i)(w_i) \ln \left[1 - \frac{\text{EXP}(x_i'\beta)}{1+\text{EXP}(x_i'\beta)} \right] + y_i(w_i) \ln \left(\frac{\text{EXP}(x_i'\beta)}{1+\text{EXP}(x_i'\beta)} \right) \right\},$$

where w_i is the weight associated with observation i .

4.2 Factors associated with payment behaviour

We consider several sets of factors that may be associated with the probability of paying with cash in the model of payment choice. The first set controls for consumer socioeconomic characteristics including age, income, education, gender, and marital and employment status.

The second set of variables are characteristics of the debit and credit card plans people have when they begin to complete the diary. We control for consumers' access to debit and credit cards, debit card fixed and per transaction fees, credit card rewards, and whether individuals pay their credit cards in full at the end of the month. The estimation results reported below focus on the individual's choices at the time of making a purchase. Hence, we assume that the features of the debit and credit cards consumers are holding are fixed, since consumers first shop around for banking services and seldom change their financial arrangements after making their decision. As for cash, we include cash holdings at the beginning of the 3-day diary.

The third set of variables controls for specific features of the transaction environment. In particular, we include the transaction value, the type of good or service purchased, the transaction venue (e.g., at a store or person-to-person), whether the transaction took place on a weekend, whether consumers perceived that debit and credit cards were accepted by the merchant, and the two most important reasons for choosing the payment instrument used.

Finally, we exploit the rich array of questions ranking the importance/usefulness of different payment instrument attributes such as ease of use, record keeping, security and budget control.

4.3 Marginal effects

Since the coefficients on a logit model are difficult to interpret, we report marginal effects or the change in the probability of using cash given a small change in an explanatory variable. In general, the marginal effect of a change in a variable in a logit model will depend on the value of $x \in X$ (see Train 2009).

For a continuous variable in a logit model, the marginal effect of a change in the j th explanatory variable x_j is

$$\frac{d\Pr(y = 1|X; \beta)}{dx_j} = \frac{EXP(X'\beta)}{[1 + EXP(X'\beta)]^2} \beta_j.$$

For a factor variable such as a dummy, which takes only the value 1 or 0, the marginal effect is

$$\Pr(y = 1|x_j = 1; \beta) - \Pr(y = 1|x_j = 0; \beta),$$

which is simply the difference between the model-predicted probabilities of paying with cash when the dummy variable is true versus when it is false, holding all other variables constant.

5. Results

Table 6 shows the average marginal effects (AME) of the logit regression.¹⁶ AME calculates the marginal effect of a variable for every transaction in the sample and takes the overall average of these marginal effects. The appendix provides definitions of the variables included in the model. The following are the most salient results, organized by sets of factors impacting cash usage at the point of sale.¹⁷

5.1 Participants' socioeconomic characteristics

The results reported in Table 6 under *Socioeconomic factors* show that income and age are both significantly associated with the use of cash at the point of sale. However, the differences in cash

¹⁶ To test for model specification error, we use the link test by Pregibon (1980). The idea is that if the model is correctly specified, then an auxiliary logit model of cash with the linear prediction of $X'\beta$ from the original model and the prediction squared as regressors should show that the squared prediction has no explanatory power. The coefficient on the prediction squared is 0.01 with a p -value of 0.4. We therefore have no evidence that the coefficient on the prediction squared has any explanatory power; hence, there is no evidence of model misspecification.

¹⁷ Strictly speaking, our results should be interpreted as deriving from a model of conditional probabilities, since we do not claim that some of the factors associated with the probability of paying with cash are direct drivers of consumers' payment decisions.

usage between income and age groups depend importantly on whether the individual has access to a credit card.

To see this, note that the age and income categorical dummies enter the regression both alone and through interaction with the credit card ownership dummy. The stand-alone AMEs show the differences between individuals without access to a credit card. Those in the middle-income bracket (\$50K–\$80K) use significantly more cash than those in the other income brackets (AME = 0.109, or an 11 percentage-points-higher probability of using cash).¹⁸ Also, the oldest individuals (AME = 0.102) use more cash than the youngest age group.

For individuals with access to a credit card, however, there is no significant difference in cash usage between the different age and income groups. Among those with a credit card, the difference in the probability of using cash between age and income categories depends on the sum of the stand-alone coefficients on the age/income categories and the coefficient on the interaction of the age/income category and the credit card ownership dummy. For example, the AME on cash usage for an individual who earns between \$50K and \$80K and owns a credit card is $(0.109) + (-0.100) = 0.009$, which is negligible. Performing the same exercise for the other age and income groups produces similar results.¹⁹

It could be argued that the lack of significance of age and income is due to the collinearity between them and the other explanatory variables in the model. For example, the perceived ease of use of cash may be correlated with age. Correlation analysis, however, shows that even though there is some correlation between income and age, and participants' perceptions and attitudes toward different payment instrument attributes, such correlations are relatively low.²⁰ Furthermore, the results may not be surprising given that the markets for debit and credit cards are relatively mature in Canada. Therefore, personal differences in perceived benefits and costs of alternative payment instruments, regardless of demographics, would have more weight in consumer payment choices among those with access to all payment methods.

Less than 5 per cent of participants do not have a debit card, and their probability of paying with cash is about 5 percentage points higher than for those carrying a debit card. This is shown in Table 6, where the AME of the dummy on debit card ownership is -0.048.

¹⁸ As we present the results, a good point of reference regarding the magnitude of the AME is to compare them with the actual proportion of transaction volumes in the sample done with cash, which is 54 per cent.

¹⁹ Tests on the linear hypothesis that the coefficient on an age or income category plus the coefficient on its interaction with credit card ownership equals 0 fail to reject this hypothesis at the 5 per cent significance level.

²⁰ Arango and Taylor (2009b) and Schuh and Stavins (2010) highlight the weak correlation between perceptions of payment instrument attributes and demographics.

All things equal, other socioeconomic factors such as education, gender, employment status, urban/rural, financial knowledge and whether the individual is active in the household finances are not statistically significant.

5.2 Debit/credit card plans and access to cash

The results reported in Table 6 under *Card plans and cash holdings* show that the use of cash varies significantly with the type of debit or credit card and the amount of cash consumers have on hand at the beginning of their diary.

As would be expected, the results of the logit model show that the probability of using cash for those participants holding debit cards with either more than 20 or unlimited free transactions (AME = -0.066) is about 7 percentage points lower than those with fewer free transactions.²¹ In fact, unlimited debit transactions are often offered by plans that charge monthly fees or are subject to minimum bank account balances. By having this type of plan, consumers have stronger incentives to use debit cards than those who pay per-transaction fees.²²

Having a credit card with rewards also influences the probability of using cash.²³ In the model, we include the product of a dummy on whether a person's credit card has rewards and transaction value. This specification follows from the fact that most credit card rewards are proportional to the transaction value.²⁴ We can see from the results in Table 6 that a marginal increase in credit card rewards decreases the probability of using cash (AME = -0.001). However, the effects are small relative to other dimensions of the payment choice. This is illustrated in Chart 6, which uses the logit model to estimate predicted probabilities²⁵ across transaction values for individuals with no rewards on their credit card (dotted red line) versus a base case (blue line) that considers individuals with rewards. For Charts 6 through 10, the base case involves fixing consumer characteristics at their average value across all transactions. For variables that change with transaction values, the average values across each transaction value range are used.²⁶

We interpret cash balances at the beginning of the diary as a proxy for the marginal cost that consumers face in paying with cash. The more cash an individual has on hand, the lower the

²¹ 69 per cent of survey participants own debit cards with 20 or more free transactions per month.

²² These results are consistent with those found by Borzekowski, Kiser and Shaista (2008).

²³ As will be discussed later, other credit and debit card attributes, such as ease of use at some transactions, payment delay in the case of credit cards, and record keeping have a larger effect than rewards on the choice between cash and cards.

²⁴ 70 per cent of survey participants who own a credit card have an associated reward plan.

²⁵ Predicted probabilities are calculated based on equation (2) using the parameter estimates of the logit model β and specific values for the variables included in X .

²⁶ In a multinomial discrete-choice model of cash, debit and credit, Arango, Huynh and Sabetti (2011) look closer into the substitution patterns between the three payment methods and find that, although credit card rewards reduce the use of both cash and debit cards, the effect is significantly larger on the latter payment instrument.

probability of having to make a trip to get cash or of missing a purchase, as, for example, when consumers do not have enough cash and cannot pay with another payment instrument. The model indicates that having greater cash balances on hand increases the probability of using cash for all transactions (AME = 0.001 for cash holdings at the beginning of the diary). However, if the value of the transaction is high relative to cash holdings, consumers tend to hold on to their liquidity and therefore it is less probable that they will pay with cash. This can be seen through the coefficient on the ratio of the transaction value and initial cash holdings (AME = -0.013).

Chart 7 shows the total effect of cash holdings on the probability of using cash as the transaction value rises. In contrast to Chart 6, the dotted red line represents the alternative case of having very low cash balances (\$5 in our simulation) at the beginning of the diary. Having low initial cash on hand reduces the probability of using cash, and the reduction (the ratio between the two lines) increases with higher transaction values. For transaction values between \$25 and \$50, it could be almost half as likely that consumers with low cash holdings would use their liquidity or withdraw additional cash to complete the transaction, compared to the base-case situation.

5.3 Transaction characteristics

Transaction characteristics matter: the value of a payment attribute may depend on them. As shown earlier, card acceptance varies by transaction value, while speed may also be at a premium in places with high shopping traffic. Safety may be perceived as greater in high-transaction-value stores. Paying with cards at the gas pump may save a trip inside the station, compared to paying with cash.

The results reported in Table 6 under *Transaction characteristics* show that the two most important variables explaining why cash is frequently used in low-value transactions are the lack of acceptance of alternatives to cash and ease of use or speed. However, other cash attributes, such as anonymity, also matter at the POS.

Indeed, the probability of paying with cash decreases almost 30 percentage points, on average, when consumers perceive that both debit and credit cards are accepted by merchants (AME = -0.308 on the dummy for cash, debit and credit perceived as accepted in Table 6). Chart 8 shows the baseline scenario with the observed card acceptance levels versus the predicted probability of using cash across transaction amounts when an individual believes cards are accepted. For the latter scenario, the purchaser is less likely to use cash and the reduction in the probability of using cash is greatest for low-value transactions.²⁷

²⁷ Future work should analyze the formation of consumers' acceptance beliefs. By obtaining data on actual acceptance by geographic codes, as in Rysman (2007), one could measure the level of consumers' choice "inefficiencies" due to misinformation. Note, however, that even if merchants accept a payment method, they could, in principle, dissuade consumers from using it either through fees or minimum transaction restrictions.

The diary also asked for the two most important reasons for choosing a particular payment instrument. Reasons included were: ease of use or speed, avoid fees, delay payment and avoid fraud/theft/counterfeiting. The model results show that for transactions where the most important reason for choosing a payment instrument was ease of use or speed, the probability of paying with cash is about 20 percentage points higher (AME = 0.204). Chart 9 illustrates the importance of ease of use in the probability of using cash as we alter the transaction value. Again, this chart plots the base case against an alternative case, this time setting the variable ease of use as the top reason equal to 0 (see the appendix for a description of this variable). Note that making ease of use unimportant for choosing a payment method in the model substantially reduces the use of cash, particularly in lower-value transactions.²⁸

The results in Table 6 also show that for transactions where avoiding fees and avoiding fraud were the top reasons for choosing a payment method, the probability of paying with cash is substantially higher (AME = 0.111 and AME = 0.079, respectively). These results highlight the unique advantages of cash in terms of anonymity, and point to a substitution toward cash where consumers might face merchant surcharging if using a payment card.²⁹ However, when delaying the payment is the main reason behind making a payment instrument choice, the probability of paying with cash drops by some 20 percentage points (AME = -0.207).

The type of good purchased also influences a person's decision on whether to use cash. Using groceries/drugs as the base category, the model estimates show that the probability of using cash falls when the good type is gasoline (AME = -0.045), and travel/parking (AME = -0.147), but increases when it is entertainment/meals (AME = 0.059). The model results also show that cash is predominant in transactions where the buyer and the seller are physically present, such as at a store or person-to-person.

5.4 Participant perceptions and attitudes toward payment instrument attributes

The previous section analyzed why cash usage varies across transaction types. In this section, we analyze why cash usage varies among consumers. The model shows that differences in perceived benefits and costs of paying with cash among consumers are strongly associated with differences in their payment behaviour.

We add measures of respondents' perceived overall satisfaction with the ease of use, costs and ability of cash to track spending relative to debit and credit cards. We also include participants' attitudes toward record keeping, security and control of overspending. The estimates reported in Table 6 under *Perceptions and attitudes* show that differences in consumers' perceived costs of

²⁸ Klee (2008) also finds speed to be a significant factor in the use of cash and alternative payment instruments.

²⁹ For example, some retailers charge a card payment fee if transactions are below a certain threshold.

using cash (AME = -0.141), ease of use (AME = 0.318) and record keeping capabilities (AME = 0.185) are significant factors explaining the probability of using cash with the expected signs. Furthermore, cash seems to play an important role as a way to keep spending within budget, since those consumers particularly worried about overspending use cash more intensively (AME of importance of controlling overspending = 0.041).

There are various reasons why consumers may differ in their perceptions of the benefits and costs of using cash. Those who are more careful about checking change, worry about currency counterfeiting or do not like coins may find cards easier to use. For some, accessing cash may be more costly in terms of ATM access and fees. Some individuals see cash as being good for tracking expenses, since cash balances can be checked at any time; alternatively, some may have a strong aversion to leaving a record of their transactions or personal information, or may not wish to keep track of small-value purchases. Others may find it more difficult to check card statements online or handle personal credit lines.³⁰

We use the model to specify a scenario where cards are accepted everywhere, are as easy to use as cash and cash withdrawals are considered costly (proxied by low cash balances). Such a scenario could resemble the case where debit, credit or contactless payments (where a payment instrument can be simply waved over a terminal without the need for a signature or PIN) become ubiquitous and where cash access is made costly by, for example, increasing withdrawal fees. Chart 10 shows that, in such a scenario, the probability of paying with cash would be less than a fourth of that in the current environment. The chart also highlights the explanatory power of our model: it helps explain most of the high probability of paying with cash in low-value transactions.³¹

6. Conclusion

In this paper, we use the Bank of Canada's 2009 Methods-of-Payment survey to study why cash is still so frequently used. We find that about 6 out of 10 cash transactions are undertaken because of either speed or lack of acceptance of alternatives to cash, or because cash is easily available. These factors are especially relevant in explaining why cash accounts for about 70 per cent of the payment volume for transactions below \$25. Debit cards and credit cards, on the other hand, dominate in higher-value transactions, where they are generally accepted by merchants, speed is not as relevant, credit card rewards are more generous, delaying a payment is more attractive and people prefer to hold on to their cash balances.

³⁰ The significance of consumer heterogeneity in preferences for cash due to its budgeting and overspending control properties, as well as its lack of tracking records, is consistent with the results found in von Kalckreuth, Schmidt and Stix (2011) and Schuh and Stavins (2010).

³¹ The effect of transaction value on payment choices is documented in other studies such as Klee (2008) and Boumie and Francois (2006).

However, consumers differ in the way they perceive cash attributes. We find that there are consumers who are more cash intensive, since they use cash to avoid fraud, and because of its simplicity as a tool in controlling spending.

The results suggest that payment innovations that are easy to use and widely accepted may cause substantial reductions in cash usage, especially for transactions below \$25, where we estimate that annual cash volumes are 6.2 billion transactions, about the same as the current combined volume of debit and credit card payments.

One example of such an innovation is the contactless feature (where a payment instrument can be simply waved over a terminal without the need for a signature or PIN) in some Interac debit cards (Flash) and Visa (payWave) and MasterCard (PayPass) credit cards. Such payment cards would be more competitive with cash in terms of speed and ease of use. Although contactless card features were just introduced in Canada a few years ago, there is already evidence of their effect on cash usage (Fung, Huynh and Sabetti 2011). More recent innovations allow debit and credit payments through mobile phones, as well as make credit card payments quicker for low-value transactions by eliminating the requirement to provide a signature. However, merchants, especially those with high transaction volumes and low transaction values, must be given the right incentives to accept these innovations, since it may involve the upgrading of existing equipment or the purchase of new equipment.

Future work with the 2009 MOP survey should allow researchers to develop more elaborate models of payment instrument usage. For example, to explore competition between debit and credit cards at the point of sale, it is important to understand the factors underlying both consumer selection of different debit and credit card plans and merchants' decisions regarding payment card acceptance.

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Table 1
Point-of-Sale Transaction Value by Payment Method – 2009 MOP Survey^a

Method of payment	Median value	Average value
Cash	\$8.0	\$16.9
Credit	\$40.0	\$84.4
Debit	\$29.0	\$51.3
Cheque	\$60.0	\$195.6
Stored-value card	\$4.8	\$26.8

a. Based on 15,784 transactions from the 3-day diaries.

Table 2
Perceived Acceptance of Cards by Merchant Size and Transaction Values (survey diaries)^a

Merchant size (number of cashiers)	Transaction values			
	\$0-\$15	>\$15-\$25	>\$20-\$50	>\$50
1	41.1%	65.6%	76.5%	81.4%
2 to 5	57.3%	71.6%	80.4%	86.9%
>6	68.4%	76.1%	84.8%	87.5%

a. Based on 15,784 transactions. Proportion of transactions where individuals thought cards were accepted.

Table 3
Household Income and Payment Choices

Income	I	II	III	IV
	% of cash transactions in the diaries ^a	Mean transaction value in the diaries (\$) ^b	% of people with at least 1 credit card ^b	% of credit card owners with rewards ^b
<\$30K	65.2%	\$33.23	53.1%	54.5%
\$30K-<\$60K	56.5%	\$34.86	77.0%	63.8%
\$60K-<\$100k	52.8%	\$39.47	85.3%	70.1%
\$100K+	47.4%	\$47.43	94.0%	78.2%
	15,795	6,868	6,868	5,753

a. Based on the 3-day survey diaries (15,776 transactions). b. Based on the survey questionnaires.

Table 4
Consumer Perceptions of Various Payment Instrument Attributes (share of respondents with highest rating)^a

Method of payment	Ease of use (% very easy to use)	Tracking spending (% very useful)	Cost (% not at all costly)	Potential financial loss (not at all significant)
Cash	79.0%	26.8%	71.8%	17.3%
Debit card	72.4%	50.5%	32.1%	10.1%
Credit card	75.6%	53.6%	28.9%	12.2%
Stored-value card	45.0%	18.6%	45.8%	31.3%

a. Based on 6,868 respondents. Numbers show the share of respondents who chose the highest rating for each attribute.

Table 5
Consumer Perceptions of Cash Relative to Debit and Credit Cards by Payment Attribute

	% of cash transactions in the diaries ^a	Ease of use ^b	Tracking spending ^b	Costs ^b	Risk of theft/fraud ^b	Potential financial loss ^b	Acceptance
Overall	53.8	1.00	1.00	1.00	1.00	1.00	1.00
Age							
18 - 34	48.9	1.18	1.00	1.00	0.86	1.05	1.12
35 - 54	53.9	0.97	0.99	1.06	0.97	0.99	0.99
55 - 75	59.0	0.84	1.02	0.92	1.21	0.96	0.87
Income							
<30 K	65.2	1.33	1.16	1.11	0.88	0.87	0.95
30 to 60 K	56.5	0.76	1.04	1.09	1.13	0.98	0.90
60 to 100 K	52.8	0.95	0.98	1.02	0.96	1.01	1.00
100 K plus	47.4	1.11	0.89	0.84	0.98	1.08	1.13
Gender							
Female	54.1	0.84	1.00	1.07	0.94	0.95	0.99
Male	54.3	1.18	1.00	0.93	1.07	1.05	1.01
Density							
Urban	53.9	0.96	0.99	1.00	1.01	1.00	1.03
Rural	55.2	1.13	1.04	1.00	0.98	0.99	0.91
Responsible for household finances							
Not responsible	53.6	1.11	1.03	0.96	1.07	1.02	1.05
Responsible	54.6	0.93	0.98	1.02	0.95	0.99	0.97

a. Based on the survey diaries (15,776 transactions). b. Based on the 6,868 participants' questionnaires.

Table 6
Logit Model

	Average marginal effects	p-value
<i>Socioeconomic factors</i>		
Household income (less than \$30K comparison group)		
\$30K-\$50K	-0.045	0.166
\$50K-\$80K	0.109***	0.002
\$80K plus	0.000	0.992
Age (less than 35 comparison group)		
35 to 55 years old	0.001	0.966
55 or older	0.102***	0.006
Interactions of income and credit card ownership dummy		
\$30K-\$50K) and credit card ownership	0.047	0.180
\$50K-\$80K) and credit card ownership	-0.100***	0.006
\$80K plus) and credit card ownership	0.032	0.453
Interactions of age and credit card ownership dummy		
35 to 55 years old and credit card ownership	0.008	0.779
55 or older and credit card ownership	-0.104***	0.005
Credit card ownership	0.013	0.666
Debit card ownership	-0.048***	0.008
Education (finished high school comparison group)		
Some technical school/university	-0.005	0.719
University or graduate degree	-0.020	0.176
Family Size	-0.010*	0.041
Male	0.010	0.318
Rural	0.006	0.643
Not Married	0.014	0.332
Renter	0.074***	0.000
Interaction of renter and not married	-0.088***	0.000
Full time employed	0.004	0.685
Home access to internet	-0.013*	0.429
Responsible for household finances	0.009	0.377
Financial knowledge	0.004	0.565

Note: ***, ** and * statistically significant at 1 per cent, 5 per cent and 10 per cent, respectively. Likelihood estimation accounting for survey weights using Stata survey environment. Marginal effects calculated as the average of the marginal effect across all observations. Transactions above \$1,000 excluded as outliers.

Table 6 (continued)
Logit Model

	Average marginal effects	<i>p</i> -value
<i>Card plans and cash holdings</i>		
Debit card with more than 20 or unlimited free transactions	-0.066***	0.000
Debit card monthly fee	-0.001	0.925
Credit card with contactless feature	-0.010	0.431
Reward dummy multiplied by transaction value	-0.001**	0.003
Reward dummy multiplied by transaction value squared	0.000**	0.016
Credit card revolver (does not pay credit card balances in full)	-0.015	0.192
Cash holdings at beginning of the diary	0.001***	0.000
Cash holdings squared	-0.000***	0.005
Transaction value divided by cash holdings	-0.013**	0.001
Transaction value divided by cash holdings squared	0.000***	0.008
<i>Transaction characteristics</i>		
Transaction value	-0.003***	0.000
Transaction value squared	0.000***	0.000
Transaction channel (at a store comparison group)		
By mail	-0.287***	0.004
By phone/Internet	-0.232***	0.000
Person to person (not at a store)	0.126***	0.000
Other (e.g. at a bus, booth)	0.045*	0.106
Type of good/service (groceries comparison group)		
Gasoline	-0.045***	0.015
Personal attire/ Hobby or sporting goods/ durable goods	-0.023**	0.109
Health Care	-0.066	0.121
Professional/personal services	-0.057*	0.206
Travel/parking	-0.147***	0.000
Entertainment/meals	0.059***	0.000
Other	0.044***	0.004
Cash, debit and credit cards perceived as accepted	-0.308***	0.000
Ease of use/speed as top reason	0.204***	0.000
Avoid fees as top reason	0.111***	0.000
Delay payment as top reason	-0.207***	0.000
Avoid fraud as top reason	0.079***	0.000
Weekend	-0.007	0.469

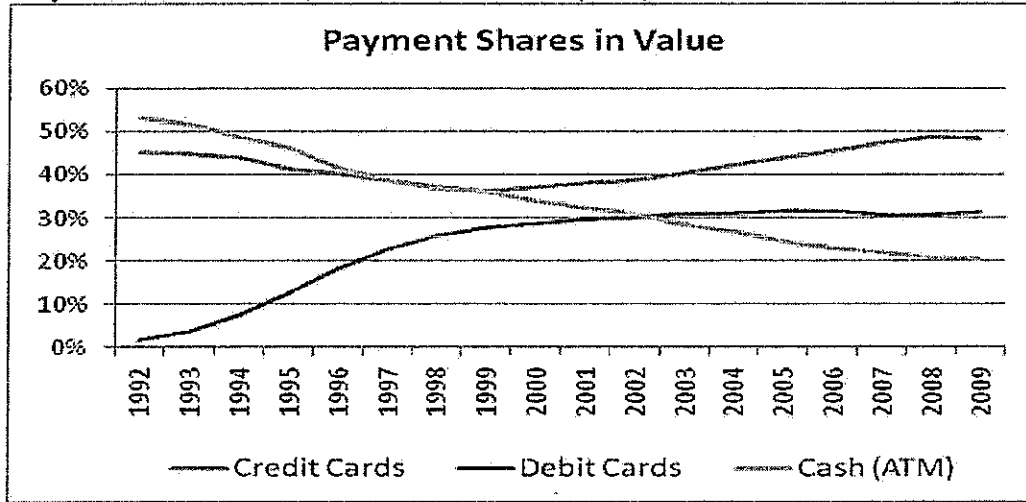
Note: ***, ** and * statistically significant at 1 per cent, 5 per cent and 10 per cent, respectively. Likelihood estimation accounting for survey weights using Stata survey environment. Marginal effects calculated as the average of the marginal effect across all observations. Transactions above \$1,000 excluded as outliers.

Table 6 (continued)
Logit Model

	Average marginal effects	<i>p</i> -value
<i>Perceptions and attitudes toward payment instrument attributes</i>		
Perceived ease of use of cash relative to cards	0.318***	0.005
Perceived cost of cash relative to cards	-0.141**	0.004
Perceived record keeping ability of cash relative to cards	0.185***	0.000
Importance of payment attributes relative to ease of use		
Importance of costs	-0.041**	0.015
Importance of record keeping	-0.015	0.454
Importance of acceptance	0.001	0.965
Importance of controlling overspending	0.041***	0.003
Importance of anonymity	0.022	0.146
Importance of security	-0.011	0.592
Constant	NA	
Number of observations		14,372
F test (<i>p</i> -value)	23.318	0.000

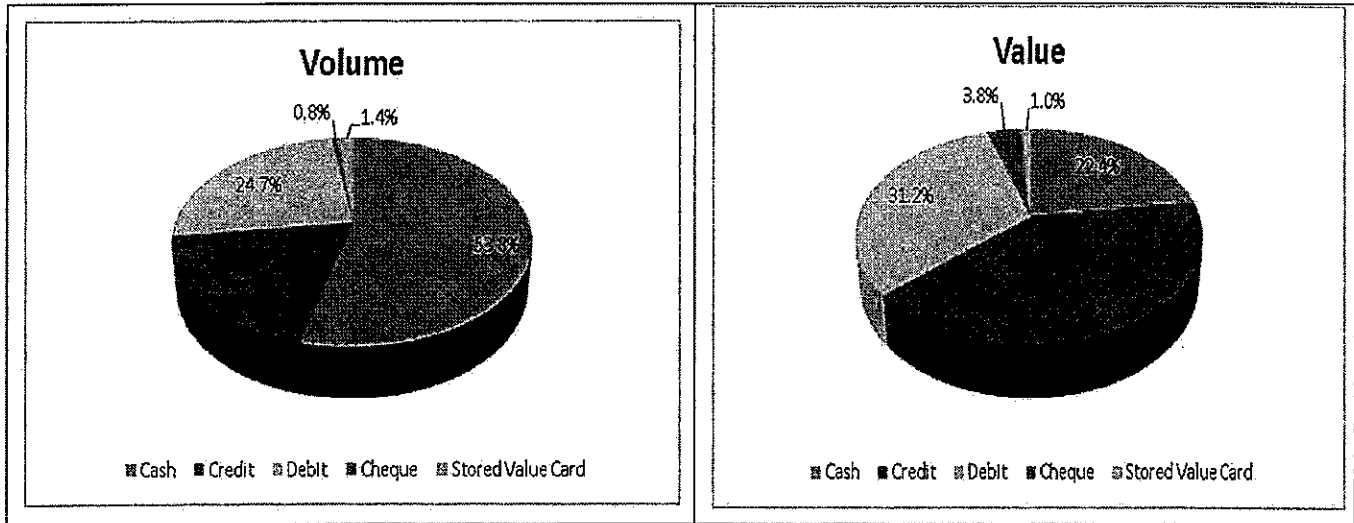
Note: ***, ** and * statistically significant at 1 per cent, 5 per cent and 10 per cent, respectively. Likelihood estimation accounting for survey weights using Stata survey environment. Marginal effects calculated as the average of the marginal effect across all observations. Transactions above \$1,000 excluded as outliers.

Chart 1
Share of Payments Made with Cash, Debit and Credit Cards (Value)^a



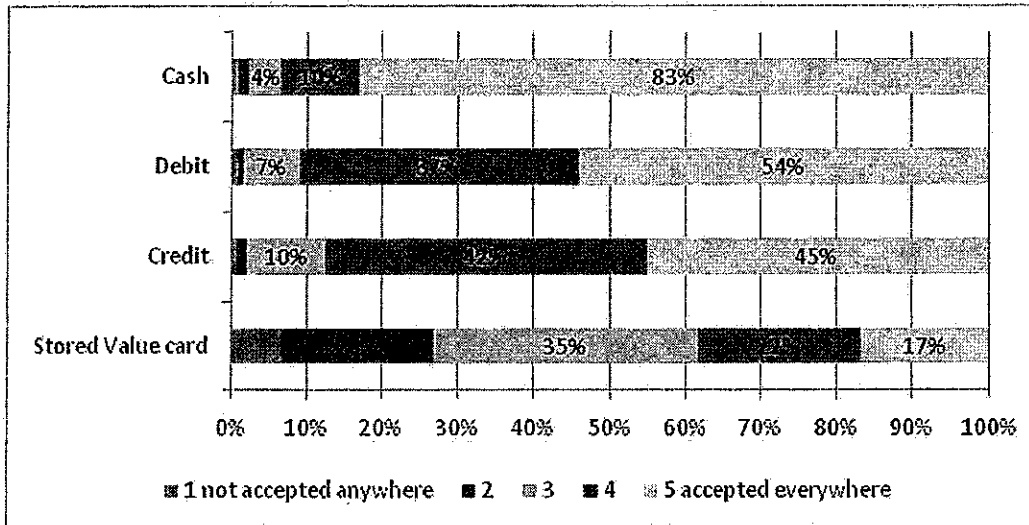
a. Cash values based on ATM withdrawals. Values of debit and credit card transactions are based on annual public statistics provided by Interac, Visa and MasterCard.

Chart 2
Aggregate Volume and Value Shares by Payment Method – 2009 MOP Survey^a



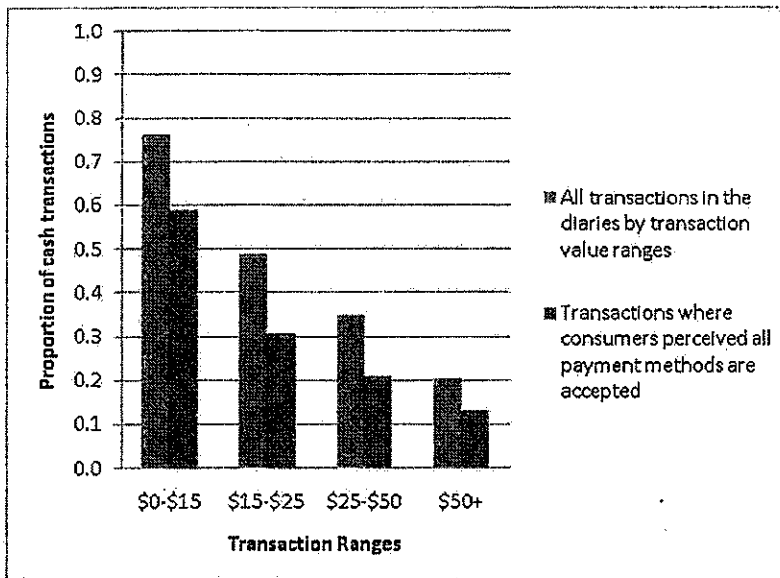
a. Based on 15,891 transactions. Taken from the 3-day diaries.

Chart 3
Perceived Acceptance for Cash, Debit and Credit Cards^a



a. Percentages indicate share of respondents answering for each acceptance level (1 to 5). Based on the 6,868 survey questionnaires.

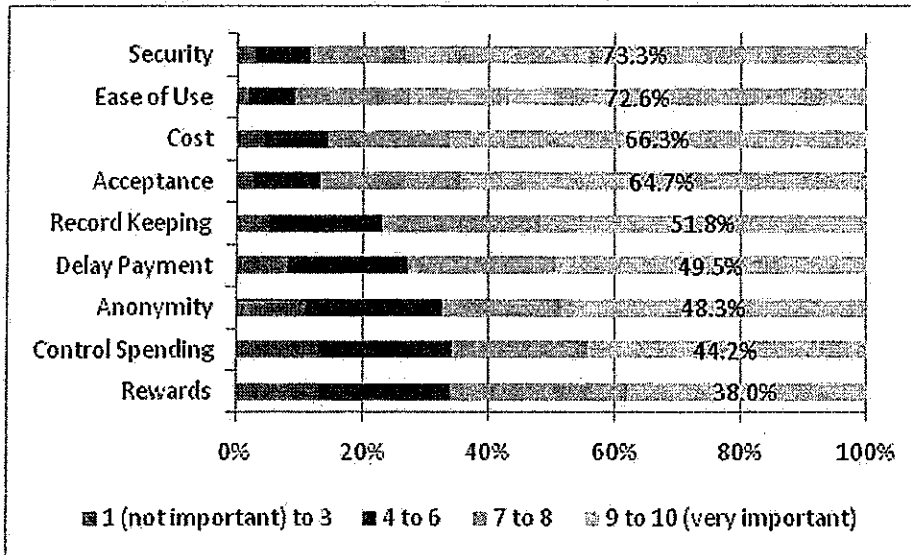
Chart 4
The Effect of Acceptance on Cash Use^a



a. Based on 15,913 transactions from the 3-day diaries.

Chart 5

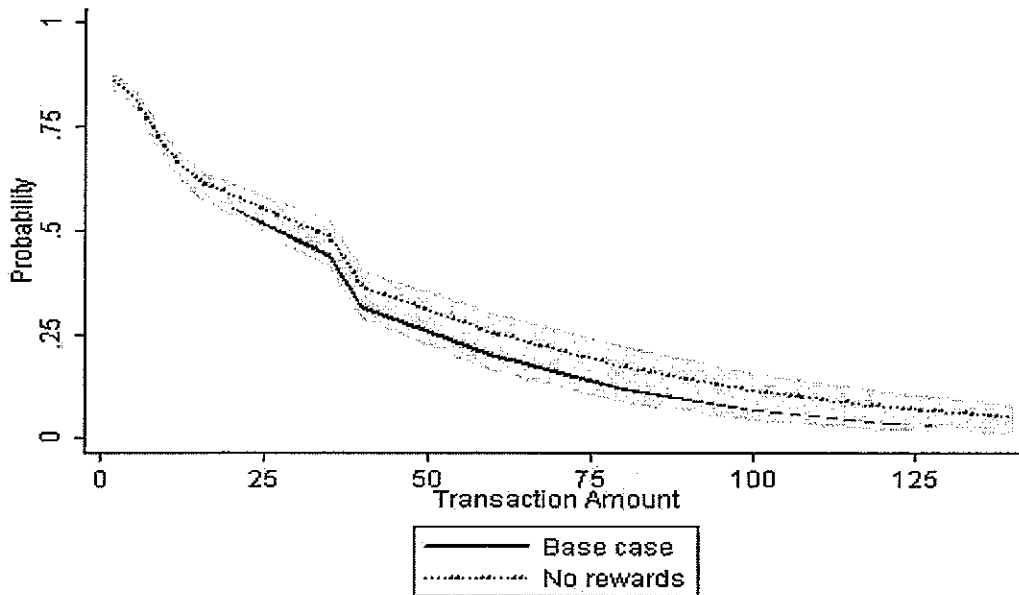
Responses on Importance of Various Factors in Choosing Payment Method to Use^a



a. Individuals were asked in the survey questionnaire to rate a list of attributes in terms of their importance when considering what type of payment method to use. The chart shows the breakdown of responses for each attribute.

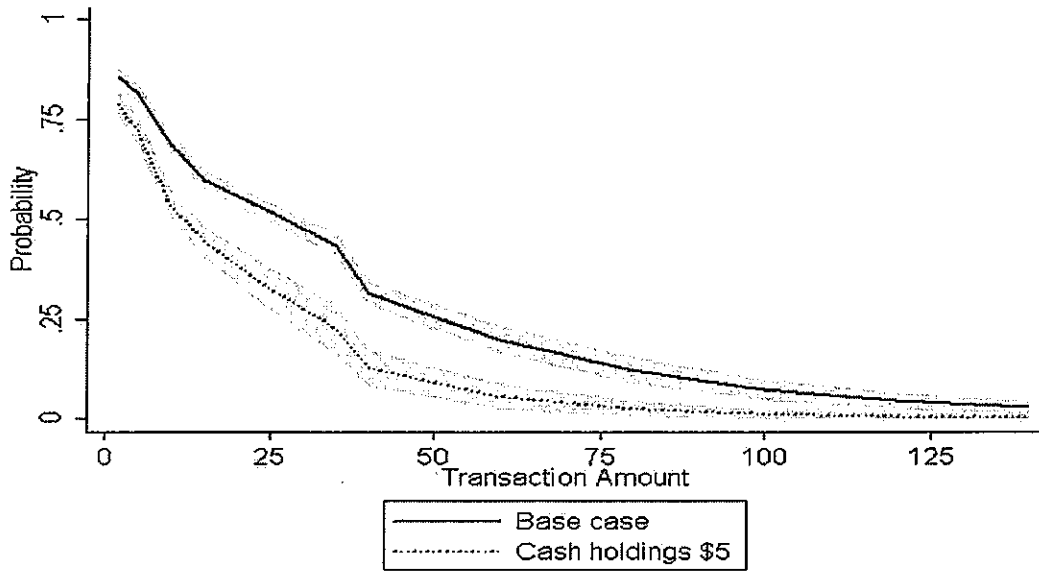
Chart 6

The Effect of Credit Card Rewards on the Probability of Using Cash^a



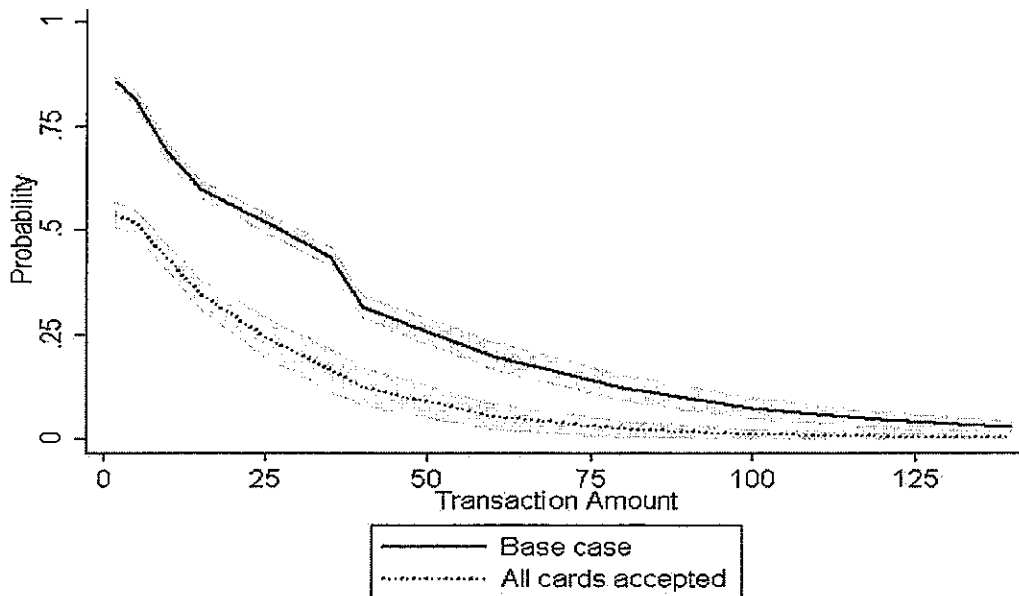
a. Shaded area represents 95 per cent confidence interval. Base case represents average value of regressors, including a 0.75 per cent rebate on credit card purchases

Chart 7
Costly Access to Cash and Cash Usage^a



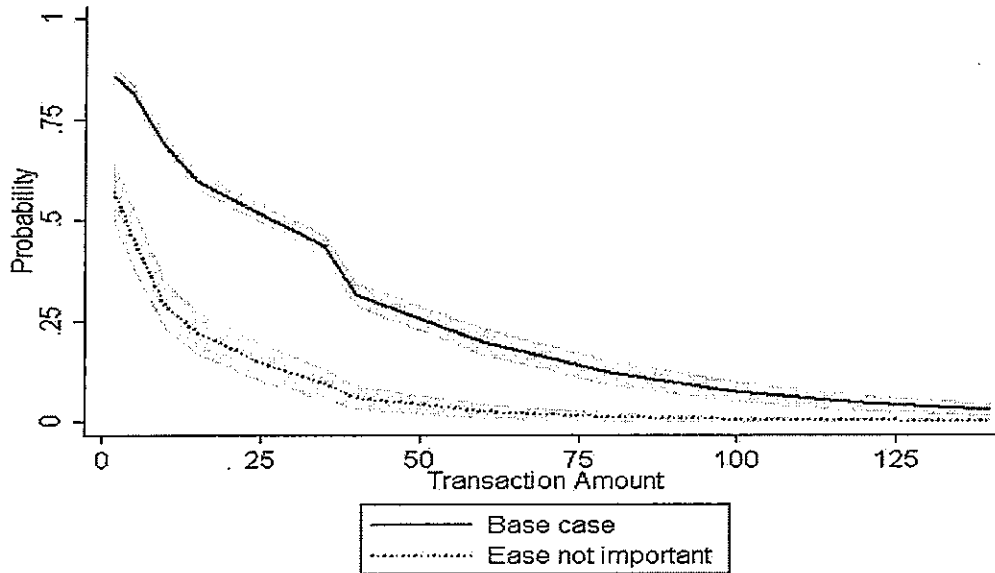
a. Shaded area represents 95 per cent confidence interval. Base case represents average value of regressors, including the average starting cash balance at day 1 of the shopping diary.

Chart 8
The Effect of Acceptance on the Probability of Using Cash^a



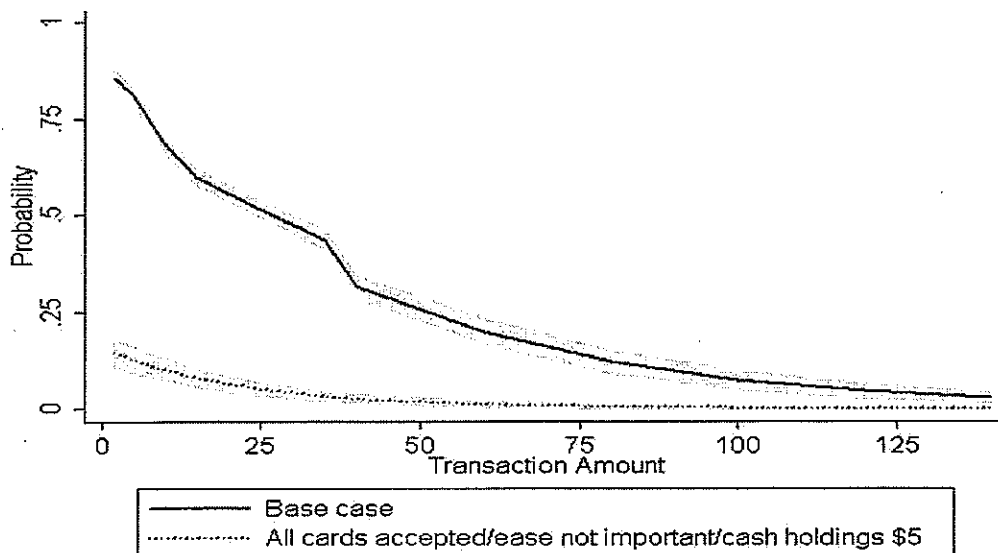
a. Shaded area represents 95 per cent confidence interval. Base case represents average value of regressors, including the proportion of places that accept all cards at different transaction values.

Chart 9
Ease of Use or Speed and the Probability of Using Cash^a



a. Shaded area represents 95 per cent confidence interval. Base case represents average value of regressors, including the proportion of transactions where ease of use was the top reason by transaction ranges.

Chart 10
The Effect of Acceptance, Ease of Use and Costly Access to Cash Combined (model estimates)^a



a. Shaded area represents 95 per cent confidence interval. Base case represents average value of regressors.

Appendix – Variable List

Socioeconomic factors

- Household income: a series of dummy variables indicating annual household income group before tax.
- Age: a series of dummy variables indicating age group based on year of birth.
- Interaction of income group with credit card ownership dummy: a dummy that equals 1 if the individual belongs to the income group and indicated they had at least 1 credit card in their wallet at the beginning of the diary.
- Interaction of age group with credit card ownership dummy: a dummy that equals 1 if the individual belongs to the age group and indicated they had at least 1 credit card in their wallet at the beginning of the diary.
- Credit card ownership dummy: a dummy variable that equals 1 if the individual indicated they had at least one credit card in their wallet at the beginning of the diary.
- Debit card ownership dummy: a dummy variable that equals 1 if the individual indicated they had at least one debit card in their wallet at the beginning of the diary.
- Education: a series of dummy variables indicating the highest level of education the respondent completed.
- Family size: the number of individuals living in the household (including the respondent).
- Gender (male): a dummy variable that equals 1 if the respondent is male.
- Rural: a dummy variable that equals 1 if the respondent lives in a rural area.
- Marital status (not married): a dummy variable that equals 1 if the respondent indicated that they are single or separated.
- Renter: a dummy variable that equals 1 if the individual indicated they rented their home.
- Interaction of renter and not married: a dummy variable that equals 1 if the individual is both a renter and not married.
- Works full time: a dummy variable that equals 1 if the individual works full time.
- Home Internet access: a dummy that equals 1 if the individual has access to the Internet or online services at home.
- Financial manager: a dummy variable equal to 1 if the person indicated they are responsible for managing most of the household finances.
- Personal financial knowledge: the survey questionnaire asked individuals about their level of knowledge regarding a number of financial products and services, ranging from 1 “never heard of it” to 5 “very knowledgeable.” With this information we created an index of an individual’s level of financial knowledge.

Card plans and cash holdings

- Debit card free transactions: a dummy variable that equals 1 if an individual indicated they have 20 or more free transactions a month with their bank account package.
- Debit card monthly fee: a dummy variable that equals 1 if the individual pays a monthly fee on their bank account.
- Contactless: a dummy variable that equals 1 if the individual indicated that their credit card has a contactless feature.

- Credit card rewards and transaction value: a variable that takes the transaction value and multiplies it by a dummy variable that equals 1 if the individual has a credit card with rewards and 0 otherwise. We also include this variable squared.
- Revolver: a dummy variable that equals 1 if the individual had an unpaid balance on their last credit card statement.
- Beginning cash balances: the amount of cash an individual has on hand at the beginning of the diary to make transactions. Also included is the amount squared.
- Transaction value divided by cash holdings: the transaction amount divided by the beginning of the diary cash balances. We also include the squared value of this term.

Transaction characteristics

- Transaction amount: the total amount of the transaction in dollars. We also include this amount squared
- Transaction channel: dummy variables indicating the location where the transaction took place; for example, by phone or online. The base category is “at a store.”
- Main type of good or service: a series of dummy variables indicating the main type of good or service purchased; for example, durable goods or gasoline. The base category is “groceries/drugs.”
- Perceived acceptance: in the survey, we asked respondents what payment methods they thought were not accepted for each transaction. We then used this information to construct a dummy variable that equals 1 if a respondent thought all payment methods were accepted in the transaction.
- Reason for choosing main payment method: a series of binary variables taking on the value of 1 if a person indicated them as a reason for choosing their payment method. The reasons we include are ease of use, avoiding fees, delaying payment and avoiding fraud/theft/counterfeiting.
- “Weekend”: a dummy variable that equals 1 if the transaction took place on a weekend.

Perceptions and attitudes toward payment instrument attributes

- Relative ease of use of cash: respondents were asked to rate on a 5-point scale (from “not at all easy to use” to “very easy to use”) the ease of use of cash and other payment instruments. The score for cash was then divided by the score for the three major payment instruments to come up with a relative measure.
- Relative cost of cash: respondents were asked to rate on a 5-point scale (from “not at all costly” to “very costly”) the cost of cash and other payment instruments. The score for cash was then divided by the score for the three major payment instruments to come up with a relative measure.
- Relative record keeping of cash: respondents were asked to rate on a 5-point scale (from “not at all useful” to “very useful”) the usefulness of cash and other payment instruments for helping to keep a record of transactions. The score for cash was then divided by the score for the three major payment instruments to come up with a relative measure.
- Relative ranking of payment attributes: the survey asked respondents to rate attributes in terms of their importance when considering what payment instrument to use on a 10-point scale. We then weighted the score of the following attributes by the score of ease of use: cost, record keeping, acceptance, controlling spending, anonymity and security.

**This is Exhibit "F" referred to in the
Witness Statement of KEVIN J. STANTON**



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Publication Code

BM

Summary of Changes, 7 December 2011

This update reflects changes associated with announcements in MasterCard Bulletins from July 2011 to November 2011, along with general reorganization necessary to improve the quality and clarity of the rules across brands.

Description of Change	Where to Look
Added Standards for MasterCard®, Maestro®, and Cirrus® prepaid card programs. These Standards replace the Policy for Prepaid Card Programs document.	Definitions Chapter 6
Updated Standards relating to Third Party Processors, Independent Sales Organization, and Data Storage Entities, and will include the addition of Service Provider Registration Facilitator as a new type of Service Provider	Definitions Chapter 2 Chapter 3 Chapter 5 Chapter 7 Chapter 15
Updated Standards relating to Changes of Control	Chapter 2 Chapter 15
Updated Standards regarding the removal of the prohibition against competing and other debit point-of-sale (POS) marks on MasterCard® debit cards and cards issued in the United States, Puerto Rico, U.S. Virgin Islands, American Samoa, Guam, and the Northern Mariana Islands	Chapter 3 Chapter 4 Chapter 10 Chapter 13 Chapter 15
Updated Standards for Debit Cards	Chapter 3 Chapter 15
Updated Travel and Entertainment Merchant Standards	Chapter 3 Chapter 15
Updated Standards regarding the flexibility in the use of the EFTPOS acceptance mark	Chapter 4 Chapter 10
Updated Standards for Unique transactions	Chapter 8
Updated Standards regarding Merchant Point-of-Sale practices	Chapter 5 Chapter 15

Description of Change	Where to Look
Updated Standards for domestic purchase with cash back transactions conducted with Debit MasterCard® cards in South Africa	Chapter 5 Chapter 14a
Updated Standards for Remote Transaction accounts	Chapter 6
Updated Standards for U.S. Region Third Party Processors	Chapter 7 Chapter 15
Updated and restructured Chapter 8, Sales Transactions and Cash Disbursements and added two new appendices B and C in the <i>MasterCard Rules</i> . The Cross-reference section provides the former location or source of Rules that now appear in Chapter 8, Appendix B, and Appendix C	Chapter 8 Appendix B Appendix C Cross-reference
Updated Standards for authorization processing requirements at unattended petrol terminals in the Europe Region	Chapter 12
Updated geographical listings	Appendix A
Added information regarding Transaction identification requirements	Appendix B
Added information regarding Card acceptance requirements relating to the Guaranteed Reservations, Express Checkout, and Advance Resort Deposit services	Appendix C
Replaced the term "Member" with "Customer" where appropriate	Entire document
Clarified wording where appropriate	Entire document

Cross-reference, 7 December 2011

The following table provides a general overview of the restructured Chapter 8, Sales Transactions and Cash Disbursements and the addition of two new appendices in the *MasterCard Rules*.

The following cross-reference will help you to understand the former location or source of rules appearing in the publication of the *MasterCard Rules*.

The text to appear as follows in this update of the <i>MasterCard Rules</i> manual...	Appeared here in the 15 July 2011 <i>MasterCard Rules</i> (MCR) and/or the 12 August 2011 <i>Chargeback Guide</i> (CBG)...
8.1 Transaction Requirements	MCR 3.9
8.2 Authorization Requirements	New section heading
8.2.1 Full and Partial Reversals	MCR 3.8.5
8.2.1.1 Reversal for Conversion of Approval to Decline	MCR 3.8.5.1
8.2.2 Full and Partial Approvals and Account Balance Responses	MCR 3.8.6
8.3 Acceptance Procedures	CBG 2.1
8.3.1 Card, Access Device, or Mobile Payment Device Must be Present	CBG 2.1.1.1
8.3.2 If a Card is Presented, Determine Whether the Card is Valid	CBG 2.1.1.2
8.3.2.1 Unsigned Cards	CBG 2.1.1.3
8.3.2.2 Suspicious Cards	CBG 2.1.1.4
8.3.3 Obtaining an Authorization	CBG 2.1.2.1, 2.1.2.2
8.3.3.1 When to Obtain an Authorization	CBG 2.1.2.3
8.3.3.2 Chip Transactions	CBG 2.1.5
8.3.3.3 Lodging, Cruise Line, and Vehicle Rental Transactions	CBG 2.1.3, 2.1.3.3, 2.1.3.4
8.3.3.4 Adding a Gratuity	CBG 2.1.4, 2.1.4.1
8.3.4 Suspicious Transactions and Pick-up-card Response	CBG 2.1.2.4, 2.1.2.5
8.3.5 Completing the Transaction	CBG 2.1.6, 2.1.6.1
8.3.5.1 TID Information Requirements	CBG 2.1.6.2
8.3.5.2 Prohibited Information	CBG 2.1.6.2.9
8.3.5.3 Cardholder Verification Method (CVM)	CBG 2.1.6.3

The text to appear as follows in this update of the <i>MasterCard Rules</i> manual...	Appeared here in the 15 July 2011 <i>MasterCard Rules</i> (MCR) and/or the 12 August 2011 <i>Chargeback Guide</i> (CBG)...
8.3.5.4 Give the Cardholder a Copy of the Receipt	CBG 2.1.6.4
8.3.6 Multiple TIDs and Partial Payment	CBG 2.1.7
8.3.7 Specific Terms of a Transaction	CBG 2.1.8.1
8.3.8 Returned Products and Cancelled Services	CBG 2.1.8.2, 2.1.8.2.1
8.3.9 Charges for Loss, Theft, or Damages	CBG 2.1.3.2, 2.1.9
8.4 Requirements for Specific Transaction Types	New section heading
8.4.1 Chip Transactions and Acceptance at Hybrid POS Terminals	MCR 3.9.1; CBG 2.1.5, 2.1.10, 2.10, 2.10.1, 2.10.1.1
8.4.1.1 Hybrid POS Terminal Display Requirements	CBG 2.1.10
8.4.1.2 Offline-only Hybrid POS Terminals at Merchants with No Fixed Location	CBG 2.1.5
8.4.1.3 CVM Fallback	CBG 2.10.1.2
8.4.1.4 CVM Failure	CBG 2.10.1.3
8.4.1.5 Technical Fallback	CBG 2.10.1.4
8.4.2 Card-Not-Present Transactions	MCR 3.9.2
8.4.2.1 E-commerce Transactions	MCR 5.8.5
8.4.2.2 Recurring Payment Transactions	See <i>Global Operations Bulletin</i> No. 12, 1 December 2011; also <i>Authorization Manual</i> ; CBG 2.1.6.3.3
8.4.3 MasterCard <i>PayPass</i> Transactions	MCR 3.9.8; CBG 2.15
8.4.3.1 MasterCard <i>PayPass</i> Transit Transactions	CBG 2.15.1
8.4.3.2 <i>PayPass</i> -only Acceptance	CBG 2.15.2
8.4.3.3 MasterCard <i>PayPass</i> M/Chip Transaction Offline Authorization Limit Amounts	CBG 2.15.3
8.4.4 Quick Payment Service Transactions	CBG 2.12
8.4.5 Purchase With Cash Back Transactions	MCR 5.8.6; CBG 2.1.12, 2.4
8.4.6 Unique Transactions	CBG 2.5
8.4.7 Cardholder-Activated Terminal (CAT) Transactions	CBG 2.8
8.4.8 Automated Fuel Dispenser Transactions	MCR 3.9.4
8.4.9 Payment Transactions	CBG 2.6, 2.6.1
8.4.9.1 Gaming Payment Transactions	CBG 2.6.3

The text to appear as follows in this update of the <i>MasterCard Rules</i> manual...	Appeared here in the 15 July 2011 <i>MasterCard Rules</i> (MCR) and/or the 12 August 2011 <i>Chargeback Guide</i> (CBG)...
8.4.10 <i>MoneySend</i> Payment Transactions	CBG 2.7
8.4.10.1 <i>MoneySend</i> Payment Transaction Requirements	CBG 2.7.1
8.4.11 Mobile Remote Payments	CBG 2.9
8.4.11.1 Mobile Remote Payments Program Requirements	CBG 2.9.1
8.4.11.2 Mobile Remote Payment Transaction Requirements	CBG 2.9.2
8.4.12 PIN-based Debit Transactions	MCR 3.9.5
8.4.13 Refund Transactions	MCR 3.9.3
8.4.14 Euro Migration	MCR 3.9.6
8.5 Requirements for Specific Merchant Categories	MCR 3.9.9; CBG 2.2
8.6 POI Currency Conversion	CBG 2.1.11
8.7 Chargebacks for Reissued Cards	MCR 3.9.7
8.8 Use of Automatic Billing Updater	MCR 3.9.10
8.9 Cash Disbursements	MCR 8.1, 8.6
8.9.1 Nondiscrimination	MCR 8.2
8.9.2 Maximum Cash Disbursement Amounts	MCR 8.3
8.9.3 Discount or Service Charges	MCR 8.4
8.9.4 MasterCard Acceptance Mark Must be Displayed	MCR 8.5
B.1 Transaction Date	Also appears in <i>IPM Clearing Formats</i> , DE 12
B.2 MasterCard <i>PayPass</i> Transactions	CBG 2.15
B.2.1 Post-authorized Aggregated <i>PayPass</i> Transactions	CBG 2.15.1.3
B.2.2 <i>PayPass</i> -only Transactions	CBG 2.15.2
B.3 Quick Payment Service (QPS) Transactions	CBG 2.12
B.4 Cardholder-activated Terminal (CAT) Transactions	CBG 2.8
B.5 Payment Transactions	CBG 2.6.2
B.6 Mobile Remote Payment Transactions	CBG 2.9.2
C.1 Guaranteed Reservations	CBG 2.2.1

The text to appear as follows in this update of the <i>MasterCard Rules</i> manual...	Appeared here in the 15 July 2011 <i>MasterCard Rules</i> (MCR) and/or the 12 August 2011 <i>Chargeback Guide</i> (CBG)...
C.2 Express Checkout	CBG 2.2.2
C.3 Advance Resort Deposit	CBG 2.2.3

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Definitions

The following terms used in the *MasterCard Rules* manual have the meanings set forth below.



Note

Additional defined terms appear in Chapter 9, "Settlement"; Chapter 10a, "New Zealand Rules"; Chapter 12, "Europe Region Rules"; Chapter 12a, "Europe Region Debit-related Rules"; Chapter 12b, "SEPA Rules"; Chapter 14a, "South Africa Rules"; Chapter 14b, "India Rules"; Chapter 15, "United States Region Rules"; Chapter 15a, "United States Region Debit-related Rules"; and Chapter 15b, "United States Region PIN-based Debit Transaction Rules."

Access Device

A means other than a Card by which a Cardholder may access a MasterCard account in accordance with the Standards. *See* Card.

Acquirer

A Customer in its capacity as an acquirer of a Transaction from a Merchant.

Activity(ies)

The undertaking of any act that can be lawfully undertaken only pursuant to License by the Corporation.

Affiliate Member, Affiliate

A financial institution that is eligible and approved to be a Member pursuant to Rule 1.1.3 and is Sponsored by a Class A Member. "Affiliate" is an alternative term for Affiliate Member. An Affiliate Member is also referred to as a Customer.

Area of Use

The country or countries in which a Customer is licensed to use the Mark(s), and, as a rule, set forth in the License or in an exhibit to the License.

Association Member, Association

An entity that is eligible and approved to be a Member pursuant to Rule 1.1.1 and is a Class A Member. "Association" is an alternative term for Association Member. An Association Member is also referred to as a Customer.

Board, Board of Directors

The Board of Directors of MasterCard International Incorporated and MasterCard Incorporated.

Definitions
Bylaws--Customer

Bylaws

The bylaws of MasterCard International Incorporated.

Card

A card issued by a Customer pursuant to License and in accordance with the Standards that provides access to a credit, debit, or prepaid MasterCard account. Unless otherwise stated herein, Standards applicable to a Card are also applicable to an Access Device and a Mobile Payment Device.

Cardholder

The authorized user of a Card issued by a Customer.

Cardholder Communication

Any communication by or on behalf of an Issuer to a Cardholder or prospective Cardholder. A Solicitation is one kind of Cardholder Communication.

Class A Member

An Association Member or a Principal Member. A Class A Member is also referred to as a Customer.

Control

As used herein, Control has such meaning as the Corporation deems appropriate in its sole discretion given the context of the usage of the term and all facts and circumstances the Corporation deems appropriate to consider. As a general guideline, Control often means to have, alone or together with another entity or entities, direct, indirect, legal, or beneficial possession (by contract or otherwise) of the power to direct the management and policies of another entity.

Corporation

MasterCard International Incorporated and its subsidiaries and affiliates. As used herein, Corporation also means the President and Chief Executive Officer of MasterCard International Incorporated, or his or her designee, or such officer(s) or other employee(s) responsible for the administration and/or management of a program, service, product, system or other function. Unless otherwise set forth in the Standards, and subject to any restriction imposed by law or regulation or by the Board or by the MasterCard Incorporated Certificate of Incorporation or by the MasterCard International Incorporated Certificate of Incorporation (as each such Certificate of Incorporation may be amended from time to time), each such person is authorized to act on behalf of the Corporation and to so act in his or her sole discretion.

Customer

An alternative term for Member. A Customer may be a Principal Member, an Association Member, or an Affiliate Member.

Definitions-2

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Customer Report

Any report a Customer is required to provide to the Corporation, whether on a one-time or repeated basis, pertaining to its Membership, Activities, use of any Mark, or any of such matters. By way of example and not limitation, the Quarterly Member Report (QMR) is a Customer Report.

Data Storage Entity (DSE)

A Service Provider that performs any one or more of the services described in Rule 7.1 as DSE Program Service.

Electronic Money

Electronically (including magnetically) accessed monetary value as represented by a claim on the Electronic Money Issuer which:

- a. is issued on receipt of funds for the purpose of making transactions with payment cards; and
- b. accepted by the Electronic Money Issuer or a person other than the Electronic Money Issuer.

Electronic Money Issuer

An Electronic Money Issuer with respect only to its issuing activities.

Electronic Money Institution

An entity authorized by applicable regulatory authority or other government entity as an “electronic money institution,” “e-money institution,” “small electronic money institution,” or any other applicable qualification under which an entity is authorized to issue or acquire Electronic Money transactions under applicable law or regulation.

Independent Sales Organization

A Service Provider that performs any one or more of the services described in Rule 7.1 as ISO Program Service.

Interchange System

The computer hardware and software operated by and on behalf of the Corporation for the routing, processing, and settlement of Transactions, including, without limitation, the MasterCard Worldwide Network, the Regional Service Center (RSC), the Regional Clearing Management System (RCMS), the Global Clearing Management System (GCMS), and the Settlement Account Management (S.A.M.) system.

Interregional Transaction

A Transaction that occurs at a Merchant located and doing business in a different MasterCard region from the MasterCard region in which the Card was issued, except as otherwise defined by the Corporation.

Definitions

Intracountry Transaction–MasterCard Acceptance Mark

Intracountry Transaction

A Transaction that occurs at a Merchant located and doing business in the same country as the country in which the Card was issued, except as otherwise defined by the Corporation. A Transaction qualifies as an Intracountry Transaction when it is completed using a Card that bears the Marks either alone or in combination with the marks of another eligible payment scheme, and it is processed as a Transaction, as shown by the Card product identification in the Transaction record, via either the Interchange System or a different network.

Intraregional Transaction

A Transaction that occurs at a Merchant located and doing business in a different country from the country in which the Card was issued, within the same MasterCard region, except as otherwise defined by the Corporation.

Issuer

A Customer in its capacity as an issuer of a Card. For the purpose of this definition, an Issuer also means a principal debit Licensee and an affiliate debit Licensee.

License, Licensed

The contract between the Corporation and a Customer granting the Customer the right to use one or more of the Mark(s) in accordance with the Standards. To be "Licensed" means to have such a right pursuant to a License.

Licensee

A Customer or other person authorized in writing by the Corporation to use a Mark.

Marks

The names, logos, trade names, logotypes, trademarks, service marks, trade designations, and other designations, symbols, and marks, including but not limited to the MasterCard Brand Mark and the MasterCard Word Mark, that MasterCard International Incorporated and/or its affiliates or subsidiaries own, manage, license, or otherwise control and make available for use by Customers and other authorized entities. A "Mark" means any one of the Marks.

MasterCard

MasterCard International Incorporated.

MasterCard Acceptance Mark

The MasterCard Acceptance Mark is a combined mark which includes the MasterCard Brand Mark placed on the dark blue acceptance rectangle.

MasterCard Brand Mark

The MasterCard Word Mark as a custom lettering legend placed within the MasterCard Interlocking Circles Device. The Corporation is the exclusive owner of the MasterCard Brand Mark.

MasterCard Word Mark

The word “MasterCard,” which should be followed by a registered trademark® symbol or the local law equivalent. The Corporation is the exclusive owner of the MasterCard Word Mark.

Member, Membership

A financial institution or other entity that has been granted membership in and has become a member of the Corporation in accordance with the Standards. A Member is also referred to as a Customer. “Membership” means membership in the Corporation.

Merchant

A commercial entity or person that, pursuant to a Merchant Agreement, is authorized to accept Cards when properly presented.

Merchant Agreement

An agreement between a Merchant and a Customer that sets forth the terms pursuant to which the Merchant is authorized to accept Cards.

Mobile Payment Device

A Cardholder-controlled mobile phone containing a payment application that is compliant with the Standards. A Mobile Payment Device is differentiated from an Access Device in that a Mobile Payment Device uses an integrated keyboard and screen to access a credit or debit MasterCard Account. *See* Card.

Mobile Remote Payment

Mobile Remote Payment is a payment functionality that is initiated by an enrolled Cardholder from a Cardholder-controlled mobile phone which is registered with the Cardholder’s Issuer and used for entry of the Cardholder’s PIN or mobile-specific credentials.

Ownership

As used herein, ownership has such meaning as the Corporation deems appropriate in its sole discretion given the context of the usage of the term and all facts and circumstances the Corporation deems appropriate to consider. As a general guideline, ownership often means to own indirectly, legally, or beneficially more than fifty percent (50%) of an entity.

Definitions

Payment Facilitator–Service Provider Registration Facilitator

Payment Facilitator

A Merchant registered by an Acquirer to facilitate Transactions on behalf of Sub-merchants.

Point of Interaction (POI)

The location at which a Transaction occurs, as determined by the Corporation.

POS Terminal

An attended or unattended access device located in or at a Merchant's premises that meets the Corporation's requirements, and that permits a Cardholder to initiate and effect a Transaction for the purchase of products or services sold by such Merchant with a Card in accordance with the Standards.

Principal Member, Principal

A financial institution that is eligible and approved to be a Member pursuant to Rule 1.1.2 and is a Class A Member. "Principal" is an alternative term for Principal Member. A Principal Member is also referred to as a Customer.

Program

A Customer's Card issuing program, Merchant acquiring program, or both.

Program Service(s)

Any service described in Rule 7.1 that directly or indirectly supports a Program. The Corporation has the sole right in its discretion to determine whether a service is a Program Service.

Remote Transaction

A non-face-to-face Transaction performed partially or wholly by means of electronic communication, such as via phone order, the Internet, text messaging, facsimile, or the like.

Rules

The Standards set forth in the *MasterCard Rules* manual.

Service Provider

A person that performs Program Service. The Corporation has the sole right in its sole discretion to determine whether a person is a Service Provider and if so, the category of Service Provider. A Service Provider is an agent of the Member that receives or otherwise benefits from Program Service, whether directly or indirectly, performed by such Service Provider.

Service Provider Registration Facilitator

A Service Provider that performs Service Provider identification and registration services.

Definitions-6

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Solicitation, Solicit

An application, advertisement, promotion, marketing communication, Web site or the like intended to solicit the enrollment of a person as a Cardholder or as a Merchant. To "Solicit" means to use a Solicitation.

Special Issuer Program

Issuer Activity the Corporation deems may be undertaken only with the express prior consent of the Corporation. As of the date of the publication of these Rules, Special Issuer Programs include Affinity Card, Co-brand Card, Proprietary Account, Remote Transaction account, secured Card, and prepaid Card Programs.

Sponsor, Sponsorship

The relationship described in the Standards between a Principal or Association and an Affiliate that engages in Activity indirectly through the Principal or Association. In such event, the Principal or Association is the Sponsor of the Affiliate and the Affiliate is Sponsored by the Principal or Association. "Sponsorship" means the Sponsoring of a Customer.

Standards

The Amended and Restated Certificate of Incorporation, Bylaws, Rules, and policies, and the operating regulations and procedures of the Corporation, including but not limited to any manuals, guides or bulletins, as may be amended from time to time.

Stand-In Parameters

A set of authorization requirements established by the Corporation or the Issuer that are accessed by the MasterCard Worldwide Network using the Stand-In Processing Service to determine the appropriate responses to authorization requests.

Stand-In Processing Service

A service offered by the Corporation in which the MasterCard Worldwide Network authorizes or declines Transactions on behalf of and uses Stand-In Parameters provided by the Issuer (or in some cases, by the Corporation). The Stand-In Processing Service responds when the Issuer is unavailable, the Transaction cannot be delivered to the Issuer, or the Issuer exceeds the response time parameters set by the Corporation.

Sub-licensee

A person authorized in writing to use a Mark either by a Licensee in accordance with the Standards or by the Corporation.

Sub-merchant

A merchant that, pursuant to an agreement with a Payment Facilitator, is authorized to accept Cards when properly presented.

Definitions

Third Party Processor (TPP)–Volume

Third Party Processor (TPP)

A Service Provider that performs any one or more of the services described in Rule 7.1 as TPP Program Service.

Transaction

The sale of goods or services by a Merchant to a Cardholder pursuant to acceptance of a Card by the Merchant.

Volume

The aggregate financial value of a group of Transactions. "Volume" does not mean the number of Transactions.

1

Participation

This chapter contains information about participation in the Corporation.

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1.1 Types of Customers

The Corporation has the following three types of Customers: Association, Principal, and Affiliate.

1.1.1 Association

An Association is a Customer that participates directly in Activity but does not directly issue or acquire without the express prior written consent of the Corporation. An Association may Sponsor one or more Affiliates.

1.1.2 Principal

A Principal is a Customer that participates directly in Activity. A Principal may Sponsor one or more Affiliates.

1.1.3 Affiliate

An Affiliate is a Customer that participates indirectly in Activity through the Sponsorship of a Principal or Association. An Affiliate may not Sponsor any other Customer.



Note

Additions to this Rule appear in Chapter 15, "United States Region Rules."

1.2 Eligibility to be a Customer

The following are eligible to be a Customer of this Corporation.

1.2.1 Principal or Affiliate

Effective on or after 15 July 1993, any entity that is a financial institution authorized to engage in financial transactions under the laws or government regulations of the country (or any subdivision thereof) in which it is organized or principally engaged in business may apply to be a Principal or an Affiliate of the Corporation.

Participation

1.2 Eligibility to be a Customer

For purposes of this section, “financial transactions” means the making of commercial or consumer loans, the extension of credit, the effecting of transactions with payment services cards, or the taking of consumer or commercial deposits.

Any such financial institution must have the requisite right, power, and authority, corporate and otherwise, to function as a Customer of this Corporation and to engage in Activity, and must have submitted business plan(s) approved by the Corporation in accordance with Rule 1.5.5. Any such financial institution also must be regulated and supervised by one or more governmental authorities or agencies authorized and empowered to establish or enforce rules regarding financial transactions and the financial condition, activities, and practices of entities engaging in financial transactions. With respect to any financial institution that does not take deposits, it is a further requirement that financial transactions constitute substantially all of the business conducted by it.



Note

A variation to this Rule appears in Chapter 12, “Europe Region Rules.”

1.2.2 Association

Any entity that is Controlled by one or more financial institutions eligible and approved to be a Customer(s) as described in Rule 1.2.1 and that is engaged or proposes to engage in Activity on behalf of or through one or more of those Customers may apply to be an Association. Any such entity must have the requisite right, power, and authority, corporate and otherwise, to function as a Principal or Association of this Corporation, and must have submitted business plan(s) approved by the Corporation in accordance with Rule 1.5.5.

1.2.3 Alternative Eligibility Criteria

The Corporation may adopt, consistent with the promotion of sound practices, alternative eligibility criteria on a regional, country-by-country or other basis for any reason. Any such entity must have submitted business plan(s) approved by the Corporation in accordance with Rule 1.5.5.

1.3 Application to be a Customer

Any entity eligible to be a Customer may apply to become a Customer. An application to become a Customer must be made in the form and include all of the information then required, and the entity must pay the fee or fees then required. An applicant to be a Customer must agree, and by execution and submission of an application to be a Customer agrees, that it will comply with all applicable provisions of the Certificate of Incorporation and the Standards of this Corporation as in effect from time to time, and with applicable law.

1.4 Interim Participation

Pending action on a properly completed and submitted application to be a Customer, the Corporation may authorize the applicant to participate in Activity on an interim basis as if the applicant were a Customer. The continuation of such interim participation is subject to the subsequent approval or disapproval of the application to be a Customer. As a condition of such conditional authorization, the applicant must agree, and by commencement of any Activity the applicant is deemed to have agreed, to comply during this interim period (and thereafter as applicable) with the Standards and to discontinue immediately any use of the Marks and Activity if the application is disapproved. All damages, losses, costs, and liabilities arising directly or indirectly, or consequentially, from or related to any interim participation in Activity by the applicant and from the disapproval of the application to be a Customer is solely at the applicant's risk and expense, and the Corporation has no responsibility for any such damages, losses, costs, or liabilities.

1.5 Obligations, Rights and Responsibilities

1.5.1 Obligation to Become a Customer

Subject to Rule 1.4, a financial institution or other entity that is eligible to be a Customer may not participate in Activity unless and until it becomes a Customer.

1.5.2 Obligation to Participate

Each Customer must participate as a Principal or Association or as an Affiliate, or as a combination thereof.



Note Additions to this Rule appear in Chapter 15, "United States Region Rules."

1.5.3 Right to Participate

Each Customer may only use a Mark that the Customer is authorized to use pursuant to a License by the Corporation.

1.5.4 Membership Not Transferable

Membership in the Corporation is not transferable or assignable, whether by sale, consolidation, merger, operation of law, or otherwise, without the express written consent of the Corporation, provided however, that in the event that the Cards issued by, the Ownership of, or any Activity of a Customer are acquired by any person, whether by sale, consolidation, merger, operation of law or otherwise, the obligations, but not the rights, of such Customer shall transfer to the person acquiring such Customer.

1.5.5 Customer Responsibilities

Each Customer must:

1. At all times be entirely responsible for and Control all aspects of its Activities, and the establishment and enforcement of all management and operating policies applicable to its Activities, in accordance with the Standards;
2. Not transfer or assign any part or all of such responsibility and Control or in any way limit its responsibility or Control;
3. Ensure that all policies applicable to its Activities conform to the Standards and comply with applicable laws and regulations;
4. Conduct meaningful and ongoing monitoring to ensure compliance with all of the responsibilities set forth in this Rule;
5. Maintain a significant economic interest in each of its Activities; and
6. Operate Activities at a scale or volume of operations consistent with the business plan(s) approved by the Corporation in connection with the application to be a Customer or application for a License, or both, as the case may be.

1.5.6 Enforcement of Payment of Fees and Other Obligations

The Corporation may apply any sum due to the Customer from the Corporation toward the payment of any fee, assessment or other obligation(s) owed to the Corporation by the Customer or, in the case of a Principal or Association, owed to the Corporation by any Affiliate Sponsored by the Principal or Association.

1.6 Termination of Membership

Membership in the Corporation may terminate in one of two ways: voluntary termination and termination by the Corporation. The Corporation may continue a License of a terminated Customer as set forth in Rule 2.13. Rights, liabilities, and obligations of terminated Customers are set forth in Rule 2.14.

1.6.1 Voluntary Termination

A Customer may voluntarily terminate its Membership. A Customer that participates in Activity as a Principal or Association and also participates in Activity as an Affiliate may voluntarily terminate its participation in Activity as either and continue to participate in Activity as the other.

In order to voluntarily terminate as a Customer, the Customer must give written notice addressed to the Secretary of this Corporation by registered or certified mail, return receipt requested, or by personal or reputable courier service.

The notice must:

1. State that the notice is a notice of termination;
2. Be received by the Secretary;
3. Fix a date on which the termination will be effective, which must be at least thirty days after the notice is received by the Secretary; and
4. Be otherwise in the form as may be required from time to time by the Corporation.

1.6.2 Termination by the Corporation

A Customer may be terminated as a Customer by the Corporation. The termination is effective upon delivery, or an inability to deliver after a reasonable attempt to do so, of written or actual notice by the Corporation to the Customer.

Participation

1.6 Termination of Membership

The Corporation may, at its sole discretion, effect such termination forthwith and without prior notice if:

1. The Customer suspends payments within the meaning of Article IV of the Uniform Commercial Code in effect at the time in the State of Delaware, regardless of whether, in fact, the Customer is subject to the provisions thereof; or
2. The Customer takes the required action by vote of its directors, stockholders, members, or other persons with the legal power to do so, or otherwise acts, to cease operations and to wind up the business of the member, such Membership termination to be effective upon the date of the vote or other action; or
3. The Customer fails or refuses to make payments in the ordinary course of business or becomes insolvent, makes an assignment for the benefit of creditors, or seeks the protection, by the filing of a petition or otherwise, of any bankruptcy or similar statute governing creditors' rights generally; or
4. The government or the governmental regulatory authority having jurisdiction over the Customer serves a notice of intention to suspend or revoke, or suspends or revokes, the operations or the charter of the Customer; or
5. A liquidating agent, conservator, or receiver is appointed for the Member, or the Customer is placed in liquidation by any appropriate governmental, regulatory, or judicial authority; or
6. The Customer's right to engage in Activity is suspended by the Corporation due to the Member's failure to comply with the Corporation's AML Program or applicable law or regulation, and such suspension continues for twenty-six (26) consecutive weeks; or
7. A Customer fails to engage in Activity for twenty-six (26) consecutive weeks; or
8. The Customer is no longer Licensed to use any of the Marks.

Compliance Zones

The following table identifies the noncompliance category that the Corporation has assigned to the Standards described within this chapter. These noncompliance categories are assigned for the purposes of noncompliance assessments under the compliance framework in Rule 3.1.2.

Rule Number	Rule Title	Category
1.1	Types of Customers	A
1.2	Eligibility to be a Customer	A
1.3	Application to be a Customer	A
1.4	Interim Participation	A
1.5	Obligations, Rights and Responsibilities	A
1.6	Termination of Membership	A

2

Licensing and Licensed Activities

This chapter contains information about licensing and rights and obligations related to Licensed Activity by Customers.

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Licensing and Licensed Activities

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2.1 Purpose of License; Eligibility

Each Customer, as a condition of Membership, must execute one or more Licenses in such form as is required by the Corporation. Each Customer must assist the Corporation in recording any License granted to the Customer if required in the country of license or otherwise upon request of the Corporation. The Corporation may add additional requirements or limitations or other conditions to a License then in effect. In the event of an inconsistency between a Standard and a provision in a License, the Standard prevails and the License is deemed to be amended so as to be consistent with the Standard.

2.1.1 Single European Payments Area License



Note Rules on this topic appear in Chapter 12b, "SEPA Rules."

2.2 License Application

An application for a License must be made in the form and include all information then required. An applicant for a License must agree and, by execution and submission of an application for a License agrees, and by use of a Mark agrees, to comply with all provisions of the License pertaining to use of a Mark and with the Standards of this Corporation as may be in effect from time to time. A Licensee may not transfer or assign its License, whether by sale, consolidation, merger, operation of law or otherwise, without the express written consent of the Corporation, provided, however, that in the event that the Cards issued by, the Ownership of, or any Activity of a Customer are acquired by any person, whether by sale, consolidation, merger, operation of law or otherwise, the obligations, but not the rights, of such Customer shall transfer to the person acquiring such Customer.

2.3 Area of Use

Except as otherwise provided in the Standards, each Customer may use a Mark solely in the Area of Use in which the Customer has been granted a License. If the License does not specify an Area of Use, the License is deemed to authorize the Customer to use the Mark only in the country or countries the Corporation determines to be the Customer's Area of Use.

Licensing and Licensed Activities

2.3 Area of Use

A License that the Corporation deems to be inconsistent with this Rule is deemed amended effective as of the granting of the License so as to be consistent with this Rule.

Except as otherwise provided in the Standards, the ICA and BIN numbers under which Cards are issued or acquired must reflect the country, from among those specified in the Area of Use of the License, where such Activity is conducted.



Note A variation to this Rule appears in Chapter 12, "Europe Region Rules."

2.3.1 Extending or Otherwise Modifying the Area of Use

A Customer must apply to the Corporation for permission to extend or otherwise modify the Area of Use of a License. Such application must be made in the form and include all information then required. If the application is approved, the Corporation will amend the License to reflect the change in the Area of Use.

Notwithstanding the foregoing, and with the exception of India, where conducting any of the following Activities is prohibited without a License in India and written authorization from the Reserve Bank of India, a Customer is not required to make such application to conduct any of the following Activities, subject to (a) the Corporation's right to prohibit or restrict or condition any such Activity and (b) compliance by the Customer with Standards, laws and regulations applicable to any such Activity:

1. Issue Cards outside of the Area of Use, provided that the Customer does not use Solicitations or solicit outside of the Area of Use.
2. Solicit and issue Cards to citizens of any country within the Area of Use, wherever such citizens reside. Any Card Solicitation, wherever conducted, must be directed only to citizens of countries within the Customer's Area of Use.
3. Issue MasterCard Corporate Card® Cards to employees of an entity on whose behalf the Cards are issued, wherever such employees reside, provided that the entity is multinational, having a presence and conducting regular business in more than one country, including at least one country in the Customer's Area of Use.
4. Issue payroll or incentive Cards to employees of an entity on whose behalf the Cards are issued, provided that the entity is multinational, having a presence and conducting regular business in more than one country, including at least one country in the Customer's Area of Use, and:

-
- a. The gross dollar volume (GDV) within a country in a calendar year from the Customer's and its Sponsored Affiliates total cross-border issuance for all payroll and incentive Card Programs for all companies served in that country does not exceed one percent of that country's MasterCard GDV in that calendar year, or
 - b. If the Customer has a License to issue Cards in a particular country (Country A) but wishes to issue Cards into Country A from another country in which the Customer is also licensed (Country B), the Customer's and its Sponsored Affiliates' total cross-border issuance from Country B into Country A in a calendar year may not exceed:
 - i. 10 percent of that Customer's and its Sponsored Affiliates' total domestic MasterCard GDV in Country A in that calendar year, or
 - ii. if greater than the 10 percent described herein, the amount allowed under the one percent threshold described above.
5. Acquire Transactions from Merchants located in a country within the Area of Use, even if such Transactions arise from mail order, phone order, e-commerce, or recurring payment Transactions that the Merchant effects with Cardholders in countries outside of the Area of Use.
 6. Acquire mail order, phone order, e-commerce, or recurring payment Transactions from Merchants located outside of the Area of Use if such Transactions solely reflect sales to Cardholders residing within the Area of Use.
 7. Acquire airline Transactions in a country outside of the Area of Use, subject to satisfying all of the following requirements:
 - a. The airline has a meaningful presence in at least one country within the Area of Use; and
 - b. The ICA number under which airline Transactions are acquired must reflect either the country in which the airline ticket office is located or a country within the MasterCard region in which the airline ticket office is located; and
 - c. The Customer authorizes, clears, and settles each "local Transaction" in a manner that does not significantly disadvantage an Issuer in the same country in the judgment of the Corporation.
 8. Acquire e-commerce Transactions from a Merchant located in a country outside of the Area of Use, subject to satisfying all of the following requirements:
 - a. The ICA number under which e-commerce Transactions are acquired must reflect the country in which the Merchant is located;

**Note**

A variation to this Rule provision appears in Chapter 12, "Europe Region Rules."

Licensing and Licensed Activities

2.3 Area of Use

- b. The Merchant implements MasterCard® *SecureCode*™; and
- c. The Customer authorizes, clears, and settles the Transaction through the Interchange System; and
- d. The Customer authorizes, clears, and settles each “local Transaction” in a manner that does not significantly disadvantage an Issuer in the same country in the judgment of the Corporation; and
- e. The Customer, the Merchant, the Third Party Processor (if any), and the Data Storage Entity (if any) comply with the MasterCard Site Data Protection Program.

The Customer must apply for and receive permission from the Corporation before acquiring e-commerce Transactions under this Rule 2.3.1, paragraph 8.

A Merchant’s location generally is deemed to be the address set forth in the Merchant Agreement. The location of a Merchant conducting e-commerce, mail order, phone order, or recurring payment Transactions may be determined based in full or in part on where the entity holds a license, pays taxes, or maintains an address for purposes of receiving mail. Any disagreement between Customers regarding a Merchant location may be referred to the Corporation for final resolution.

As used in this Rule, a “local Transaction” means a Transaction by a Cardholder residing in a country that takes place at a Merchant located in the same country.

2.3.2 Central Acquiring—Europe Region Only



Note Rules on this topic appear in Chapter 12, “Europe Region Rules.”

2.3.3 Transfer of Cards to India Residents is Prohibited without a License

An Issuer that reasonably believes that its Cardholders will distribute, transfer, or in any way provide Cards to residents of India, that are issued by the Issuer must become Licensed in India and receive written authorization from the Reserve Bank of India.

Unless the Issuer is Licensed in India and has written authorization from the Reserve Bank of India, an Issuer that issues Cards to Cardholders that reside outside of India must communicate to those Cardholders in the terms and conditions of the cardholder agreement that such Cards must not be distributed, transferred, or in any way provided to residents of India.

2.4 Special Conditions of Membership or License

The Corporation may condition initial or continued Membership or any License or the conduct of any Activity on compliance with special conditions, such as the establishment of escrow arrangements, the delivery of letters of credit, or other arrangements that the Corporation deems necessary or appropriate.

The Corporation has the right at any time to require that a Customer enter into a security arrangement with the Corporation. If a Customer does not enter into a security arrangement with the Corporation that is satisfactory to the Corporation, the Corporation has the right at any time to collect from the Customer, in addition to any amount otherwise due and payable by the Customer to the Corporation or to other Customers, such additional amount from the Customer as the Corporation deems appropriate as collateral. The Corporation has the right to collect any such additional amount by any means available to the Corporation, including, by way of example and not limitation:

1. By taking any funds deposited by any persons from any account that the Corporation is authorized to draw upon for any purpose.
2. By taking any funds due to such Customer from other Customers.
3. By taking any funds being paid by such Customer to other Customers.

In each case where the Corporation takes any such collateral, the Corporation has the right, as it deems necessary or appropriate, to take ownership of such collateral (such as by placing funds taken in an account in the Corporation's name as a secured party) and to apply such collateral as payment toward any obligations of the Customer to the Corporation or otherwise owed by the Customer under the Standards.

Each Customer hereby appoints and authorizes the Corporation to act as the Customer's attorney and agent for any and all purposes in connection with the filing, recording, or other perfecting of the Corporation's rights under the Standards. This Rule constitutes a security agreement between each Customer and the Corporation, and vests in the Corporation a security interest in any collateral collected as provided in these Standards, granted contemporaneously in exchange and as a condition for the continuation of the Customer's Membership and Licenses.

2.5 MasterCard Anti-Money Laundering Program

An application for Membership or License must be accompanied by affirmative evidence satisfactory to the Corporation that the applicant is in compliance with the MasterCard Anti-Money Laundering Program (the "AML Program"). Each Customer must, at all times, be in compliance with the AML Program.

The Corporation has exclusive authority to determine at any time whether an applicant or a Customer is in compliance with the AML Program. Each applicant to be a Customer and each Customer must cooperate with any effort by the Corporation to evaluate such applicant's or Customer's compliance with the AML Program. The Corporation may condition initial or continued Membership or License or both upon compliance with special conditions that the Corporation deems necessary or appropriate to ensure continued compliance with the AML Program by the applicant, Customer, and Corporation, as the case may be.

2.6 Obligation to Issue Cards

Each Principal or Association, together with its Sponsored Affiliates, must have issued and outstanding a reasonable number of Cards based on such criteria as the Corporation may deem appropriate from time to time. In addition to any other action that the Corporation deems appropriate, a Principal or Association that does not issue and have outstanding the requisite number of Cards will be assessed an additional 20% of the assessment paid on its acquiring volume for each year in which the Card-issuing shortfall exists.

If an approved application for issuance of a payment card or device indicates the applicant's preference, by way of a checkmark or otherwise, to be issued a Card, then the Issuer must issue a Card.



Note

Variations to this Rule appear in Chapter 10a, "New Zealand Rules"; Chapter 11a, "Canada Region Code of Conduct Related Rules"; Chapter 12, "Europe Region Rules"; Chapter 13, "Latin America and the Caribbean Region Rules"; Chapter 14a, "South Africa Rules"; and Chapter 15, "United States Region Rules."

2.7 Liability for Assigned ICAs and BINs

Each Principal or Association is responsible to the Corporation and to all other Customers for Transactions arising from the use of the ICA(s)/BIN(s) that the Corporation assigns to the Principal or Association.

Neither a Principal or Association nor any of its Sponsored Affiliates may use the Principal's or Association's BIN to issue Cards other than as specified by the Corporation. By way of example and not limitation, a Customer may not issue a consumer Program Card using a MasterCard Corporate Card® BIN.



Note Additions to this Rule appear in Chapter 10a, "New Zealand Rules"; Chapter 12a, "Europe Region Debit-related Rules"; Chapter 14a, "South Africa Rules"; and Chapter 15a, "United States Region Debit-related Rules."

2.7.1 Settlement Liability for Debit Licensees



Note A Rule on this topic appears in Chapter 15, "United States Region Rules."

2.7.2 Settlement Liability for Type I TPPs that Sponsor Affiliates



Note A Rule on this topic appears in Chapter 15, "United States Region Rules."

2.8 Obligations of a Sponsor

Each Principal or Association must advise the Corporation promptly if an Affiliate ceases to be Sponsored by the Principal or Association or changes its name or has a transfer of Ownership or Control.

2.9 Name Change

The Corporation must receive written notice at least sixty (60) calendar days before the effective date of any proposed Customer name change. A Customer that proposes to change its name must promptly undertake necessary or appropriate action to ensure that its Membership and License(s) and Activities disclose the true identity of the Customer.

2.10 Fees, Assessments, and Other Payment Obligations

Each Customer is responsible to timely pay to the Corporation all fees, charges, assessments and the like applicable to Membership and Activity as may be in effect from time to time, including those set forth in the applicable regional *MasterCard Consolidated Billing System* manual.

If a Customer does not timely pay the Corporation or any other person any amount due under the Standards, then the Corporation has the right, immediately and without providing prior notice to the Customer, to assess and collect from that Customer, on a current basis as the Corporation deems necessary or appropriate, such amount, as well as the actual attorneys' fees and other costs incurred by the Corporation in connection with any effort to collect such amount from that Customer.

The Corporation may assess and collect such amount at any time after the applicable amount becomes due, by any means available to the Corporation, which shall specifically include, by way of example and not limitation:

1. The taking or setoff of funds or other assets of the Customer held by the Corporation;
2. The taking or setoff of funds from any account of the Customer upon which the Corporation is authorized to draw;
3. The taking of funds due to the Customer from any other Customer; and
4. The taking of funds being paid by the Customer to any other Customer.

Each Customer expressly authorizes the Corporation to take the Customer's funds and other assets as authorized by this Rule, and to apply such funds and other assets to any obligation of the Customer to the Corporation or any other person under the Standards, and no Customer shall have any claim against the Corporation or any other person in respect of such conduct by the Corporation. Each Customer agrees upon demand to promptly execute, acknowledge and deliver to the Corporation such instruments, agreements, lien waivers, releases, and other documents as the Corporation may, from time to time, request in order to exercise its rights under this Rule.

2.10.1 Taxes and Other Charges

Each Customer must pay when due all taxes charged by any country or other jurisdiction in which the Customer conducts Activity with respect to such Activity. In the event the Corporation is charged taxes or other charges by a country or other jurisdiction as a result of or otherwise directly or indirectly attributable to Activity, the Customer is obligated to reimburse the Corporation the amount of such taxes or other charges and the Corporation may collect such taxes or other charges from the settlement account of the Principal or Association responsible in accordance with the Standards for the Activity that gave rise to the charge.

2.11 Sale or Change in Ownership or Control of Customer or Portfolio



Note A variation to this Rule appears in Chapter 15, "United States Region Rules."

The Corporation must receive written notice at least thirty (30) calendar days before the effective date of any proposed transfer or assignment of an Issuer or Acquirer portfolio, or any proposed change of Control of a Customer. A Customer must promptly provide the Corporation any information requested by the Corporation relating to such an event or proposed event and the Corporation may:

1. Suspend or impose conditions on Membership or any License granted to the Customer or both.
2. Amend rights or obligations or both of a Customer.
3. Terminate the Membership of any Customer that:
 - a. transfers or attempts to transfer Control of the Customer to an entity that is not a Customer; or
 - b. merges into or is consolidated with an entity that is not a Customer; or
 - c. sells all or substantially all of its assets; or
 - d. sells all or substantially all of its Issuer or Acquirer portfolio(s); or
 - e. experiences a change in Control or Ownership; or
 - f. transfers or assigns, or attempts to transfer or assign, its Membership.

2.12 Suspension and Amendment of Membership or License or Both

The Corporation may, in its sole discretion:

1. Suspend the Membership of a Customer or any License granted to a Customer or both; or
2. Amend the rights or obligations or both of a Customer; or
3. Amend the rights or obligations or both set forth in a License.

A Customer that has been suspended or whose License has been suspended must continue to comply with the Standards and must also comply with such additional requirements as the Corporation may impose from time to time. In addition, if Membership is suspended or terminated for any reason, the Corporation may continue a License of the suspended or terminated Customer for purposes of the orderly winding up, continuation or transfer of the suspended or terminated Customer's business, resumption or reinstatement of Membership, or other purpose. Such continuation of a License is subject to such terms as may be required by the Corporation.

2.13 Rights, Liabilities, and Obligations of Terminated Customers

Each License granted to a Customer is terminated effective at the time of the termination of the Customer's Membership. All of the following apply with respect to a terminated Customer:

1. Except as otherwise set forth in the Standards, a terminated Customer has no right to use any Mark or to otherwise engage or participate in any Activity. A terminated Customer must immediately cease its use of all Marks and must ensure that such Marks are no longer used by any of the following:
 - a. The Customer's Merchants;
 - b. Any Affiliate Sponsored by a terminated Principal or Association;
 - c. Any Service Providers that performs any service described in Rule 7.1, which service directly or indirectly supports a Program of a terminated Principal or Association and/or of any Affiliate Sponsored by a terminated Principal or Association;
 - d. Merchants of an Affiliate Sponsored by a terminated Principal or Association; or

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2.13 Rights, Liabilities, and Obligations of Terminated Customers

- e. Any other entity or person acting to provide, directly or indirectly, service related to Activity undertaken pursuant to the authority or purported authority of the terminated Customer.
2. A terminated Customer is not entitled to any refund of dues, fees, assessments, or other payments and remains liable for, and must promptly pay to this Corporation (a) any and all applicable dues, fees, assessments, or other charges as provided in the Standards and (b) all other charges, debts, liabilities, and other amounts arising or owed in connection with the Customer's Activities, whether arising, due, accrued, or owing before or after termination of such Membership.
3. The terminated Customer must promptly cancel all Cards then outstanding that were issued by the terminated Customer and, if the terminated Customer is a Principal or Association, by all of that Customer's Sponsored Affiliates.
4. The terminated Customer must promptly cause all of its Cardholders and, if the terminated Customer is a Principal or Association, the Cardholders of its Sponsored Affiliates to be notified of the cancellation of Cards in writing. Such notice must be in a form and substance satisfactory to the Corporation.
5. If a terminated Customer does not take an action that this Rule or any other Standard or that the Corporation otherwise requires, the Corporation may take any such required action without prior notice to the terminated Customer and on behalf of and at the expense of the Customer.
6. If a Principal or Association that Sponsors one or more Affiliates terminates its Membership, such Principal or Association must cause each of its Sponsored Affiliates to take the actions required of a terminated Customer under this Rule, unless and to the extent that any such Affiliate become an Affiliate Sponsored by a different Principal or Association within a period of time acceptable to the Corporation.
7. If an Affiliate terminates its Membership or its Sponsorship by a Principal or Association, the Sponsoring Principal or Association must cause the Affiliate to take the actions required of a terminated Customer under this Rule. If that Affiliate fails to so comply, the Corporation may take any action that this Rule requires without notice to the Affiliate or the Sponsoring Principal or Association on behalf of and at the expense of the Sponsoring Principal or Association.
8. A terminated Customer has no right to present records of Transactions effected after the date of termination to any other Customer, except as permitted by the Standards.
9. A terminated Customer continues to have the rights and obligations set forth in the Standards and License(s) with respect to its use of the Marks and conduct of Activity until such time as the Corporation determines such rights or obligations or both cease.

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2.14 Failure of Principal or Association to Discharge Obligations

10. A terminated Customer has a continuing obligation to provide promptly to the Corporation, on request, Customer Reports and any other information about Activity.
11. A terminated Customer must, at the option of the Corporation, immediately either destroy, or take such steps as the Corporation may require regarding, all confidential and proprietary information of the Corporation in any form previously received as a Customer.

This Rule does not apply in the event that the Corporation has approved:

1. A transfer of Membership of a Principal to an Affiliate Sponsored by a Principal or Association; or
2. A transfer of Membership of an Affiliate to a Principal or Association; or
3. A transfer of Sponsorship of an Affiliate to a different Principal or Association.

2.14 Failure of Principal or Association to Discharge Obligations

Subject to the limitation set forth in Rule 2.17, if a Principal or Association fails to discharge any obligation to any other Customer(s) arising from or in connection with any Activity that it has conducted as a Customer, the Corporation may satisfy such obligation(s) to the extent such obligation(s) is not otherwise satisfied. To the extent the Corporation satisfies a Customer's settlement obligation, the satisfaction constitutes an automatic transfer, sale, and absolute assignment to the Corporation, and not an assignment for security purposes, of all right, title, and interest in the receivable. Such satisfaction of the obligation also entitles the Corporation to all records and documents related to the receivable, including the name and address of each Cardholder obligated to satisfy any part of the receivable. The Customer must promptly deliver all such records and documents to the Corporation or to the Corporation's designee. Any proceeds received by the Customer from any receivable must be held in trust by the Customer and paid to the Corporation as soon as practicable.

Any satisfaction of any Customer obligation by the Corporation may be recovered by the Corporation through an assessment of any one or more of the Customers.

The Corporation may take any action the Corporation deems necessary or appropriate to protect its interest in the receivable and to protect the integrity of the affairs of the Corporation, such as, by way of example and not limitation, by:

1. Rejecting Transaction authorization requests relating to use of the Customer's Cards.
2. Establishing a settlement account for monies due to and from the Customer.
3. Without prior notice to the Customer, holding any monies due to the Customer from the Corporation and net settlement and apply the monies to the amounts the Customer owes to the Corporation and to other Customers arising from Membership.
4. Listing some or all of a Customer's Card account numbers on the Electronic Warning Bulletin file, the international Warning Notice(s), or both, or in other or similar publications.
5. Effecting chargebacks on behalf of the Customer.
6. Overseeing the disposition of unused Card stock and any other media bearing security-sensitive information, including Card account information.

2.15 System Liquidity

If the Corporation requires funds to maintain system liquidity and, as set forth in Rule 2.14, to meet any obligations that a Customer or Customers have failed to discharge (for purposes of this Rule, "Non-discharged Customer Obligations"), the Corporation may collect funds directly from the settlement accounts of Customers upon reasonable notice to the Customers. In such event, the funds will be collected by the Corporation by:

1. Decreasing the gross daily settlement amounts of outgoing volumes of Principals or Associations by up to (five) 5 percent of the amount settled on one or more days; and
2. Increasing the gross daily settlement amounts of incoming volumes of Principals or Associations by up to (five) 5 percent of the amount settled on one or more days.

This collection may continue as long as deemed necessary or appropriate to satisfy Non-discharged Customer Obligations and to ensure system liquidity or until the Corporation deems such collection no longer necessary or appropriate.

Collected funds are treated as advance payments on the sums that may be required from the Principals or Associations in the allocation among Customers of loss related to a Non-discharged Customer Obligations. If the funds collected from a Customer exceed the amount ultimately allocated to it in connection with a Non-discharged Customer Obligations, the excess amount will be returned to the Customer with interest. If the funds collected from a Customer do not exceed the amount allocated to it, the Customer will pay any

shortage to the Corporation with interest. Any interest payment by or to the Corporation will be based on the average effective Federal Reserve Fund's Earning Credit Rate (or if such rate is not published, a rate that the Corporation designates) during the time between the incidence of the Customer funding and the final allocation.

2.16 Loss Allocation Among Customers

Any loss that the Corporation incurs, or for which the Corporation may otherwise be responsible due to the failure of a Customer, whether or not intentional, to perform any of its Membership obligations, may be allocated among the Customers by the Corporation in such manner and at such time(s) as the Corporation determines to be appropriate.

2.17 Limitation of Obligation

Except as otherwise set forth in the Standards, the Corporation has no obligation with respect to the failure of a Principal or Association, for any reason, to discharge any obligation arising out of or in connection with Membership or any License or Activity, including, without limitation, any one or more of the following obligations:

1. An obligation arising from a Transaction in which the Customer, taken together with any of its sponsored Affiliates, acts as both the Issuer and the Acquirer.
2. An obligation arising from a Transaction in which the Issuer and Acquirer are related parties or are under common Control by one or more parents, holding companies, or other entities.
3. Any obligation arising, or then existing, with respect to a Transaction settled outside of the Corporation's settlement system, if the Principal or Association has failed with respect to its settlement obligation, and the Corporation has not received actual written notice of the failure from or on behalf of the intended settlement recipient by midnight of the local business day following such failure. As used herein, Transactions settled outside of the Corporation's settlement system include, without limitation, Transactions settled via:
 - a. A processor or any other entity or person net settling between two or more Principals or Associations;
 - b. Indirect or consolidated settlement arrangements when the Corporation is not directly settling with a Principal or Association;
 - c. Bilateral or other local settlement arrangements including those cleared via the Corporation's Interchange System; and

- d. Any other arrangement that the Corporation deems to be an alternate arrangement.
4. Any obligation arising, or then existing, with respect to a cross-border Transaction, if the Principal or Association has failed to comply with the Standards.
5. An obligation of its Affiliate.
6. Any obligation of a Principal or Association to any of its Affiliates.

2.18 Liability for Owned or Controlled Entities

Each Customer (referred to for purposes of this Rule as a "Responsible Customer") shall irrevocably and unconditionally guarantee, as a primary obligor and not merely as a surety, to the Corporation and all other Customers, the prompt payment and performance of the obligations (the "Guaranteed Obligations") of each of the Responsible Customer's affiliated entities arising under the Standards (as the term "Standards" is defined in the Rules, the *Maestro Global Rules*, and the *Cirrus Worldwide Operating Rules*, respectively) and from each such affiliated entity's MasterCard, Maestro, and Cirrus Activities and use of any of the Marks (as defined in the Rules) and Service Marks (as defined in the *Maestro Global Rules* and the *Cirrus Worldwide Operating Rules*).

For purposes of this Rule, a Responsible Customer's affiliated entity is defined as follows:

1. A Customer that is Owned or Controlled by the Responsible Customer or is owned or controlled by the Responsible Customer and another Customer or Customers; or
2. A Customer that, with the Responsible Customer, is under common Ownership by, or Control of, another entity; or
3. A Customer that Owns or Controls the Responsible Customer or shares Ownership or Control of the Responsible Customer with another Customer or Customers.

The obligations of each Responsible Customer under this Rule shall be continuing, absolute, and unconditional and shall not be discharged or impaired or otherwise affected by any act or omission (including any renewal, extension, amendment, waiver or unenforceability of any of the Guaranteed Obligations) that may vary the risk of such Responsible Customer or otherwise operate as a discharge of the obligations of such Responsible Customer as a matter of law or equity, and all defenses of the Responsible Customer with respect thereto are waived to the fullest extent permitted by applicable law.

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2.19 Risk of Loss

The Responsible Customer's liability to the Corporation and all other Customers is a primary obligation, while the Corporation's liability, if any, to another Customer is secondary, in that it only arises if a Responsible Customer is unable to pay its Guaranteed Obligations in full. Any assessments imposed on a Customer for liability under this Rule may be collected by the Corporation, at its option, from the Customer's settlement account or by any other means available.

A Responsible Customer may not be exempted from this Rule except upon written notice by the General Counsel of the Corporation.

2.19 Risk of Loss

Each Customer bears all risk of loss, and the Corporation bears no risk of loss with respect to all amounts owed by the Customer under the Standards except to the extent any such amount is received by the Corporation, free and clear.

Each Customer remains fully responsible for fulfillment of, and must take all actions necessary to fulfill, all of its obligations under the Standards, regardless of whether the Customer designates a third party to perform all or any part of such obligations on the Customer's behalf. The fact that the Customer has paid any portion of the amount owed to such third party designee does not discharge the Customer's obligations to the Corporation.

The Corporation may draw on the Customer's funds to fulfill any of the Customer's obligations under the Standards, regardless of whether those funds are held or Controlled by the Customer or by any third party designee, to the same extent the Corporation is entitled to draw on funds from any settlement account or funds of the Customer under the Standards, and regardless of whether those funds are commingled with any other funds. If the Corporation draws on the Customer's funds, the Corporation is not required to reimburse the Customer or any third party (whether a third party designee of the Customer or another Customer) for funds drawn which are owned by any of them or otherwise subject to any of their rights. The Customer and any third party (whether a third party designee of the Customer or another Customer) bear all risk and liability related to the funds drawn and jointly and severally indemnify and hold the Corporation harmless from all liability and claims arising from any such draw of funds. Each Customer bears all risk of loss, and the Corporation bears no risk of loss with respect to all amounts owed by the Corporation to the Customer under the Standards once the payment is received by the Customer or a third party designee of the Customer and regardless of whether or how such Transactions are cleared and settled. Each Customer must notify the Corporation promptly in writing if any third party designee commingles funds received for or from the Customer in connection with the Customer's Transactions with any other funds.

Each Customer must notify the Corporation promptly in writing of the details of any failure of the Customer or any third party designee of the Customer to meet any of their obligations with respect to payment of funds owed under the Standards.

If a Customer's third party designee advances funds on behalf of the Customer to pay the Corporation or any other party entitled to receive those funds under the Standards, then such payment is deemed to be a payment by the Customer, and the Customer and the third party designee of the Customer jointly and severally bear all of the risks of loss and must jointly and severally indemnify and hold the Corporation harmless from any and all liability and claims arising from any such payment.

The Customer must:

1. Obtain the prior written agreement of any third party designee of the Customer that may be given access to any funds owed by or to the Customer pursuant to the Standards; and
2. Guarantee any such third party designee's compliance with all its obligations to the Corporation under this Rule.



Note

An addition to this Rule appears in Chapter 15a, "United States Region Debit-related Rules."

Compliance Zones

The following table identifies the noncompliance category that the Corporation has assigned to the Standards described within this chapter. These noncompliance categories are assigned for the purposes of noncompliance assessments under the compliance framework in Rule 3.1.2.

Rule Number	Rule Title	Category
2.1	Purpose of License; Eligibility	A
2.2	License Application	A
2.3	Area of Use	A
2.4	Special Conditions of Membership or License	A
2.5	MasterCard Anti-Money Laundering Program	A
2.6	Obligation to Issue Cards	A
2.7	Liability for Assigned ICAs and BINs	A
2.8	Obligations of a Sponsor	C

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Rule Number	Rule Title	Category
2.9	Name Change	C
2.10	Fees, Assessments, and Other Payment Obligations	A
2.11	Sale or Change in Ownership or Control of Customer or Portfolio	A
2.12	Suspension and Amendment of Membership or License or Both	A
2.13	Rights, Liabilities, and Obligations of Terminated Customers	A
2.14	Failure of Principal or Association to Discharge Obligations	A
2.15	System Liquidity	A
2.16	Loss Allocation Among Customers	A
2.17	Limitation of Obligation	A
2.18	Liability for Owned or Controlled Entities	A
2.19	Risk of Loss	A

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Customer Obligations

This chapter contains information about Membership obligations.

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3.1 Standards

From time to time, the Corporation promulgates Standards governing the conduct of Customers and Activities. The Corporation has the sole right in its sole discretion to interpret and enforce the Standards. The Corporation has the right, but not the obligation, to resolve any dispute between or among Customers including, but not limited to, any dispute involving the Corporation, the Standards, or the Customers' respective Activities, and any such resolution by the Corporation is final and not subject to appeal or other reviews. In resolving disputes between or among Customers, or in applying its Standards to Customers, the Corporation may deviate from any process in the Standards or that the Corporation otherwise applies, and may implement an alternative process, if an event, including, without limitation, an account data compromise event, is, in the sole judgment of the Corporation, of sufficient scope, complexity and/or magnitude to warrant such deviation. The Corporation will exercise its discretion to deviate from its Standards only in circumstances the Corporation determines to be extraordinary. Any decision to alter or suspend the application of any process(es) will not be subject to appeal, review or other challenge. The Corporation reserves the right to limit, suspend or terminate Membership or Membership privileges of any Customer that does not comply with any Standard or with any decision of the Corporation with regard to the interpretation and enforcement of any Standard, or that in any respect violates any Standard or applicable law.

3.1.1 Variances

A variance is the consent by the Corporation for a Customer to act other than in accordance with a Standard. Only a Customer may request a variance. Any such request must specify the Rule(s) or other Standard(s) for which a variance is sought. The request must be submitted to the Corporation in writing, together with a statement of the reason for the request.

If the Customer claims to be prevented from fully complying with a Standard because of law or regulation, the Customer must provide a copy of the law or regulation and if such law or regulation is in a language other than English, a complete certified English translation. As a condition of granting a variance for that reason, the Corporation may require the Customer to undertake some other form of permissible Activity.

The Corporation may assess a fee to consider and act on a variance request.

3.1.2 Failure to Comply with a Standard

Failure to comply with any Standard(s) adversely affects the Corporation and its Customers and undermines the integrity of the MasterCard system. Accordingly, a Customer that fails to comply with any Standard is subject to assessments (“noncompliance assessments”) as set forth in the Standards. In lieu of or in addition to the imposition of a noncompliance assessment, the Corporation, in its sole discretion, may require a Customer to take such action and the Corporation itself may take such action as the Corporation deems necessary or appropriate to ensure compliance with the Standards and safeguard the integrity of the MasterCard system. In the exercise of such discretion, the Corporation may consider the nature, willfulness, number and frequency of occurrences and possible consequences resulting from a failure to comply with any Standard(s). The Corporation may provide notice and limited time to cure such noncompliance before imposing a noncompliance assessment.

3.1.2.1 Noncompliance Categories

From time to time, the Corporation establishes programs that address instances of noncompliance with particular Standards, such as the Standards pertaining to account data compromise events set forth in section 10.2 of the *Security Rules and Procedures* manual. With respect to noncompliance with a Standard not addressed in such a program, the Corporation has implemented a compliance framework designed to group noncompliance with the Standards into three (3) categories. Every instance of noncompliance not addressed in a program established by the Corporation will fall within at least one of these categories.

3.1.2.1.1 Category A—Payment System Integrity

Category A noncompliance affects payment system integrity. The Corporation has the authority to impose monetary noncompliance assessments for Category A noncompliance with the Standards. “Payment system integrity” violations include, but are not limited to, noncompliance involving Membership and License requirements, Merchant signing and monitoring requirements, or protection of Card, account, or Transaction information.

3.1.2.1.2 Category B—Visible to Customers

Category B noncompliance addresses conduct that is visible to customers. The Corporation has the authority to impose monetary noncompliance assessments for Category B noncompliance or, in the alternative, may provide notice and a limited time to cure such noncompliance before imposing monetary assessments. “Visible to customers” violations include, but are not limited to, noncompliance involving the use of the Marks, identification of the Merchant at the Point of Interaction, the setting of minimum and maximum Transaction amounts, and the payment of Merchants and Sub-merchants for Transactions.

3.1.2.1.3 Category C—Efficiency and Operational Performance

Category C noncompliance addresses efficiency and operational performance. The Corporation has the authority to impose monetary noncompliance assessments for Category C noncompliance or, in the alternative, may provide notice and a limited time to cure such noncompliance before imposing monetary assessments. “Efficiency and operational performance” violations include, but are not limited to, noncompliance involving presentment of Transactions within the required time frame, supplying Merchants with materials required for Transaction processing, and the obligation to provide the Corporation with requested information.

3.1.2.2 Noncompliance Assessments

The following schedule pertains to any Standard that does not have an established compliance program. The Corporation may deviate from this schedule at any time.

Noncompliance Category	Assessment Type	Assessment Description
A	Per Violation	First violation: up to USD 25,000 Second violation within 12 months: up to USD 50,000 Third violation within 12 months: up to USD 75,000 Fourth and subsequent violations within 12 months: Up to USD 100,000 per violation
	Variable Occurrence (by device or Transaction)	Up to USD 2,500 per occurrence for the first 30 days Up to USD 5,000 per occurrence for days 31–60 Up to USD 10,000 per occurrence for days 61–90 Up to USD 20,000 per occurrence for subsequent violations

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3.1 Standards

Noncompliance Category	Assessment Type	Assessment Description
	Variable Occurrence (by number of Cards)	Up to USD 0.50 per card Minimum USD 1,000 per month per card base No maximum per month per card base No maximum per month per Card base or per all Card bases
B	Per Violation	First violation: up to USD 20,000 Second violation within 12 months: up to USD 30,000 Third violation within 12 months: up to USD 60,000 Fourth and subsequent violations within 12 months: Up to USD 100,000 per violation
	Variable Occurrence (by device or Transaction)	Up to USD 1,000 per occurrence for the first 30 days Up to USD 2,000 per occurrence for days 31–60 Up to USD 4,000 per occurrence for days 61–90 Up to USD 8,000 per occurrence for subsequent violations
	Variable Occurrence (by number of Cards)	Up to USD 0.30 per Card Minimum USD 1,000 per month per Card base Maximum USD 20,000 per month per Card base Maximum USD 40,000 per month per all Card bases
C	Per Violation	First violation: up to USD 15,000 Second violation within 12 months: up to USD 25,000 Third violation within 12 months: up to USD 50,000 Fourth and subsequent violations within 12 months: Up to USD 75,000 per violation
	Variable Occurrence (by device or Transaction)	Up to USD 1,000 per occurrence for the first 30 days Up to USD 2,000 per occurrence for days 31–60 Up to USD 4,000 per occurrence for days 61–90 Up to USD 8,000 per occurrence for subsequent violations
	Variable Occurrence (by number of Cards)	Up to USD 0.15 per card Minimum USD 1,000 per month per Card base Maximum USD 10,000 per month per Card base Maximum USD 20,000 per month per all Card bases

In the above table all days refer to calendar days and violations of a Standard are tracked on a rolling 12-month basis.

3.1.2.3 Certification

A senior executive officer of each Principal and Association must, if requested by the Corporation, promptly certify in writing to the Corporation the status of compliance or noncompliance with any Standard by the Customer or by any of such Customer's Sponsored Affiliates.

3.1.2.4 Review Process

A Customer may request that the Secretary of this Corporation review an assessment imposed by the Corporation for noncompliance with a Standard. Such a request must be submitted in writing and signed by the Customer's principal contact. The request must be postmarked no later than 30 calendar days after the date of the disputed assessment.

The Corporation may assess a USD 500 fee to consider and act on a request for review of a noncompliance assessment.

3.1.2.5 Resolution of Review Request

When a Customer requests review of an assessment for noncompliance with a Standard, the Secretary of this Corporation may take such action as he or she deems necessary or appropriate or may elect not to act. The Secretary may delegate authority to act or not to act with respect to any particular matter or type of matter. If the Secretary or his or her designee elects to conduct further inquiry into the matter, each Customer must cooperate promptly and fully. If the Secretary or his or her designee makes a recommendation of action to resolve the matter, such recommendation is final and not subject to further review or other action.

3.1.3 Rules Applicable to Intracountry Transactions



Note A Rule on this topic appears in Chapter 12, "Europe Region Rules."

3.1.4 Communication of Intracountry Fallback Rules



Note A Rule on this topic appears in Chapter 12, "Europe Region Rules."

3.2 Conduct of Activity

Each Customer at all times must conduct Activity in compliance with the Standards and with all applicable laws and regulations. Each Customer must conduct all Activity and otherwise operate in a manner that is financially sound and so as to avoid risk to the Corporation and to other Customers.

3.2.1 Conflict with Law

A Customer is not required to undertake any act that is unambiguously prohibited by applicable law or regulation.

3.2.2 Obligations of a Sponsor

Each Principal and Association that Sponsors one or more Affiliates must cause each such Affiliate to comply with all Standards applicable to the Activity of that Affiliate. The Principal and Association is liable to the Corporation and to all other Customers for all Activities of any Affiliate Sponsored by the Principal and Association and for any failure by such Sponsored Affiliate to comply with a Standard or with applicable law or regulation.

If an Affiliate Sponsored by a Principal and Association ceases to be so Sponsored by that Principal and Association, such Principal and Association nonetheless is obligated, pursuant to and in accordance with the Standards, to acquire from other Customers the records of Transactions arising from the use of Cards issued by that formerly Sponsored Affiliate and whether such Transactions arise before or after the cessation of the Sponsorship.

3.2.3 Affiliates

Except to the extent any liability or obligation arising under a Standard has been satisfied by a Principal and Association, each Affiliate is responsible for the liabilities and obligations arising out of, or in connection with, its Activities, regardless of any:

1. Action taken by such Affiliate to satisfy such liability or obligation with, through or by a Principal and Association that Sponsors or Sponsored such Affiliate, or
2. Agreement between any Principal and Association and such Affiliate.

In accordance with the Standards and in compliance with applicable laws and regulations, each Principal and Association will have access to and may use or otherwise process its Sponsored Affiliates' confidential information and Confidential Transaction Data (as defined in Rule 3.6.2) in connection with authorization, settlement, clearing, fraud reporting, chargebacks, billing, and other related activities.

3.2.4 Materially Adverse Financial Condition or Discrepancy

A Customer must promptly report to the Corporation any materially adverse financial condition or discrepancy or suspected materially adverse financial or discrepancy relating to the Customer or, in the case of a Principal and Association, any Affiliate Sponsored by the Principal and Association. The Member must refer or, if applicable, cause the Affiliate to refer, such condition(s) or discrepancy(ies) to independent certified public accountants or another person or firm satisfactory to the Corporation for evaluation and recommendation as to remedial action, and promptly provide the Corporation a copy of such evaluation and recommendation after receipt thereof.

3.2.5 Compliance

From time to time, the Corporation may develop means and apply criteria to evaluate a Customer's compliance with Rule 3.2. Each Customer must fully cooperate with any effort by the Corporation and the Corporation's representatives to evaluate a Customer's compliance with Rule 3.2.

In the event that the Corporation determines that a Customer is not complying or may not on an ongoing basis comply with the requirements of Rule 3.2, the Corporation may:

1. Impose special terms upon the Customer as the Corporation deems necessary or appropriate until each condition or discrepancy is resolved to the Corporation's satisfaction so as to enable the Customer to be and to remain in full compliance with Rule 3.2, or
2. Require the Customer to withdraw from Membership.

3.2.6 Nondiscrimination—Europe Region Only



Note A Rule on this topic appears in Chapter 12b, "SEPA Rules."

3.2.7 Acquirers



Note

A Rule on this topic appears in Chapter 10, "Asia/Pacific Region Rules," Chapter 13, "Latin America and the Caribbean Region Rules," and Chapter 15, "United States Region Rules."

3.3 Indemnity and Limitation of Liability

Each Customer (each, for the purposes of this Rule, an "Indemnifying Customer") must protect, indemnify, and hold harmless the Corporation and the Corporation's parent and subsidiaries and affiliated entities, and each of the directors, officers, employees and agents of the Corporation and the Corporation's parent and subsidiaries and affiliated entities from any actual or threatened claim, demand, obligation, loss, cost, liability and/or expense (including, without limitation, actual attorneys' fees, costs of investigation, and disbursements) resulting from and/or arising in connection with, any act or omission of the Indemnifying Customer, its subsidiaries, or any person associated with the Indemnifying Customer or its subsidiaries (including, without limitation, such Indemnifying Customer's directors, officers, employees and agents, all direct and indirect parents, subsidiaries, and affiliates of the Indemnifying Customer, the Indemnifying Customer's customers in connection with issuing and/or acquiring Activity and/or other business, and the Indemnifying Customer's suppliers, including, without limitation, any Service Providers, and other persons acting for, or in connection with the Indemnifying Customer or a Merchant for which the Indemnifying Customer acquires Transactions, and/or any such Merchant's employees, representatives, agents suppliers, customers, including any Data Storage Entity (DSE) with respect to, or relating to:

1. Any programs and/or Activities of the Indemnifying Customer;
2. Any programs and/or activities of any person associated with the Indemnifying Customer and/or its subsidiaries;
3. The compliance or non-compliance with the Standards by the Indemnifying Customer;
4. The compliance or non-compliance with the Standards by any person associated with the Indemnifying Customer and its subsidiaries;
5. Any other activity of the Indemnifying Customer;

6. Direct or indirect access to and/or use of the Interchange System (it being understood that the Corporation does not represent or warrant that the Interchange System or any part thereof is or will be defect-free or error-free and that each Customer chooses to access and use the Interchange System at the Customer's sole risk and at no risk to the Corporation);
7. Any other activity of any person associated with the Indemnifying Customer, its subsidiaries, or both that used and/or otherwise involved any of the Marks or other assets;
8. Any failure of another Customer to perform as required by the Standards or applicable law; or
9. The Corporation's interpretation, enforcement, or failure to enforce any Standard(s).

The Corporation does not represent or warrant that the Interchange System or any other system, process or activity administered, operated, controlled or provided by or on behalf of the Corporation (collectively, for purposes of this Rule, the "Systems") is free of defect and/or mistake and, unless otherwise specifically stated in the Standards or in a writing executed by and between the Corporation and a Customer, the Systems are provided on an "as-is" basis and without any express or implied warranty of any type, including, but not limited to, the implied warranties of merchantability and fitness for a particular purpose or non-infringement of third party intellectual property rights. **IN NO EVENT WILL THE CORPORATION BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL OR CONSEQUENTIAL DAMAGES, OR DAMAGES FOR LOSS OF PROFITS, OR ANY OTHER COST OR EXPENSE INCURRED BY A CUSTOMER OR ANY THIRD PARTY ARISING FROM OR RELATED TO USE OR RECEIPT OF THE SYSTEMS, WHETHER IN AN ACTION IN CONTRACT OR IN TORT, AND EVEN IF THE CUSTOMER OR ANY THIRD PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. EACH CUSTOMER ASSUMES THE ENTIRE RISK OF USE OR RECEIPT OF THE SYSTEMS.**

Only in the event the limitation of liability set forth in the immediately preceding paragraph is deemed by a court of competent jurisdiction to be contrary to applicable law, the total liability, in the aggregate, of the Corporation to a Customer and anyone claiming by or through the Customer, for any and all claims, losses, costs or damages, including attorneys' fees and costs and expert-witness fees and costs of any nature whatsoever or claims expenses resulting from or in any way related to the Systems shall not exceed the total compensation received by the Corporation from the Customer for the particular use or receipt of the Systems during the twelve (12) months ending on the date that the Corporation was advised by the Customer of the Systems concern or the total amount of USD 250,000.00, whichever is less. It is intended that this limitation apply to any and all liability or cause of action however alleged or arising; to the fullest extent permitted by law; unless otherwise prohibited by law; and notwithstanding any other provision of the Standards.

Customer Obligations

3.4 Choice of Laws

A payment or credit by the Corporation to or for the benefit of a Customer that is not required to be made by the Standards will not be construed to be a waiver or modification of any Standard by the Corporation. A failure or delay by the Corporation to enforce any Standard or exercise any right of the Corporation set forth in the Standards will not be construed to be a waiver or modification of the Standard or of any of the Corporation's rights therein.

3.4 Choice of Laws

The substantive laws of the State of New York govern all disputes involving the Corporation, the Standards, and/or the Customers and Activity without regard to conflicts. Any action initiated by a Customer regarding and/or involving the Corporation, the Standards and/or any Customer and Activity must be brought, if at all, only in the United States District Court for the Southern District of New York or the New York Supreme Court for the County of Westchester, and any Customer involved in an action hereby submits to the jurisdiction of such courts and waives any claim of lack of personal jurisdiction, improper venue, and *forum non conveniens*.

This provision in no way limits or otherwise impacts the Corporation's authority described in Rule 3.1. Each Customer agrees that the Standards are construed under, and governed by, the substantive laws of the State of New York without regard to conflicts.



Note

A variation to this Rule appears in Chapter 12, "Europe Region Rules."

3.5 Examination and Audit

The Corporation, at any time, and whether or not a Customer is subject to periodic examination by banking regulatory authorities of the United States or any state thereof, or to periodic examination by regulatory authorities of another government, and at the Customer's sole expense, may require that Customer to be subjected to an examination and/or audit and/or periodic examination and/or periodic audit by a firm of independent certified accountants or by any other person or entity satisfactory to the Corporation. The complete results of each such examination and/or audit will be provided to the Corporation promptly upon completion.

Any accountant's examination or audit undertaken in accordance with this Rule must be at least as detailed and equivalent in scope and nature as an examination or audit required of banks under the laws of the United States and will address such matters relating to or arising from Activity as the Corporation may require for the time period to be examined or audited. Such matters may include, by way of example and not limitation:

1. The number of active and inactive Cards outstanding, the number of Cards issued, the volume of Transactions, and the delinquency experience on repayment.
2. The nature of any credit or other investigation conducted before issuance of a Card, the guidelines and criteria employed to evaluate credit risk, and the nature of credit decisions made.
3. The nature of collection procedures used, including the timing of collection notices, the wording and frequency of such notices, and the procedures for turning Card accounts over to collection services.
4. An evaluation of charge-off procedures used, including the procedures employed during any period in which a Card account is carried without payment, the disposition of a Card account after charge-off, collection efforts by legal action, and the practices followed in the aging of Card accounts.
5. An analysis of the geographic area covered by any Activity and the adequacy of the credit investigation and enforcement facilities in light of such geographic coverage.
6. An analysis of procedures used in evaluating prospective Merchants, including investigation standards, review of financial statements, Dun & Bradstreet reports, and/or similar or additional reports, and review of personal credit reports on principals in the case of small Merchants.
7. An analysis of procedures used in evaluating a prospective Service Provider, including investigation procedures and criteria, review of financial statements, Dun & Bradstreet reports, and/or similar or additional reports, and of review personal credit reports concerning principals of the Service Provider.
8. An analysis of procedures used in connection and to ensure ongoing compliance with the Corporation's AML Program.
9. An analysis of practices in the manufacture, personalization and issuance of Cards, including proper security measures for blank card stock, controls imposed in the issuance of Cards, mailing procedures, information security measures, and practices used to avoid duplicate issuance.
10. An analysis of policies and practices concerning the taking of reserves as protection against losses due to any Activity and an analysis of whether such policies and practices are at least as strict as that required of U.S. banks on classified loans.

The Corporation has no liability or responsibility for any failure to cause an examination or audit or both to be conducted or for the nature or quality of any examination or audit or for any action taken or not taken following any such examination or audit.

The Corporation reserves the right to audit a Customer's Activity and compliance with the Standards. The Customer must cooperate with and promptly supply the Corporation with all information that the Corporation deems necessary or appropriate in connection with any such audit. The Corporation may assess a Customer the costs of any such audit.

3.6 Provision and Use of Information

3.6.1 Obligation of Customer to Provide Information

Upon request by the Corporation, and subject to applicable law or regulation, a Customer must provide Customer Reports to the Corporation, or to the Corporation's designee; provided, compliance with the foregoing obligation does not require a Customer to furnish any information, the disclosure of which, in the opinion of this Corporation's legal counsel, is likely to create a significant potential legal risk to this Corporation and/or its Customer(s). To the extent that a Customer is obligated to provide a Customer Report to the Corporation that the Customer deems to disclose proprietary information of the Customer, such information will be treated by the Corporation with the degree of care deemed appropriate by the Corporation to maintain its confidentiality.

As an example of a Customer Report, each Acquirer must provide Transaction Data to the Corporation in such form and manner as the Corporation may require. As used herein, "Transaction Data" means any data or data element or subelement that the Standards require to be used to clear and/or settle a Transaction (whether cleared and/or settled via the Interchange System or otherwise) or that the Corporation requires to be provided.

3.6.1.1 Information to Cardholders



Note

A Rule on this topic appears in Chapter 10, "Asia/Pacific Region Rules"; Chapter 12, "Europe Region Rules"; Chapter 14, "South Asia/Middle East/Africa Region Rules"; and Chapter 15, "United States Region Rules."

3.6.1.2 Information to Merchants



Note

Rules on this topic appears in Chapter 11a, "Canada Region Code of Conduct Related Rules" and Chapter 12, "Europe Region Rules."

3.6.1.3 Transaction Currency Information

Each Acquirer must inform the Corporation whether or not it submits Transactions in a currency which is not the official currency of the country where the Transactions took place, including Transactions on which POI currency conversion has been performed. This information must be provided annually and will include Merchant and service provider and any other information required to be reported. When there is a change in the currency(ies) in which Transactions are submitted, in relation to the Acquirer itself or a Merchant, or in the use of a service provider, the Acquirer is required to update its reported information no later than 30 days after the change.

3.6.2 Confidential Information of Customers

The Corporation and its parents, subsidiaries and affiliates (herein collectively referred to as the "Corporation's Affiliates") will not use or disclose confidential information or Confidential Transaction Data furnished to it by Customers or Merchants except to the extent that the use or disclosure is in compliance with applicable law and as specifically provided herein. "Confidential Transaction Data" means any information provided to the Corporation or any of the Corporation's Affiliates by a Customer or Merchant if that information enables the Corporation or any of the Corporation's Affiliates to determine an individual's identity or includes a Card account number. The Corporation or the Corporation's affiliates may use and/or disclose confidential information and Confidential Transaction Data only as follows:

1. For the benefit of the Customer supplying the information to support the Customer's Program and/or Activities;
2. As may be appropriate, to the Corporation's and the Corporation's Affiliates' staff, accountants, auditors, or counsel;
3. As may be required or requested by any judicial process or governmental agency having or claiming jurisdiction over the Corporation or the Corporation's Affiliates;
4. As required for processing Transactions, including authorization, clearing, and settlement;
5. For accounting, auditing, billing, reconciliation, and collection activities; or

Customer Obligations

3.6 Provision and Use of Information

6. For the purpose of processing and/or resolving chargebacks or other disputes;
7. For the purpose of protecting against or preventing actual or potential fraud, unauthorized transactions, claims, or other liability, including to third parties providing these services;
8. For the purpose of managing risk exposures, franchise quality, and compliance with the Standards;
9. For the purpose of providing other products or services to Customers or other third parties, except that any Confidential Transaction Data provided in such products or services will only be provided to a Customer and will consist solely of Confidential Transaction Data provided to the Corporation or to any of the Corporation's Affiliates by that Customer;
10. For the purpose of administering sweepstakes, contests, or other marketing promotions;
11. For preparing internal reports for use by the Corporation or the Corporation's Affiliates, staff, management, and consultants in operating, evaluating, and managing Corporation business;
12. For preparing and furnishing compilations, analyses, and other reports of aggregated information, and anonymizing confidential information and/or Confidential Transaction Data, provided that such compilations, analyses, or other reports do not identify any (i) Customer other than the Customer for which the Corporation prepares the compilation, analysis, or other report or (ii) Cardholder whose Transactions were involved in the preparation of the compilation, analysis, or other report;
13. For the purpose of complying with applicable legal requirements;
14. For other purposes for which consent has been provided by the individual to whom the confidential information and/or Confidential Transaction Data relates.

Each Customer must ensure that it complies with the Standards and applicable laws and regulations in connection with disclosing any Confidential Transaction Data or confidential information to the Corporation or the Corporation's Affiliates to allow the uses and disclosures described herein, including any laws requiring the Customer to provide notices to individuals about information practices or to obtain consent from individuals to such practices.

3.6.3 Use of Corporation Information by a Customer

The Corporation is not responsible and disclaims any responsibility for the accuracy, completeness, or timeliness of any information disclosed by the Corporation to a Customer; and the Corporation makes no warranty, express or implied, including, but not limited to, any warranty of merchantability or fitness for any particular purpose with respect to any information disclosed by or on behalf of the Corporation to any Customer disclosed directly or indirectly to any participant in a Customer's Activity. Each Customer assumes all risk of use of any information disclosed directly or indirectly to a Customer or to any participant in a Customer's Activity by or on behalf of the Corporation.

3.6.4 Confidential Information of the Corporation and the Corporation's Affiliates

A Customer must not disclose confidential information of the Corporation or of the Corporation's parents, subsidiaries, and Affiliates (herein collectively referred to as the "Corporation's Affiliates") except:

1. On a need-to-know basis to the Customer's staff, accountants, auditors, or legal counsel subject to standard confidentiality restrictions, or
2. As may be required by any court process or governmental agency having or claiming jurisdiction over the Customer, in which event the Customer must promptly provide written notice of such requirement to the Secretary of the Corporation and to the extent possible, the Customer must seek confidential treatment by the court or agency.

The obligation set forth herein continues following the termination of Membership. Information provided to Customers by the Corporation or the Corporation's Affiliates is deemed confidential unless otherwise stated in writing.

A Customer may use confidential or proprietary information and/or trade secrets of the Corporation and the Corporation's Affiliates solely for the purpose of carrying out the Customer's Activities.

3.6.5 Data Protection—Europe Region Only



Note A Rule on this topic appears in Chapter 12, "Europe Region Rules."

3.7 Quarterly Member Report

Each Customer must complete and timely deliver to the Corporation the Quarterly Member Report or such other Customer Report as the Corporation may require be completed and returned by Customers from time to time (such Customer Report being hereinafter referred to as the "QMR") in the manner and at such time as the Corporation requires.

3.7.1 Report Not Received

If the Corporation does not receive a Customer's properly completed QMR questionnaire when and how due, the Corporation may:

1. Impose on the Customer, after review of the Customer's last submitted QMR questionnaire and assessment paid, an assessment equal to, or greater than, the Customer's assessment for such calendar quarter;
2. Impose on the Customer a noncompliance assessment, as set forth in the applicable regional *MasterCard Consolidated Billing System* manual;
3. If the Customer's actual payment based on the QMR questionnaire submitted by the Customer compared with the Corporation's estimate of payment due results in an underpayment by the Customer, collect the amount of the underpayment due and impose an interest penalty of the lower of two (2) percent per month or the highest rate permitted by law, from the date the payment was first due through the date on which the additional amount due is paid;
4. If the Customer's actual payment based on the QMR questionnaire submitted by the Customer compared with the Corporation's estimate of payment due results in an overpayment by the Customer, return the amount of the overpayment, without interest or penalty thereon, as soon as practicable after the overpayment amount is identified and calculated; and
5. Collect the assessment amount, and any penalties and interest due thereon, from the Customer's settlement account.

3.7.2 Erroneous or Incomplete Report

If a Customer submits an erroneous or incomplete QMR, the Corporation may:

1. Impose on the Customer, after review of the Customer's previously correctly submitted QMR and assessments paid thereon an assessment equal to, or greater than, the Customer's last properly paid assessment for each calendar quarter for which it submitted an erroneous or incomplete QMR;
2. Impose on the Customer a noncompliance assessment, as set forth in the applicable regional *MasterCard Consolidated Billing System* manual;

3. If the Corporation's estimate of payment due results in an underpayment by the Customer, collect the amount of the underpayment due and impose on the Customer an assessment on the amount of the underpayment of the lower of two (2) percent per month or the highest rate permitted by law, from the date(s) the payment(s) was first due and payable through the date(s) on which the additional amount(s) due is paid;
4. If the Corporation's estimate of payment due results in an overpayment by the Customer, return the amount of the overpayment, without penalty or interest thereon, as soon as practicable after the overpayment amount is identified and calculated; and
5. Collect of the assessment amount, and any interest, from the Customer's settlement account.

3.7.3 Overpayment Claim

If a Customer, after submitting a QMR, submits to the Corporation a claim asserting an overpayment thereon, the Corporation may:

1. Accept the claim for review only if it is received by the Corporation no later than one calendar quarter after the date of the claimed overpayment; and
2. Provided the overpayment claim is submitted in a timely manner and substantiated, return the amount of the overpayment to the Customer, without interest or penalty thereon, as soon as practicable after the overpayment amount is identified and calculated.

A Customer may request that the Corporation's Secretary review the Corporation's actions and make a finding or recommendation. Such a request must be received by the Secretary no later than 30 calendar days after the date of the disputed action and any finding or recommendation by the Secretary with regard to the matter will be final and not subject to appeal or other similar action.

3.8 Authorization Service

Each Principal and Association must provide, at its own expense and with respect to Cards issued by the Principal and Association and any Affiliate Sponsored by the Principal and Association, authorization services that comply with the Standards.

Each Principal and Association must provide, at its own expense and with respect to Merchants of the Principal and Association and any Affiliate Sponsored by the Principal and Association, adequate and reasonable authorization services that comply with the Standards and each such Merchant must be instructed as to the proper use of such authorization services so as to ensure that Cards are accepted or refused and that Transactions are effected or refused in compliance with the Standards.



Note Additions to this Rule appear in Chapter 12, "Europe Region Rules."

3.8.1 Selective Authorization

Without the express prior written approval of the Corporation, a Customer may not launch or maintain a Card Program that has the effect of selectively authorizing Transactions or cash disbursement transactions arising from use of the Program Cards at only a subset of MasterCard acceptance locations. A Customer is not prohibited from authorizing or declining individual Transactions or cash disbursement transactions based on:

1. The amount of funds or credit available in the Cardholder account;
2. Fraud or credit risks presented by individual Cardholder usage patterns;
3. Cash access restrictions to manage a secured or high credit risk account; or
4. Any other restriction on use the Corporation may permit.



Note Additions to this Rule appear in Chapter 11a, "Canada Region Code of Conduct Related Rules" and Chapter 15, "United States Region Rules."

3.8.2 Authorization Routing

An Acquirer must be capable of recognizing all active MasterCard bank identification numbers (BINs) for purposes of obtaining Transaction authorization, and obtain such authorization on behalf of each of its Merchants as the Standards require.

If the Acquirer uses MasterCard account range files provided by the Corporation for this purpose, such files must be loaded and functioning on the Acquirer's host system and available to its Merchants for use within six calendar days from the date that each updated file is distributed. Alternatively, the Acquirer may submit all authorization requests containing an account number with a BIN in the 510000 to 559999 range to the Interchange System for routing to the Issuer.

3.8.3 Stand-In Processing Service

For all Card Programs, Issuers must use the Stand-In Processing Service and the Stand-In Investigation Service (SIS). Stand-In Parameters must be set at or above the Corporation's default limits. For Debit MasterCard Card Programs, Issuers may employ a blocking service which declines all Transaction authorization requests during Stand-in processing.

In the event that fraudulent activity is detected with respect to a BIN or BIN range, the Corporation, in its sole discretion and judgment, may take such action as the Corporation deems necessary or appropriate to safeguard the goodwill and reputation of the Corporation's Marks. Such action may include, by way of example and not limitation, declining some or all Transaction authorization requests received by the Stand-in Processing Service relating to the use of Cards issued under such BIN or BIN range.



Note Variations to this Rule appear in Chapter 12, "Europe Region Rules" and Chapter 15, "United States Region Rules."

3.8.4 Issuer Performance Standards



Note A Rule on this topic appears in Chapter 12, "Europe Region Rules."

3.9 Additional Customer Obligations

Each Customer must comply with the following obligations.

3.9.1 Safeguard Card Account and Transaction Information

Each Customer, for itself and any third party that may be afforded access to Transaction or Card account information, or both, by or on behalf of the Customer, must safeguard and use or permit use of such information in accordance with the Standards.

3.9.2 Satisfaction of Minimum Customer Obligations

Within one year of becoming a Principal and Association and at all times thereafter, each Principal and Association must itself, taken together with any Affiliate(s) Sponsored by the Principal and Association as if they were a single Customer, have satisfied the minimum obligations as may be established from time to time and as set forth in the Standards or in a Customer agreement or License.

3.9.3 Satisfaction of Minimum Financial Requirements

Each Customer at all times must satisfy the minimum financial requirements established by the Corporation from time to time. The Corporation, in its discretion, may establish different or additional financial requirements for

1. A category of financial institutions, organizations, or corporations or other entities that are eligible to become a Customer; or
2. An individual Customer or prospective Customer in the manner set forth in the Standards should the Corporation determine that different or additional requirements are reasonably appropriate to evidence the financial integrity of a type of Customer or an individual Customer or prospective Customer.

3.9.4 Integrity of Brand and Network

A Customer may not directly or indirectly engage in or facilitate any action that is illegal, or that, in the opinion of the Corporation and whether or not addressed elsewhere in the Standards, damages or may damage the goodwill or reputation of the Corporation or of any Mark, and the Customer will promptly cease engaging in or facilitating such action upon request of the Corporation.

In addition, a Customer may not place or cause to be placed on any Card or on any POS Terminal or acceptance device any image, information, application, or product that would in any way, directly or indirectly, have or potentially have the effect of diminishing or devaluing the reputation or utility of the Marks, a Card, or any of the Corporation's products, programs, services, networks, or systems.



Note An addition to this Rule appears in Chapter 15, "United States Region Rules."

3.10 Limitation of Liability of Cardholders for Unauthorized Use



Note A Rule on this topic appears in Chapter 10, "Asia/Pacific Region Rules"; Chapter 11, "Canada Region Rules"; Chapter 14, "South Asia/Middle East/Africa Region Rules"; and Chapter 15, "United States Region Rules."

3.11 Pay-Per-Call Service

The use of a "900" or other "pay-per-call" telephone service to offer or solicit for any Activity is prohibited.

3.12 Encashment of MasterCard Travelers Cheques

Each Customer must encash MasterCard® Travelers Cheques issued in any currency when presented for payment at any of its locations, provided:

1. Such encashment is permitted by law; and
2. The Customer has the ability (including a foreign exchange capability, with respect to a currency other than U.S. currency MasterCard Travelers Cheques presented for encashment) to encash such cheques as a result of the business it normally conducts at a location.

If the encashing Customer encashes any other brand of travelers cheques at a location, the Customer may impose terms and conditions for the encashment of MasterCard Travelers Cheques that it uses to encash other brands of travelers cheques.

3.13 Accounts on a Card



Note

A Rule on this topic appears in Chapter 11a, "Canada Region Code of Conduct Related Rules."

Compliance Zones

The following table identifies the noncompliance category that the Corporation has assigned to the Standards described within this chapter. These noncompliance categories are assigned for the purposes of assessments under the compliance framework, as described in Rule 3.1.2.

Rule Number	Rule Title	Category
3.1.2.3	Certification	C
3.1.3	Rules Applicable to Intracountry Transactions	C
3.1.4	Communication of Intracountry Fallback Rules	C
3.2	Conduct of Activity	A
3.5	Examination and Audit	A
3.6.1	Obligation of Customer to Provide Information	C
3.6.1.1	Information to Cardholders	B
3.6.1.2	Information to Merchants	B
3.6.4	Confidential Information of the Corporation and the Corporation's Affiliates	A
3.6.5	Data Protection—Europe Region Only	A
3.7	Quarterly Member Report	A
3.8	Authorization Service	A
3.8.1	Selective Authorization	B
3.8.2	Authorization Routing	A
3.8.4	Issuer Performance Standards	A
3.9.1	Safeguard Card Account and Transaction Information	A
3.9.2	Satisfaction of Minimum Customer Obligations	A
3.9.3	Satisfaction of Minimum Financial Requirements	A
3.9.4	Integrity of Brand and Network	A
3.10	Limitation of Liability of Cardholders for Unauthorized Use	B

**Customer Obligations
Compliance Zones**

Rule Number	Rule Title	Category
3.11	Pay-Per-Call Service	B
3.12	Encashment of MasterCard Travelers Cheques	B
3.13	Accounts on a Card	A

4

Trademarks and Service Marks

This chapter contains information about use of the Marks and competing marks.

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4.1 Right to Use the Marks

4.1.1 Licenses

A right to use one or more Marks or to use the Interchange System to process unbranded transactions is granted to Customers and other licensees only pursuant to the terms of a License or other agreement with the Corporation. Unless an interim License has been granted, a Mark must not be used in any form or manner before the execution of a written License and, if applicable, a License addendum.

No additional interest in the Marks is granted with the grant of a right to use the Marks. A Licensee is responsible for all costs and liabilities resulting from or related to its use of a Mark or the Interchange System.

Except as otherwise set forth in Rule 1.5.4, each License is non-exclusive and non-transferable. The right to use a Mark may be sublicensed by a Licensee to any Sub-licensee only in accordance with the Standards or otherwise with the express written consent of the Corporation. A Customer or other Licensee that is permitted to sublicense the use of a Mark to a Sub-licensee must ensure, for so long as the sublicense is in effect, that the Mark is used by the Sub-licensee in accordance with the Standards and/or other additional conditions for such use required by the Corporation.

The right to use a Mark cannot be sublicensed or assigned, whether by sale, consolidation, merger, amalgamation, operation of law, or otherwise, without the express written consent of the Corporation.

The Corporation makes no express or implied representations or warranties in connection with any Mark and the Corporation specifically disclaims all such representations and warranties.

4.1.2 Protection and Registration of the Marks

Protection of the Marks is vital to the Corporation, its Customers and other Licensees. Any use of a Mark must not degrade, devalue, denigrate, or cause injury or damage to the Marks or the Corporation in any way.

By using any Mark, each Customer and other Licensee acknowledges the Corporation's sole ownership of the Marks and agrees not to challenge or contest the Corporation's exclusive ownership of the Marks, assist others in doing so either directly or indirectly or otherwise take or assist others in taking any acts or failing to take actions that would be inconsistent with that ownership. All use of any Mark will inure solely to the benefit of the Corporation.

Trademarks and Service Marks
4.2 General Rules for Use of the Marks

No Customer or other Licensee or Sub-licensee may register, attempt to register or in any way make use of the Marks, or any mark or term that, in the sole discretion of the Corporation, is deemed to be derivative of, similar to, or in any way related to a Mark. In particular, no use of a Mark may be made on or in connection with any card, device or other application associated with a payment service that the Corporation deems to be competitive with any Activity.

Without limitation, the foregoing shall specifically apply to registration or use of any mark or term that incorporates, references or otherwise could be confused or associated with a Mark currently or previously Licensed, Sublicensed or otherwise used by a Customer, the Customer's Sub-licensees and permittees and their respective successors or assignees (including, without limitation, by virtue of acquisition by merger or otherwise, bankruptcy or voluntary or involuntary winding-up.)



Note

An addition to this Rule appears in Chapter 10, "Asia/Pacific Region Rules"; Chapter 13, "Latin America and the Caribbean Region Rules"; Chapter 15, "United States Region Rules."

4.1.2.1 Registration of a Card Face Design

A Customer or other Licensee must not register or attempt to register any Card face design that includes the MasterCard Brand Mark.

4.1.3 Misuse of a Mark

Each Customer and other Licensee must promptly notify the Corporation whenever it learns of any misuse of any Mark or of any attempt to copy or infringe any of the Marks.

4.2 General Rules for Use of the Marks

4.2.1 Use of the Marks

A Mark may be used only pursuant to a License. This provision applies, without limitation, to:

1. Use of a Mark for advertising or promotional purposes;
2. Placing orders for card stock or for any other materials bearing a Mark;
3. Displaying a Mark;

4. Issuing Cards;
5. Signing Merchants; and
6. Distributing or affixing decals.

A Mark may only be used by Customers and Licensees to identify and promote Activities, in compliance with the Standards.

4.2.2 Compliance

Any use of a Mark must comply with the License, the Standards, and all of the Corporation's reproduction, usage, and artwork standards as may be in effect from time to time.

4.2.3 Required Use

Each Customer must prominently display the applicable Mark in all advertising, marketing, promotional, and collateral materials promoting a program or service offered by the Corporation. The inclusion of the MasterCard Word Mark in the headline or title, or the prominent display of the MasterCard Word Mark on the first page of the offering, satisfies this requirement.

4.2.4 Review of Solicitations

The Corporation reserves the right to review samples and approve or refuse to approve use of a Solicitation. Amended samples, if required as a result of this review, also must be forwarded to the Corporation for review. Without the express prior written consent of the Corporation, an Issuer may not use a Solicitation or any other application, advertisement, promotion, marketing communication, offer, or the like in which a Card Program is in any way linked to a different payment card program.

4.2.5 Signage System

The Corporation's interlocking circles signage system is employed when one or more brands using the MasterCard interlocking circles device is accepted at a point of interaction. The system requires the consecutive vertical or horizontal display of the brand Marks in the following sequence—MasterCard, MasterCard Electronic, Maestro, Cirrus. Of the four brands, only those brands that are accepted at a particular point of interaction may be displayed there. The MasterCard, Maestro, and Cirrus brands must be displayed on an ATM. The MasterCard Electronic brand mark must not be displayed on an ATM.

4.2.6 Particular Use of a Mark

4.2.6.1 Generic Use

A generic term, such as “bank card” or “payment card”, does not function as a Mark. Use of a Mark in a manner that would tend to genericize that Mark or otherwise result in the loss of trademark rights is prohibited.

4.2.6.2 Use of Modifiers

A Customer is permitted to use its name or a geographical designation in conjunction with the MasterCard Word Mark, such as “California MasterCard card program” or “First Issuer MasterCard Department.” The Corporation may prohibit the use of a modifier that it determines will impair the distinctiveness of any Mark or create any likelihood of confusion or reflect poorly on the Corporation.

4.2.6.3 Use on Stationery

Subject to the Standards, a Licensee is permitted to use a Mark on print or electronic stationery, letterhead, envelopes, and the like for the purpose of identifying its Program or service. If the MasterCard Word Mark is used, the Licensee’s name must appear in close proximity to it, such as “Superior National Bank MasterCard® Department.”

4.2.6.4 Use on Non-Licensed Goods

A Mark may not be used in a manner likely to create the impression that any good or service offered by the Licensee or Sub-licensee is sponsored, produced, offered, approved, sold by, or otherwise affiliated with the Corporation. Each Licensee must ensure that each of its Sub-licensees, partners, Merchants, and other Program participants does not apply a Mark to any good or service not expressly covered under the terms of a License.

4.2.6.5 Use on Checks

A Mark may not be placed on a check, except as permitted by a “Master Checking” License.

4.2.6.6 Use on Cards

Standards governing the use of Marks on Cards, including but not limited to multiple application EMV chip Cards and other Cards displaying co-residing Marks, are set forth in the Card Design Standards System, available on MasterCard Online, which are incorporated into these Rules by reference.



Note

An addition to this Rule appears in Chapter 11a, "Canada Region Code of Conduct Related Rules," Chapter 12a, "Europe Region Debit-related Rules," Chapter 12b, "SEPA Rules," Chapter 10a, "New Zealand Rules," Chapter 14a, "South Africa Rules," Chapter 15a, "United States Region Debit-related Rules," and Chapter 15b, "United States Region PIN-based Debit Transaction Rules."

4.2.7 Use of the MasterCard Word Mark

The MasterCard Word Mark "MasterCard®" must appear in English and must be spelled correctly and as one word. The letters "M" and "C" must be capitalized. "MasterCard" must not be abbreviated, hyphenated, used in the plural or possessive, or translated from English into another language.

4.2.7.1 Use or Registration of "Master" Terminology

Except as expressly permitted in writing by the Corporation, the word "Master" may not be used or registered as part of a trademark, service mark, corporate name, business name, or Program name, whether preceding, following or linked together as one word, or with a hyphen or slash, or in connection with any financial or bank-related goods or services.

4.2.7.2 Use of MasterCard in a Corporate, Business or Domain Name

The MasterCard Word Mark may not be used as part of a legal, corporate, or business name, such as "MasterCard® Center, Inc." No Internet domain name may be registered that includes the word "MasterCard," except as expressly permitted in writing by the Corporation.

4.2.7.3 Use of MasterCard in Text

The MasterCard Word Mark must be used as an adjective (as in “your MasterCard® card”) in the first or most prominent use subsequent to any use in the title, headline, signature, or cover page of an offering, unless:

1. the word “MasterCard” is used as part of a Customer’s Program name (as in “Customer/Program name MasterCard”); or
2. otherwise expressly approved in writing by the Corporation.

Use of the word “MasterCard” as a verb (“MasterCard your gifts”), in plural (“MasterCards”) or in possessive form is prohibited.

4.2.7.4 Registration Notice

The MasterCard Word Mark must be accompanied by the registration notice ® or the local law equivalent. (Refer to the reproduction, usage, and artwork Standards for the correct use and placement of the registration mark.)

4.2.7.5 Program Names

Each MasterCard Program name, offering, and service must be referred to by the full, legal name and include the appropriate registration notice.

4.2.8 Use of the Interlocking Circles Device

4.2.8.1 Reproduction Standards

The MasterCard interlocking circles device must be reproduced in accordance with all of the following requirements:

1. All color, version, and other specifications set forth in the MasterCard Brand Center Web site at www.mastercardbrandcenter.com and in the Card Design Standards;
2. With a MasterCard brand name (such as “MasterCard,” “MasterCard Electronic,” “Maestro,” or “Cirrus”) in custom lettering placed within the circles, except as expressly permitted by the Corporation. Only a permitted MasterCard brand name may be superimposed on any part of the interlocking circles device; and
3. Accompanied by the registration notice ® or the local law equivalent in close proximity to the Mark. If the maximum horizontal dimension of the interlocking circles device is one inch or less, the registration notice may be omitted.

4.2.8.2 Variations Prohibited

All modifications, alterations, and variations of the MasterCard interlocking circles device are prohibited without the express written consent of the Corporation.

4.2.8.3 Use or Registration of Similar Logos, Designs, and Names

A Customer, Licensee, or Sub-licensee may not use or seek to register any logo, design, or decorative element that includes two or more interlocking, adjoining, or adjacent circles, spheres, globes, or similar shapes that, in the sole discretion of the Corporation, may be likely to cause confusion with, or create a false association, connection or affiliation with, or dilute the distinctiveness of the MasterCard interlocking circles device.

4.2.9 Use of Multiple Brand Marks

When two or more Marks that use the MasterCard interlocking circles device are displayed together, they must have visual parity with one another.

When promoting any Mark with another acceptance mark in any media to denote acceptance, no other acceptance mark, symbol or logo may be or appear to be larger or more important than or more welcomed than the Mark. To maintain visual parity, a Mark must be at least as prominent as, and appear in at least the same frequency, size, and color treatment as, any other acceptance mark displayed. To maintain parity within written text, the MasterCard Word Mark must be at least as prominent as, and appear at least as frequently as, any other acceptance mark mentioned.

4.2.10 Use of the Card Face Design

4.2.10.1 In Advertising and Marketing Material

An Issuer is permitted to depict a Card face for an advertising or marketing purpose, subject to the following requirements:

1. The proportions of the Card face design, including typestyle and relative positions of the legends, may not be altered or distorted.
2. The legend "VALID THRU" or the equivalent must be depicted on the Card face design, unless the Card face design contains an effective date and an expiration date, in which case the words "VALID DATES" must be depicted in accordance with the requirements set forth in section 2.5.1.5 of the *Security Rules and Procedures* manual and in the Card Design Standards System.

Trademarks and Service Marks

4.2 General Rules for Use of the Marks

3. The Card face design must bear account information (for example, the account number, the effective date and/or expiration date) and all Card face design requirements set forth in the *Security Rules and Procedures* manual and in the Card Design Standards System.

The first six digits of the account number must be either a Bank Identification Number (BIN) assigned to the Issuer by the Corporation or the unassigned BIN 541275, which the Corporation has set aside for Issuer use in advertising and marketing Card face designs.

4. The MasterCard Identification Area (or the MasterCard Brand Mark, if the Card face design depicts a Card with the hologram on the Card back) must be completely visible on at least one Card face design depicted in the materials.

4.2.10.2 In Merchant Advertising

A Merchant is prohibited from using the Card face design to indicate acceptance in Merchant advertising or other signage, other than signage for a Co-brand Program in which the Merchant is a Co-brand Partner. A Merchant may display an Issuer-specific Card face design in Merchant advertising and any other signage that is not used to signify acceptance.

4.2.10.3 In Statement Enclosures

The Card face design must be displayed on statement enclosures used to offer goods or services to cardholders through the use of a Customer's Card. The MasterCard Brand Mark may be used in lieu of the Card face design if the Customer's name is displayed on the statement enclosure.

4.2.11 Use of the MasterCard Brand Mark on Other Cards

The MasterCard Brand Mark may not be used on a promotional card or other card without the prior written consent of the Corporation.

4.2.12 Use of a Competing Mark on Cards

Unless expressly permitted by the Corporation, none of the following marks or any similar or related mark, or any mark owned by or affiliated with one of these entities, may appear on a Card:

1. American Express
2. JCB
3. Diners Club
4. Discover

5. Visa
6. Any other name, logo, or mark identifying or in any way associated with a payment service that the Corporation deems to be competitive with any MasterCard product or Program.

Any such competitor's credit or debit POI mark, logo, or name, regardless of whether registered, may not appear on a Card, nor may a payment application of any such competitor reside on the magnetic stripe or chip of a Card. The appearance of the PLUS brand mark or the PLUS word mark on the back of a Card is permitted where there is an effective PLUS agreement with the Issuer executed before July 1996.

No Customer or other Licensee or Sub-licensee or any of its affiliates may register, attempt to register, or in any way make use of any Marks or any mark or term that the Corporation in its sole discretion deems to be derivative of, similar to, dilutive of, or in any way related to a Mark on any Card, device, or other application associated with a payment service that the Corporation deems to be competitive with any Activity of the Corporation. Without limitation, the foregoing shall specifically apply to registration or use of any mark or term that incorporates, references, or otherwise could be confused or associated with any Mark currently or previously Licensed, sublicensed (to the extent sublicensing has been previously permitted), or used by a Customer, its Sub-licensees and permittees, and their respective successors or assignees (including, without limitation, by virtue of acquisition by merger or otherwise, bankruptcy or voluntary or involuntary winding-up.)



Note

An addition to this Rule appears in Chapter 10, "Asia/Pacific Region Rules"; Chapter 13, "Latin America and the Caribbean Region Rules"; and Chapter 15, "United States Region Rules."

4.2.13 Use of Other Acceptance Marks on Cards

No acceptance mark may appear on a Card except as set forth in the Standards, including the Card Design Standards System.



Note

An addition to this Rule appears in Chapter 10, "Asia/Pacific Region Rules," as it pertains to Australia; Chapter 11a, "Canada Region Code of Conduct Related Rules"; Chapter 12b, "SEPA Rules"; Chapter 13, "Latin America and the Caribbean Region Rules"; Chapter 15, "United States Region Rules"; and Chapter 15b, "United States Region PIN-based Debit Transaction Rules."

4.2.14 Use on Mobile Payment Devices

Standards governing the use of Marks on Mobile Payment Devices are set forth in the MasterCard *PayPass* Branding Standards, which are incorporated into these Rules by reference. Information regarding the MasterCard *PayPass* Branding Standards is available by e-mail from paypass@mastercard.com.

Compliance Zones

The following table identifies the noncompliance category that the Corporation has assigned to the Standards described within this chapter. These noncompliance categories are assigned for the purposes of assessments under the compliance framework, as described in Rule 3.1.2.

Section Number	Section Title	Category
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4.1.2	Protection and Registration of the Marks	B
4.1.3	Misuse of a Mark	B
4.2	General Rules for Use of the Marks	B

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Merchants

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5.1 The Merchant Agreement

Each Customer in its capacity as an Acquirer must directly enter into a written Merchant Agreement with each Merchant from which it acquires Transactions, whether such Transactions are submitted to the Customer directly by the Merchant or through a Service Provider acting for or on behalf of such Member.

An Acquirer shall not submit into interchange any Transaction resulting from the acceptance of a Card by an entity or person except pursuant to a Merchant Agreement then in effect between the Acquirer and the entity or person.

The Merchant Agreement must reflect the Acquirer's primary responsibility for the Merchant relationship and must otherwise comply with the Standards.

5.1.1 Verify Bona Fide Business Operation

Before entering into, extending, or renewing a Merchant Agreement, an Acquirer must verify that the Merchant from which it intends to acquire Transactions is a bona fide business, has sufficient safeguards in place to protect from unauthorized disclosure or use such Cardholder and Transaction information as the Standards permit to be captured, and complies with applicable laws, and that each Transaction will reflect bona fide business between the Merchant or Sub-merchant and a Cardholder. Procedures for verifying that a Merchant is a bona fide business are set forth in section 7.1 of the *Security Rules and Procedures* manual.

5.1.2 Required Terms

Each Merchant Agreement must contain the substance of each of the Standards set forth in Rules 5.6 through 5.12. The failure to include the substance of any one or more of such Standards in the Merchant Agreement or the grant of a variance by the Corporation with respect to any one or more such Standards does not relieve an Acquirer from responsibility for chargebacks or compliance.

Each Merchant Agreement may contain only such terms agreed to by the Acquirer and the Merchant, provided that no such term conflicts with any Standard.



Note

Additions to this Rule appear in Chapter 10a, "New Zealand Rules"; Chapter 12, "Europe Region Rules"; Chapter 14a, "South Africa Rules"; and Chapter 15a, "United States Region Debit-related Rules."

Merchants

5.1 The Merchant Agreement

5.1.2.1 Payment Facilitators

Each Merchant Agreement with a Merchant registered as a Payment Facilitator must additionally contain the substance of Rule 5.5 and a provision stating that the Payment Facilitator accepts financial liability for all Transactions entered into interchange on behalf of its Sub-merchants and will be responsible for the handling of all disputed Transactions, credits, and customer service-related expenses. The Merchant Agreement must provide for:

1. The Acquirer's right to terminate the Payment Facilitator, and
2. The Payment Facilitator's obligation to ensure the ongoing compliance of each of its Sub-merchants with the Standards and
3. The Payment Facilitator's obligation to terminate the written agreement with a Sub-merchant for the conduct of activity deemed by the Payment Facilitator, its Acquirer, or the Corporation to be in violation of the Standards.

5.1.2.2 Gambling Merchants

Each Merchant Agreement with a gambling Merchant must incorporate the following terms:

1. An Internet gambling Merchant must post a notice on its Web site(s) (in a position such that the notice will be displayed before Card account information is requested, such as a click-through notice) stating that assertions have been made that Internet gambling may not be lawful in some jurisdictions, including the United States, and suggesting that the Cardholder check whether Internet gambling is lawful under applicable law.
2. Unless the Merchant is a registered Payment Facilitator, an Internet gambling Merchant must not sell chips or other value that can be used, directly or indirectly, to gamble at locations other than those that the Merchant wholly owns.
3. A Merchant must not credit winnings, unspent chips, or other value usable for gambling to a Card account. Refer to section Rule 8.4.9.1 in Chapter 12 for Standards applicable to use of the Gaming Payment Transaction to transfer winnings or unspent chips or other value usable for gambling to Card accounts in some Europe Region countries.
4. All non-face-to-face gambling transactions (MCC 7995) must include the indent-printed CVC 2 value in DE 48 (Additional Data—Private Use), subelement 92 of the Authorization Request/0100 message.

5.1.3 Assessments for Merchant Agreement Noncompliance

An Acquirer in violation of Rule 5.1 may be assessed up to USD 2,500 per day with respect to each entity or person on whose behalf the Acquirer submits Transactions into interchange with no Merchant Agreement being in effect between the Acquirer and the entity or person, retroactive to the first day of such noncompliant practice.

5.2 Acquirer Obligations

An Acquirer must satisfy all of the obligations set forth in this Rule 5.2.

5.2.1 Acquiring Transactions

Each Acquirer must acquire all Transactions properly presented to it from each of its Merchants on such terms as set forth in the Merchant Agreement.

5.2.2 Merchant and Sub-merchant Compliance with the Standards

The Acquirer is responsible for ensuring that each of its Merchants complies with the Standards, and the Acquirer is itself responsible to the Corporation and to other Customers for any Merchant's or Sub-merchant's failure to do so. The Acquirer must take such actions that may be necessary or appropriate to ensure a Merchant's or Sub-merchant's ongoing compliance with the Standards. Failure by a Merchant, Sub-merchant, or Acquirer to comply with any Standard may result in chargebacks, an assessment to the Acquirer, and/or other disciplinary action.

5.2.3 Merchant Information

The Acquirer must maintain, on an ongoing basis, the names and addresses of every Merchant participating in the Acquirer's Program and promptly supply the Corporation with any such information upon request.

5.2.4 Payments to Merchants

Each Acquirer must pay each Merchant for all Transactions the Acquirer acquires from the Merchant in accordance with the Merchant Agreement and the Standards. This obligation is not discharged with regard to a Transaction until the Merchant receives payment from the Acquirer that acquired the Transaction, notwithstanding any Acquirer payment arrangement, including any such arrangement between an Affiliate and a Principal or Association. A Merchant Agreement may provide for an Acquirer to withhold amounts for chargeback reserves or similar purposes in accordance with the Standards.



Note An addition to this Rule appears in Chapter 11, "Canada Region Rules."

5.2.5 Supplying Materials

Each Acquirer must regularly ensure that each of its Merchants is provided with all materials necessary to effect Transactions in accordance with the Standards and to signify MasterCard acceptance. These materials may include sales slips, credit slips, terminals, authorization services, MasterCard acceptance decals, signage, and the like.



Note An addition to this Rule appears in Chapter 15a, "United States Region Debit-related Rules."

5.3 Merchant Monitoring

Each Acquirer must monitor on an ongoing basis the Activity and use of the Marks of each of its Merchants for the purpose of deterring fraudulent and other wrongful activity and to ensure ongoing compliance with the Standards. Minimum Merchant monitoring Standards are set forth in the *Security Rules and Procedures* manual.

5.4 Use of a Payment Facilitator

The Acquirer is liable for all acts and omissions by a Payment Facilitator and any Sub-merchant.

A Payment Facilitator may not be a Sub-merchant of any other Payment Facilitator, nor may a Payment Facilitator be a Payment Facilitator for another Payment Facilitator.

Unless otherwise approved by the Corporation, any Sub-merchant that exceeds USD 100,000 in annual sales may not be or continue to be a Sub-merchant and must enter into a Merchant Agreement directly with a Customer.

5.4.1 Responsibility for Payment Facilitator and Sub-merchant Activity

The Acquirer is responsible for the Activity of the Payment Facilitator and each of its Sub-merchants, and must comply with all of the following obligations related to such Activity:

1. The Payment Facilitator and each of its Sub-merchants must be located within the Acquirer's licensed Area of Use as described in Rule 2.3. The Acquirer must obtain an Extension of Area of Use of its license if either is located elsewhere. The location of the Sub-merchant determines the location of a Transaction, not the location of the Payment Facilitator.
2. Settlement funds accessed by the Payment Facilitator may only be used to pay Sub-merchants.
3. An Acquirer may permit a Payment Facilitator to manage the following on behalf of the Acquirer:
 - a. Verification that a Sub-merchant is a bona fide business operation, as set forth in Rule 5.5.1, except that the Acquirer itself must make a MATCH system inquiry about a prospective Sub-merchant prior to the Payment Facilitator entering into an agreement with the Sub-merchant; and
 - b. Retention of records concerning the investigation of any of its Sub-merchants, provided that such records are provided to the Acquirer immediately upon request; and
 - c. Payment to a Sub-merchant for Transactions by the Sub-merchant, as set forth in Rule 5.5.4.4; and
 - d. Ensuring that a Sub-merchant is supplied with materials necessary to effect Transactions as set forth in Rule 5.5.4.5; and
 - e. Monitoring a Sub-merchant's Activity on an ongoing basis to deter fraud or other wrongful activity, as set forth in Rule 5.5.4.6.
4. Neither the Payment Facilitator nor the Sub-merchant may require a Cardholder to waive a right to dispute a transaction.
5. The Acquirer must ensure that all Sub-merchants are identified with the Card acceptor business code (MCC) that most closely reflects the Sub-

Merchants

5.4 Use of a Payment Facilitator

merchant's primary business, as set forth in the *Quick Reference Booklet*. The Corporation shall have the ultimate authority to dictate the appropriate MCC if any dispute shall arise. MCC 7995 must be assigned to any Sub-merchant that sells gambling chips or other value usable for gambling, even if such sales is a minimal part of the Sub-merchant's business. (Alternatively, multiple MCCs may be used as appropriate.)

6. The Acquirer must provide to the Corporation a quarterly Activity report for each Sub-merchant of the Payment Facilitator that includes:
 - a. Sub-merchant name and location as appears in DE 43 (Card Acceptor Name/Location) of clearing records
 - b. Sub-merchant "doing business as" name or URL
 - c. Sub-merchant MCC(s)
 - d. Transaction sales count and amount for each MCC
 - e. Transaction chargeback count and amount for each MCC

5.4.2 High-Risk Payment Facilitators

A Payment Facilitator that proposes to sponsor as Sub-merchants one or more entities conducting business that may be described under any one of the following MCCs or any entity that, as a Merchant, was reported under the Excessive Chargeback Program is deemed by the Corporation to be a "High-Risk Payment Facilitator":

- Telecom merchants—MCCs 4813, 4814, 4816, and 5967
- Electronic commerce (e-commerce) adult content (videotext) merchants—MCCs 5967, 7273, and 7841
- Non-face-to-face gambling merchants—MCC 7995
- Non-face-to-face prescription drug merchants—MCC 5122 and MCC 5912
- Non-face-to-face tobacco product merchants—MCC 5993

The acquirer must register each such entity in the MasterCard Registration System (MRP) via MasterCard OnLine before accepting Transactions arising from such entity, whether directly or through a Payment Facilitator, as described in chapter 9 of the *Security Rules and Procedures* manual.

The Corporation, in its sole discretion, may de-register a Payment Facilitator if it or any of its Sub-merchants is identified as generating excessive chargebacks or fraudulent activity or of violating any Standard or applicable law.

The Corporation reserves the right to de-register a Payment Facilitator or Sub-merchant that in the opinion of the Corporation, participates in any activity that may cause damage to the Corporation.

Each Acquirer that has entered into a Merchant Agreement with a High-Risk Payment Facilitator must ensure that the Corporation receives a monthly Sub-merchant Activity report that provides the information set forth in Rule 5.4.1, part 6.

The Merchant monitoring requirements set forth in section 9.3 of the *Security Rules and Procedures* manual apply to High-Risk Payment Facilitators.

5.4.3 Registration Requirements for Payment Facilitators

To propose a Merchant for registration as a Payment Facilitator, the Acquirer must:

- be a Customer in good standing with the Corporation, and
- meet any and all capital requirements designated by the Corporation, and
- if the entity is deemed to be a potential High-Risk Payment Facilitator, be in good standing with all of the Corporation's risk management programs.

To register a Merchant as a Payment Facilitator, the Acquirer must:

1. Submit all information and material required by the Corporation in connection with the proposed registration within 60 calendar days of the registration application submission date; and
2. Ensure that the Payment Facilitator is compliant with the MasterCard Site Data Protection (SDP) Program in accordance with the implementation schedule applicable to Merchants set forth in section 10.3.4 of the *Security Rules and Procedures* manual. Before initiating registration, the Customer must instruct the proposed Payment Facilitator to contact the Corporation via e-mail at sdp@mastercard.com and validate its compliance with the SDP Program using the tools described in section 10.3.2 of the *Security Rules and Procedures* manual, or if the proposed Payment Facilitator is not compliant, provide a Corporation-approved compliance action plan. A Corporation-approved compliance action plan does not exempt the Acquirer or its Sponsoring Principal or Association if applicable from responsibility and liability that arises from the noncompliance of the Payment Facilitator or any of its sponsored Sub-merchants with any Standard, including those relating to the disclosure and securing of Cardholder account and Transaction data.

The Acquirer or if an Affiliate, its sponsoring Principal or Association, must use the MasterCard Registration Program (MRP) system on MasterCard OnLine to complete the registration procedure.

Merchants

5.5 Payment Facilitator Obligations

The Acquirer must receive the Corporation's written or e-mail confirmation of the Payment Facilitator's registration before the Acquirer may submit Transactions from the Payment Facilitator or any of its Sub-merchants into interchange. In its sole discretion, the Corporation may approve or may reject any application for the registration of a Payment Facilitator.

To maintain the registration of a Payment Facilitator, the Acquirer must submit such information and material as may be required by the Corporation from time to time, including but not limited to a copy of the agreement between the Acquirer and Payment Facilitator. In its sole discretion, the Corporation may decline to renew the registration of a Payment Facilitator.

The Corporation will collect all registration, renewal and any other applicable fee(s) then in effect, if any, from the Acquirer or if an Affiliate, its Sponsoring Principal or Association via the MasterCard Consolidated Billing System (MCBS).

If the Acquirer ceases to accept Sub-merchant Transactions from or terminates a Payment Facilitator, the Acquirer must notify the Corporation of the date and reasons for such action within one week of the decision. In its sole discretion, the Corporation may require an Acquirer to cease to accept Sub-merchant Transactions from a Payment Facilitator at any time.

5.5 Payment Facilitator Obligations

A Payment Facilitator is a Merchant and has all of the rights and responsibilities of a Merchant under the Standards.

The Acquirer must ensure that its Payment Facilitator satisfies all of the obligations set forth in this Rule 5.5.

5.5.1 Sub-merchant Screening Procedures

Before entering into, extending, or renewing an agreement with a Sub-merchant, a Payment Facilitator must verify that the entity is a bona fide business, has sufficient safeguards in place to protect Cardholder and Transaction information permitted by the Standards to be captured from unauthorized disclosure or use, complies with applicable laws, and that each Transaction submitted by the Sub-merchant will reflect bona fide business between the Sub-merchant and a Cardholder.

In determining whether the entity is a bona fide business, the Payment Facilitator must verify, at a minimum, that all of the following have been completed:

1. Credit check, background investigations, and reference checks of the Sub-merchant. If the credit check raises questions or does not provide sufficient information, the Payment Facilitator also should conduct a credit check of:
 - a. the owner, if the entity is a sole proprietor
 - b. the partners, if the entity is a partnership
 - c. the principal shareholders, if the entity is a corporation
2. Inspection of the entity's premises or Web sites and records to ensure that it has the proper facilities, equipment, inventory, agreements, and personnel required and if necessary, license or permit and other capabilities to conduct business. If the entity has more than one set of premises or Web site, the Payment Facilitator must inspect at least one of them.

The Payment Facilitator must retain all records concerning the investigation of any entity with which it has entered into a Sub-merchant agreement for a minimum of two years after the date the agreement is terminated or expires.

5.5.2 MATCH Inquiry Required

Before entering into, extending, or renewing an agreement with a Sub-merchant, the Payment Facilitator must request that its Acquirer make an inquiry to the MasterCard Member Alert to Control (High-risk) Merchants (MATCH) system. The Acquirer must ensure that the Payment Facilitator does not sponsor as a Sub-merchant any entity listed on the MATCH system as having been terminated for a reason described in section 11.5.1 of the *Security Rules and Procedures* manual.

The Acquirer must add each Sub-merchant terminated for any such reason to the MATCH system per section 11.2.2 of the *Security Rules and Procedures* manual.

5.5.3 Sub-merchant Agreement

Each Payment Facilitator must enter into a written agreement with each Sub-merchant which sets forth the terms applicable to the Sub-merchant's acceptance of Cards and otherwise complies with this Rule 5.5.3.

The Sub-merchant agreement must not interfere with or lessen the right of the Payment Facilitator, the Acquirer, or the Corporation to terminate the agreement at any time. The Corporation reserves the right to restrict a Payment Facilitator from entering into a Sub-merchant agreement based on the business of the entity or other criteria as the Corporation deems appropriate.

Merchants

5.5 Payment Facilitator Obligations

5.5.3.1 Required Provisions

Each agreement between a Payment Facilitator and its sponsored Sub-merchant must contain the substance of each of the Standards set forth in Rules 5.6 through 5.12, and specify that these Standards are applicable to Sub-merchants to the same extent as to Merchants. The failure of the Payment Facilitator to include the substance of any one or more of such Standards in the Sub-merchant agreement or the grant of a variance by the Corporation with respect to any one or more such Standards does not relieve an Acquirer from responsibility for chargebacks or compliance related to the Activity of or use of the Marks by the Sub-merchant.

The Sub-merchant agreement must, in substance, include all of the following provisions:

1. On an ongoing basis, the Sub-merchant is promptly to provide the Payment Facilitator with the current address of each of its offices, all "doing business as" (DBA) names used by the Sub-merchant, and a complete description of goods sold and services provided.
2. In the event of any inconsistency between any provision of the Sub-merchant agreement and the Standards, the Standards will govern.
3. The Payment Facilitator is responsible for the Card acceptance policies and procedures of the Sub-merchant, and may require any changes to its Web site or otherwise that it deems necessary or appropriate to ensure that the Sub-merchant remains in compliance with the Standards governing the use of the Marks.
4. The Sub-merchant agreement automatically and immediately terminates if the Corporation de-registers the Payment Facilitator or if the Payment Facilitator's Acquirer ceases to be a Customer for any reason or if such Acquirer fails to have a valid License with the Corporation to use any Mark accepted by the Sub-merchant.
5. The Payment Facilitator may, at its discretion or at the direction of its Acquirer or the Corporation, immediately terminate the Sub-merchant agreement for activity deemed to be fraudulent or otherwise wrongful by the Payment Facilitator, its Acquirer, or the Corporation.
6. The Sub-merchant acknowledges and agrees:
 - a. to comply with all applicable Standards, as amended from time to time;
 - b. that the Corporation is the sole and exclusive owner of the Marks;
 - c. not to contest the ownership of the Marks for any reason;
 - d. the Corporation may at any time, immediately and without advance notice, prohibit the Sub-merchant from using any of the Marks for any reason;

- e. the Corporation has the right to enforce any provision of the Standards and to prohibit the Sub-merchant and/or its Payment Facilitator from engaging in any conduct the Corporation deems could injure or could create a risk of injury to the Corporation, including injury to reputation, or that could adversely affect the integrity of the Interchange System, the Corporation's Confidential Information as defined in the Standards, or both; and
- f. the Sub-merchant will not take any action that could interfere with or prevent the exercise of this right by the Corporation.

The Sub-merchant agreement must not contain any terms that conflict with any Standard.

5.5.4 Obligations as Sponsor of Sub-merchants

A Payment Facilitator must fulfill all of the following obligations with respect to each of its Sub-merchants.

5.5.4.1 Submit Valid Transactions

The Payment Facilitator must submit to its Acquirer records of valid Transactions submitted by a Sub-merchant and involving a bona fide Cardholder. The Payment Facilitator must not submit to its Acquirer any Transaction that the Payment Facilitator or the Sub-merchant knows or should have known to be fraudulent or not authorized by the Cardholder, or that either knows or should have known to be authorized by a Cardholder colluding with the Sub-merchant for a fraudulent purpose. For purposes of this Rule, the Sub-merchant is deemed to be responsible for the conduct of its employees, agents, and representatives.

5.5.4.2 Sub-merchant Compliance with the Standards

The Payment Facilitator is responsible for ensuring that each of its Sub-merchants complies with the Standards, including but not limited to the Card acceptance requirements set forth in Rule 5.6. The Payment Facilitator must take such actions that may be necessary or appropriate to ensure the Sub-merchant's ongoing compliance with the Standards.

5.5.4.3 Maintaining Sub-merchant Information

The Payment Facilitator must maintain, on an ongoing basis, the names, addresses, and URLs if applicable of each of its Sub-merchants. The Acquirer must ensure that the Payment Facilitator promptly supplies the Corporation with any such information upon request.

Merchants

5.6 Merchant Identification and Responsibility for Transactions

5.5.4.4 Payments to Sub-merchants

Each Payment Facilitator must pay each Sub-merchant for all Transactions the Payment Facilitator submits to its Acquirer on the Sub-merchant's behalf. This obligation is not discharged with regard to a Transaction until the Sub-merchant receives payment from the Payment Facilitator with which the Sub-merchant has entered into an agreement, notwithstanding any payment arrangement between the Sub-merchant and the Payment Facilitator or between the Payment Facilitator and its Acquirer. A Sub-merchant agreement may provide for a Payment Facilitator to withhold amounts for chargeback reserves or similar purposes.

5.5.4.5 Supplying Materials to Sub-merchants

Each Payment Facilitator must regularly ensure that each of its Sub-merchants is provided with all materials necessary to effect Transactions in accordance with the Standards and to signify MasterCard acceptance. These materials may include sales slips, credit slips, terminals, authorization services, MasterCard acceptance decals, signage, and the like.

5.5.4.6 Sub-merchant Monitoring

Each Payment Facilitator must monitor on an ongoing basis the Activity and use of the Marks of each of its Sub-merchants for the purpose of deterring fraudulent and other wrongful activity and to ensure ongoing compliance with the Standards. For purposes of this Rule, the minimum Merchant monitoring Standards set forth in the *Security Rules and Procedures* manual apply with respect to Sub-merchants.

5.6 Merchant Identification and Responsibility for Transactions

An Acquirer must ensure that each of its Merchants prominently and unequivocally informs the Cardholder of the identity of the Merchant at all points of interaction, so that the Cardholder readily can distinguish the Merchant from any other party, such as a supplier of products or services to the Merchant. A Merchant Web site must:

1. Prominently display the name of the Merchant;
2. Prominently identify the name of the Merchant as displayed on the Web site as both the Merchant and as the name that will appear on the Cardholder statement; and

3. Display Merchant name information as prominently as any other information depicted on the Web site, other than images of the products or services being offered for sale.

If the Cardholder is linked to a Payment Facilitator's Web site from a Sub-merchant's Web site for payment, the name of the Payment Facilitator must appear in DE 43 (Card Acceptor Name/Location), subfield 1 (Card Acceptor Name) in conjunction with the name of the Sub-merchant. If the Cardholder accesses the Payment Facilitator's Web site directly, and its name is visible to the Cardholder throughout Transaction from selection of goods and/or services to the completion of the checkout process, then the Payment Facilitator's name may appear in DE 43 without the name of the Sub-merchant. For Card-present Transactions, both the Payment Facilitator name and the Sub-merchant name must appear in DE 43, unless only the name of the Payment Facilitator is known to the Cardholder.

A Merchant must ensure that the Cardholder understands that the Merchant is responsible for the Transaction, including delivery of the products (whether physical or digital) or provision of the services that are the subject of the Transaction, and for customer service and dispute resolution, all in accordance with the terms applicable to the Transaction.

5.7 Use of the Marks

A Merchant is only permitted to use a Mark in accordance with a Merchant Agreement with its Acquirer. The Merchant Agreement must provide that:

1. Any use of a Mark by a Merchant in acceptance advertising, acceptance decals, or signs, must be in accordance with the Standards, including the Corporation's reproduction, usage, and artwork Standards, as may be in effect from time to time; and
2. The Merchant's use or display of any Mark will terminate effective with the termination of the Merchant Agreement or upon notification by the Corporation to discontinue such use or display.

The Acquirer must ensure that its Merchant

1. Uses or displays the Marks in accordance with the Standards and
2. Ceases all use of the Marks and promptly returns any materials displaying the Marks immediately upon termination of the Merchant Agreement or notification by the Corporation to discontinue such use.

The use or display of any Mark does not give a Merchant any ownership or interest in the Mark.

5.7.1 Merchants Must Display the MasterCard Acceptance Mark

An Acquirer must ensure that all of its Merchants prominently display the MasterCard Acceptance Mark at the point of interaction to indicate that the Merchant accepts Cards. No other Mark or mark may be used for this purpose.

An Acquirer must ensure that each of its remote services Merchants display the MasterCard Acceptance Mark wherever payment options are presented. An Acquirer must provide its Merchants with the appropriate artwork in a format authorized by the Corporation. A Mark may not appear on the Web site of a supplier to a Merchant or of any other entity that is not itself a Merchant (such as, by way of example and not limitation, an entity that is contracted by the Merchant to deliver the products or provide the services that are subject of the Transaction).

The MasterCard Acceptance Mark must be clearly visible to the public at the point of interaction. The preferred location to post the MasterCard Acceptance Mark at a physical point of interaction is the entrance, nearby window or door of the Merchant or location, and on the first screen of an electronic point of interaction. Where it is not possible to post signage at the entrance of the Merchant or location, posting the MasterCard Acceptance Mark so that it can easily and readily be seen within the location will satisfy the requirement. Where it is not possible to post the MasterCard Acceptance Mark on the first screen of an electronic point of interaction, posting the MasterCard Acceptance Mark on the payment screen will satisfy the requirement.

5.7.2 Merchant Advertising and POI Materials

A Merchant may use the MasterCard Acceptance Mark in material or images at the physical or electronic point of interaction to indicate acceptance.

Other acceptance marks, symbols, logos, or combinations thereof may appear in the same material or image with the MasterCard Acceptance Mark, if no other acceptance mark, symbol, or logo is more prominent or likely to cause confusion concerning the acceptance of Cards.

5.7.3 Local/Regional Acceptance Brands

The MasterCard Acceptance Mark must be displayed as a free-standing mark, and, as such, may not be displayed so as to suggest that it is either a secondary means of payment to a local/regional acceptance brand, or exclusively linked to a local/regional acceptance brand.

Visual parity must be maintained between the MasterCard Acceptance Mark and any local/regional acceptance mark also displayed at a point of interaction or in Merchant advertising.

5.7.4 Direct Mail Cardholder Solicitation Merchants

Each Merchant Agreement with a Direct Mail Cardholder Solicitation Merchant shall contain the entire following provision:

Merchant acknowledges that the trademark 'MasterCard' and the corresponding logotype are the property of MasterCard International Incorporated (herein, "the Corporation"). Merchant shall not infringe upon the mark or logo, nor otherwise use the mark or logo in such a manner as to create the impression Merchant's products or services are sponsored, produced, affiliated with, offered, or sold by this Corporation.

"Merchant shall not use the mark or logo on its stationery, letterhead, envelopes, or the like nor in its solicitation; provided, however, that Merchant may use one of the mark or logo in close proximity to the payment or enrollment space in the solicitation in a size not to exceed 1 1/4 inches in horizontal length if a logo is employed, or, if a mark is used, in type not to exceed the size of the type used in the major portion of the text on the same page; provided further that the legend, 'Accepted for Payment' must accompany the mark or logo used and must be the equivalent size of the mark or logo. In no case, however, shall Merchant use any of the logo on the front or first page of its solicitation. One truthful statement that Merchant is directing or limiting its offer to MasterCard cardholders may appear in the body of the solicitation, other than in close proximity to the payment or enrollment space, subject to the limitation that:

1. only the word mark may be used;
2. the word mark may not
 - a. exceed in type size the size of any other type on the same page,
 - b. differ in color from the type used in the text (as differentiated from the titles) on the same page,
 - c. be as large or as prominent as the name of Merchant,
 - d. be the first item appearing on any page, nor
 - e. in any other way be the most prominent element of the page;
3. Merchant's name and/or logo must appear prominently on the same page as the mark; and
4. the following disclaimer must appear in close proximity to the mark on the same page and in an equal size and type of print:

Merchants

5.8 Card Acceptance Requirements

"MasterCard International Incorporated is not affiliated in any way with [Merchant] and has not endorsed or sponsored this offer."

"Merchant further agrees to submit its first direct mail solicitation(s), prior to mailing, to the MasterCard Law Department, to be reviewed only for compliance with this Corporation's trademark rules and shall furthermore not distribute in any manner such solicitations until Merchant shall have obtained this Corporation's written approval of the manner in which it uses MasterCard mark and logo on such solicitations. Merchant shall likewise, upon request, submit to the Corporation any amended solicitations prior to mailing."

5.8 Card Acceptance Requirements

An Acquirer must ensure that each of its Merchants complies with the Card acceptance requirements set forth in this Rule 5.8 and in section 2.1 of the *Chargeback Guide*.

5.8.1 Honor All Cards

A Merchant must honor all valid Cards without discrimination when properly presented for payment. A Merchant must maintain a policy that does not discriminate among customers seeking to make purchases with a Card. A Merchant that does not deal with the public at large (for example, a private club) is considered to comply with this rule if it honors all valid and properly presented Cards of Cardholders that have purchasing privileges with the Merchant.



Note

Variations to this Rule appear in Chapter 10a, "New Zealand Rules"; Chapter 11a, "Canada Region Code of Conduct Related Rules"; Chapter 12a, "Europe Region Debit-related Rules"; Chapter 14a, "South Africa Rules"; and Chapter 15a, "United States Region Debit-related Rules."

5.8.2 Merchant Acceptance



Note

A Rule on this topic appears in Chapter 10a, "New Zealand Rules"; Chapter 12, "Europe Region Rules"; Chapter 14a, "South Africa Rules"; and Chapter 15a, "United States Region Debit-related Rules." A variation to the Europe Region Rule appears in Chapter 12a, "Europe Region Debit-related Rules."

5.8.3 Obtain an Authorization

When required by the Standards or by the Acquirer, the Merchant must obtain an authorization before completing a Transaction.

For specific Merchant authorization requirements, refer to sections 2.1.2 through 2.1.5 of the *Chargeback Guide*.

5.8.4 Additional Cardholder Identification

A Merchant must not refuse to complete a Transaction solely because a Cardholder who has complied with the conditions for presentment of a Card at the POI refuses to provide additional identification information, except as specifically permitted or required by the Standards. A Merchant may require additional identification from the Cardholder if the information is required to complete the Transaction, such as for shipping purposes. A Merchant in a country or region that supports use of the MasterCard Address Verification Service (AVS) may require the Cardholder's ZIP or postal code to complete a Cardholder-Activated Terminal (CAT) Transaction, or the Cardholder's address and ZIP or postal code to complete a mail order, phone order, or e-commerce Transaction.

5.8.5 E-Commerce Transactions

A Merchant must not refuse to complete an e-commerce Transaction solely because the Cardholder does not have a digital certificate or other secured protocol.

5.8.6 Purchase With Cash Back Transactions

Refer to sections 2.1.12 and 2.4 of the *Chargeback Guide* for purchase with cash back Transaction requirements.



Note

Variations to this Rule appear in Chapter 12, "Europe Region Rules", Chapter 14a, "South Africa Rules;" and Chapter 14b, "India Rules."

5.9 Submitting Transactions

An Acquirer must ensure that each of its Merchants comply with the requirements for submitting Transactions to the Acquirer set forth in this Rule 5.9.

Merchants

5.10 Noncompliance Assessments

5.9.1 Valid Transactions

A Merchant must submit to its Acquirer records of valid Transactions only between the Merchant and a bona fide Cardholder.

A Merchant must not submit to its Acquirer a Transaction that the Merchant knows or should have known to be fraudulent or not authorized by the Cardholder, or that it knows or should have known to be authorized by a Cardholder colluding with the Merchant for a fraudulent purpose. For purposes of this Rule, the Merchant is deemed to be responsible for the conduct of its employees, agents, and representatives.

5.9.2 Submit Transactions within Three Business Days

A Merchant must submit records of valid Transactions to its Acquirer no later than three bank business days after the Transaction date, except:

1. The record must not be presented until after the products are shipped or the services are performed unless, at the time of the Transaction, the Cardholder agrees to a properly disclosed delayed delivery of the products or services.
2. When the Merchant receives Cardholder authorization for a delayed presentment (in which case the words "Delayed Presentment" must be noted on the Transaction Information Document [TID]).
3. When the Merchant is obligated by law to retain the TID or return it to a buyer upon timely cancellation, in which case the Merchant should present the record within 10 business days after the Transaction date.
4. When the Merchant has multiple locations and uses a central facility to accumulate and present records to the Acquirer, in which event the Merchant must present the record in accordance with applicable law and, in any event, within 30 calendar days of the Transaction date.

5.10 Noncompliance Assessments

If the Corporation becomes aware of a Merchant's noncompliance with any Standard, the Corporation may notify the Acquirer of such noncompliance and may assess the Acquirer, and the Acquirer must promptly cause the Merchant to discontinue the noncompliant practice. A notification by the Corporation with respect to at any one location of a Merchant requires the Acquirer to ensure that the Merchant is in compliance with the Standards at all locations of the Merchant that are subject to the Merchant Agreement(s).

A Customer may request that the Corporation's Secretary review an assessment for a Merchant's noncompliance with a Standard.

5.11 Prohibited Practices

An Acquirer must ensure that none of its Merchants engage in any of the prohibited practices set forth in this Rule 5.11.

5.11.1 Discrimination

A Merchant must not engage in any acceptance practice that discriminates against or discourages the use of a Card in favor of any other acceptance brand.



Note

An addition to this Rule appears in Chapter 10a, "New Zealand Rules." A variation to this Rule appears in Chapter 10, "Asia/Pacific Region Rules," Chapter 13, "Latin America and the Caribbean Region Rules," and Chapter 15, "United States Region Rules."

5.11.2 Charges to Cardholders

A Merchant must not directly or indirectly require any Cardholder to pay a surcharge or any part of any Merchant discount or any contemporaneous finance charge in connection with a Transaction. A Merchant may provide a discount to its customers for cash payments. A Merchant is permitted to charge a fee (such as a bona fide commission, postage, expedited service or convenience fees, and the like) if the fee is imposed on all like transactions regardless of the form of payment used, or as the Corporation has expressly permitted in writing. For purposes of this Rule:

1. A surcharge is any fee charged in connection with a Transaction that is not charged if another payment method is used.
2. The Merchant discount fee is any fee a Merchant pays to an Acquirer so that the Acquirer will acquire the Transactions of the Merchant.



Note

Variations to this Rule appear in Chapter 10, "Asia/Pacific Region Rules," "Chapter 10a, "New Zealand Rules," Chapter 11a, "Canada Region Code of Conduct Related Rules," and Chapter 12, "Europe Region Rules," and Chapter 15, "United States Region Rules."

5.11.3 Minimum/Maximum Transaction Amount Prohibited

A Merchant must not require, or indicate that it requires, a minimum or maximum Transaction amount to accept a valid and properly presented Card.



Note

A variation to this Rule appears in Chapter 10, "Asia/Pacific Region Rules"; Chapter 13, "Latin America and the Caribbean Region Rules"; and Chapter 15, "United States Region Rules."

5.11.4 Scrip-dispensing Terminals

Cards must not be accepted at terminals that dispense scrip.

5.11.5 Prohibited Transactions

A Merchant must not submit for payment into interchange, and a Customer must not accept from a Merchant for submission into interchange, any Transaction that:

1. Represents the refinancing or transfer of an existing Cardholder obligation that is deemed to be uncollectible, or
2. Arises from the dishonor of a Cardholder's personal check, or
3. Arises from the acceptance of a Card at a terminal that dispenses scrip.

5.11.6 Other Forms of Payment

A Merchant must not accept any payment from a customer in any other form (for example, cash or check) with respect to a charge for products or services reflected on a TID resulting from the use of a Card. A Merchant also must not accept a Card as payment for products or services for which the Merchant has received or expects to receive payment in any other form, whether from the customer or a third party.

5.11.7 Illegal or Brand-damaging Transactions

A Merchant must not submit for payment into interchange, and an Acquirer must not accept from a Merchant for submission into interchange, any Transaction that is illegal, or in the sole discretion of the Corporation, may damage the goodwill of the Corporation or reflect negatively on the Marks.

The Corporation considers any of the following activities to be in violation of this Rule:

1. The sale or offer of sale of a product or service other than in full compliance with law then applicable to the Acquirer, Issuer, Merchant, Cardholder, Cards, or the Corporation.
2. The sale of a product or service, including an image, which is patently offensive and lacks serious artistic value (such as, by way of example and not limitation, images of nonconsensual sexual behavior, sexual exploitation of a minor, nonconsensual mutilation of a person or body part, and bestiality), or any other material that the Corporation deems unacceptable to sell in connection with a Mark.

An Acquirer that has been notified of a Merchant's noncompliance with this Rule and that fails promptly to cause the noncompliant practice to cease, or that has been notified multiple times regarding violations of this Rule, is subject, at the Acquirer's expense, and in addition to any other noncompliance assessment or other discipline, or both, to any one or more of the following:

1. A Fraud Management Program (FMP) Level 3 Member review as described in the *Security Rules and Procedures* manual
2. An audit at the sole expense of the Acquirer by a third party selected by the Corporation, of the Acquirer's acquiring practices

The Corporation may list a Merchant which the Corporation determines is noncompliant with this Rule on the MATCH system. (See chapter 11 of the *Security Rules and Procedures* manual.)

5.11.8 Disparagement



Note

A Rules on this topic appears in Chapter 10, "Asia/Pacific Rules," Chapter 13, "Latin America and the Caribbean Region Rules," and Chapter 15, "United States Region Rules."

5.12 Security Rules

An Acquirer must ensure that each of its Merchants and the Merchants' DSEs comply with all of the requirements set forth in this Rule 5.12.

5.12.1 Sale or Exchange of Information

A Merchant must not sell, purchase, provide, exchange or in any manner disclose Card account number, Transaction, or personal information of or about a Cardholder to anyone other than its Acquirer, to the Corporation, or in response to a valid government demand.

Merchants

5.13 Discounts or Other Benefits at the Point of Interaction

This prohibition applies to Card imprints, TIDs, carbon copies, mailing lists, tapes, database files, and all other media created or obtained as a result of a Transaction.

5.13 Discounts or Other Benefits at the Point of Interaction



Note

A Rule on this topic appears in Chapter 10, "Asia/Pacific Region Rules"; Chapter 11, "Canada Region Rules"; Chapter 12, "Europe Region Rules"; Chapter 13, "Latin America and the Caribbean Region Rules"; and Chapter 14, "South Asia/Middle East/Africa Region Rules".

Compliance Zones

The following table identifies the noncompliance category that the Corporation has assigned to the Standards described within this chapter. These noncompliance categories are assigned for the purposes of assessments under the compliance framework described in Rule 3.1.2.

Rule Number	Rule Title	Category
5.1	The Merchant Agreement	A
5.2.1	Acquiring Transactions	B
5.2.2	Merchant and Sub-merchant Compliance with the Standards	A
5.2.3	Merchant Information	B
5.2.4	Payments to Merchants	B
5.2.5	Supplying Materials	C
5.3	Merchant Monitoring	A
5.4	Use of a Payment Facilitator	A
5.5	Payment Facilitator Obligations	A
5.5.1	Sub-merchant Screening Procedures	A
5.5.2	MATCH Inquiry Required	A
5.5.3	Sub-merchant Agreement	A
5.5.4.1	Submit Valid Transactions	A
5.5.4.2	Sub-merchant Compliance with the Standards	A

**Merchants
Compliance Zones**

Rule Number	Rule Title	Category
5.5.4.3	Maintaining Sub-merchant Information	C
5.5.4.4	Payments to Sub-merchants	B
5.5.4.5	Supplying Materials to Sub-merchants	C
5.5.4.6	Sub-merchant Monitoring	A
5.6	Merchant Identification and Responsibility for Transactions	B
5.7	Use of the Marks	B
5.8.1	Honor All Cards	A
5.8.2	Merchant Acceptance	A
5.8.3	Obtain an Authorization	A
5.8.4	Additional Cardholder Identification	B
5.8.5	E-commerce Transactions	B
5.8.6	Purchase With Cash Back Transactions	B
5.9.1	Valid Transactions	A
5.9.2	Submit Transactions Within Three Business Days	C
5.11.1	Discrimination	B
5.11.2	Charges to Cardholders	B
5.11.3	Minimum/Maximum Transaction Amount Prohibited	B
5.11.4	Scrip-dispensing Terminals	A
5.11.5	Prohibited Transactions	A
5.11.6	Other Forms of Payment	A
5.11.7	Illegal or Brand-damaging Transactions	A
5.12	Security Rules	A
5.13	Discounts or Other Benefits at the Point of Interaction	B

6

Special Issuer Programs

This chapter contains information about Special Issuer Programs.

6.1 Special Issuer Programs—General Requirements.....	6-1
6.1.1 Prior Consent of the Corporation	6-1
6.1.2 Reservation of Rights	6-1
6.1.3 Cardholder Communication.....	6-1
6.2 Affinity and Co-Brand Card Programs.....	6-2
6.2.1 Program Partners.....	6-2
6.2.2 Ownership and Control of the Program	6-3
6.2.3 Issuer Identification on Program Cards.....	6-3
6.2.4 Program Name	6-4
6.2.5 Multiple Partners	6-4
6.2.6 Accept All Cards without Discrimination.....	6-4
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6.1 Special Issuer Programs—General Requirements

The Rules set forth in this Chapter 6 apply to Special Issuer Programs that the Corporation may identify as such from time to time.

6.1.1 Prior Consent of the Corporation

A Customer may not conduct a Special Issuer Program without the express prior written consent of the Corporation and each Customer must operate each Special Issuer Program in accordance with the Standards as may be in effect from time to time. A Special Issuer Program name and Special Issuer Program Card design must be reviewed and approved by the Corporation in accordance with the Standards.

A request for approval must be submitted to the Corporation via the Special Issuer Program registration process. Registration forms, which are available to Issuers or their designated agents on MasterCard Online, must include a detailed description of the Card Program.

6.1.2 Reservation of Rights

The Corporation reserves the right:

1. To approve or reject any Special Issuer Program application; and
2. To require that any previously approved Special Issuer Program be modified; and
3. To withdraw its approval of any Special Issuer Program and require the Special Issuer Program to be wound up and terminated.

A Customer may request that the Corporation's Secretary review the rejection or withdrawal of the approval of a Special Issuer Program by written request to the Corporation's Secretary within 30 days of receipt of the notice of rejection or withdrawal of approval. Any decision by the Corporation's Secretary with respect to such termination is final and not appealable.

6.1.3 Cardholder Communication

A Customer is required to provide each Cardholder offered a Card to be issued as part of a Special Issuer Program with the terms and conditions of the Special Issuer Program.

Special Issuer Programs
6.2 Affinity and Co-Brand Card Programs

The Corporation determines whether any Cardholder Communication, including, by way of example and not limitation, a Solicitation, disclosure or other information about a Special Issuer Program, is satisfactory and in compliance with the Standards. As a condition of the commencement or continuation of a Special Issuer Program, the Customer must comply with the Corporation's Cardholder Communication requirements.

Each Cardholder Communication must clearly communicate the identity of the Member as the Card Issuer and otherwise must be clear and truthful and must not reflect poorly on the Corporation or any Mark.

Each Special Issuer Program Solicitation must:

1. Refer prominently to the offering exclusively as a Card and not position the offering as anything other than a Card; and
2. Prominently and integrally feature the MasterCard Word Mark and MasterCard Brand Mark; and
3. Clearly and conspicuously disclose the identity of the Card Issuer.

Each Solicitation about a Special Issuer Program, including any material modification of a prior Solicitation, must be approved in writing by the Issuer prior to final production and first use.

6.2 Affinity and Co-Brand Card Programs

Affinity Card Programs and Co-brand Card Programs are Special Issuer Programs. This Rule 6.2 is applicable to both.

6.2.1 Program Partners

Subject to compliance with the Standards, an Issuer may use the area on a Card that the Standards reserve for the identification of the Issuer to instead or additionally identify a person or entity other than the Issuer. Such person or entity is referred to herein as a "Partner." There are two types of Partners: an "Affinity Group," which is an educational or other not-for-profit entity that promotes an institution or activities, and a "Co-brand Partner," which is a for-profit company organized to engage in commercial activity.

Notwithstanding Rule 1.5.1, a financial institution that is eligible to be a Customer may be a Co-brand Partner only if such entity is not a Customer.

6.2.2 Ownership and Control of the Program

An Affinity Card Program or Co-brand Card Program must be entirely owned and Controlled by the Issuer at all times and a Partner may not own or Control any part of the Program or the Program receivables. The Corporation exclusively determines if an Issuer is in compliance with the foregoing requirements. In making such a determination, the Corporation may consider such factors as:

1. Whether the Customer establishes the Program policies and guidelines, such as Cardholder credit and eligibility decisions;
2. The Member's role in setting fees and rates;
3. What the Member has at risk;
4. Whether the Member actively ensures that the Program policies and guidelines are implemented;
5. The ownership and Control of the Program receivables;
6. Whether all or a substantial portion of the receivables are financed with the Partner; and
7. The extent to which the Member, and not the Partner, is portrayed as the owner of the Program.

6.2.3 Issuer Identification on Program Cards

The following Issuer identification requirements apply to all Affinity Card Program and Co-brand Card Program Cards:

1. Neither the Card design nor any information appearing on the Card may state or infer that anyone other than the Customer is the Issuer of the Card.
2. Issuer identification consisting of the Issuer's name or the Issuer's name and logo must be clearly visible either on the Card face or on the Card back. The name or logo or both of a Partner may appear on the Card face in addition to the Issuer identification or on the Card back.
3. A Card that bears only the Partner's name or logo on the Card face, but that otherwise satisfies the Issuer identification Standards is deemed (in the absence of other circumstances) to comply with these requirements.
4. In addition to, or in lieu of, appearing on the upper portion of the Card face, the name of the Partner may be present on the fourth line of the Account Information Area.

Special Issuer Programs
6.2 Affinity and Co-Brand Card Programs

5. If the Issuer identification does not appear on the Card face, the following statement must prominently appear and be clearly legible on the Card back: "This card is issued by (FULL, TRUE ISSUER NAME) pursuant to license by MasterCard International." The location of this statement on the Card is at the Issuer's discretion.
6. For Programs in which more than one Partner participates, Issuer identification on the card back must be equal or greater in size than the identification of any Partner on the Card back. See "Multiple Partners."
7. The Issuer's customer service telephone number must appear on the back of all Cards.

6.2.4 Program Name

An Issuer may apply to the Corporation for permission to have a Card Program name appear in addition to or in lieu of the Issuer name or the Partner's name or both on the Card face and, with such permission, may use such a Card Program name.

6.2.5 Multiple Partners

Except as may be otherwise set forth in the Standards, if a Program involves more than one Partner, only one Partner's name or logo or both may appear on the Card face. The name or logo or both of any additional Partner(s) may appear only on the Card back.



Note

Variations to this Rule appear in Chapter 10, "Asia/Pacific Region Rules"; Chapter 12, "Europe Region Rules"; Chapter 13, "Latin America and the Caribbean Region Rules"; and Chapter 15, "United States Region Rules."

6.2.6 Accept All Cards without Discrimination

A Merchant that accepts any Affinity Card Program Cards or Co-brand Card Program Cards must accept all other validly presented Cards, without limitation or exception.

6.2.7 Use of the MasterCard Acceptance Mark

A MasterCard Acceptance Mark displayed at the POI must appear apart from any Partner identification and must at least have parity in size and prominence with any Program logo, Program name, or the like, and with any competing mark also displayed. The Corporation has the right to require the modification or removal of any POI display of a Program name or logo that the Corporation determines does not comply with this Rule or reflects negatively on any Mark.

6.3 Brand Value Transactions and Proprietary Accounts

A Brand Value Transaction (“BVT”) means a Member or third party transaction that originates by the use of a Card to access a proprietary account, proprietary application, or both. A BVT is not a Transaction. A BVT is a transaction that:

1. Accesses a proprietary account through use of an Affinity Card Program Card or Co-brand Card Program Card at the Partner's own Merchant locations or at other Merchants that participate in the Partner's services; or
2. Accesses proprietary stored value residing on a Card's magnetic stripe or chip; or
3. Uses a non-payment application residing on a Card, such as a loyalty application, an electronic coupon, medical information, or paperless ticketing. The technology employed by the non-payment application (for example, a chip or magnetic stripe) must not facilitate or otherwise enable the use of a competitive payment product for the non-payment benefit or service.



Note A variation to this Rule appears in Chapter 12, “Europe Region Rules.”

6.3.1 Proprietary Account Access

The Corporation exclusively determines if a proprietary account number may be used on a Card as a BVT. A proprietary account number that the Corporation determines may be used on a Card as a BVT may have one or more of the following characteristics:

1. The proprietary account number is different from the Card account number. The proprietary account number may appear on the Card face, be encoded on the Card, or be cross-referenced in the Customer or a Partner's system.

Special Issuer Programs
6.4 Remote Transaction Accounts

2. The proprietary account number is used in a system or network for authorization and settlement that is distinct from the Interchange System and is not used in the Interchange System.
3. Any billing related to use of the proprietary account number is distinct from any billing for the Card account, whether as part of a common statement or in a separate statement.

Access to a proprietary account by means of an Affinity Card Program Card or Co-brand Card Program Card is authorized only with the prior written consent of the Corporation. In addition, such a Program Card must afford the Cardholder access to the same proprietary account that the Partner previously established for the Cardholder, for payment of the same particularly defined set of transactions that were previously payable by other means. The Corporation must approve, in advance and in writing, of the locations, services, and parties for which the proprietary account access feature is available.

6.3.2 Fees and Reporting Requirements

From time to time, the Corporation may establish, implement, and collect fees, assessments, or both arising from or related to BVTs, proprietary accounts, or both.

If a BVT involves an Affinity Card Program or a Co-brand Card Program, the Customer must separately report to the Corporation the number of Cards outstanding, the proprietary account sales volume on such Cards, and any other requested information in the form and at such times as the Corporation requires.



Note A variation to this Rule appears in Chapter 10, "Asia/Pacific Region Rules."

6.4 Remote Transaction Accounts

A Remote Transaction account means a Card account that is intended primarily to be used to engage in Remote Transactions. Subject to the requirements set forth below, a Customer is not required to issue a physical Card in connection with or which links to a Remote Transaction account. A Program using Remote Transaction accounts is a Special Issuer Program, is subject to the Standards, and has all rights accorded to Cards under the Standards except those Standards that relate to the physical characteristics or use of a Card.

6.4.1 Remote Transaction Account Requirements

An Issuer of a Remote Transaction account must comply with the all of the following requirements:

1. A Remote Transaction account program may not be conducted or marketed without the express prior written consent of the Corporation.
2. A Remote Transaction account must be assigned a 16-digit account number, in conformance with the Standards applicable to Cards, and must be assigned a Card Validation Code 2 (CVC 2) value and an expiration or "valid through" date.
3. A Remote Transaction account must be enhanced with Address Verification Service (AVS) if the account is issued for use in an area where AVS is available.
4. Effective 13 April 2012, partial approval authorization service must be supported for all prepaid MasterCard and all Debit MasterCard (including prepaid) Remote Transaction account ranges.

Before activating a Remote Transaction account, the Issuer must communicate in writing to the Cardholder the account number, the expiration or "valid through" date of the account, the identity of the Issuer, and instructions as to the manner in which the Remote Transaction account may be used.

6.4.1.1 Remote Transaction MasterCard M/Chip Account Programs

A Remote Transaction MasterCard M/Chip™ account means an EMV chip-based Remote Transaction account that a Cardholder uses to effect remote chip-read Transactions. Remote Transaction M/Chip account Programs must adhere to all applicable M/Chip Standards as may be developed and amended from time to time.

6.5 Secured Card Programs

A secured Card means a Card for which a line of credit is secured by an amount held on deposit. A secured Card Program is a Special Issuer Program.

6.5.1 Secured Card Program Requirements

A secured Card Program must be, and the Corporation exclusively determines whether a secured Card Program is:

1. Structured so as to avoid undue risk to the Corporation and its Customers, and

2. Operated in a manner that does not reflect poorly on the Corporation or the Marks.

6.5.2 Refund of Fees

If a Customer promises, directly or indirectly, to refund any fee paid by an applicant for a secured Card if the Card is not so issued, the Customer must ensure that such refund is made promptly and in any event within 30 days following the submission of the application and without any further action by the applicant.

6.5.3 Secured Card Program Solicitation and Disclosure Requirements

The following Solicitation and disclosure requirements apply to a secured Card Program:

1. A Customer that conducts a secured Card Program without the use of an Service Provider may use a Program name to identify such a Program, in addition to or in lieu of the Customer's name, subject to the prior written approval of the Corporation.
2. A Solicitation may not reference consumers who have filed, or are contemplating filing, for bankruptcy relief. Any reference within a Solicitation to a consumer's credit problem may be included only in the general disclosure to the consumer.
3. Each Solicitation for a secured Card must clearly and conspicuously disclose that the Card is a secured Card and that the consumer must establish a deposit account. The Solicitation also must specify that the credit line will be equal to either
 - a. The amount of the security deposit, or
 - b. A specified percentage of the security deposit.
4. No Solicitation may refer to a specific credit line limit unless the Issuer
 - a. Regularly issues secured Cards with such a credit limit, or
 - b. Has in effect a policy that
 - i. permits the regular issuance of secured Cards with such a credit limit, and
 - ii. is compatible with the Issuer's policy governing its issuance of secured Cards with lower credit limits.

5. Each Solicitation for a secured Card must clearly and conspicuously disclose what an applicant will receive by responding to the Solicitation. If the applicant may not be issued a secured Card after responding to a Solicitation, that fact must be clearly and conspicuously disclosed in the Solicitation.
6. Each Solicitation for a secured Card must clearly and conspicuously disclose any and all application or other fees the applicant must pay, or could be required to pay, to be issued a secured Card. All such fees must be made payable to the Issuer and not to any other person or entity.

6.6 Prepaid Card Programs

A Prepaid Card Program means:

1. A Card account that accesses value maintained by an Issuer or a third party designated by the Issuer on behalf of the owner of the funds in the Card account, the value of which shall be fully available to the owner of the funds in the Card account at all times; or
2. Any other permitted form of Electronic Money.

Typically, and by regulatory requirement in some markets, the funds are maintained in an omnibus, segregated trust, or pooled account.

6.6.1 Responsibility for the Prepaid Card Program

The Issuer is responsible for its Prepaid Card Programs, the Prepaid Card Program funds associated with those Prepaid Card Programs, and for the actions (or inaction) of any agents it uses in connection with such Prepaid Card Programs. The Corporation exclusively determines if an Issuer is in compliance with the foregoing requirements.

6.6.2 Categories of Prepaid Card Programs

The Corporation categorizes Prepaid Card Programs into three categories: consumer, commercial, and government. The Corporation may adopt additional and/or review the current categories of Prepaid Card Programs from time to time in its sole discretion.

6.6.2.1 Consumer Prepaid Card Programs

Consumer Prepaid Card Programs are Prepaid Card Programs in which the funds may be deposited in the prepaid Card account by the consumer, a commercial entity and/or a government entity. In the case of Consumer Prepaid Card Programs, the funds deposited in the prepaid Card account are owned by the consumer.

6.6.2.2 Commercial Prepaid Card Programs

Commercial Prepaid Card Programs are Prepaid Card Programs in which the funds are deposited in the prepaid Card account by a commercial entity. In the case of Commercial Prepaid Card Programs, the funds deposited in the prepaid Card account may be owned by the commercial entity or by the consumer or other third party designated by the commercial entity or such consumer. If the commercial entity permits a consumer to deposit funds in the prepaid Card account owned by the commercial entity, the Commercial Prepaid Card Program becomes a Consumer Prepaid Card Program and all relevant Consumer Prepaid Card Program requirements apply.

6.6.2.3 Government Prepaid Card Programs

Government Prepaid Card Programs are Prepaid Card Programs in which the funds are deposited in the prepaid Card account by a government entity. Government Prepaid Card Programs are designed to deliver government payments to a person, including, but not limited to, segmented non-taxable wages, social benefits, pensions and emergency assistance, as governed by applicable law. In the case of Government Prepaid Card Programs, the funds deposited in the prepaid Card account may be owned by the government entity or by the consumer or other third party designated by the government entity or such consumer. If the government entity permits a consumer to deposit funds in the prepaid Card account owned by the government entity, the Government Prepaid Card Program becomes a Consumer Prepaid Card Program and all relevant Consumer Prepaid Card Program requirements apply.

6.6.3 Return of Unspent Value

Issuers must return any unspent funds in the prepaid Card account to the owner of that account in compliance with applicable law or regulation. In instances where applicable law or regulation does not provide time frames concerning the return of unspent funds, Issuers must comply with the requirements set forth in this Rule 6.6.3. Subject to applicable law or regulation, an Issuer has no obligation to return unspent funds in the prepaid Card account if the identity of the owner of the unspent funds has not been provided to the Issuer.

6.6.3.1 Consumer Prepaid Card Programs

Issuers of Consumer Prepaid Card Programs must provide the consumer with a minimum of twelve months from the date of the last value load or thirty calendar days after the expiration date, whichever comes later, to request the return of unspent funds, less any applicable fees imposed by the Issuer or any other lawful offsets. Prominent disclosure must be made to the consumer as to how and when to request the refund of unspent funds and as to any fees that apply to the Prepaid Card Program. Once the consumer submits a refund request, the consumer must receive a refund of unspent funds within thirty calendar days of the date on which the refund request was received by the Issuer.

6.6.3.2 Commercial Prepaid Card Programs

Issuers of Commercial Prepaid Card Programs must provide the commercial entity or individual or other third party designated by the commercial entity or consumer with a minimum of thirty calendar days, or as otherwise approved by the Corporation, to spend the funds in the prepaid Card account, after which time the funds may revert to the commercial entity or, as otherwise agreed between the commercial entity and the Issuer or its agents (if any), to the Issuer or its agents.

6.6.3.3 Government Prepaid Card Programs

If the owner of the funds in the prepaid Card account is a government entity, then the Issuer of the Government Prepaid Card Program must provide the government entity with a minimum of thirty calendar days, or as otherwise approved by the Corporation, to spend the funds in the prepaid Card account, after which time the funds may revert to the government entity or, as otherwise agreed between the government entity and the Issuer or its agents (if any), to the Issuer or its agents.

If the owner of the funds in the prepaid Card account is a consumer, then the Issuer of the Government Prepaid Card Program must provide the consumer with a minimum of twelve months from the date of the last value load or thirty calendar days after the expiration date, whichever comes later, to request the return of unspent funds, less any applicable fees imposed by the Issuer or any other lawful offsets. Prominent disclosure must be made to the consumer as to how and when to request the refund of unspent funds and as to any fees that apply to the Prepaid Card Program.

Once the consumer submits a refund request, the consumer must receive a refund of unspent funds within thirty calendar days of the date on which the refund request was received by the Issuer.

6.6.4 Value Loading

Subject to the restrictions set forth below, the maximum load value and load parameters associated with a prepaid Card account are established by the Issuer of the Prepaid Card Program and are subject to review and approval by the Corporation.

For Consumer or Commercial Prepaid Card Programs, the Corporation permits a maximum load value of USD 5000 or the local currency equivalent per day. If an Issuer needs to increase the above-referenced maximum daily amount or otherwise structure the loading of funds into the prepaid Card account, the Corporation will evaluate the proposed Prepaid Card Program on a case-by-case basis. However, funds deposited into the prepaid Card account via Automatic Clearing House ("ACH"), Bankers' Automated Clearing Services ("BACS"), Clearing House Automated Payment System ("CHAPS"), or any other electronically transferred payroll payments may exceed the above-referenced maximum daily amount.

The Corporation reserves the right to reduce the maximum amount described above in certain circumstances and/or in connection with certain Prepaid Card Programs.

Prepaid Card Programs for which the Issuer does not collect, store or otherwise validate the consumer's identity are subject to the *MasterCard Anonymous Prepaid Cards Guidelines*, available on MasterCard OnLine.

6.6.5 Communications and Marketing Materials

If an Issuer's prepaid Cards are intended to be used by Cardholders for personal, family or household use, then the Issuer must provide Cardholders with the terms and conditions of the Prepaid Card Program on or before any purchase is made or activation fees are incurred. If the Issuer's prepaid Cards are intended to be used by Cardholder for business use, then the Issuer must provide the commercial entity or government entity, as the case may be, with the terms and conditions of the Prepaid Card Program on or before any purchase is made or activation fees are incurred. Thereafter, the Issuer must provide the respective Cardholder, commercial entity or government entity with any amendment or modifications thereto and, in particular, make clear and conspicuous disclosures with respect to all fees to be incurred by the Card account holder to obtain, use, reload, maintain and/or cash out the balance in the prepaid Card account or for any other use, as required by the Standards and applicable law.

Issuers must submit all communications and marketing materials including, but not limited to, printed materials and copies or electronic versions of Web sites and mobile applications, if any, for all Prepaid Card Programs to the Corporation via e-mail at brand_standards@mastercard.com for review and approval prior to the launch or subsequent modification of the Prepaid Card Program and prior to any marketing of the Prepaid Card Program. The Corporation review is limited to compliance with the Standards for Issuer communications. Each Issuer is responsible for ensuring that its Prepaid Card Program communication and marketing materials comply with applicable law and the Standards. Communication and marketing materials include, but are not limited to, card carriers, press releases, Web sites, welcome letters, consumer applications, and terms and conditions.

Issuers of prepaid Cards intended to be used by Cardholders for personal, family or household use must inform Cardholders that, in the event that the available amount in the prepaid Card account is less than the purchase amount, some Merchants may not allow the Cardholder to combine multiple payment types (such as cash, check or another payment card) to complete the Transaction. Issuers of prepaid Cards intended to be used by Cardholders for business use must inform the commercial entity or government entity, as the case may be, of the foregoing.

Issuers of prepaid Cards intended to be used by Cardholders for personal, family or household use must inform Cardholders if their prepaid Cards are linked to a selective authorization Program. Issuers of prepaid Cards intended to be used by Cardholders for business use must inform the commercial entity or government entity, as the case may be, of the foregoing. Refer to the *Selective Authorization Communications Policy* available on MasterCard OnLine for additional information.

6.6.6 Anti-Money Laundering

Issuers of Prepaid Card Programs must do so in compliance with the MasterCard Anti-Money Laundering Program (the "AML Program"). The AML Program requires Issuers to have an anti-money laundering compliance program that, at a minimum, includes policies, procedures, and controls for customer identification and ongoing due diligence, appropriate limitations on anonymous activities, suspicious activity monitoring and reporting, record-keeping procedures, independent controls testing and sanction screening. Issuers must screen their Cardholders pursuant to the economic and trade sanctions requirements of the Office of Foreign Assets Control ("OFAC") of the U.S. Department of the Treasury.

Special Issuer Programs Compliance Zones

The Corporation may perform periodic reviews of the Issuer's anti-money laundering compliance program to ensure ongoing compliance with the AML Program. As part of this periodic review, Issuers may be subject to enhanced due diligence procedures which may include onsite examinations and/or the use of a third party reviewer.

Any violation of the AML Program and requirements could lead to noncompliance assessments, immediate Prepaid Card Program or Membership suspension, and/or termination.

6.6.7 Anonymous Prepaid Card Guidelines

Refer to the *MasterCard Anonymous Prepaid Cards Guidelines* available on MasterCard OnLine for additional information regarding anonymous prepaid card policies.

6.6.8 BINs

Issuers must use a dedicated BIN(s) and associated prepaid product codes in conjunction with their Prepaid Card Programs.

Compliance Zones

The following table identifies the noncompliance category that the Corporation has assigned to the Standards described within this chapter. These noncompliance categories are assigned for the purposes of assessments under the compliance framework described in Rule 3.1.2.

Section Number	Section Title	Category
6.1.1	Prior Consent of the Corporation	A
6.1.3	Cardholder Communication	A
6.2.1	Program Partners	A
6.2.2	Ownership and Control of the Program	A
6.2.3	Issuer Identification on Program Cards	B
6.2.4	Program Name	B
6.2.5	Multiple Partners	B
6.2.6	Accept All Cards without Discrimination	B
6.2.7	Use of the MasterCard Acceptance Mark	A
6.3.1	Proprietary Account Access	A

**Special Issuer Programs
Compliance Zones**

Section Number	Section Title	Category
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6.4.1	Remote Transaction Account Requirements	A
6.5.1	Secured Card Program Requirements	A
6.5.2	Refund of Fees	A
6.5.3	Secured Card Program Solicitation and Disclosure Requirements	A
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7

Service Providers

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7.1 Service Provider Categories

As of the date of this publication of the Standards, there are four categories of Service Providers: Independent Sales Organization (ISO), Third Party Processor (TPP), Data Storage Entity (DSE), and Service Provider Registration Facilitator (SPRF).

A Service Provider is categorized by the Corporation based upon the Corporation's understanding of the nature of the Program Service(s) performed or to be performed, as described below. A Service Provider may only perform the Program Service(s) it is registered to perform.

Any person proposed by a Customer to perform both TPP Program Service and DSE Program Service is categorized by the Corporation as a TPP.

A person that performs any one or more of the following Program Services...	Is categorized as this type of Service Provider...
--	---

ISO Program Service:

Independent Sales Organization (ISO)

- Merchant and/or Cardholder Solicitation, including application processing
 - Cardholder and/or Merchant customer service not involving access to Card data, Transaction data, or both, including the collection of any fee or other obligation associated with the Customer's Program
 - Merchant education and training Any other service determined by the Corporation in its sole discretion to be ISO Program Service
-

Service Providers

7.1 Service Provider Categories

A person that performs any one or more of the following Program Services...	Is categorized as this type of Service Provider...
TPP Program Service: <ul style="list-style-type: none">• POI terminal operation with electronic data capture• Authorization services, including but not limited to authorization routing, payment gateway and switching services, voice authorization, and call referral processing• Clearing file preparation and submission• Settlement processing (excluding possession, ownership, or control of settlement funds, which is not permitted)• Cardholder and/or Merchant statement preparation• Cardholder and/or Merchant customer service involving access to Card data, Transaction data, or both• Fraud control and risk monitoring, including but not limited to fraud screening and fraud scoring services• Chargeback processing• Mobile Remote Payment• Any other services determined by the Corporation in its sole discretion to be TPP Program Service	Third Party Processor (TPP)
DSE Program Service: <ul style="list-style-type: none">• Merchant Web site hosting• External hosting of payment applications, such as Web site shopping carts• Any other services involving the storage, transmission or processing of Card data, Transaction data or both not identified by the Corporation as TPP Program Service	Data Storage Entity (DSE)

A person that performs any one or more of the following Program Services...	Is categorized as this type of Service Provider...
SPRF Program Service: <ul style="list-style-type: none">• Identification of persons the Standards obligate a Customer to register as a Service Provider• Assisting a Customer to register Service Providers other than SPRFs	Service Provider Registration Facilitator (SPRF)

7.1.1 Independent Sales Organization

Any Independent Sales Organization (ISO) is a Service Provider that performs any one or more of the services described in Rule 7.1 as ISO Program Service.

7.1.2 Third Party Processor

A Third Party Processor (TPP) is a Service Provider that performs any one or more of the services described in Rule 7.1 as TPP Program Service.

All TPPs must comply with applicable Standards, including these Service Provider Rules, in order to remain in good standing as a TPP.

TPPs are subcategorized as follows.

7.1.2.1 Type I

The first TPP subcategory is a Type I TPP. The Corporation determines, in its sole discretion, if a TPP is a Type I TPP. Type 1 TPPs generally are those that perform Program Service for a large number of Customers or that otherwise could significantly impact the integrity of the Interchange System.

As a condition of continued Type I TPP registration by the Corporation, a Type I TPP must comply with the Corporation's Type I TPP Evaluation Program requirements and applicable Standards, including these Service Provider Rules.



Note

Additions to this Rule appear in Chapter 15, "United States Region Rules."

7.1.2.2 Type II

The second TPP subcategory is a Type II TPP. A Type II TPP is any TPP that the Corporation does not deem to be a Type I TPP. A Type II TPP must comply with applicable Standards, including these Service Provider Rules.

The Corporation at any time may reclassify a Type II TPP as a Type I TPP.

7.1.3 Data Storage Entity

A Data Storage Entity (DSE) is a Service Provider that performs any one or more of the services described in Rule 7.1 as DSE Program Service.

7.1.4 Service Provider Registration Facilitator

A Service Provider Registration Facilitator (SPRF) is a Service Provider that performs Service Provider registration services, which is deemed by the Corporation to be a Program Service.

7.2 Program Service

Before a person commences to perform Program Service that directly or indirectly supports or otherwise benefits a Customer's Program(s), the Customer must cause such a person to be registered by the Corporation as a Service Provider.

A Service Provider may perform only the type of Program Service that it is registered to perform. A corporate affiliate of a Customer that is Owned and Controlled by the Customer or by the Customer's ultimate parent and which performs Program Service exclusively for the Customer and not for any other Customer is deemed not to be a Service Provider.

The Customer must ensure that any person performing Program Service that directly or indirectly supports or otherwise benefits the Customer's Program(s), and whether or not such person is registered by the Corporation as a Service Provider:

1. Complies with all Standards applicable to the Program Service provided (including, by way of example and not limitation, data use and protection, confidentiality and privacy Standards) for so long as such person performs such Program Service. This Customer obligation arises and continues regardless of the nature of the Program Service performed and whether the person is performing Program Service pursuant to an agreement or other arrangement with the Customer, a Merchant, a Service Provider of the Customer, or any other person.

2. Promptly provides to the Corporation any information requested by the Corporation pertaining to the Program Service or the performance thereof.

For the avoidance of doubt: Program Service in support of or otherwise benefitting an Affiliate's Program(s) is deemed to be Program Service in support of or otherwise benefitting the Program(s) of the Principal or Association that Sponsors such Affiliate; and Program Service in support of or otherwise benefitting an affiliate debit Licensee's Program(s) is deemed to be Program Service in support of or otherwise benefitting the Principal Debit Licensee that Sponsors such affiliate debit Licensee.

7.3 General Obligations

Each Service Provider and each Customer that registers a Service Provider must comply with all of the following.

7.3.1 Customer Responsibility and Control

The Customer must at all times be entirely responsible for and must itself manage, direct, and control all aspects of its Program and all Program Service performed by any Service Provider and establish and enforce all Program management and operating policies applicable to Program Service in accordance with the Standards. A Customer must not transfer or assign any part or all of such responsibilities or in any way limit its responsibility with regard to any of its Service Providers. A Customer must conduct meaningful monitoring of its Service Providers to ensure ongoing compliance by its Service Providers with applicable Standards.

7.3.2 Notification to the Corporation



Note An addition to this Rule appears in Chapter 15, "United States Region Rules."

Each Principal or Association must advise the Corporation promptly when any of its Service Providers ceases to perform Program Service in connection with the Customer's Program(s) or undergoes a change of name or transfer of Ownership or Control.

Each Type I TPP must advise the Corporation promptly in writing when it:

1. Commences to perform or ceases to perform any Program Service for any Customer, and on an ongoing basis, inform the Corporation of all ICA numbers pertaining to which it is performing any Program Service;

2. Undergoes a change of name or transfer of Ownership or Control;
3. Fails or refuses to make payments in the ordinary course of business;
4. Makes an assignment for the benefit of creditors; or
5. Seeks bankruptcy protection or similar protection.

A Customer may not receive Program Service by or from any other entity or person except as set forth in the Standards.

7.3.3 Program Service Agreement

This Rule 7.3.3 is not applicable with respect to a Service Provider whose provision of Program Service to the Customer consists only of DSE Program Service.

Prior to the commencement of the performance of Program Service by a person in support of a Customer Program, the Customer and the Service Provider must enter into a written agreement describing the Program Service to be performed (the "Program Service agreement"). The Program Service agreement must be updated from time to time as appropriate to reflect the Program Service that the Service Provider performs in support of or otherwise benefitting, directly or indirectly, the Customer Program(s) and may not contradict, or be inconsistent with, the Standards.

The Program Service agreement must reflect the Customer's responsibility, as described in this chapter, for establishing all management and operating policies and must not include any provision that limits, or attempts to limit, the Customer's responsibility for the Program. The Program Service agreement must, in substance, include all of the following provisions:

1. The Service Provider has received, understands, and agrees to comply with all applicable Standards, including these Service Provider Rules.
2. On an ongoing basis, the Service Provider is promptly to provide the Customer with the current address of each of its offices.
3. In the event of any inconsistency between any provision of the Program Service agreement and the Standards, the Standards will govern.
4. The Program Service agreement automatically and immediately terminates if the Corporation de-registers the Service Provider or if the Customer ceases to be a Customer for any reason or if the Customer fails to have a valid License by the Corporation to use any Mark pertaining to the Program Service to be performed by the Service Provider.
5. The Service Provider acknowledges and agrees
 - a. to comply with all Standards, as amended from time to time, applicable to the Program Service to be provided;

- b. that the Corporation is the sole and exclusive owner of the Marks;
- c. not to contest the ownership of the Marks for any reason;
- d. the Corporation may at any time, immediately and without advance notice, prohibit the Service Provider from using any of the Marks for any reason;
- e. the Corporation has the right to enforce any provision of the Standards and to prohibit a Service Provider from engaging in any conduct the Corporation deems could injure or could create a risk of injury to the Corporation, including injury to reputation, or that could adversely affect the integrity of the Interchange System, the Corporation's Confidential Information as defined in the Standards, or both; and
- f. the Service Provider will not take any action that could interfere with or prevent the exercise of this right by the Corporation.

7.3.3.1 Before Entering Into a Program Service Agreement

Before entering into, extending, or renewing a Program Service agreement, a Customer must verify that the Service Provider is a bona fide business, has sufficient safeguards in place to protect Card and Transaction data permitted by the Standards to be captured from unauthorized disclosure or use, and complies with applicable laws.

In determining whether the Service Provider is a bona fide business, the Customer must verify, at a minimum, that all of the following have been completed:

1. Credit check, background investigations, and reference checks of the Service Provider. If the credit check of the Service Provider raises questions or does not provide sufficient information, the Customer also should conduct a credit check of:
 - a. the owner, if the Service Provider is a sole proprietor
 - b. the partners, if the Service Provider is a partnership
 - c. the principal shareholders that together own or control Service Provider if the Service Provider is a corporation
2. Inspection of the Service Provider's premises and records to ensure that the Service Provider has the proper facilities, equipment, inventory, agreements, and personnel required and if necessary, the appropriate license or permit and other capabilities to conduct business. If the Service Provider conducts or plans to conduct business in more than one set of premises, the Customer must inspect at least one of them.

The Corporation does not require a Customer to conduct a credit check of a public or private company that has annual sales revenue in excess of USD 50 million (or the foreign currency equivalent), provided that the Customer reviews, and finds satisfactory for the purposes of the Program Services being considered, the Service Provider's most recent annual report, including audited financial statements. A private company that does not have a recent audited financial statement is subject to a credit check and inspection even if its annual revenue exceeds USD 50 million.

The Customer must retain all records concerning the investigation of any Service Provider with which it has entered into a Program Service agreement to receive Program Services for a minimum of two years after the date the agreement is terminated or expires.

7.3.4 Disclosure of Standards

Before a Customer proposes a person to be registered as a Service Provider by the Corporation, the Customer must provide the proposed Service Provider with the Standards then in effect applicable to Service Provider and Program Service the proposed Service Provider is expected to perform, including these Service Provider Rules. After registration, the Customer must promptly provide a Service Provider with any change to the Standards applicable to such Program Service, including any change to these Service Provider Rules.

7.3.5 Customer Point of Contact

A Service Provider must promptly provide a name and title of, and a telephone number for an employee of the Customer upon request by a Cardholder or a Merchant, or if the Service Provider is unable or unwilling to respond to a question to the Cardholder's or Merchant's satisfaction.

7.3.6 Program Service for an Affiliate's Program

Program Service performed in support of an Affiliate's Program(s) is deemed to be performed in support of the Program(s) of the Principal and Association that Sponsors the Affiliate. For that reason, an Affiliate wishing to receive Program Service from a Service Provider must obtain the prior written consent of the Affiliate's Sponsoring Principal and Association.

7.3.7 Use of the Marks

A Service Provider must not use any Mark on its own behalf, whether in connection with Program Service or otherwise. A Service Provider may not suggest or in any manner create an impression that the Service Provider is a Customer or a representative of the Corporation, or that the Service Provider is anything other than a Service Provider of the Customer.

The Service Provider must not create an impression that the Corporation in any way endorses the Service Provider or Program Service the Service Provider performs.

The Service Provider may use one or more of the Marks in connection with the Program Service it performs, provided that:

1. The Marks are used in accordance with the Standards, including all reproduction, usage and artwork Standards that may be in effect from time to time; and
2. The Marks are used according to the express written instructions of the Customer; and
3. The Marks are used solely in connection with the provision of Program Service.

The Service Provider may use the Marks on its stationery, letterhead, or business cards only if accompanied, in close proximity, by a clear statement that identifies the Service Provider as an agent for a Customer and that includes the name by which the Customer identifies itself to the public (for example, "Service Provider is an authorized representative of Bank XYZ").

7.3.8 Service Provider Identification on a Card

The name of a non-Customer Service Provider may appear on a Card only if that Service Provider does not provide acquiring Program Service for or in connection with any Customer Program or Activity.

7.3.9 Program Materials

A Customer must approve all Program documents and other materials before any distribution, disclosure, or other use thereof by a Service Provider. The Program materials may not state or imply that the Service Provider is participating in, or conducting any activity not expressly permitted by the Standards. Program materials include, by way of example, Merchant applications, Card applications, Merchant Agreements, Cardholder agreements, Merchant statements, Cardholder statements, marketing materials, and Cardholder Communications, including Solicitations.

7.3.10 Fees

A Customer must approve, in advance, any fee or other obligation associated with the Customer's Program and a Service Provider may not collect or attempt to collect any such fee or obligation without the express prior written approval of the Customer. Any fee must be clearly and conspicuously disclosed in writing to the Merchant or Card applicant, as appropriate, prior to any request or demand for payment of the fee.

7.3.11 Settlement Account

A Service Provider must not have access to any account for funds then or subsequently due to a Merchant for Activity and/or funds withheld from a Merchant for chargebacks arising out of Activity. A Customer must not assign or otherwise transfer an obligation to pay or reimburse a Merchant to a Service Provider if the obligation arises from Activity.

7.3.12 Transfer of Rights Prohibited

A Service Provider must not subcontract, sublicense, assign, license, franchise, or in any other manner extend or transfer to any third party any right or obligation the Service Provider may have in connection with performing Program Service for a Customer, and any such transfer is null and void *ab initio*. A Service Provider may perform Program Service to a Customer only using the Service Provider's own employees or employees of a different Service Provider that is confirmed also to be registered by the Corporation to provide Program Service for that same Customer.

7.3.13 Use of Systems and Confidential Information

A Service Provider performing Program Service and each Service Provider Registration Facilitator must agree to:

1. Use any of the Corporation's equipment and software ("Systems"), including but not limited to any MasterCard Interface Processor (MIP) or Network Interface Processor (NIU) used to connect to the Interchange System, and any of the Corporation's information identified or reasonably understood to be confidential or proprietary ("Corporation's Confidential Information") solely in order to perform Program Service on behalf of the Customer and not for any other purpose;
2. Treat the Systems and Corporation's Confidential Information in at least as careful and confidential a manner as the Service Provider treats its own and the Customer's systems and proprietary information;

3. Acknowledge that access to the Systems and Corporation's Confidential Information does not provide the Service Provider with any right, title, interest, or copyright therein or any license to use, sell, exploit, copy or develop them further;
4. Limit access to the Systems and Corporation's Confidential Information to those Service Provider employees with a need to have access or to know in order to enable the Service Provider to perform Program Service and to implement and to maintain reasonable and appropriate safeguards to prevent unauthorized access to the Systems or disclosure of Corporation's Confidential Information, including those set forth in section 10.6 of the *Security Rules and Procedures* manual;
5. Immediately cease any and all use of the Systems and Corporation's Confidential Information upon request of the Corporation or the Customer or upon the earlier of the termination or completion of the Service Provider's performance of Program Service, and to immediately deliver all Systems and all Corporation's Confidential Information to the Corporation;
6. Immediately advise the Customer and the Corporation if any unauthorized person seeks to gain or gains access to the Systems or Corporation's Confidential Information, whether by legal proceedings or otherwise.

The obligations set forth in this Rule survive the termination or expiration of the Program Service agreement.

7.3.14 Indemnification

Program Service performed by any person or entity, which Program Service directly or indirectly supports or otherwise benefits a Customer's Program(s), and regardless of whether such third party is or was registered with the Corporation as a Service Provider or whether such third party is itself a Customer, is Activity and thereby subjects the Customer to the indemnification and other obligations set forth in Rule 3.3.

7.3.15 No Endorsement by the Corporation

In no event does compliance with these Service Provider Rules or enforcement or any lack of or delay in enforcement thereof or the registration of a Service Provider imply, suggest or otherwise mean that the Corporation endorses any Service Provider or the nature or quality of Program Service or other performance, or that the Corporation approves of, is a party to, or a participant in, any act or omission by a Service Provider or other entity acting for or on behalf of a Customer.

7.3.16 Audits

The Corporation or its designee may conduct one or more or regular or periodic financial and procedural audits of the Customer, its Service Provider(s), or both, at any time and from time to time for the purpose of determining compliance with the Standards, including these Service Provider Rules. The Customer bears all costs of any such audit or audits. The Customer and its Service Provider(s) each must fully cooperate with and promptly supply the Corporation with all information and material upon request.

7.3.17 Settlement Failure Obligation

A Service Provider that becomes aware of a settlement failure by the Customer(s) for which the Service Provider performs Program Service must promptly, and in no event later than 24 hours after becoming aware of such failure, notify the Corporation in writing of such failure.

7.3.18 Data Security

A Service Provider must comply with all Standards and applicable laws and regulations pertaining to the storage and/or safeguarding and/or transmission of Card and Transaction data. If a Service Provider reasonably believes that an unauthorized person accessed or may have accessed Card account, Cardholder, or Transaction information in the possession or control of the Service Provider or any of the Service Provider's DSEs, the Service Provider must promptly notify the Customer(s) for which it provides Program Service in writing of such belief and the Customer must promptly notify the Corporation in writing of such belief.

A Service Provider must promptly submit in writing to the Corporation and to each Customer for which the Service Provider is registered to provide Program Service the identity of any DSE that engages, or proposes to engage, in the processing, transmission, or storage of Card account data, Transaction data, or both, for or on behalf of the Service Provider, whether directly or indirectly, regardless of the manner or duration of such activities.

7.4 Merchant Acquiring Programs

In addition to complying with the general obligations set forth in Rule 7.3, each Customer and each Service Provider that performs Program Service with respect to that Customer's Merchant acquiring Programs also must comply with this Rule 7.4.

7.4.1 Merchant Agreement

The Merchant Agreement establishing the terms of an acquiring relationship between the Acquirer and a Merchant must:

1. Be signed by the Customer with no separate or other agreement between the Service Provider and the Merchant regarding Activity. The Service Provider may be a party to the Merchant Agreement, in which case the Merchant Agreement must contain the substance of all of the following:
 - a. For purposes of the Merchant Agreement and performance of the Merchant Agreement by the Service Provider, (i) the Service Provider is the exclusive agent of the Customer; (ii) the Customer is at all times and entirely responsible for, and in control of, Service Provider performance; and (iii) the Customer must approve, in advance, any fee payable to or obligation of the Merchant arising from or related to performance of the Merchant Agreement.
 - b. The Merchant Agreement is not effective and may not be modified in any respect without the express written agreement of the Customer.
 - c. The Service Provider may not have access, directly or indirectly, to any account for funds or funds due to a Merchant and/or funds withheld from a Merchant for chargebacks arising from, or related to, performance of this Merchant Agreement. The Customer may not assign or otherwise transfer an obligation to pay or reimburse a Merchant arising from, or related to, performance of the Merchant Agreement to a Service Provider.
 - d. The Service Provider may not subcontract, sublicense, assign, license, franchise, or in any manner extend or transfer to any third party, any right or obligation of the Service Provider set forth in the Merchant Agreement. The Customer may not waive, forgive, release, assign, or fail to insist on strict performance of each requirement set forth in these parts 1 through 4.
2. Confirm the Customer's responsibility for the Program and for the Merchant's Program participation and confirm that the Merchant Agreement does not contain any provision that could be deemed to limit such responsibility.
3. Not take effect or state or imply that it takes or has taken effect prior to being signed by the Customer.
4. Disclose the Customer's name and sufficient information to enable the Merchant to contact the Customer directly by telephone or in writing.

7.4.2 Collection of Funds

Discount rates (or similar charges called by other terms) due to a Customer from a Merchant must be collected directly by the Customer and not by the Service Provider.

7.4.3 Access to Documentation

The Customer at all times must maintain prompt and unrestricted physical access to all original, executed Merchant Agreements and completed inspection reports. The Customer must forward true and complete copies of any one or more of these documents to the Corporation promptly upon request.

7.4.4 Authority to Terminate Merchant Agreement

A Customer may not limit or in any manner condition its authority to terminate any Merchant Agreement to accommodate a Service Provider or otherwise.

7.5 Card Issuing Programs

In addition to complying with the General Obligations set forth in Rule 7.3, each Customer and each Service Provider that provides Program Service with respect to that Customer's Card issuing Programs also must comply with this Rule 7.5.

7.5.1 Card Application Approval

The Customer itself, and not a Service Provider, must approve of a Card applicant's participation in a Card Program.

7.5.2 Cardholder Agreement

The Cardholder agreement must disclose the Customer's name and sufficient information to enable the Cardholder to contact the Customer directly by telephone or in writing. The Service Provider must not be a party to the Cardholder agreement.

7.5.3 Payment of Fees

All Program payments other than application fees for initial Program participants must be collected directly by the Customer and not by the Service Provider.

7.5.4 Program Receivables

A Service Provider may own Program receivables or participate in a financing vehicle involving Program receivables so long as the Corporation determines that the Customer continues to own and control the Program. Ownership of Program receivables by the Service Provider does not in any way limit the Customer's obligation to comply with the Standards.

7.6 Service Provider Registration

The following sets forth Service Provider registration requirement.

7.6.1 Registration Requirements for DSEs, ISOs and Type II TPPs

Each Principal and Association, for itself and each of its Sponsored Affiliates, must use the MasterCard Registration Program (MRP) system on MasterCard OnLine to register any Service Provider not designated by the Corporation as a Type I TPP. A Customer may elect to register a person as an SPRF for the purpose of having that SPRF perform Service Provider registration requirements for DSE, ISO and Type II TPP Service Providers on the Customer's behalf. The following requirements apply:

1. The Principal and Association must submit all information and material required by the Corporation in connection with the proposed registration within 60 days of the registration application submission date.
2. A Service Provider performing TPP Program Service that also wishes to provide ISO Program Service to one or more Customers must be distinctly proposed for registration by the Corporation on behalf of each Customer wishing to receive ISO Program Service from that Service Provider.

Service Providers

7.6 Service Provider Registration

3. A Service Provider that performs services involving the storage, transmission, or processing of Card, Cardholder, or Transaction data must comply with the MasterCard Site Data Protection (SDP) Program in accordance with the implementation schedule set forth in section 10.3.4 of the *Security Rules and Procedures* manual. Before initiating registration, the Customer must instruct the proposed Service Provider to contact the Corporation via e-mail at sdp@mastercard.com and validate its compliance with the SDP Program using the tools described in section 10.3.2 of the *Security Rules and Procedures* manual. For any proposed Type II TPP that is not compliant, the Corporation must be provided and must approve a compliance action plan. A Corporation-approved compliance action plan does not exempt the Principal and Association from responsibility and liability that arises from the Principal and Association's or any of its Sponsored Affiliates' or their Type II TPP's noncompliance with any Standard, including those relating to the disclosure and securing of Card, Cardholder, and Transaction data. The registration of a proposed DSE will not be deemed complete until its compliance is validated.
4. The Corporation collects the applicable fee(s) then in effect from the Customer that proposes the registration via the MasterCard Consolidated Billing System (MCBS).
5. The Principal and Association must receive the Corporation's written or e-mail confirmation of the registration before the Principal and Association or any of its Sponsored Affiliates receives Program Service from an ISO or Type II TPP or any of their Service Providers or Merchants receive Program Service from a DSE and before the ISO or Type II TPP commences performing such Program Service or represents itself to any person as authorized to provide such Program Service on behalf of the Principal and Association or any of its Sponsored Affiliates. In its sole discretion, the Corporation may approve or may reject any application for the registration of a Service Provider.
6. To maintain the registration of a Service Provider, the Customer must submit such information and material as may be required by the Corporation from time to time, including but not limited to a copy of the Program Service Agreement, if applicable. The renewal fee then in effect is debited from the Customer via MCBS. In its sole discretion, the Corporation may decline to renew the registration of a Service Provider.

If the Customer terminates an ISO or Type II TPP, the Customer must notify the Corporation or its SPRF of the termination date and of the reasons for the termination. This notification must be received by the Corporation or its SPRF within one week of the decision to terminate. In its sole discretion, the Corporation may require a Customer to terminate a Service Provider at any time.

7.6.1.1 SDP Program Noncompliance

Each Principal and Association that has registered or proposed the registration of a Type II TPP to provide Program Service for it and/or for one or more of its Sponsored Affiliates must promptly notify each of its Merchants and other person that directly or indirectly may benefit from or otherwise be impacted, as the case may be, by the Program Service if the registered or proposed TPP is not or will not be fully compliant with SDP Program requirements applicable to it as a TPP by and after the date performance of the Program Service commences. Such notification must include, with respect to the registered or proposed TPP:

1. The name and address of the TPP;
2. A description of the Program Service to be or being provided by the TPP;
3. A description of SDP Program requirements the TPP is not compliant with; and
4. A specific date by which the TPP will become fully compliant with applicable SDP Program requirements, or, in the alternative, the date by which the TPP will cease providing Program Service.

The application of a DSE will not be approved until such time as the DSE becomes fully compliant with SDP Program requirements.

7.6.2 Registration Requirements for Type I TPPs

A TPP that the Corporation designates as a Type I TPP, upon receiving notification of such designation, must apply to be registered by the Corporation as a Type I TPP and must be registered by the Corporation as a Type I TPP before commencing to provide TPP Program Service. A Type I TPP that also wishes to provide ISO Program Service to one or more Customers must be distinctly proposed to the Corporation or a Service Provider Registration Facilitator for registration by each Customer wishing to receive ISO Program Service from that Type I TPP.

Post-registration by the Corporation of a Type I TPP, on a quarterly basis, the applicable fee is charged by the Corporation directly to the Type I TPP. Renewal of Type I TPP registration status is at the sole discretion of the Corporation.

7.6.3 Registration of a Service Provider Registration Facilitator

A Customer itself must request that a person be registered by the Corporation as a Service Provider Registration Facilitator (SPRF) and a person must be registered by the Corporation as an SPRF before commencing to provide Service Provider registration Program Service.

Service Providers

7.7 Type I TPP Evaluation Program

7.6.4 Service Provider Registration Noncompliance

A Principal and Association that fails to comply with these Service Provider registration requirements, including the failure to complete a Service Provider registration within 60 days as set forth in Rule 7.6.1, is subject to noncompliance assessments of up to USD 25,000 for each 30-day period of noncompliance.

7.6.5 Prohibition from Acting as a Service Provider

The Corporation reserves the right to prohibit, either for a fixed period of time or permanently, a Service Provider, its owners, officers, and/or employees from performing Program Service or acting as a DSE or both.

7.6.6 Termination of Program Service Agreement or De-registration

On the effective date of the termination or expiration of the Program Service agreement(s), or upon notice by the Corporation, or upon expiration or de-registration of a person as a Service Provider, the person must immediately cease all use of the Corporation's Marks and Systems as a Service Provider and cease performing Program Service.

7.7 Type I TPP Evaluation Program

7.7.1 Compliance with Type I TPP Evaluation Program Standards

Each Type I TPP is required to comply with the Type I TPP Evaluation Program requirements and fully cooperate with any effort by the Corporation to determine such compliance. The Corporation requires all Type I TPPs to participate fully in each such review.

7.8 Confidential Information of Service Providers

The Corporation will not disclose confidential information furnished to it by a Customer or Service Provider pursuant to these Service Provider Rules, except to the Customer or Service Provider supplying the information, or as part of a general statistical compilation that does not reveal individual Customer or Service Provider data, or as may be required by any court process or governmental agency having or asserting jurisdiction over the Corporation, or as otherwise described in Rule 3.6.2.

The registration and Type I TPP Evaluation Program compliance status of a Type I TPP, including the identity of the Customer(s) for which the Type I TPP performs Program Service, the nature of Program Service the Type I TPP performs, and the results of any Type I TPP evaluation are not confidential information.

The identities of a Service Provider Registration Facilitator and the Customer(s) for which the Service Provider Registration Facilitator performs registration services are not confidential information.

In addition, and notwithstanding the aforesaid, as a condition of the registration or renewal of registration of a Service Provider, the Customer and Service Provider each agree that the Corporation may disclose such information of and about the Customer and Service Provider as the Corporation deems necessary or appropriate.

Compliance Zones

The following table identifies the noncompliance category that the Corporation has assigned to the Standards described within this chapter. These noncompliance categories are assigned for the purposes of assessments under the compliance framework described in Rule 3.1.2.

Rule Number	Rule Title	Category
7.1	Service Provider Categories	A
7.2	Program Service	A
7.3.1	Customer Responsibility and Control	A
7.3.2	Notification to the Corporation	A
7.3.3	Program Service Agreement	A
7.3.4	Disclosure of Standards	C
7.3.5	Customer Point of Contact	B
7.3.6	Program Service for an Affiliate's Program	A

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Compliance Zones**

Rule Number	Rule Title	Category
7.3.7	Use of the Marks	B
7.3.8	Service Provider Identification on a Card	B
7.3.9	Program Materials	B
7.3.10	Fees	B
7.3.11	Settlement Account	A
7.3.12	Transfer of Rights Prohibited	A
7.3.13	Use of the Systems and Confidential Information	A
7.3.16	Audits	B
7.3.17	Settlement Failure Obligation	A
7.3.18	Data Security	A
7.4.1	Merchant Agreement	A
7.4.2	Collection of Funds	A
7.4.3	Access to Documentation	B
7.4.4	Authority to Terminate Merchant Agreement	A
7.5.1	Card Application Approval	A
7.5.2	Cardholder Agreement	B
7.5.3	Payment of Fees	A
7.5.4	Program Receivables	A
7.6	Service Provider Registration	A
7.7.1	Compliance with Type I TPP Evaluation Program Standards	A

8

Sales Transactions and Cash Disbursements

This chapter contains Rules that apply to the cash disbursements that Customers provide.

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8.1 Transaction Requirements

Each Customer must, in accordance with the Standards, comply with each of the following five requirements:

1. Accept and present to the Issuer records of Transactions arising from the use of a Card issued by any other Customer from any Merchant that the Customer has authorized to honor Cards;
2. Accept and pay for records of Transactions received from another Customer arising from the use of any Card or Access Device issued by it;
3. Present to the Issuer records of the cash disbursement transactions the Customer acquires; and
4. Maintain, directly or indirectly, a functional twenty-four-hour per day operating connection to the Interchange System, and not force any other Customer wishing to operate multilaterally using the Interchange System into bilateral agreements.
5. Ensure that each Cross-border Transaction (that is, one that takes place at a Merchant located outside the country where the Card was issued) is processed through the Interchange System, unless one of the following conditions exist:
 - a. The Customer has applied for and received prior written approval from the Corporation to effect other arrangements;
 - b. The Customer has applied for and received certification from the Corporation with the network processing standards for any bilateral or multilateral arrangement entered into on or after 1 June 2009; or
 - c. Applicable law requires other arrangements, and only to the extent otherwise so required.

As used in paragraph 5 above, "processed" means authorized, when required, and cleared through the Interchange System.

If a Cross-border Transaction is not processed through the Interchange System and meets one of the conditions contained in requirement five, parts (a) through (c) above, Customers shall also provide the Corporation with a report with respect to such Cross-border Transactions in a form as required by the Corporation on a time frame as prescribed by the Corporation. Such report and all information contained therein shall be subject to Rule 3.6.2.



Note

A variation to this Rule provision appears in Chapter 12b, "SEPA Rules."

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8.2 Authorization Requirements

In the event that any Customer is a party to a bilateral or multilateral arrangement established before 1 June 2009 and such Customer has not applied for and received prior written approval from the Corporation to effect such arrangement, then such Customer must:

1. Register such bilateral or multilateral arrangement with the Corporation no later than 31 August 2009 and provide such other information as the Corporation may request in connection with an evaluation of the relevant arrangement against the network processing standards specified by the Corporation from time to time.
2. If such arrangement fails to meet or exceed such network processing standards, work with the Corporation in a good faith and timely manner to make such adjustments as may be required in order to achieve compliance.

8.1.1 Euro Migration



Note A Rule on this topic appears in Chapter 12, "Europe Region Rules."

8.2 Authorization Requirements

The authorization services provided by Principals and Associations as set forth in Rule 3.8 must comply with the following requirements.

8.2.1 Full and Partial Reversals

Effective for Transactions occurring on or after 8 November 2011, an Issuer receiving a Reversal Request/0400 message or an Acquirer Reversal Advice/0420 message must release any hold placed on the Cardholder's account for the amount specified within 60 minutes of matching the reversal message to the original authorization request message.

A reversal message sent for the full Transaction amount cancels the original authorization request.



Note Additions to this Rule appear in Chapter 15, "United States Region Rules."

8.2.1.1 Reversal for Conversion of Approval to Decline

Effective for Transactions occurring on or after 8 November 2011, an Acquirer or Merchant may convert an approval authorization request response (herein, an "Issuer-approved authorization") into a decline for a Card-Not-Present (CNP) Transaction believed, in good faith, by the Acquirer or Merchant to be fraudulent solely in accordance with the following procedure:

1. The Acquirer or Merchant must determine whether to proceed with a Transaction believed, in good faith, to be fraudulent within 72 hours of sending the original authorization request message.
2. Upon deciding not to proceed with the Transaction and still within 72 hours of the original authorization request, the Acquirer or Merchant must:
 - a. Generate a reversal message for the full transaction amount that includes a reason code indicating that the Transaction was declined by the Acquirer or the Merchant due to perceived fraud;
 - b. Disclose to the Cardholder that the transaction cannot be completed at that time, and provide the Cardholder with valid customer service contact information (phone number or e-mail address) to respond to Cardholder calls or e-mail messages related to the cancelled order. The contact information should be that of the Acquirer, Merchant, or third party provider that made the decision not to proceed with the Transaction. Sharing the specific reason(s) for the decline is not recommended or required.

The fraud potential of a Transaction typically is determined through fraud screening and fraud scoring services that involve the storage, transmission or processing of Card or Transaction data in compliance with the *Payment Card Industry Data Security Standard* (PCI DSS). The Acquirer must register any third party provider of such services as a Third Party Processor (TPP) as set forth in Rule 7.6.1. The systematic decline by an Acquirer or Merchant of CNP Transactions arising from particular Cards, Issuers, or geographic locations is a violation of Rule 5.8.1.

8.2.2 Full and Partial Approvals and Account Balance Responses

Effective in 2020 with Release 20.1, Customers must provide partial approval and account balance response authorization services as set forth below:

1. Issuers must support:
 - a. Partial approval for all prepaid MasterCard and all Debit MasterCard (including prepaid) Card account ranges; and
 - b. Account balance response for all prepaid MasterCard and all prepaid Debit MasterCard Card account ranges.

Sales Transactions and Cash Disbursements

8.3 Card Acceptance Procedures

2. Acquirers must support:
 - a. For Merchants properly identified with MCC 5542, partial approval for all prepaid MasterCard and all Debit MasterCard (including prepaid) Card account ranges; and
 - b. For Merchants properly identified with any of the MCCs listed below, with respect to Card-present Transactions conducted at attended POS Terminals, partial approval and account balance response for all prepaid MasterCard and all Debit MasterCard (including prepaid) Card account ranges.

MCC	Description
5310	Discount Stores
5311	Department Stores
5411	Grocery Stores, Supermarkets
5541	Service Stations (with or without Ancillary Services)
5612	Women's Ready to Wear Stores
5691	Men's and Women's Clothing Stores
5732	Electronic Sales
5812	Eating Places, Restaurants
5814	Fast Food Restaurants
5912	Drug Stores, Pharmacies
5999	Miscellaneous and Specialty Retail Stores



Note

Additions to this Rule appear in Chapter 12, "Europe Region Rules" and Chapter 15, "United States Region Rules."

8.3 Card Acceptance Procedures

This Rule 8.3 sets forth requirements for Card acceptance and the authorization and completion of Transactions performed by Merchants and of cash disbursements performed by a Customer's teller or other authorized agent (herein collectively referred to as "cash disbursement agents").

8.3.1 Card Must be Present

A Card, Access Device, or Mobile Payment Device must be presented to the Merchant or cash disbursement agent for all Transactions except in the case of mail order Transactions, phone order Transactions, non-face-to-face unique Transactions, non-face-to-face Payment Transactions, e-commerce Transactions, and recurring payment Transactions.

If a Card is presented to a Merchant and the magnetic stripe cannot be read by the POS Terminal, the Merchant should complete the Transaction by using a manual imprinter (unless the Card is unembossed) and/or electronic key entry of the Card information.

If a chip Card is presented at a hybrid POS Terminal, the Transaction must be completed in accordance with the Rule 8.4.1 and Standards set forth in the *M/Chip Requirements* manual.

8.3.2 Determine Whether the Card is Valid

When a Card is presented at an attended POS Terminal or to a cash disbursement agent, the Merchant or cash disbursement agent must complete the following steps to determine the validity of the Card:

1. Check the valid date and the expiration date on the front of the Card. If the Card is expired or not yet valid, obtain an authorization from the Issuer. Expiration and valid dates are each expressed as follows:
 - a. When an expiration date is expressed in a month/year format, Transactions are valid through and including the last day of the month and year.
 - b. When a valid date is expressed in a month/year format, Transactions that occur before the first day of the month and year are invalid.
 - c. When a valid date is expressed in a month/day/year format, Transactions that occur before the day, month, and year are invalid.
2. Compare the first four digits of the Card account number on the Card front with the four digits printed below the Card account number, to ensure the same digits appear in the same sequence.
3. Compare the four-digit truncated Card account number imprinted in the signature panel with the last four digits of the account number on the front of the Card.
4. Unless a hybrid POS Terminal is used, compare the Card account number on the Card front with the number displayed or printed from the POI Terminal.
5. If a photograph of the Cardholder is present on the Card, compare the photograph on the Card with the person presenting the Card.

Sales Transactions and Cash Disbursements

8.3 Card Acceptance Procedures

6. Check that the Card is signed.
7. For cash disbursements and face-to-face unique Transactions (with the exception of truck stop Transactions and Card-read Transactions where a non-signature CVM is used), request personal identification of the Cardholder in the form of an unexpired, official government document (for example, a passport, identification document, or driver's license) that bears the Cardholder's signature, the Cardholder's photograph, or both. Compare the signature, if present, on the personal identification with the signature on the Card. Compare the photograph, if present, with the person presenting the Card.

The Cardholder may retain control of the Card during a chip Transaction performed with PIN as the CVM.

Neither the foregoing procedures nor those described in Rules 8.3.2.1 or 8.3.2.2 apply when an Access Device or a Mobile Payment Device is presented.

8.3.2.1 Unsigned Cards

If a Card is presented to a Merchant and the Card is not signed, the Merchant must:

1. Obtain an authorization from the Issuer;
2. Ask the Cardholder to provide identification (but not record the Cardholder identification information); and
3. Require the Cardholder to sign the Card.

The Merchant must not complete the Transaction if the Cardholder refuses to sign the Card.

8.3.2.2 Suspicious Cards

If a Card is presented and the Merchant believes that there is a discrepancy in the signature, or if the last four digits of the account number on the front of the Card do not match the four-digit truncated account number on the signature panel or displayed on the POS Terminal, or if the photographic identification is uncertain, the Merchant must contact its Acquirer for instructions.

If any unexpired Card does not have a MasterCard or Debit MasterCard hologram, as applicable, or MasterCard HoloMag™, the Merchant must pick up the Card and contact its Acquirer's Code Ten operator to advise it of the pick-up and to receive mailing instructions.

8.3.3 Obtaining an Authorization

With respect to securing authorizations of Transactions, an Acquirer must treat all Transactions at a Merchant location in the same manner.

If a Card is presented in a face-to-face Transaction, the Merchant must use its best efforts, by reasonable and peaceful means, to retain the Card while making an authorization request. This requirement does not apply when an Access Device or Mobile Payment Device is presented.

8.3.3.1 When to Obtain an Authorization

The Merchant must obtain an online or voice authorization from the Issuer for:

1. All non-face-to-face Transactions, regardless of the Transaction amount.
2. All face-to-face Transactions, Card-read or key-entered, occurring at locations with a POS Terminal that has both online and magnetic stripe-read capability, regardless of the Transaction amount, including:
 - a. MasterCard® *PayPass*™ magnetic stripe Transactions.
 - b. Chip Transactions when required by the Card or the POS Terminal, including MasterCard *PayPass M*/Chip Transactions.
 - c. Purchase with cash back Transactions, for the full Transaction amount inclusive of DE 4 (Amount, Transaction) and DE 54 (Additional Amounts).



Note

An addition to this Rule appears in Chapter 12, "Europe Region Rules."

3. Any other Transaction for which any of the following conditions apply:
 - a. The Transaction amount exceeds the published floor limit applicable to the Merchant.
 - b. The Card is expired or not yet valid.
 - c. The Card is not signed.
 - d. The Merchant's POS Terminal is unable to read the magnetic stripe or the chip (if one is present) on the Card.
 - e. The Card cannot be imprinted on the Transaction receipt because of a malfunction, although the Card is present and embossed.
 - f. The Card account number is listed in the applicable Warning Bulletin.
 - g. The Merchant is suspicious of the Transaction for any reason.

Sales Transactions and Cash Disbursements

8.3 Card Acceptance Procedures

An online or voice authorization from the Issuer is not required in the following instances:

1. Transactions at a Cardholder-activated terminal (CAT) 3 device
2. Chip Transactions authorized offline by the Card's EMV chip, including MasterCard *PayPass* M/Chip Transactions.
3. POS Terminal failure or telecommunication failure. A POS Terminal failure occurs when the POS Terminal itself is unable to read the Card or to accept key-entry of the Card data. In the event of a POS Terminal failure or telecommunication failure, the published floor limits apply.
4. Refund Transactions.

8.3.3.2 Chip Transactions

When an authorization is required for a chip Transaction, before completing the Transaction, the Merchant must obtain a Transaction Certificate (TC) and related data.

A non-face-to-face chip Transaction effected using a Cardholder-controlled remote device is considered valid if the Acquirer has received an Application Authentication Cryptogram (AAC) and the Issuer's approval of the Merchant's authorization request.

8.3.3.3 Lodging, Cruise Line, and Vehicle Rental Transactions

Lodging, cruise line, and vehicle rental Merchants may request an authorization for an estimated Transaction amount, and may submit subsequent authorization requests for any additional estimated amounts as needed.

Vehicle rental Merchants may not include charges in a Transaction that represent either:

- the vehicle insurance deductible amount or
- an amount to cover potential or actual damages when the Cardholder waives insurance coverage at the time of the rental

Vehicle rental Merchants must disclose to the Cardholder at the time of the rental the amount for which the authorization was obtained.

Charges for loss, theft or damage must be processed separately, as set forth in Rule 8.3.8.

When the Transaction is completed (that is, when the customer checks out of the hotel or motel, departs the cruise ship, or returns the vehicle) and the final Transaction amount is determined, the following will apply.

IF...	THEN...
The authorization request message contains the Partial Approval Terminal Support Indicator, and the authorization request response message contains a value of 10 (Partial Approval) in DE 39 and a partial approval amount in DE 6.	The Transaction amount may not exceed the approved amount.
The POS Terminal is not online-capable and the final Transaction amount does not exceed the published floor limit applicable to the Merchant	The Merchant is not required to obtain an authorization, but must check the Card account number against the applicable Warning Bulletin.
The final Transaction amount does not exceed the Merchant's estimated amount by 15 percent	The Merchant is not required to request a secondary authorization. The initial authorization guarantees the full amount of the Transaction.
The final Transaction amount exceeds the Merchant's estimated amount by 15 percent	The Merchant must request a secondary authorization for the additional amount.
The final Transaction amount exceeds the Merchant's applicable floor limit, and a previous authorization was not obtained because the Merchant's estimate did not exceed the floor limit.	The Merchant must obtain an authorization for the total Transaction amount.

The total authorized amount is the cumulative amount of all authorization request approvals related to the Transaction, plus 15 percent.

8.3.3.4 Adding a Gratuity

The following procedures apply to Transactions in which the Cardholder adds a gratuity, either before or after authorization approval is obtained.

IF...	THEN...
The authorization request message contains the Partial Approval Terminal Support Indicator and the authorization request response message contains a value of 10 (Partial Approval) in DE 39 and a partial approval amount in DE 6	The Transaction amount may not exceed the approved amount.
The POS Terminal is not online-capable, the Transaction amount is below the published floor limit applicable to the Merchant, and the Cardholder adds a gratuity in an amount less than or equal to 20 percent of the Transaction amount	The Merchant is not required to obtain an authorization even though the total Transaction amount may exceed the Merchant's floor limit.

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IF...	THEN...
The Merchant obtained an authorization for a Transaction, and the Cardholder adds a gratuity in an amount greater than 20 percent of the Transaction amount	The Merchant must request a secondary authorization for the additional amount.
The Transaction amount is below the Merchant's applicable floor limit and the Cardholder adds a gratuity in an amount greater than 20 percent of the Transaction amount, which causes the Transaction amount to exceed the Merchant's floor limit.	The Merchant must obtain an authorization for the total Transaction amount.

The total authorized amount is the cumulative amount of all authorization request approvals related to the Transaction, plus 20 percent.

8.3.4 Suspicious Transactions and Pick-up-card Response

To report a suspicious Transaction, the Merchant must:

- Include a value of 1 (Suspected fraud (merchant suspicious—code 10) in DE 61, subfield 8 (Transaction Security) of the authorization request message, or
- Contact the authorization center, state “This is a Code Ten,” and await instructions. The Acquirer may adopt a term other than “Code Ten” for use when a Merchant is suspicious, subject to approval by the Corporation.

If the Merchant receives a “capture card” or “pick-up-card” response to an authorization request, the Merchant must not complete the Transaction. The Merchant must retain the Card by reasonable and peaceful means, contact the Acquirer's authorization center for further instructions, and use its best efforts, by reasonable and peaceful means, to comply with those instructions.

8.3.5 Completing the Transaction

Upon completing a Transaction, a Merchant must produce a Transaction receipt, also called a Transaction Information Document (TID), in accordance with the requirements described in section 3.11 of the *Security Rules and Procedures* manual.

All products and services purchased in the same Transaction and all cash disbursed in a cash disbursement transaction must be included on a single TID.

A copy of the TID must be provided to the Cardholder, unless the Cardholder chooses not to receive a Transaction receipt with respect to a QPS or MasterCard *PayPass* Transaction that does not exceed the eligible chargeback protection amount. For an electronic commerce Transaction or non-face-to-face recurring payment Transaction, the receipt may be sent to the Cardholder by e-mail or other electronic means.

8.3.5.1 TID Information Requirements

All of the following information must be included on the TID:

1. A description and the price of each product and service purchased, including applicable taxes, in detail sufficient to identify the Transaction.



Note

A variation to this provision of the Rule appears in Chapter 12, "Europe Region Rules."

2. The total Transaction amount and Transaction currency. If no currency is identified on the TID, the Transaction is deemed to have taken place in the currency that is legal tender at the POI. If the Merchant offers multiple currencies, the TID must reflect all of the following information:
 - a. The total of products and services purchased in the Transaction in the Merchant's local currency;
 - b. The converted Transaction amount in the currency chosen and agreed to by the Cardholder and the Merchant;
 - c. The currency symbol or code of each;
 - d. The method agreed to by the Cardholder for the conversion of the total amount from the Merchant's local currency to the Transaction currency (for example, conversion rate).
 - e. Either of the following statements:
 - i. "I have chosen not to use the MasterCard currency conversion process and I will have no recourse against MasterCard concerning the currency conversion or its disclosure."
 - ii. "I understand that MasterCard has a currency conversion process and that I have chosen not to use the MasterCard Currency conversion process and I will have no recourse against MasterCard with respect to any matter related to the currency conversion or disclosure thereof."

(For additional requirements relating to POI currency conversion, see Rule 8.6.)

3. The Transaction date. (For Transaction date requirements, see Rule B.1 in Appendix B of this manual.)

Sales Transactions and Cash Disbursements

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4. For Card-present Transactions, a legible imprint of the Card or an electronic recording of the Card-read or key-entered Card information. If a Cardholder presents an unembossed Card, the Merchant must obtain an electronic recording of the Card-read or key-entered Card information.

If the TID is produced by a POS Terminal, the Card account number must be truncated and the Card expiration date must be omitted, in accordance with section 3.11.4 of the *Security Rules and Procedures* manual.

5. The Merchant location.
6. The authorization number, if an online or voice authorization is obtained from the Issuer. If more than one authorization is obtained over the course of the Transaction (as may occur for lodging, cruise line, or vehicle rental Transactions), all authorization numbers, the amounts authorized, and the date of each authorization must be entered on the TID.
7. For unique Transactions processed in a face-to-face environment (with the exception of truck stop Transactions and card-read Transactions where a non-signature CVM is used)—A description of the unexpired, official government document provided as identification by the Cardholder, including any serial number, expiration date, jurisdiction of issue, customer name (if not the same name as present on the Card), and customer address.

The Transaction certificate is not required on the TID for a chip Transaction. However, if the Acquirer elects to record this information, the Merchant must include the Transaction certificate in its entirety on the TID.

8.3.5.2 Prohibited Information

The TID or any other Acquirer or Merchant document must not reflect:

- The PIN, any part of the PIN, or any fill characters representing the PIN; or
- The Card validation code 2 (CVC 2).

8.3.5.3 Cardholder Verification Method (CVM)

In a face-to-face environment, the Merchant must give the Cardholder the option of a signature-based Transaction. Unless the Cardholder uses a PIN at a hybrid POS Terminal or other POI where the Corporation permits the use of PIN as a CVM, the Cardholder must sign the TID. This requirement does not apply with respect to a QPS or MasterCard *PayPass* Transaction that is equal to or less than the applicable chargeback protection amount.

For each signature-based Transaction, unless an Access Device or Mobile Payment Device was presented, the Merchant must compare the signature on the TID with the signature on the Card to determine whether they appear to be the same. If the Merchant believes that the signature on the Card does not match the signature on the TID, the Merchant must contact the Acquirer for instructions. The signature would not match if name appearing on the Card's signature panel is different from the name appearing on the TID (for example, if the Card were signed "Jan H. Hanley" and the TID showed "Bob Hanley" or "F. Hanley"). The signature would be acceptable if the Cardholder's first and/or middle name(s) is abbreviated on the TID (such as J. H. Hanley) or if a title such as Mr., Mrs., or Dr. is missing or is included.

In a non-face-to-face Transaction environment, the Merchant may complete the Transaction without obtaining a CVM.

No CVM is required for a refund Transaction. However, when a PIN is used as the CVM for a refund Transaction conducted at a hybrid POS Terminal, the Merchant must obtain a successful PIN validation.

8.3.5.4 Give the Cardholder a Copy of the Receipt

The Merchant must provide the Cardholder with a true and completed copy of the TID. This requirement does not apply if the Cardholder has chosen not to receive a receipt for a QPS or MasterCard *PayPass* Transaction that is equal to or less than the applicable chargeback protection amount.

8.3.6 Multiple TIDs and Partial Payment

A Merchant is prohibited from using two or more TIDs, also known as a split ticket, to avoid an authorization request. Examples of split tickets include deposit and balance payments and installment payment arrangements.

All products and services purchased in a single Transaction must be included in one total amount on a single TID, with the following exceptions:

- More than one payment method may be used, provided that an authorization is obtained for and the TID reflects only the portion of the Transaction to be paid by means of a Card.
- Multiple products or services may be purchased and individually billed in separate Transactions to the same Card account, provided an authorization is obtained for each product or service purchased.

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8.3 Card Acceptance Procedures

A Merchant is prohibited from effecting a Transaction where only a part of the total purchase amount is included on a single TID, except when:

- The customer pays a portion of the Transaction amount by means of a Card and pays the remaining balance by another payment method, such as cash or check.
- The products or services will be delivered or performed after the Transaction date, one TID represents a deposit, and the second TID represents payment of the balance. The Merchant must note the words "deposit" and "balance" on the TIDs as appropriate. The second TID is contingent on the delivery or performance of the products or services, and must not be presented until after the goods or services are delivered or performed.
- The Cardholder has agreed in writing to be billed by the Merchant in installments, and has specified the installment payment schedule and/or each installment payment amount to be billed to the Card.

8.3.7 Specific Terms of a Transaction

The Merchant may impose specific terms governing a Transaction by, for example:

1. Printing the specific terms on the TID in close proximity to the Cardholder signature line before presenting the TID to the Cardholder for signature; or
2. Disclosing the specific terms by other means, such as by signage or literature, provided the disclosure is sufficiently prominent and clear so that a reasonable person would be aware of and understand the disclosure before the Transaction is completed.

Specific Transaction terms may include, for example, such words as "Exchange Only," "In-Store Credit Only," or "Original Packaging Required for Returns." Specific terms may address such matters as late delivery, delivery charges, or insurance charges.

In the event of a dispute, and subject to compliance with other Standards, such specific terms shall be given effect, provided that such specific terms were disclosed to and accepted by the Cardholder before completion of the Transaction.

8.3.7.1 Returned Products and Canceled Services

A Merchant is not required to accept the return of products or the cancellation of services unless a right of return or cancellation was a condition of the Transaction.

Upon a partial or entire return of products or cancellation of service, or if the Merchant agrees to a price adjustment, the Merchant may not provide the refund or adjustment by cash, check, or any means other than a credit the same Card account used for the original purchase. A cash or check refund is permitted for involuntary refunds by airlines or other Merchants only when required by law.

The Cardholder must be provided a copy of the refund Transaction TID. The refund Transaction TID must contain the date; a description of the returned products, canceled services, or adjustment made; the amount of the credit; and the Merchant's signature.

8.3.8 Charges for Loss, Theft, or Damage

A charge for loss, theft, or damage must be processed as a separate Transaction from the underlying rental, lodging, or similar Transaction. The Cardholder must authorize the charge after being informed of the loss, theft, or damage.

The Merchant must provide a reasonable estimate of the cost of repairs and obtain agreement from the Cardholder prior to processing the Transaction. The Transaction must be Card-present, a CVM must be obtained, and the TID must include a statement indicating that the estimated amount charged for repairs will be adjusted upon completion of the repairs and submission of the invoice for such repairs.

The final amount of the Transaction relating to the repairs may not exceed the Merchant's estimated amount by more than 15 percent (or less, as directed by local ordinances). If the actual cost of repairs is less than the estimated amount, the Merchant must credit the difference to the Cardholder by processing a refund Transaction to the same Card account within 30 days.

8.4 Requirements for Specific Transaction Types

8.4.1 Chip Transactions and Acceptance at Hybrid POS Terminals

To be valid, a chip Transaction or cash disbursement must occur at a hybrid POS Terminal and obtain authorization by the Issuer or the chip, resulting in the generation of a unique Transaction Certificate (TC). The Acquirer must send the TC and related EMV chip data in DE 55 (Integrated Circuit Card [ICC] System-Related Data) of the Authorization Request/0100 or Financial Transaction Request/0200 message and in DE 55 of the First Presentment/1240 message.

Sales Transactions and Cash Disbursements

8.4 Requirements for Specific Transaction Types

A chip/PIN Transaction is a chip Transaction effected at a "PIN-capable hybrid POS Terminal" with a "PIN-preferring chip Card" (as such terms are defined in the *M/Chip Requirements* manual) and completed with offline or online PIN as the CVM. The Cardholder may retain control of the Card while a chip/PIN Transaction is performed.

Customers must comply with the Card and hybrid POS Terminal requirements set forth in the *M/Chip Requirements* manual and EMV chip specifications, and in section 4.8 of the *Security Rules and Procedures* manual.

For information about chip and chip/PIN liability shifts, see section 3.5 of the *Chargeback Guide*.



Note

Additional Rules on this topic appear in Chapter 10, "Asia/Pacific Region Rules"; Chapter 11, "Canada Region Rules"; Chapter 12, "Europe Region Rules"; Chapter 12b, "SEPA Rules"; Chapter 13, "Latin America and the Caribbean Region Rules"; Chapter 14, "South Asia/Middle East/Africa Region Rules"; and Chapter 14a, "South Africa Rules."

8.4.1.1 Hybrid POS Terminal Display Requirements

A hybrid POS Terminal must:

1. Display to the Cardholder all mutually supported application labels or preferred names. Multiple matching applications must be displayed in the Issuer's priority sequence.
2. Allow the Cardholder to select the application to be used when multiple matching applications exist.
3. Display to the Cardholder the Transaction amount and Transaction currency, if different from the Merchant's or cash disbursement agent's local currency. Refer to Rule 8.6 for additional requirements relating to currency conversion.

8.4.1.2 Offline-only Hybrid POS Terminals at Merchants with No Fixed Location

Acquirers may process a chip Transaction that takes place at the offline-only hybrid POS Terminal of a Merchant with no fixed location (for example, aboard a plane, train or ship) although the POS Terminal's authorization request is declined, if all the following conditions are satisfied:

1. The POS Terminal has no online capability and does not perform fallback procedures from chip to magnetic stripe.
2. The POS Terminal prompted for PIN as the CVM and the EMV chip provided offline verification of the PIN entered by the Cardholder.

3. The POS Terminal recommended Transaction approval.
4. The Card declined the offline authorization request.
5. The Merchant is identified under one of the following MCCs:
 - a. MCC 4111 (Transportation—Suburban and Local Commuter Passenger, including Ferries)
 - b. MCC 4112 (Passenger Railways)
 - c. MCC 5309 (Duty Free Stores)
6. The Acquirer provides in the First Presentment/1240 message:
 - a. The value of F (Offline Chip) in DE 22 (Point of Service Entry Mode), subfield 7 (Card Data Input Mode).
 - b. The Application Authentication Cryptogram (AAC) in DE 55.

The Acquirer processes such declined Transactions at the risk of receiving authorization-related chargebacks.

8.4.1.3 CVM Fallback

The following requirements apply with respect to Cardholder verification method (CVM) fallback from PIN to signature on a chip Transaction:

1. When a PIN-preferring chip Card is used at a PIN-capable hybrid POS Terminal, the Cardholder may be verified by signature if PIN verification (offline or online) fails for any reason other than PIN decline by the Issuer or by Stand-In, provided signature is identified as a permitted CVM during the EMV Transaction process. PIN-capable hybrid POS Terminals may support the PIN override function as described in the EMV chip specifications.
2. CVM fallback Transactions must be authorized and identified as being completed with signature as the CVM.
3. The Issuer is liable for lost, stolen and never-received-issue fraudulent CVM fallback Transactions completed with authorization approval, provided that the Merchant complied with the Card acceptance procedures (for example, a CVM was used). The Acquirer is liable for lost, stolen and never-received-issue fraudulent CVM fallback Transactions completed without authorization approval.

8.4.1.4 CVM Failure

CVM failure occurs when a chip Transaction is completed without successful Cardholder verification, such as when offline PIN is the selected CVM but offline PIN verification does not take place (for example, the Merchant uses the PIN bypass functionality or the Card's offline PIN is "locked" because of incorrect PIN entries) and the Card's settings do not allow CVM fallback. Card and POS Terminal settings typically require such Transactions to be sent online to the Issuer for authorization with an indicator that Cardholder verification was not successful. Issuers may decide whether to approve or decline such Transactions at their own risk.

8.4.1.5 Technical Fallback

In both the chip and the chip/PIN environment, a technical failure involving either the EMV chip or the hybrid POS Terminal may result in a technical fallback Transaction. A technical fallback Transaction:

1. May be initiated with the magnetic stripe only if the chip cannot be read.
2. May be completed by means of a manual imprinter or electronic key entry of the Card data only if both the chip and the magnetic stripe cannot be read.
3. May be completed with signature or, where applicable, PIN as the CVM.
4. Must be authorized online by the Issuer and properly identified as being captured with a fallback technology.

The Issuer is liable for fraudulent magnetic stripe-read and paper-based technical fallback Transactions completed with authorization approval, provided that the Merchant complied with the Card acceptance procedures (for example, a CVM was used). The Acquirer is liable for fraudulent magnetic stripe-read and paper-based technical fallback Transactions completed without authorization approval.

8.4.2 Card-Not-Present Transactions



Note

Rules on this topic appear in Chapter 12, "Europe Region Rules" and Chapter 14b, "India Rules."

8.4.2.1 E-commerce Transactions

A Merchant must not refuse to complete an e-commerce Transaction solely because the Cardholder does not have a digital certificate or other secured protocol.

8.4.2.2 Recurring Payment Transactions

A recurring payment Transaction is a payment made in connection with an agreement between a Cardholder and a Merchant whereby the Cardholder has authorized the Merchant to bill the Cardholder's Card account on a continued, periodic basis (such as monthly, quarterly, or annually) without a specified end date. Each payment may be for a variable or a fixed amount.

Each recurring payment Transaction must contain a value of 4 (Standing order/recurring transactions) in DE 61 (Point-of-Service [POS] Data), subfield 4 (POS Cardholder Presence) in the authorization request message.

The Acquirer should ensure that the Merchant retains the Cardholder's written agreement to the terms of a recurring payment Transaction arrangement. The Merchant must not deliver products or perform services pursuant to a recurring payment Transaction arrangement after receiving notification of its cancellation by the Cardholder or Issuer or that the Card on file is not to be honored.

8.4.3 MasterCard *PayPass* Transactions

For MasterCard *PayPass* Transactions equal to or less than the applicable chargeback protection amount:

1. Use of signature as the CVM is at the Merchant's option; and
2. The provision of a TID to the Cardholder is at the Merchant's option. The Merchant must provide a TID at the Cardholder's request.

Chargeback protection applies with respect to message reason codes 4802 (Requested/Required Information Illegible or Missing) and 4837 (No Cardholder Authorization).

For MasterCard *PayPass* Transaction identification requirements, see Rule B.2 in Appendix B of this manual. For chargeback protection amount information, see Appendix C of the *Chargeback Guide*.



Note

The phrases "tap the *PayPass* card or device" and "*PayPass* tap" refer to the same series of actions: a Cardholder touching the MasterCard *PayPass* Card to a *PayPass* POS Terminal, resulting in the *PayPass* POS Terminal reading the Card data and then flashing a light and making a sound.



Note

A Rule on this topic appears in Chapter 11, "Canada Region Rules."

8.4.3.1 Processing MasterCard *PayPass* Transit Transactions

MasterCard *PayPass* transit Transactions are limited to specific MCCs and can be pre-funded, real-time authorized, or post-authorized aggregated.

8.4.3.1.1 Pre-funded

A pre-funded MasterCard *PayPass* transit Transaction occurs when:

1. The Cardholder purchases value redeemable for future travel with a transit Merchant, whereby the Merchant sends an Authorization Request/0100 message for the amount of value purchased; and
2. The Transaction is effected by use of the contactless interface of a MasterCard *PayPass* Card.

The purchased value is held by the transit Merchant in an account linked to the Cardholder's MasterCard *PayPass* Card account. Any tap performed with the MasterCard *PayPass* Card following the purchase of value will reduce the value held with the transit Merchant, but will not result in a Transaction.

8.4.3.1.2 Real-time Authorized

A real-time authorized MasterCard *PayPass* transit Transaction occurs when the transit Merchant sends an Authorization Request/0100 message each time a Cardholder taps a MasterCard *PayPass* Card at the Merchant's POS Terminal.

8.4.3.1.3 Post-authorized Aggregated

A post-authorized aggregated MasterCard *PayPass* transit Transaction occurs when the transit Merchant's Acquirer generates a First Presentment/1240 message combining one or more *PayPass* taps performed with one MasterCard *PayPass* Card account number at one transit Merchant.

In order for the transit Merchant to receive chargeback protection, all of the following must occur:

1. The Merchant must send an Authorization Request/0100 message for USD 1 (or the approximate equivalent in one whole unit of local currency; for example, EUR 1 or JPY 1).
2. The Issuer must approve the Transaction.
3. The combined amount of the *PayPass* taps must be equal to or less than the applicable chargeback protection amount.
4. The maximum time period from the first *PayPass* tap until the First Presentment/1240 message is generated must be 14 calendar days or less. Upon the Cardholder's request, the Merchant must provide a list of the *PayPass* taps that were combined into a First Presentment/1240 message.

For post-authorized aggregated MasterCard *PayPass* transit Transaction identification requirements, see Rule B.2.1 in Appendix B.

8.4.3.2 *PayPass*-only Acceptance

Where approved by the Corporation (either on a country-by-country or case-by-case basis), Acquirers may sponsor Merchants that deploy POS Terminals that utilize only the MasterCard *PayPass* contactless payment functionality. The Acquirer must ensure that each POS Terminal with contact Card acceptance functionality subsequently deployed by any such Merchants accepts Cards.

The Corporation has approved the following for *PayPass*-only acceptance:

1. Merchants that deploy single-vehicle parking meters (MCC 7523)
2. Merchants that deploy single-ride bus fare collection devices (MCC 4131)
3. Merchants that use the following MCCs:
 - a. MCC 4111—Transportation—Suburban and Local Commuter Passenger, including Ferries
 - b. MCC 4112—Passenger Railways
 - c. MCC 4789—Transportation Services—not elsewhere classified
4. Merchants located in Belgium, Canada, Germany, Italy, Poland, the Netherlands, Spain, Switzerland, Turkey, Ukraine, or the United Kingdom, or the United States that deploy any type of parking meters, including multiple-vehicle parking meters (MCC 7523).
5. Merchants located in Germany, Poland, Spain, Switzerland, Turkey, Ukraine, or the United Kingdom that deploy “select first” vending machines (MCC 5499).
6. Subject to Corporation approval on a case-by-case basis, Merchants operating mass events, festivals, and sport arenas located in Poland under the following MCCs:
 - a. MCC 7941—Athletic Fields, Commercial Sports, Professional Sports Clubs, Sports Promoters
 - b. MCC 7929—Bands, Orchestras, and Miscellaneous Entertainers not elsewhere classified
7. Merchants located in Poland that use MCC 5994—News Dealers and Newsstands.

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POS Terminals that utilize only the MasterCard *PayPass* contactless payment functionality at Merchants using the following MCCs are not required to provide a Transaction receipt at the time the Transaction is conducted; however, the Merchant must have a means by which to provide a receipt to the Cardholder upon request. If such means involves the storage, transmission, or processing of Card data, then it must comply with the Payment Card Industry Data Security Standard (PCI DSS). The manner in which to request a receipt must be clearly displayed at the Merchant location.

MCC 4111—Transportation—Suburban and Local Commuter, Passenger, including Ferries

- MCC 4112—Passenger Railways
- MCC 4131—Bus Lines
- MCC 4789—Transportation Services—not elsewhere classified
- MCC 7523—Automobile Parking Lots and Garages

For *PayPass*-only Transaction identification requirements, see Rule B.2.2 in Appendix B.

8.4.3.3 MasterCard *PayPass* M/Chip Transaction Offline Authorization Limit Amounts

If a MasterCard *PayPass* M/Chip Transaction occurs at a Merchant using an MCC listed below and located in Australia, Hong Kong, Macao, Malaysia, New Zealand, or Singapore, and the Transaction exceeds the applicable offline authorization limit amount, the Transaction must be authorized online by the Issuer. If the Transaction amount is equal to or less than the applicable offline authorization limit amount, the Transaction may be authorized offline by the EMV chip.

In this country...	The MasterCard <i>PayPass</i> M/Chip Transaction offline authorization limit amount is...
Australia	AUD 100
Hong Kong	HKD 500
Macao	MOP 500
Malaysia	MYR 150
New Zealand	NZD 80
Singapore	SGD 100

The amounts specified above apply only at Merchants in the following MCCs. For all other Merchants, see Chapter 5 of the *Quick Reference Booklet*.

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MCC	Description
4111	Transportation—Suburban and Local Commuter, Passenger, Including Ferries
4121	Limousines and Taxicabs
4131	Bus Lines
4784	Bridges and Road Fees, Tolls
5411	Grocery Stores, Supermarkets
5499	Miscellaneous Food Stores—Convenience Stores, Markets, and Specialty Stores
5541	Service Stations (with or without Ancillary Services)
5735	Record Shops
5814	Fast Food Restaurants
5912	Drug Stores, Pharmacies
5942	Book Stores
5994	News Dealers and Newsstands
7216	Dry Cleaners
7523	Automobile Parking Lots and Garages
7542	Car Washes
7832	Motion Picture Theaters
7841	Video Entertainment Rental Stores

8.4.4 Quick Payment Service (QPS) Program

For Quick Payment Service (QPS) Transactions equal to or less than the applicable chargeback protection amount:

1. Use of signature as the CVM is at the Merchant's option; and
2. The provision of a Transaction receipt to the Cardholder is at the Merchant's option. The Merchant must provide a receipt at the Cardholder's request.

Chargeback protection applies with respect to message reason codes 4802 and 4837.

For QPS Transaction identification requirements, see Appendix B of this manual. For chargeback protection amount information, see Appendix C of the *Chargeback Guide*. For additional QPS Program requirements, see the *Quick Payment Service Program Guide*.

8.4.5 Purchase with Cash Back Transactions

Purchase with cash back is an optional service that a Merchant may offer, with the prior approval of its Acquirer, at the POI in a Card-present, face-to-face Transaction environment only. The following requirements apply to purchase with cash back Transactions:

1. A purchase with cash back Transaction is a Transaction arising from the use of a Debit MasterCard Card but not any other type of Card.
2. In a purchase with cash back Transaction, cash may only be provided in combination with a purchase.
3. Acquirers and Merchants that choose to provide purchase with cash back Transactions first must establish an education program for Merchant employee staff, including but not limited to POS Terminal operators.
4. Acquirers or Merchants may establish a minimum and maximum cash back amount of the purchase with cash back Transaction, provided that:
 - a. Any such minimum or maximum amount is applied uniformly to all Cardholders.
 - b. Any minimum amount is not greater than the minimum amount established for any other payment means accepted at the Merchant location.
 - c. Any maximum amount is not less than the maximum amounts established for any other payment means at the merchant location, and is not more than USD 100 or the local currency equivalent.
5. The authorization and clearing messages of each purchase with cash back Transaction must comply with the following requirements:
 - a. The Transaction must be identified with a value of 09 (purchase with cash back) in DE 3 (Processing Code), subfield 1 (Cardholder Transaction Type).
 - b. The purchase amount, cash back amount, and total Transaction amount must be in the same currency.
 - c. The total Transaction amount (inclusive of the purchase and cash back amounts) must be transmitted in DE 4 (Amount, Transaction).
 - d. The cash back amount must be transmitted in DE 54 (Amounts, Additional).



Note

Variations to this Rule appears in Chapter 12, "Europe Region Rules"; Chapter 14a, "South Africa Rules"; and Chapter 14b, "India Rules."

8.4.6 Unique Transactions

Acquirers must properly identify unique Transactions in authorization and clearing messages. The following types of Transactions are defined as unique Transactions and must be processed using the appropriate MCC:

- Gambling Transactions (MCC 7995)
- Gambling—Horse Racing, Dog Racing (MCC 9754)
- Money Transfer—Customer Financial Institution (MCC 6534)
- Money Transfer—Merchant (MCC 4829)
- Quasi Cash—Customer Financial Institution (MCC 6050)
- Quasi Cash—Merchant (MCC 6051)
- Remote Stored Value Load—Customer Financial Institution (MCC 6529)
- Remote Stored Value Load—Merchant (MCC 6530)
- Truck Stop Transactions (MCC 7511)

All unique Transactions have a floor limit of zero and must be authorized online by the Issuer. For MCC descriptions, see the *Quick Reference Booklet*.

8.4.7 Cardholder-Activated Terminal Requirements

A Cardholder-activated terminal (CAT) Transaction occurs at an unattended electronic POS Terminal or by means of a Cardholder-controlled electronic device (including but not limited to transponders, personal computers, and mobile phones). Since no Merchant representative is present at the time of the Transaction, a CAT Transaction is a non-face-to-face Transaction. Examples of CATs may include ticket dispensing machines, vending machines, automated fuel dispensers, toll booths, and parking meters. For CAT Transaction identification and processing requirements, see Rule B.4 in Appendix B.

8.4.8 Automated Fuel Dispenser Transactions

If an Issuer approves an authorization request for a Cardholder-activated automated fuel dispenser Transaction identified with MCC 5542 and CAT level 2 (an "AFD Transaction") occurring at a Merchant located in the U.S. region, then within 60 minutes of the time that the authorization request message was sent, the Acquirer must send an authorization advice message advising the Issuer of the Transaction amount.

If after approving an authorization request for an AFD Transaction the Issuer has placed a hold on Cardholder funds in excess of USD 1, then within 60 minutes of receiving the Acquirer's authorization advice (0120 or 0420) message, the Issuer must release any hold amount that exceeds the Transaction amount specified.

8.4.9 Payment Transactions

A Payment Transaction is a transfer of funds to a Card account via the Interchange System. A Payment Transaction is not a credit that reverses a previous purchase Transaction.

If Payment Transactions are to be conducted pursuant to a Customer-to-Customer, intracountry, or intercountry business service arrangement, the business service arrangement must be agreed to in writing, in advance, by the Corporation. The Corporation reserves the right to audit or to monitor any Payment Transaction Program at any time.

Each Payment Transaction must comply with all requirements set forth herein.

1. A Payment Transaction must not be effected in a manner that is inconsistent with an expressed Cardholder preference.
2. Each Payment Transaction must be authorized separately and distinctly by the Issuer of the Card account to which the funds are to be transferred, and must be identified as a Payment Transaction in the Authorization Request/0100 message, as described in "Payment Transaction Authorization" in Chapter 9 of the *Authorization Manual*.
3. A Payment Transaction must be effected on the date agreed upon by the Merchant and the person whose Card account is to be funded.
4. Separate Payment Transaction requests must be effected separately and may not be aggregated as a single Payment Transaction. Conversely, a Payment Transaction may not be separated into two or more Payment Transactions.
5. Each Payment Transaction must be authorized, cleared, and settled distinctly and separately.
6. A Payment Transaction **may not** be effected for any of the following reasons:
 - a. To "authenticate" a Card account or a Cardholder, for example, by effecting or attempting to effect a Payment Transaction for a nominal amount.
 - b. For any illegal purpose or any other purpose deemed by the Corporation to be impermissible.
 - c. To transfer the proceeds from a Transaction to a Merchant.

7. A Payment Transaction must be submitted to the Corporation for clearing within one day of the Issuer's approval of the authorization request.
8. Funds for the Payment Transaction must be deemed collected and in the control of the Acquirer before the Payment Transaction is submitted to the Interchange System.
9. A Payment Transaction only may be reversed for reason of a documented clerical error. In such an event, the error must be reversed within three calendar days of the date the Payment Transaction was submitted to the Interchange System. Reversible clerical errors include, by way of example and not limitation, the erroneous capture of Transaction data, a duplicate Transaction, or an error caused by the transposition of data.
10. A Merchant effecting Payment Transactions must honor all valid Cards without discrimination.

8.4.9.1 Gaming Payment Transactions



Note Regional Rules on this topic appear in Chapter 12, "Europe Region Rules."

8.4.10 MoneySend Payment Transactions

A *MoneySend* Payment Transaction is a transfer of funds to a Card account via the MasterCard *MoneySend* platform through the Interchange System. A *MoneySend* Payment Transaction is not a credit that reverses a previous Card purchase. A *MoneySend* Payment Transaction must not be sent to a Card issued in India that is linked to a credit account.

All Issuers in the countries listed below must properly process and authorize *MoneySend* Payment Transactions.

Country Code	Country	Country Code	Country
008	Albania	807	Macedonia
051	Armenia	470	Malta
031	Azerbaijan	498	Moldova
070	Bosnia and Herzegovina	499	Montenegro
100	Bulgaria	616	Poland
196	Croatia	642	Romania
191	Cyprus	643	Russian Federation

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8.4 Requirements for Specific Transaction Types

Country Code	Country	Country Code	Country
203	Czech Republic	688	Serbia
268	Georgia	703	Slovakia
348	Hungary	705	Slovenia
376	Israel	792	Turkey
398	Kazakhstan	804	Ukraine
900	Kosovo		

The Corporation reserves the right to audit or to monitor any *MoneySend* Payment Transaction Program at any time.

8.4.10.1 MoneySend Payment Transaction Requirements

Acquirers that send *MoneySend* Payment Transactions and issuers that receive *MoneySend* Payment Transactions pursuant to the MasterCard *MoneySend* platform must comply with all of the requirements set forth herein.

1. Only Acquirers and Issuers approved and registered by the Corporation may effect *MoneySend* Payment Transactions pursuant to the MasterCard *MoneySend* platform. In the countries listed below, only Acquirers must register with the Corporation.

Albania	Hungary	Romania
Armenia	Israel	Russian Federation
Azerbaijan	Kazakhstan	Serbia
Bosnia and Herzegovina	Kosovo	Slovakia
Bulgaria	Macedonia	Slovenia
Croatia	Malta	Turkey
Cyprus	Moldova	Ukraine
Czech Republic	Montenegro	
Georgia	Poland	

2. A *MoneySend* Payment Transaction must be effected on the date agreed with the person whose Card account is to be debited (the "sender"), and must not be effected in a manner that is inconsistent with the sender's expressed preference(s).
3. The Acquirer must submit an authorization request to the Issuer for each *MoneySend* Payment Transaction. *MoneySend* Payment Transaction authorizations must be either approved or declined for the full Transaction amount. No partial approvals will be permitted.

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4. Separate *MoneySend* Payment Transaction requests must be effected separately and may not be aggregated as a single Payment Transaction. Conversely, a *MoneySend* Payment Transaction may not be separated into two or more Payment Transactions. Each *MoneySend* Payment Transaction must be authorized, cleared, and settled distinctly and separately.
5. A *MoneySend* Payment Transaction may not be effected for any of the following reasons:
 - a. To “authenticate” a Card account or a Cardholder, for example, by effecting or attempting to effect a *MoneySend* Payment Transaction for a nominal amount; or
 - b. For any illegal purpose or any other purpose deemed by the Corporation to be impermissible; or
 - c. To transfer the proceeds from a Transaction to a Merchant; or
 - d. To transfer funds to a Merchant, a commercial entity, or a commercial Card.
6. A *MoneySend* Payment Transaction must be submitted to the Corporation for clearing within one (1) calendar day of the Issuer’s approval of the authorization request.
7. Funds for the *MoneySend* Payment Transaction must be deemed collected and in the control of the Acquirer before the *MoneySend* Payment Transaction is submitted for authorization.
8. A *MoneySend* Payment Transaction may only be reversed by the acquirer for reason of a documented clerical error at the issuer’s sole discretion. In such an event, the error must be reversed within one (1) calendar day of the date the *MoneySend* Payment Transaction was authorized. Reversible clerical errors include, by way of example and not limitation, the erroneous capture of Transaction data, a duplicate Transaction, or an error caused by the transposition of data.
9. A participating Issuer must not decline a *MoneySend* Payment Transaction based solely on the Transaction type and/or the Acquirer originating the Transaction.
10. An Issuer may, approve or reject the Acquirer’s request to correct a clerical error and/or, except for the countries listed below, establish its own maximum *MoneySend* Payment Transaction amount.

Albania	Hungary	Romania
Armenia	Israel	Russian Federation
Azerbaijan	Kazakhstan	Serbia
Bosnia and Herzegovina	Kosovo	Slovakia
Bulgaria	Macedonia	Slovenia

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Croatia	Malta	Turkey
Cyprus	Moldova	Ukraine
Czech Republic	Montenegro	
Georgia	Poland	

11. An Issuer must make the transferred funds available to the Cardholder without unnecessary delay. If funds will not be available immediately upon receipt of the clearing record, the Issuer must disclose to the Cardholder the period of time after which funds will become available.
12. Upon Issuer approval of a *MoneySend* Payment Transaction authorization request, the *MoneySend* Payment Transaction is deemed irrevocable and should not be charged back. The issuer may file a compliance case under limited circumstances. See Chapter 5, "Compliance Procedures" of the *Chargeback Guide* for additional information regarding a *MoneySend* Payment Transaction compliance case.
13. The Acquirer must ensure that the amount of the *MoneySend* Payment Transaction in the clearing message matches the amount in the authorization request.
14. The Issuer must identify each *MoneySend* Payment Transaction on the Cardholder's periodic billing statement, including the amount and the date of posting to the Card account.
15. *MoneySend* Payment Transaction must be identified using one of the following MCCs:
 - a. MCC 6536—Intracountry *MoneySend* Payment Transaction
 - b. MCC 6537—Inter-country *MoneySend* Payment Transaction

The Acquirer must also submit a Payment Transaction Detail addendum with a *MoneySend* Payment Transaction. The addendum provides the Issuer with enhanced data, including Transaction details.

8.4.11 Mobile Remote Payments

The Standards for Mobile Remote Payments apply in countries where Mobile Remote Payment Transactions are supported. The applicability of these Standards in a country will be announced in a regional and/or country-specific bulletin.

A Mobile Remote Payment Transaction is a payment to a Merchant initiated by a Cardholder using the Mobile Remote Payment functionality on the Cardholder's Mobile Device. Solely for purposes of this Rule 8.4.11, a Mobile Device is a Cardholder-controlled mobile phone that has been registered with the Cardholder's Issuer and which is used for entry of the Cardholder's PIN or mobile-specific credentials.

8.4.11.1 Mobile Remote Payments Program Requirements

To participate in Mobile Remote Payments, an Acquirer must comply with the following requirements:

1. Register with the Corporation to participate in the Mobile Remote Payments Program, as described in the *Mobile Remote Payments Program Guide*.
2. Provide implementation and registration for participating Merchants or delegate a specific implementation and registration function to a Corporation-approved provider.
3. Properly identify a Mobile Remote Payment transaction, as described in Rule B.5 in Appendix B.

Acquirers must ensure that all participating Merchants:

1. Comply with the requirements set forth in the *Mobile Remote Payments Program Guide*, and this Rule 8.4.11.
2. Provide clear instructions about how to obtain a mailing address, and a contact telephone number or e-mail address, for Cardholder queries resulting from Mobile Remote Payment Transactions. This information may be provided in the confirmation message, but must be readily accessible to a Cardholder, and remain displayed for at least ninety (90) calendar days after the last day on which a Transaction was performed.
3. Provide a function for Cardholders to confirm a Mobile Remote Payment. This confirmation function must be provided before the sale has been completed and any charges levied.
4. Provide a confirmation of payment message after the Cardholder confirms the Transaction. The confirmation message must include the Transaction date, Transaction amount, Merchant reference, specific Transaction reference, and contact details for Cardholder inquiries.

8.4.11.2 Mobile Remote Payment Transaction Requirements

Mobile Remote Payment Transactions must be properly identified in all authorization and clearing messages, and are subject to the Standards governing Transactions, except as otherwise provided herein. The following additional requirements apply:

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8.5 Requirements for Specific Merchant Categories

1. The completed copy of the TID may be provided to the Cardholder electronically (such as through e-mail). Information provided on an electronically-produced TID must comply with all TID requirements.
2. The floor limit for all Mobile Remote Payment Transactions is zero.
3. All Mobile Remote Payment Transactions must either:
 - a. Use online PIN as the CVM, or
 - b. The Issuer may choose to implement mobile-specific credentials and a method of generating an Account holder Authentication Value (AAV), as an alternative to using PIN as the CVM for Mobile Remote Payment Transactions. An Issuer choosing to implement this method must provide clear communication to the Cardholder regarding the process by which a Mobile Remote Payment Transaction is conducted without the use of PIN as the CVM.

Refer to the *Mobile Remote Payments Program Guide* for additional information.

8.4.12 PIN-based Debit Transactions



Note Rules on this topic appear in Chapter 15b, "United States Region PIN-based Debit Transaction Rules."

8.4.13 Refund Transactions

Refer to Rule 8.3.8 for Card acceptance requirements relating to refund Transactions. See Rule 8.6 in relation to Merchants that offer POI currency conversion.



Note A Rule on this topic appears in Chapter 15, "United States Region Rules."

8.5 Requirements for Specific Merchant Categories

Effective 12 October 2012, the following requirements apply to Transactions effected at Merchants identified with the following card acceptor business codes (MCCs):

- MCCs 3351 through 3441 (Car Rental Agencies)

- MCCs 3501 through 3999 (Lodging—Hotels, Motels, Resorts)
 - MCC 4411 (Cruise Lines)
 - MCC 7011 (Lodging—Hotels, Motels, Resorts—not elsewhere classified)
 - MCC 7512 (Automobile Rental Agency—not elsewhere classified)
1. As specified by the Corporation, the Acquirer must use a unique identifier from the original approved authorization of a Transaction in any additional authorizations requested in connection with the same Transaction. The unique identifier must also be included in the Transaction clearing record.
 2. Upon receipt of the Transaction clearing record, the Issuer must use the unique identifier to match the original and any additional approved authorization(s) to the Transaction.
 3. Upon matching all authorizations to the clearing record, the Issuer must release any hold placed on the Cardholder's account in connection with the original and any additional approved authorization(s) that is in excess of the Transaction amount.

8.6 POI Currency Conversion

A Merchant may offer currency conversion at the POI to Cardholders. If currency conversion is offered, the Merchant must:

1. Before initiation of the Transaction, (i) clearly and conspicuously inform the Cardholder that the Cardholder has the right to choose the method of currency conversion to be applied to the Transaction or cash disbursement (for example, by the Merchant, or by the Corporation); and (ii) obtain the Cardholder's choice of currency conversion method; and
2. If the Cardholder chooses the option of currency conversion by the Merchant, clearly and conspicuously inform the Cardholder of the same elements that are set forth in part 2 of Rule 8.3.4.1, and obtain the Cardholder's consent to those elements before completion of the Transaction.

The following additional requirements apply:

1. The pre-conversion currency and amount must be provided in DE 54 (Amounts, Additional) of the First Presentment/1240 message in accordance with the technical specifications provided in the *IPM Clearing Formats* manual.
2. No specific currency conversion method may be implemented as the default option. As an exception to the preceding requirement, when POI currency conversion is offered on the Internet, a currency conversion option may be pre-selected.

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8.7 Chargebacks for Reissued Cards

3. Screen messages at unattended POS Terminals must not require the Cardholder to select **yes** or **no** when choosing the currency. Indirect means, such as the colors red and green, must not be used to influence the Cardholder's choice.
4. At attended POS Terminals that require the Cardholder to choose between **yes** and **no**, the Merchant must verbally explain the offer to the Cardholder before presenting it on the POS Terminal. This requirement also applies with respect to
5. If the Cardholder chooses currency conversion by the Corporation, the Merchant must complete the Transaction in the currency in which the products, services, or both were priced. Transaction receipt requirements relating to currency conversion are set forth in part 2 of Rule 8.3.4.1.
6. The same currency conversion method must be used for a refund Transaction as was used for the original Transaction.

8.7 Chargebacks for Reissued Cards

Upon reissuing a Card with the same primary account number and a new expiration date, the Issuer must include the expiration date in all Transaction chargeback records.

8.8 Use of Automatic Billing Updater



Note A Rule on this topic appears in Chapter 12, "Europe Region Rules."

8.9 Cash Disbursements

A cash disbursement may be provided only by a Customer at its offices and through its authorized agents. For purposes of this Rule, an authorized agent is a financial institution authorized to provide cash disbursement services on behalf of a Customer pursuant to written agreement with the Customer.

The Customer and each of its authorized cash disbursement agents must complete cash disbursement transactions as set forth in this chapter. (Refer to the *Citrus Worldwide Operating Rules* for Standards governing the use of automated teller machines.)

8.9.1 Nondiscrimination

Each Customer and each of its authorized cash disbursement agents must comply with the following requirements at each office at which any cash disbursement services are afforded:

1. Not discriminate against or discourage the use of Cards in favor of any card or device bearing or otherwise issued or used in connection with another acceptance brand; and
2. Provide cash disbursement services to all Cardholders on the same terms and regardless of the Issuer.



Note An addition to this Rule appears in Chapter 15, "United States Region Rules."

8.9.2 Maximum Cash Disbursement Amounts

A Customer and each of its authorized cash disbursement agents may limit the amount of a face-to-face cash disbursement provided to any one Cardholder in one day at any individual office. Such limit may not be less than USD 5,000 per Cardholder in one day and uniformly must be applied to all Cardholders.

If compliance with this Rule would cause hardship to one or more (but not all) of such individual offices that are required or permitted to provide cash disbursement services, the Customer may establish a maximum cash disbursement amount of less than USD 5,000 per person in one day at each such office, provided that the maximum cash disbursement amount:

1. Is not less than USD 1,000;
2. Is not less than the maximum cash disbursement amount established for any other acceptance brand at the office; and
3. Applies only at those offices where the Customer can, if requested by the Corporation, demonstrate that a higher maximum would create a hardship.



Note A variation to this Rule appears in Chapter 12, "Europe Region Rules."

8.9.3 Discount or Service Charges

The Customer and each of its authorized cash disbursement agents must disburse all cash disbursements at par without any discount and without any service or other charge to the Cardholder, except as may be imposed to comply with applicable law. Any charge imposed must be charged to and paid by the Cardholder separately and must not be included in the total amount of the cash disbursement.

8.9.4 MasterCard Acceptance Mark Must Be Displayed

A Customer and each of its authorized cash disbursement agents must display the MasterCard Acceptance Mark to indicate that Cards are accepted as required by the Standards at each place where the Customer or any such agent provides cash disbursements.

Compliance Zones

The following table identifies the noncompliance category that the Corporation has assigned to the Standards described within this chapter. These noncompliance categories are assigned for the purposes of assessments under the compliance framework described in Rule 3.1.2.

Rule Number	Rule Title	Category
8.1	Transaction Requirements	A
8.2	Authorization Requirements	A
8.2.1	Full and Partial Reversals	A
8.2.1.1	Reversal for Conversion of Approval to Decline	A
8.2.2	Full and Partial Approvals and Account Balance Responses	A
8.3	Card Acceptance Procedures	B
8.3.5.1	TID Information Requirements	A
8.3.5.2	Prohibited Information	A
8.3.6	Multiple TIDs and Partial Payment	B
8.3.7	Specific Terms of a Transaction	B
8.3.8	Charges for Loss, Theft, or Damages	B
8.4	Requirements for Specific Transaction Types	B
8.4.12	PIN-based Debit Transactions	A
8.4.14	Euro Migration	C

**Sales Transactions and Cash Disbursements
Compliance Zones**

Rule Number	Rule Title	Category
8.7	Chargebacks for Reissued Cards	C
8.9	Cash Disbursements	A
8.9.1	Nondiscrimination	A
8.9.2	Maximum Cash Disbursement Amounts	B
8.9.3	Discount or Service Charges	B
8.9.4	MasterCard Acceptance Mark Must Be Displayed	B

9

Settlement

This chapter contains information about settlement procedures.

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9.1 Definitions

As used in the Rules set forth in this chapter 9, the following terms have the meanings described:

- “Interchange fee” means an amount paid by the Acquirer to the Issuer with respect to the interchange of a Transaction. All references to interchange fees in this chapter 9 mean both the levels of the fees and all qualifying criteria and conditions for their applicability.
- “Intracountry issuing Volume” means the issuing Volume resulting from Intracountry Transactions.
- “Intracountry acquiring Volume” means the acquiring Volume resulting from Intracountry Transactions.
- “Service fee” means an amount paid by the Issuer to the Acquirer with respect to the interchange of a cash disbursement. All references to service fees in this chapter 9 mean both the levels of the fees and all qualifying criteria and conditions for their applicability.
- “Intracountry cash disbursement” means a cash disbursement that occurs in the same country as the country in which the Card was issued, except as otherwise defined by the Corporation.
- “Intraregional cash disbursement” means a cash disbursement that occurs in a different country from the country in which the Card was issued, within the same MasterCard region, except as otherwise defined by the Corporation.
- “Interregional cash disbursement” means a cash disbursement that occurs in a different MasterCard region from the MasterCard region in which the Card was issued, except as otherwise defined by the Corporation.

9.2 Net Settlement

A Customer that uses the Interchange System for the authorization and clearing of Transactions and cash disbursements is required to net settle in accordance with the Corporation’s settlement Standards. However, an Acquirer and an Issuer may, with respect to a particular Transaction or cash disbursement, agree to settle directly between themselves pursuant to a bilateral agreement. Standards describing net settlement and bilateral agreement rights and obligations are set forth in the *Settlement Manual*.

Settlement

9.3 Currency Conversion

If the Corporation does not support the local currency of a particular country in the regional settlement service, then each Customer engaged in Intracountry Transaction Activity in that country must participate in the Corporation's intracurrency settlement service for that country, if such an intracurrency settlement service exists.

9.3 Currency Conversion

The Corporation converts all Transactions and cash disbursements processed through use of the Interchange System into the applicable settlement currency. The Acquirer must submit each Transaction or cash disbursement in the currency in which it occurred. However, if two Customers elect not to settle a Transaction or cash disbursement by using the Interchange System and instead elect to settle directly between themselves in accordance with a bilateral agreement, any currency that the Corporation supports is acceptable for settlement.



Note

An addition to this Rule appears in Chapter 13, "Latin America and the Caribbean Region Rules."

9.4 Interchange and Service Fees

A Transaction or cash disbursement cleared and settled between Customers gives rise to the payment of the appropriate interchange fee or service fee, as applicable. The Corporation has the right to establish default interchange fees and default service fees (hereafter referred to as "interchange fees," "service fees," or collectively, "fees"), it being understood that all such fees set by the Corporation apply only if there is no applicable bilateral interchange fee or service fee agreement between two Customers in place. The Corporation establishes all fees for Interregional Transactions and interregional cash disbursements and Intraregional Transactions and intraregional cash disbursements, and may establish fees for Intracountry Transactions and intracountry cash disbursements. The Corporation will inform Customers, as applicable, of all fees it establishes and may periodically publish fee tables. Unless an applicable bilateral interchange fee or service fee agreement between two Customers is in place, any intraregional or interregional fees established by the Corporation are binding on all Customers.



Note

A variation to this Rule appears in Chapter 10a, "New Zealand Rules."

9.5 Establishment of Intracountry Interchange and Service Fees

This Rule 9.5 is applicable only to Intracountry Transactions and intracountry cash disbursements.

If intracountry interchange and service fees are not established by the Corporation, such fees may be established in one of two ways: by agreement of Customers in the country as set forth in Rule 9.5.1, or by application of intraregional interchange and service fees to Intracountry Transactions and intracountry cash disbursements as set forth in Rule 9.5.2. Such fees may also be established by bilateral agreement between two Customers as set forth in Rule 9.5.3.

For any Transaction or cash disbursement that is subject to a bilateral agreement between two Customers, the interchange and service fees set forth in the bilateral agreement prevail.

For any Transaction or cash disbursement that is not subject to a bilateral agreement between two Customers, the default intracountry fees established by the Corporation apply, or if none, the default intracountry fees established by Customers pursuant to these Rules apply, or if none, the intraregional fees apply, or if none, the interregional fees apply. Any multilateral Customer fee agreement must comply with all requirements set forth in Rule 9.5.1. The Corporation reserves the right to determine if multiple bilateral agreements are deemed to be a multilateral agreement.

**Note**

Additions to this Rule appear in Chapter 10, "Asia/Pacific Region Rules" and Chapter 13, "Latin America and the Caribbean Region Rules."

9.5.1 Default Intracountry Fees

If permitted by local law, default fees applicable to Intracountry Transactions and intracountry cash disbursements for a country may be established by the affirmative vote of Customers that hold a License for the country and represent at least 75 percent of the intracountry issuing Volume (excluding on-us Volume) and at least 75 percent of the intracountry acquiring Volume (excluding on-us Volume) in the preceding calendar year. To be effective, and in addition to the foregoing, intracountry fallback fees must be agreed to by at least two Acquirers and at least two Issuers Licensed to engage in Activity in the country. Once effective, intracountry fallback fees remain in effect until revised by Customers pursuant to these Rules or by the Corporation.

Settlement

9.5 Establishment of Intracountry Interchange and Service Fees

Intracountry default fees established by Customers must be established with the purpose of encouraging the widespread use and acceptance of Cards, must be justifiable, must not jeopardize the integrity of the Interchange System, must not conflict with the Standards, and must be reviewed periodically (typically, every one to three years) and revised as appropriate.

Customers that establish intracountry default fees must promptly provide the Corporation with a copy of such fees and any subsequent change to the fees. Customers must be notified of intracountry default fees and any change thereto well in advance of the effective date, unless exceptional circumstances make this impossible. Exceptional circumstances generally must relate to events beyond the control of Customers; in the event of dispute or uncertainty, the Corporation determines if notice was effective. Intracountry default fees that have not been provided to and acknowledged by the Corporation as effective as of a certain date are not effective.



Note A variation to this Rule appears in Chapter 10a, "New Zealand Rules."

9.5.2 Intraregional Fees

In the event that no bilaterally agreed interchange fee or service fee applies and no default interchange fee or service fee has been otherwise established pursuant to these Rules, the applicable intraregional fee or if none, the interregional fee, applies to Intracountry Transactions and intracountry cash disbursements.



Note A variation to this Rule appears in Chapter 10a, "New Zealand Rules."

9.5.3 Bilateral Agreement

Any two Customers may establish by bilateral agreement the interchange and service fees applicable to Transactions and cash disbursements between them. All such fees must be submitted promptly to the Corporation. When applicable to Transactions and cash disbursements processed through the Interchange System, they must be submitted to the Corporation sufficiently in advance of the effective date to allow the Corporation to incorporate the fees into future Interchange System releases as necessary or appropriate.



Note An addition to this Rule appears in Chapter 10, "Asia/Pacific Region Rules."

9.6 Cost Studies

The Corporation or its agent(s) may conduct one or more cost studies on a country-specific or regional or other basis for the purpose of establishing interchange and service fees. In order to ensure a sufficient quantity and level of data quality and representativeness as the Corporation deems necessary or appropriate, the Corporation may designate any number of Customers to participate in cost studies. All Customers so designated are required to participate and must provide and be able to certify that the Customer has provided the Corporation or its agent(s) with complete and accurate information in the form and manner and for such period of time and by a date as requested.

9.6.1 Allocation of Expenses

The Corporation may allocate expenses related to any cost study among Customers conducting Activity in the country or region or other area that is the subject of the cost study. The expenses may be allocated as the Corporation deems appropriate and the decision of the Corporation is binding on all Customers in that country or region or other area.

9.6.2 Noncompliance with a Cost Study

A Customer designated to participate in a cost study that fails to fully and timely participate is subject to assessments and other disciplinary action at the sole discretion of the Corporation.

Compliance Zones

The following table identifies the noncompliance category that the Corporation has assigned to the Standards described within this chapter. These noncompliance categories are assigned for the purposes of assessments under the compliance framework, as described in Rule 3.1.2.

Rule Number	Rule Title	Category
9.2	Net Settlement	A
9.3	Currency Conversion	A
9.4	Interchange and Service Fees	A
9.5	Establishment of Intracountry Interchange and Service Fees	A
9.6	Cost Studies	A

10

Asia/Pacific Region Rules

This chapter contains Rules that apply only to the Asia/Pacific Region.

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Organization of this Chapter

The Rules in this Chapter 10 are variances and additions to the “global” Rules that apply in the Asia/Pacific Region.

Refer to Appendix A for the Asia/Pacific Region geographic listing.

3.2 Conduct of Activity

3.2.7 Acquirers

This Rule applies in American Samoa, Guam, and the Northern Mariana Islands only:

An Acquirer must not prohibit its Merchant from requesting or encouraging a customer to use a payment card with an acceptance brand other than a MasterCard or other form of payment or a Card of a different product type than the Card the consumer initially presents, or otherwise prohibit its Merchant from engaging in actions consistent with Rule 5.11.1 of this Chapter 10.

3.6 Provision and Use of Information

3.6.1 Obligation of Customer to Provide Information

3.6.1.1 Information to Cardholders

The Issuer must provide information to its Cardholders as set forth below.

1. Card Solicitations. Each Issuer of Cards must disclose, clearly and conspicuously, in all Solicitations any amounts relating to the MasterCard Issuer Cross-border Assessment and/or the MasterCard Currency Conversion Assessment that the Issuer charges, or will charge, to the Cardholder.
2. Cardholder Communications. Each Issuer of Cards must disclose, clearly and conspicuously, in all existing Cardholder Communications, including Cardholder agreements and account agreements, any amounts relating to the MasterCard Issuer Cross-border Assessment and/or the MasterCard Currency Conversion Assessment that the Issuer charges, or will charge, to the Cardholder.

Asia/Pacific Region Rules

3.10 Limitation of Liability of Cardholders for Unauthorized Use

3. **Periodic Billing Statement.** Each Issuer of Cards must provide adequate disclosure on each applicable periodic billing statement, such that the Cardholder can readily determine from the billing statement any amounts that the Issuer charges to the Cardholder relating to the MasterCard Issuer Cross-border Assessment and/or the MasterCard Currency Conversion Assessment during that billing cycle, either in gross or on a per Transaction basis.
4. **Currency Conversion Procedure.** The Corporation further recommends and encourages Issuers to inform their Cardholders that part of the Corporation's currency conversion procedure includes use of either a government-mandated exchange rate or a wholesale exchange rate, selected by the Corporation, and that the government-mandated exchange rate or wholesale exchange rate that the Corporation uses for a particular Transaction is the rate the Corporation selects for the applicable currency on date that the Transaction is processed (the Central Site Business Date), which may differ from the rate selected on the date the Transaction occurred or on the date the Transaction is posted to the Cardholder's account.

For information about the MasterCard Currency Conversion Assessment, refer to the *GCMS Reference Manual*. For information about the MasterCard Cross-border Assessment, refer to the *MasterCard Consolidated Billing System—Asia/Pacific Region* manual.

3.10 Limitation of Liability of Cardholders for Unauthorized Use

The following applies with respect to Asia/Pacific Region Cardholders.

1. **Limitation on Amount.** Subject to laws of the country within which a Card is issued, the liability of a Cardholder for unauthorized use of a Card (regardless of the type of account to which Transactions initiated with such Card are posted):
 - a. shall not exceed USD 0 if the conditions set forth in paragraph 2 below have been met; or
 - b. shall be in accordance with the corresponding Cardholder agreement if the conditions set forth in paragraph 2 below have not been met.
2. **Conditions to USD 0 Liability.** The liability limitations set forth in clause (a) of paragraph 1, above, shall apply only if:
 - a. the Cardholder has exercised vigilant care in safeguarding such card from risk of loss, theft, or unauthorized use;
 - b. the Cardholder immediately and without delay notifies the Issuer upon discovery of the loss, theft, or unauthorized use;

- c. the Cardholder has not reported two or more incidents of unauthorized use to the Issuer in the immediately preceding 12-month period;
 - d. the account to which Transactions initiated with such card are posted is in good standing; and
 - e. the Cardholder has complied with the terms and conditions of the corresponding Cardholder agreement.
3. Effect of Other Applicable Law or Agreement. If country, provincial, or local law, or an agreement between a Cardholder and the Issuer of a Card (regardless of the type of account to which Transactions initiated with such Card are posted) imposes lesser liability than that provided in this Rule, the lesser liability shall govern.
 4. Unauthorized Use. For purposes of this Rule, "unauthorized use" means the use of a Card (regardless of the type of account to which Transactions initiated with such Card are posted) by a person other than the Cardholder who does not have actual, implied, or apparent authority for such use, and from which the Cardholder receives no benefit.
 5. Non-applicability. This Rule shall not apply to Cards issued
 - a. to an entity other than a natural person;
 - b. primarily for business, commercial, or agricultural purposes; or
 - c. if a PIN is used as the Cardholder verification method for unauthorized Transaction(s).

4.1 Right to Use the Marks

4.1.2 Protection and Registration of the Marks

Rule 4.1.2 of Chapter 4, "Trademarks and Service Marks" is modified as it applies to debit Cards issued in American Samoa, Guam, and Northern Mariana Islands, to include the following:

No use of a Mark may be made on or in connection with any card, device or other application associated with a payment service that the Corporation deems to be competitive with any Activity except as set forth in this chapter.

4.2.12 Use of a Competing Mark on Cards

Rule 4.2.12 of Chapter 4, "Trademarks and Service Marks," is modified as it applies to debit Cards issued in American Samoa, Guam, and Northern Mariana Islands, to include the following:

A competing debit point-of-sale mark may appear on a debit Card as set forth in the Card Design Standards or as otherwise agreed to by the Corporation.

4.2.13 Use of Other Acceptance Marks on Cards

The following addition to Rule 4.2.13 of Chapter 4 "Trademarks and Service Marks" applies in Australia:

The EFTPOS acceptance mark may appear only on the back of Cards issued in Australia that provide access to a deposit account at the time of issuance. When appearing on the back of a Card, the EFTPOS acceptance mark is limited to acceptance solely within Australia. See the *Card Design Standards* for information regarding the placement of the EFTPOS acceptance mark on a Card.

Rule 4.2.13 of Chapter 4, "Trademarks and Service Marks," is modified as it applies to debit Cards issued in American Samoa, Guam, and Northern Mariana Islands, to include the following:

Other debit point-of-sale marks may appear on a debit Card as set forth in the Card Design Standards or as otherwise agreed to by the Corporation.

5.11 Prohibited Practices

Except as provided in Rule 5.11.1 below, an Acquirer must ensure that none of its Merchants engage in any of the prohibited practices set forth in this Rule 5.11.

5.11.1 Discrimination

Rule 5.11.1 of Chapter 5, "Merchants" as it applies in American Samoa, Guam, and the Northern Mariana Islands is replaced with the following:

A Merchant may request or encourage a customer to use a payment card with an acceptance brand other than MasterCard or other form of payment or a Card of a different product type (e.g., traditional cards, premium cards, rewards cards) than the Card the consumer initially presents. Except where prohibited by law, it may do so by methods that include, but are not limited to:

- a. offering the customer an immediate discount from the Merchant's list, stated, or standard price, a rebate, a free or discounted product or service, or any other incentive or benefit if the customer uses a particular payment card with an acceptance brand other than MasterCard or other particular form of payment;

- b. offering the customer an immediate discount from the Merchant's list, stated, or standard price, a rebate, a free or discounted product or service, or any other incentive or benefit if the customer, who initially presents a Card, uses instead another payment card or another form of payment;
- c. expressing a preference for the use of a particular payment card or form of payment;
- d. promoting the use of a particular general purpose payment card with an acceptance brand other than MasterCard or the use of a particular form or forms of payment through posted information, through the size, prominence, or sequencing of payment choices, or through other communications to customers (provided that the Merchant will abide by the Standards relating to the display of the Marks including, but not limited to, the MasterCard Acceptance Mark); or
- e. communicating to customers the reasonably estimated or actual costs incurred by the Merchant when a customer uses particular payment cards or forms of payment or the relative costs of using different general purpose payment cards or forms of payment.

5.11.2 Charges to Cardholders

Rule 5.11.2 of Chapter 5, "Merchants" as it applies in American Samoa, Guam, and the Northern Mariana Islands is replaced with the following:

A Merchant must not directly or indirectly require any Cardholder to pay a surcharge or any part of any Merchant discount or any contemporaneous finance charge in connection with a Transaction. A Merchant is permitted to charge a fee (such as a bona fide commission, postage, expedited service or convenience fees, and the like) if the fee is imposed on all like transactions regardless of the form of payment used, or as the Corporation has expressly permitted in writing. For purposes of this Rule:

1. A surcharge is any fee charged in connection with a Transaction that is not charged if another payment method is used.
2. The Merchant discount fee is any fee a Merchant pays to an Acquirer so that the Acquirer will acquire the Transactions of the Merchant.

5.11.3 Minimum/Maximum Transaction Amount Prohibited

Rule 5.11.3 of Chapter 5, "Merchants" as it applies in American Samoa, Guam, and the Northern Mariana Islands is modified to include the following:

A Merchant may set a minimum Transaction amount to accept a Card that provides access to a credit account, under the following conditions:

Asia/Pacific Region Rules

5.13 Discounts or Other Benefits at the Point of Interaction

1. the minimum Transaction amount does not differentiate between Issuers; and
2. the minimum Transaction amount does not differentiate between MasterCard and another acceptance brand; and
3. the minimum Transaction amount does not exceed USD 10 (or any higher amount established by the Federal Reserve by regulation).

A Merchant may set a maximum Transaction amount to accept a Card that provides access to a credit account, under the following conditions:

1. the Merchant:
 - a. is a department, agency or instrumentality of the U.S. Government; or
 - b. is a corporation owned or controlled by the U.S. Government; or
 - c. is a Merchant whose primary business is reflected by one of the following MCCs:
 - i. MCC 8220—Colleges, Universities, Professional Schools, Junior Colleges; or
 - ii. MCC 8244—Schools, Business and Secretarial; or
 - iii. MCC 8249—Schools, Trade and Vocational; and
2. the maximum Transaction amount does not differentiate between Issuers; and
3. the maximum Transaction amount does not differentiate between MasterCard and another acceptance brand.

5.11.8 Disparagement

A Merchant must not disparage the Corporation or any of the Corporation's products, programs, services, networks, or systems.

5.13 Discounts or Other Benefits at the Point of Interaction

A discount or other point of interaction benefit may be applied at a POI upon presentation of a particular Card for payment. Promotion of any such discount or other benefit at the POI is permitted provided such promotion does not result in discrimination against other Card Programs. The determination of whether any promotion discriminates against other Card Programs is at the sole discretion of the Corporation.

6.2 Affinity and Co-Brand Card Programs

6.2.5 Multiple Partners

Rule 6.2.5 of Chapter 6, "Special Issuer Programs," is modified such that up to two Partners' names or logos or both may appear on the face of the Card subject to the following conditions:

1. the Card design shall comply in all respects with the Card design requirements published in the Card Design Standards System
2. the MasterCard Brand Mark is not obscured by the proliferation of other names or logos or both and the presence of multiple logos does not in any way damage or impair the strength of the MasterCard brand;
3. the decision as to whether any given Card design conforms to these conditions is reserved to the Corporation's staff.

6.3 Brand Value Transactions and Proprietary Accounts

6.3.2 Fees and Reporting Requirements

Rule 6.3.2 of Chapter 6, "Special Issuer Programs," is modified such that for Programs that are approved for proprietary account access, any proprietary account fees that may be in effect may be waived on a case-by-case basis at the sole discretion of the Corporation.

8.4 Requirements for Specific Transaction Types

8.4.1 Chip Transactions and Acceptance at Hybrid POS Terminals

Rule 8.4.1 of Chapter 8, "Sales Transactions and Cash Disbursements" is modified to include the following.

For purposes of these Rules, a counterfeit Transaction is a type of fraudulent Transaction; "chip-capable" means the ability to become EMV compliant; and "EMV-compliant" means in compliance with the EMV standards then in effect.

1. New Chip Capable Terminals. All new ATMs and POI terminals deployed by Regional Customers and capable of accepting EMV chip Cards (credit or debit) must be EMV-compliant.

Asia/Pacific Region Rules

9.5 Establishment of Intracountry Interchange and Service Fees

2. Incentive Interchange Rate. An incentive interchange rate applies to intraregional chip Transactions to:
 - a. Compensate the Issuers of Cards with an increased intraregional interchange of ten basis points when the Card is used at a non-EMV compliant terminal.
 - b. Compensate the Acquirers using EMV-compliant terminals with a reduced intraregional interchange of ten basis points when a non-EMV-compliant Card is used at that terminal.
3. Chip Cards. All new and reissued EMV chip Cards (credit or debit) must be EMV-compliant in accordance with the Standards.
4. Chip Liability Shift. The liability for intraregional counterfeit Transactions in which one Regional Customer (either the Issuer or the Acquirer) is not yet EMV-compliant is borne by the non-EMV-compliant Regional Customer.

An interregional chip liability shift is in effect between the Asia/Pacific and South Asia/Middle East/Africa Regions. All countries within each of these regions participate.

9.5 Establishment of Intracountry Interchange and Service Fees

9.5.3 Bilateral Agreement

Rule 9.5.3 of Chapter 9, "Settlement," is modified to include the following:

All interchange fees applicable to Intracountry Transactions contained in a bilateral agreement must not exceed the maximum interchange fee set by the Corporation (the "MasterCard maximum interchange fee").

10a New Zealand Rules

This chapter contains Rules that apply only in New Zealand.

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Organization of this Chapter

The Rules in this Chapter 10a are variances and additions to the “global” Rules that apply in New Zealand.

Except for Rule 5.9.1 and Rule 5.9.2 of this Chapter 10a, which apply to all Cards, the Rules in this Chapter 11a apply to Cards issued in New Zealand by New Zealand Customers and presented for payment at Merchant locations in New Zealand. Customers and Merchants in New Zealand must continue to comply with the global rules for Cards issued by Customers outside of New Zealand and presented for payment at Merchant locations in New Zealand.

For the avoidance of doubt, the Rules in this Chapter 10a do not apply to (i) Cirrus-only cards; or (ii) Maestro-only cards.

Definitions

Solely for the purposes of this Chapter 10a, the following terms have the meanings set forth below:

1. “Debit” or “Debit MasterCard Card” or “Debit Card” shall mean any MasterCard consumer device, program, or card issued in New Zealand, by a New Zealand Customer, that when presented for payment in New Zealand, accesses, debits, holds, or settles funds from a consumer’s demand deposit or asset account.

“Debit” or “Debit MasterCard Card” shall include consumer signature debit programs, stored value programs, prepaid cards, payroll cards, electronic benefit transfer cards, and deferred debit cards that access, debit, hold, or settle funds from the user’s demand deposit or asset account less than fourteen days after the date of purchase. “Debit” shall not include any point-of-sale device that accesses, debits, hold, or settles funds from the user’s demand deposit or asset account fourteen or more days after the date of the purchase.

2. “Other MasterCard Card” shall mean any MasterCard device, program, or card that is not defined as “debit” or “Debit MasterCard Card.”

2.6 Obligation to Issue Cards

Rule 2.6 of Chapter 2, “Licensing and Licensed Activities,” does not apply in New Zealand.

2.7 Liability for Assigned ICAs and BINs

Rule 2.7 of Chapter 2, "Licensing and Licensed Activities," is modified as follows:

Customers must use specific and unique bank identification numbers (BINs) for Debit MasterCard Cards. Acquirers must provide a complete list of the BINs that apply to Debit MasterCard Cards to Merchants upon any form of reasonable request.

4.2 General Rules for Use of the Marks

4.2.6 Particular Use of a Mark

4.2.6.6 Use on Cards

Rule 4.2.6.6 of Chapter 4, "Trademarks and Service Marks," is modified as follows:

Customers must display (i) the Debit MasterCard Hologram instead of the MasterCard Global Hologram on the front of all Debit MasterCard Cards issued in New Zealand, in the position required for the MasterCard Global Hologram, or (ii) the "Debit" word mark on the card front if the Debit MasterCard Hologram is on the Card back.

Debit MasterCard Cards must conform to the Standards set forth in the *Security Rules and Procedures* manual and the Card Design Standards System.

5.1 The Merchant Agreement

5.1.2 Required Terms

Rule 5.1.2 of Chapter 5, "Merchants," is modified to include the following:

Merchant Agreements must provide the Merchant with the option, and the applicable Merchant discount rate for each option, to elect to accept Debit MasterCard Cards only, Other MasterCard Cards only, or both Debit MasterCard Cards and Other MasterCard Cards. A Merchant may choose to stop accepting Debit MasterCard Cards or Other MasterCard Cards by providing no less than 30 days advance written notice to its Acquirer.

5.8 Card Acceptance Requirements

5.8.1 Honor All Cards

Rule 5.8.1 of Chapter 5, "Merchants," is modified as follows:

Honor All Debit MasterCard Cards. Subject to Rule 5.11.1 of this Chapter 10a, Merchants that choose to accept Debit MasterCard Cards must honor all valid Debit MasterCard Cards without discrimination when properly presented for payment. Merchants must maintain a policy that does not discriminate among customers seeking to make purchases with a Debit MasterCard Card.

Honor All Other MasterCard Cards. Subject to Rule 5.11.1 of this Chapter 10a, Merchants that choose to accept Other MasterCard Cards must honor all Other MasterCard Cards without discrimination when properly presented for payment. Merchants must maintain a policy that does not discriminate among customers seeking to make purchases with Other MasterCard Cards.

5.8.2 Merchant Acceptance

Merchants that accept Cards may choose to accept Debit MasterCard Cards only, Other MasterCard Cards only, or both Debit MasterCard cards and Other MasterCard cards.

Acquirers must advise the Corporation when a New Zealand merchant chooses not to accept either Debit MasterCard Cards or other MasterCard Cards.

5.11 Prohibited Practices

5.11.1 Discrimination

Rule 5.11.1 of Chapter 5, "Merchants," is modified to include the following:

The Corporation will not consider steering at the point of sale by offering discounts, promotions, or financial incentives to encourage an alternate form of payment (including as between Cards and EFT POS cards, or cards from different schemes, or different types of Cards) of itself to constitute a breach of Rule 5.11.1 or any other rule. Further, the Corporation will not consider merchant surcharging pursuant to Rule 5.11.2 of this Chapter 10a to constitute a breach of Rule 5.11.1.

5.11.2 Charges to Cardholders

Rule 5.11.2 of Chapter 5, "Merchants," does not apply in New Zealand.

If a Merchant applies a surcharge for payment by Card, the amount or method of calculation of the surcharge must be clearly indicated to the Cardholder at the time of purchase and must bear reasonable relationship to the Merchant's cost of accepting Cards.

9.4 Interchange and Service Fees

Rule 9.4 of Chapter 9, "Settlement," is modified to exclude Intracountry Transactions from the list of Transactions for which the Corporation may establish default interchange and service fees.

9.5 Establishment of Intracountry Interchange and Service Fees

Rule 9.5 of Chapter 9, "Settlement," is replaced in its entirety with the following:

This Rule 9.5 is applicable only to Intracountry Transactions and intracountry cash disbursements.

Intracountry Transactions

The Corporation will establish and publish on its Web site containing content specific to New Zealand and in such other manner as the Corporation deems appropriate, maximum interchange fees for all Intracountry Transactions (herein, the "MasterCard maximum interchange fee"). Issuers and Acquirers may negotiate bilateral interchange fees (subject to any MasterCard maximum interchange fee) and Issuers may determine interchange fees applicable to their Intracountry Transactions (subject to any bilateral agreements and subject to any MasterCard maximum interchange fee). Issuers must ensure that with respect to each of their Intracountry Transactions, neither a negotiated bilateral interchange fee nor an interchange fee set by the Issuer results in an interchange amount with respect to that Intracountry Transaction that exceeds the interchange amount payable pursuant to the maximum interchange fee set by the Corporation.

An Issuer must promptly notify the Corporation of the interchange fees applicable to its Intracountry Transactions, said fees must not exceed the maximum interchange fee set by the Corporation. If an Issuer does not provide the Corporation with an interchange fee that applies to each of its Intracountry Transactions, then the Corporation will process the Transaction on the basis of a zero interchange fee.

Each Issuer must publish the intracountry interchange fees notified to the Corporation on its Web site except for those interchange fees which are subject to a bilateral agreement. The Corporation either will publish on its Web site containing content specific to New Zealand the Issuer's intracountry interchange fees (except for those interchange fees which are subject to a bilateral agreement) or will provide a link from its Web site to the relevant page of the Issuer's Web site.

9.5.1 Default Intracountry Fees

Rule 9.5.1 of Chapter 9, "Settlement," is modified to exclude default fees established for Intracountry Transactions by the affirmative vote of Customers that hold a License for the country and represent at least 75 percent of the intracountry issuing Volume (excluding On-Us Volume) and at least 75 percent of the intracountry acquiring Volume (excluding On-Us Volume) in the preceding calendar year. For the avoidance of doubt, Rule 9.5.1 applies in its entirety to intracountry cash disbursements.

9.5.2 Intra-regional Fees

Rule 9.5.2 of Chapter 9, "Settlement," is modified to exclude intra-regional or inter-regional fees from applying by default to Intracountry Transactions. For the avoidance of doubt, Rule 9.5.2 applies in its entirety to intracountry cash disbursements.

11

Canada Region Rules

This chapter contains Rules that apply only to the Canada Region.

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Organization of this Chapter

The Rules in this Chapter 11 are variances and additions to the "global" Rules that apply in the Canada Region.

3.10 Limitation of Liability of Cardholders for Unauthorized Use

The following applies with respect to Canada Region Cardholders:

1. **Limitation on amount.** The liability of a Cardholder for unauthorized use of a Card (regardless of the type of account to which Transactions initiated with such Card are posted) shall not exceed
 - a. CAD 0 if the conditions set forth in paragraph 2, below, have been met, or
 - b. if the conditions set forth in paragraph 2 have not been met, the lesser of CAD 50 or the amount of money, property, labor, or services obtained by the unauthorized use before notification to the Issuer.
2. **Conditions to CAD 0 liability.** The liability limitations set forth in clause (i) of paragraph 1, above, shall apply only if
 - a. the Cardholder has exercised reasonable care in safeguarding such Card from risk of loss or theft;
 - b. the Cardholder has not reported two or more incidents of unauthorized use to the Issuer in the immediately preceding 12-month period; and
 - c. the account to which Transactions initiated with such Card are posted is in good standing.
3. **Effect of other applicable law agreement.** If federal, provincial or local law, or an agreement between a Cardholder and the Issuer of a Card (regardless of the type of account to which Transactions initiated with such Card are posted) imposes lesser liability than that provided in this Rule, the lesser liability shall govern.
4. **Unauthorized use.** For purposes of this Rule, "unauthorized use" means the use of a Card (regardless of the type of account to which Transactions initiated with such Card are posted) by a person other than the Cardholder who does not have actual, implied, or apparent authority for such use, and from which the Cardholder receives no benefit.
5. **Nonapplicability.** This Rule shall not apply to Cards issued
 - a. to an entity other than a natural person; or
 - b. primarily for business, commercial, or agricultural purposes.

5.2 Acquirer Obligations

5.2.4 Payments to Merchants

Rule 5.2.4 of Chapter 5, "Merchants," is modified to include the following:

Each Customer that acquires Transactions from Canadian Merchants must have a deposit account for each Merchant from which it acquires such Transactions, and the proceeds of such Transactions must be deposited by the Customer in such Merchant's deposit account.

5.12 Discounts or Other Benefits at the Point of Interaction

The use of an Affinity Card Program or Co-Brand Card Program Card to activate a discount or other benefit at the POI that is not available on similar purchases with the use of any other Card is permitted for Transactions effected wholly within the Region. The determination of whether any such discount or other POI benefit practice complies with the Standards is at the sole discretion of the Corporation's staff.

8.4 Requirements for Specific Transaction Types

8.4.1 Chip Transactions and Acceptance at Hybrid POS Terminals

Rule 8.4.1 of Chapter 8, "Sales Transactions and Cash Disbursements" is modified to include the following:

For purposes of these Rules, "EMV chip-compliant" means operating any chip device including cards, ATMs, point-of-interaction (POI) terminals, electronic cash registers (ECRs), PIN pads, and terminals that are in accordance fully with the Standards relative to EMV standards; and "chip/PIN-compliant" means issuing hybrid PIN-preferring Cards or operating hybrid PIN-capable terminals as such terms are defined in section 2.10.1.1 of the *Chargeback Guide*.

1. Chip Liability Shift. The liability for Canada intraregional counterfeit Transactions in which one Customer (either the Issuer or the Acquirer) is not yet EMV chip-compliant is borne by the non-EMV chip-compliant Customer. Message reason code 4870 (Chip Liability Shift) does not apply to:

- a. intraregional MasterCard *PayPass* Transactions under the chargeback protection amount and
 - b. until 31 December 2012, Transactions occurring at automated fuel dispenser Transactions identified with MCC 5542.
2. Chip/PIN Liability Shift. The liability for Canada intraregional lost, stolen, and never-received-issue Transactions in which one Customer (either the Issuer or the Acquirer) is not yet able to support chip/PIN Transactions will be borne by the non-chip/PIN-compliant Customer. Message reason code 4871 (Chip/PIN Liability Shift) does not apply to:
- a. intraregional MasterCard *PayPass* Transactions under the chargeback protection amount and
 - b. until 31 December 2012, Transactions occurring at automated fuel dispenser Transactions identified with MCC 5542.

Refer to Appendix C of the *Chargeback Guide* for chargeback protection amount information.

8.4.3 MasterCard *PayPass* Transactions

Proof of a Cardholder Verification Method (signature or PIN) is not a valid second presentment remedy under message reason code 4837 (No Cardholder Authorization) for an intraregional MasterCard *PayPass* Transaction that exceeds the chargeback protection amount.

8.4.8 Automated Fuel Dispenser Transactions

If an Issuer approves an authorization request for a Cardholder-activated automated fuel dispenser Transaction identified with MCC 5542 and CAT level 2 (an "AFD Transaction") occurring at a Merchant located in the Canada region, then within 60 minutes of the time that the authorization request message was sent, the Acquirer must send an authorization advice message advising the Issuer of the Transaction amount.

If after approving an authorization request for an AFD Transaction the Issuer has placed a hold on Cardholder funds in excess of CAD 1, then within 60 minutes of receiving the Acquirer's authorization advice (0120 or 0420) message, the Issuer must release any hold amount that exceeds the Transaction amount.

11a Canada Region Code of Conduct Related Rules

This chapter contains Rules that apply only to the Canada Region.

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Organization of this Chapter

The Rules in this Chapter 11a are variances and additions to the “global” Rules that apply to:

1. Cards issued in the Canada Region and presented for payment in the Canada Region;
2. Transactions that take place in the Canada Region; and
3. Merchants and Acquirers of those Transactions.

Customers and Merchants must continue to comply with the global Rules with respect to Cards (as defined in the global Rules) issued by Customers outside of the Canada Region and presented for payment at Merchant locations in the Canada Region, unless otherwise agreed by the Corporation.

Definitions

Solely for purposes of Rules in this Chapter 11a, the following terms have the meanings set forth below:

1. “Card” shall mean a card issued by a Customer pursuant to License and in accordance with the Standards that provides access to a credit and debit MasterCard account. Unless otherwise stated herein, this definition does not include an Access Device or a Mobile Payment Device.
2. “Cardholder” shall mean the authorized user of a Card issued by a Customer.
3. “Debit MasterCard Card” or “Debit Card” shall mean any Card issued in the Region, by a Regional Customer, that when presented for payment in Canada, accesses, debits, holds, or settles funds from a consumer’s demand deposit account.
4. “Other Card” shall mean any Card that is not defined as a “Debit Card” or “Debit MasterCard Card.”
5. “Premium Card” shall mean a Card that is issued in the Region by a Regional Customer to a well-defined class of Cardholders in accordance with MasterCard requirements and specification for same.
6. “Transaction” shall mean the sale of goods or services by a Merchant to a Cardholder pursuant to acceptance of a Card by the Merchant.

2.6 Obligation to Issue Cards

Rule 2.6 of Chapter 2, "Licensing and Licensed Activities," is modified to include the following:

Premium Cards may only be provided to a well-defined class of Cardholders, based on individual spending and/or income thresholds. An Issuer may only provide a Premium Card to a person that has applied for or consented to receiving a Premium Card.

3.6 Provision and Use of Information

3.6.1 Obligation of Customer to Provide Information

3.6.1.2 Information to Merchants

Acquirers must provide a minimum of ninety (90) days notice to Merchants of any fee increases, or the introduction of a new fee related to any Card or Transaction. A Merchant may opt out of its Merchant Agreement, without penalty by the Acquirer, within ninety (90) days of receiving notice of the fee increase or introduction of a new fee. A Merchant may not opt out of the Merchant Agreement if the fee increase is made in accordance with a pre-determined fee schedule, provided such fee schedule is included in the Merchant Agreement.

An Acquirer must obtain the Merchant's express consent each time a Card with new Marks, or a Card with Marks not previously accepted by the Merchant, will be accepted by the Merchant.

Acquirers must provide monthly statements to Merchants that include sufficient level of detail and are easily understood. Merchant statements must include:

1. The discount rate for each Card associated with a unique interchange program;
2. Interchange rates, and if applicable, all other rates charged to the Merchant by the Acquirer;
3. The number and volume of Transactions associated with a unique interchange program;
4. The total amount of fees applicable to each rate; and
5. Details of each fee that relate to the Corporation.

3.8 Authorization Service

3.8.1 Selective Authorization

Rule 3.8.1 of Chapter 3, "Customer Obligations" is modified to include the following:

For the purpose of effecting a Transaction, an Issuer must not place competing domestic applications of other payment card networks on a Debit Card. An issuer may place complementary domestic applications on a Debit Card.

3.13 Accounts on a Card

An Issuer must not issue a Card that provides access to a Debit Card account and to an Other Card account on the same Card. A Card may be either a Debit Card or an Other Card, but must not be both a Debit Card and an Other Card.

4.2 General Rules for Use of the Marks

4.2.6 Particular Use of a Mark

4.2.6.6 Use on Cards

Rule 4.2.6.6 of Chapter 4, "Trademarks and Service Marks," is modified to include the following:

Clear and Conspicuous Debit Identifier. Customers must display:

1. the Debit MasterCard Hologram instead of the MasterCard Global Hologram on all Debit MasterCard Cards issued in Canada, in the position required for the MasterCard Global Hologram, or
2. the "Debit" word mark on the Card front if the Debit MasterCard Hologram is on the Card back. Debit MasterCard Cards must conform to the Standards set forth in the Card Design Standards.

4.2.13 Use of Other Acceptance Marks on Cards

Rule 4.2.13 of Chapter 4, "Trademarks and Service Marks," is modified to include the following:

When the Marks appear on a Debit Card that contains other acceptance marks, no other acceptance mark, symbol or logo may be or appear to be larger or more important than the Marks. To maintain visual parity, the Marks must be at least as prominent as and be at least the same size and color treatment as any other acceptance mark on the Card. When other acceptance marks appear on a Debit Card, those marks must appear on the same side of the Debit Card as the Marks.

5.8 Card Acceptance Requirements

5.8.1 Honor All Cards

Rule 5.8.1 of Chapter 5, "Merchants," is replaced with the following:

Honor All Debit MasterCard Cards. Merchants that choose to accept Debit MasterCard Cards must honor all valid Debit MasterCard Cards without discrimination when properly presented for payment. The Merchant must maintain a policy that does not discriminate among customers seeking to make purchases with a Debit MasterCard Card.

Honor All Other MasterCard Cards. Merchants that choose to accept Other Cards must honor all Other Cards without discrimination when properly presented for payment. The Merchant must maintain a policy that does not discriminate among customers seeking to make purchases with another Card.

5.11 Prohibited Practices

5.11.2 Charges to Cardholders

Rule 5.11.2 of Chapter 5, "Merchants," is modified to include the following:

In addition to a discount for cash, a Merchant may provide a discount to its customers for other forms of payment, including differential discounts for other payment brands. Such discounts must be clearly communicated at the Point of Interaction.

12

Europe Region Rules

This chapter contains Rules that apply only in the Europe Region.

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Organization of this Chapter

The Rules in this Chapter 12 are variances and additions to the “global” Rules that apply in the Europe Region.

Refer to Appendix A for the Europe Region geographic listing.

Definitions

Solely for the purposes of Rules in this Chapter 12 and in Chapters 12a and 12b, the following terms have the meanings set forth below.

1. “Commercial Card” means in the EEA a Card issued to an undertaking or public sector entity or one of its employees and that is intended for use in connection with business expenses made by that undertaking or public sector entity or by its employee, or a Card issued to a self-employed natural person engaged in a business activity and that is intended for use for business expenses. Cards fitting the above definition that are in issuance in the EEA after 31 December 2010 must be identifiable as Commercial Cards.
2. “Consumer Card” means in the EEA a Card issued to a natural person that is not used primarily for business expenses.
3. “Credit Card” means in the EEA a Consumer Card that allows the cardholder to make purchases with a certain credit amount, which can be settled in full by the end of a specified period (which typically is interest-free) or can be settled in part, with the remaining balance being taken as credit and charged with interest. A Credit Card may be linked to a current account at a deposit-taking institution or to an account that has been set up specifically for the use of the Credit Card. Credit Cards include charge (or delayed debit) Cards. A charge (or delayed debit) Card is a Card that allows the Cardholder to make purchases but does not offer credit, the amount of the debit having to be settled in full only after a specified period (which typically is interest-free). A charge (or delayed debit) Card may be linked to a current account at a deposit-taking institution or to an account that has been set up specifically for the use of the charge (or delayed debit) Card.

Europe Region Rules

1.2 Eligibility to be a Customer

4. "Debit Card" means in the EEA a Consumer Card that allows a cardholder to charge purchases directly to a current account at a deposit-taking institution. The Debit Card serves as a device to access funds in a current account. A Debit Card Transaction is always directly charged to a current account i.e. no later than two business days after the clearing of the Transaction, whereas a Credit (or charge or delayed debit) Card Transaction may be settled by the end of a specified period or charged to a current account more than two business days after the clearing of that Transaction. Cards fitting the above definition that are in issuance in the EEA after 31 December 2010 must be identifiable as Debit Cards.
5. "European Economic Area" (EEA) means the following countries: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and United Kingdom.
6. "Intra-SEPA Transaction" means a Transaction completed using a Card issued in a country or territory included in the SEPA geographic listing in Appendix A at a point of interaction located in a country or territory included in the SEPA geographic listing in Appendix A.
7. "Non-Intracountry Transaction" means a Transaction completed at a Merchant located outside the country in which the Card is issued.
8. "Payment Scheme" means MasterCard Incorporated, including all of its subsidiaries and affiliates, its products and services, the Standards that govern the products and services, and its Customers.

1.2 Eligibility to be a Customer

1.2.1 Principal or Affiliate

In the EEA, Rule 1.2.1 of Chapter 1, "Participation," is modified as follows:

It is not required that financial transactions constitute substantially all of the business conducted by a financial institution located in the EEA that does not take deposits.

2.3 Area of Use

Rule 2.3 of Chapter 2, "Licensing and Licensed Activities," is modified as follows:

An Issuer must use an ICA for Card issuance that accurately reflects the Area of Use in the corresponding License. An Issuer must use a BIN or BIN range for Card issuance that accurately reflects the Area of Use in the corresponding License. Different ranges within a BIN may be linked to ICAs assigned for different Areas of Use.

2.3.1 Extending or Otherwise Modifying the Area of Use

Rule 2.3.1, paragraph 8, part (a) of Chapter 2, "Licensing and Licensed Activities," is modified with respect to Merchants located and acquired in the Europe Region as follows:

The ICA number under which e-commerce Transactions are acquired must reflect either the country in which the Merchant is located or another country in the Europe Region.

2.3.2 Central Acquiring

The rules in this section apply in the Europe Region in place of Rule 2.3.1, paragraphs 5, 6, 7, and 8.

Provided that they comply with the provisions of this Rule, Customers that hold a License may centrally acquire Transactions of Merchants as described in Rule 2.3.2.4, including those undertaken in countries for which the Customer does not hold a License. Customers must not acquire Transactions from Merchants situated outside their Area of Use, except pursuant to this Rule 2.3.2.

This Rule 2.3.2 applies to central acquiring in the Europe Region by Customers with a License for any Europe Region country.

2.3.2.1 Central Acquiring Registration

Customers must have completed the central acquiring registration process before they centrally acquire. The central acquiring registration letter specifies the countries in which a Customer may centrally acquire intraregional Merchant Transactions.

2.3.2.2 Central Acquirer Service Requirements

The Customer must authorize, clear and settle centrally acquired Transactions in a manner that does not disadvantage the Cardholder, the Merchant or the Issuer involved in the Transaction in comparison with non-centrally acquired Transactions. The Customer must also comply with the requirements defined below.

1. Authorizations

Central Acquirers must provide Issuers with all information required in the authorization request, as set forth in the *Customer Interface Specification* manual.

A central Acquirer must be able to provide local language voice authorization services, itself or through a local Acquirer, at the cost of a local call if the authorization system is not available or in a country where Transactions cannot be authorized electronically. If the central Acquirer and local Acquirer cannot agree on a price for these services, the following rates will apply:

- Voice authorization: EUR 4
- Call referral: EUR 8.

2. Clearing

Central Acquirers must provide details in the clearing record of the location, city and country where the Transaction took place.

For specific Merchant sectors, central Acquirers must provide additional information in the clearing record if required by the Europe Region, using the message formats detailed in the *IPM Clearing Formats* manual.

2.3.2.3 Intracountry Rules

Central Acquirers must comply with the intracountry rules of a country in which they centrally acquire Transactions.

The Corporation will provide central Acquirers, on request, with the intracountry rules of the country or countries covered by the request. The administrative fee for this service, as set forth in the *MasterCard Consolidated Billing System—Europe SEPA Region* or *MasterCard Consolidated Billing System—Europe non-SEPA Region* manual as applicable, or elsewhere, must be paid at the time when the request is made and before the rules are sent.

2.3.2.4 Centrally Acquired Merchants

An Acquirer may centrally acquire Transactions from any Merchant located in any one of the following Western or Central European countries: Andorra, Austria, Belgium, Bulgaria, Channel Islands, Czech Republic, Cyprus, Denmark, Estonia, Finland, France, Germany, Gibraltar, Greece, Hungary, Iceland, Ireland, Isle of Man, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Monaco, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, Vatican City.

In all other Europe Region countries, an Acquirer may only centrally acquire Transactions of a Merchant that:

1. Operates in more than two Europe Region countries either directly; or through wholly-owned subsidiaries; or through a joint venture that requires consolidation on the balance sheet of the central company; or under the same brand name through franchise and/or management contracts.
2. Operates a centrally managed delivery system that services subsidiaries and local operators and is used to process orders, reservations, sales or payments; supports the delivery of services (for example, tickets/contracts) or goods; and manages stock or service availability.
3. Operates a centrally managed accounting system that monitors treasury and cash management and payment collections and is used to channel and support payment system authorizations.

2.3.2.4.1 Updating of Merchant Details

To ensure correct system implementation and transaction monitoring, central Acquirers must inform the Corporation of any changes to the Merchant details of any Merchant (excluding Merchants in Western and Central European countries) where Transactions are centralized, including changes to the Merchant's name and address and to the MCC used for centrally acquired Transactions. The changes must be communicated by submitting a central acquiring application form that contains the new details. If changes to Merchant details are not communicated within 30 business days of receipt of a warning letter, the assessment for centrally acquiring Transactions from a non-notified Merchant will be applied.

2.3.2.5 Registration Procedure

To register to centrally acquire in the Western and Central European countries listed in Rule 2.3.2.4 above, the Customer must submit to the Corporation a single application form covering all such Western and Central European countries. The central acquiring registration letter will cover all such Western and Central European countries.

To register to centrally acquire in other countries, the Customer must submit to the Corporation an application form for each Merchant and country where the Customer wishes to centrally acquire Transactions.

2.3.2.6 Extension of Registration

In the Western and Central European countries listed in Rule 2.3.2.4 above, a central Acquirer is not required to comply with any formal procedures in order to extend its central acquiring Activities to a new country in Western and Central Europe.

In all other countries, a Customer that wishes to extend its central acquiring Activities to a new Merchant or country must follow the registration procedure set forth in Rule 2.3.2.5 above.

2.3.2.7 Interchange Fee Requirements

If a central Acquirer acquires an Intracountry Transaction, the following principles apply to the interchange fee:

1. The central Acquirer may agree upon bilateral interchange fees with the Issuer; and
2. Unless a bilateral agreement applicable to an Intracountry Transaction has been established between two Customers, the interchange fees applicable to an Intracountry Transaction set forth in Rule 9.5 will apply.

If a central Acquirer acquires a Non-Intracountry Transaction, the following principles apply to the interchange fee:

1. The central Acquirer may agree upon bilateral interchange fees with the Issuer; and
2. Unless a bilateral agreement applicable to a Non-Intracountry Transaction has been established between two Customers, the interchange fees applicable to a Non-Intracountry Transaction set forth in Rule 9.4 will apply.

2.3.2.8 Settlement of Disputes

Any disputes relating to central acquiring will be resolved by the Corporation in accordance with the Standards.

2.3.2.9 Customer Noncompliance

The following are examples of violations of the central acquiring rules for which noncompliance assessments may be applied:

1. Engaging in central acquiring without first registering,
2. Engaging in central acquiring in non-notified countries or of non-notified Merchants (not applicable for Western and Central European countries).
3. Failure to comply with intracountry rules (including application of incorrect interchange fees) resulting in financial loss to another party.
4. Incorrect data in network messages (including incorrect country code) resulting in financial loss to another party.

2.6 Obligation to Issue Cards

Rule 2.6 of Chapter 2, "Licensing and Licensed Activities," does not apply in the EEA.

3.1 Standards

3.1.3 Rules Applicable to Intracountry Transactions

The following are additional Rules applicable to intracountry Transactions. Refer to Rule 9.5 of Chapter 9, "Settlement," regarding the establishment of intracountry interchange fees and intracountry service fees.

The Corporation may establish Rules for Intracountry Transactions. The Corporation will inform Customers of all Rules it establishes.

If Rules for Intracountry Transactions are not established by the Corporation, the following two options apply as regards establishment of the rules to be applied to Intracountry Transactions. Customers may change from one option to another upon notice in writing to the Corporation, and fulfillment of any requirements associated with the new option.

Global Rules (including Europe Region Rules)

Customers may apply the Rules (including the Europe Region Rules) to Intracountry Transactions. If the other option does not apply, then this option applies by default.

Intracountry Fallback Rules (75 percent Rule)

If permitted by local law, Customers holding Licenses for the country (including SEPA Licenses) and representing, during the year preceding the agreement, at least 75 percent of each of the Card issuing and acquiring intracountry Volumes (excluding on-us Volumes), have the power to agree on fallback Rules applicable to all Intracountry Transactions, including those acquired by Customers outside the country. Intracountry fallback rules must be agreed by at least two Issuers and at least two Acquirers Licensed to engage in Activity in the country.

The percentage is calculated separately for each Card product, as determined by the Card product identifier and functionality (for example, POS vs. cash disbursement).

Intracountry fallback rules remain in effect until changed or challenged. If intracountry fallback rules are challenged because the Customers agreeing to them no longer meet the 75 percent threshold, the Rules (including the Europe Region Rules) will apply in their place, as from the date when the Corporation has determined that the 75 percent threshold is no longer met.

Intracountry fallback rules must be non-discriminatory, justifiable and not in conflict with the Rules (including the Europe Region Rules and any Rules established by the Corporation for Intracountry Transactions). Intracountry fallback Rules must not discriminate against Cardholders (including international Cardholders) or jeopardize the integrity of the Payment Scheme.

3.1.3.1 Order of Precedence

For any Intracountry Transaction, the intracountry Rules established by the Corporation apply, or if none, the intracountry fallback rules established by Customers pursuant to the preceding Rule apply, or if none, the intraregional Rules apply, or if none, the interregional Rules apply.

3.1.4 Communication of Intracountry Fallback Rules

Customers that agree to intracountry fallback rules must provide the Corporation with a copy of such rules as well as with any subsequent changes to those rules. The Corporation must be notified of intracountry fallback rules well in advance of their effective dates, unless exceptional circumstances make this impossible. Exceptional circumstances must be related to events beyond the control of the Customers, such as a change in laws or regulations, compliance with which requires immediate action.

Intracountry fallback rules that have not been provided to and acknowledged by the Corporation are not applicable.

The Corporation will endeavor to publish intracountry fallback rules and their revisions at least three calendar months prior to their effective dates. If exceptional circumstances apply, the period will not be less than one calendar month before the effective date. If necessary, the initially notified effective date will be delayed to respect these time frames.

3.4 Choice of Laws

Rule 3.4 of Chapter 3, "Customer Obligations," is replaced in its entirety by the following:

Licenses are governed by and construed according to the applicable law mentioned in the particular License, without reference to conflict-of-laws or similar provisions that would mandate or permit application of the substantive law of any other jurisdiction

The courts mentioned in the particular License have exclusive jurisdiction for the resolution of any dispute relating to rights and obligations deriving from Licenses.

Licenses concluded after 1 January 2007 specify English law and courts.

The Standards are governed by and construed according to English law, without reference to conflict-of-laws or similar provisions that would mandate or permit the application of substantive law of any other jurisdiction. English courts have exclusive jurisdiction for the resolution of any dispute relating to the Standards between two Customers holding Licenses for countries in the Europe Region.

3.6 Provision and Use of Information

3.6.1 Obligation to Provide Information

Rule 3.6.1 of Chapter 3, "Customer Obligations," is modified to include the following.

The Customer must provide to the Europe Region the following information on its plans to issue chip Cards and/or acquire chip Transactions:

1. Number of chip Cards; and
2. Number of chip terminals.

3.6.1.1 Information to Cardholders

The following additional Rules apply in the Europe Region.

The Issuer must provide information to its Cardholders as set forth below, in addition to any information required under applicable laws or regulations. The Europe Region may ask an Issuer to certify its compliance with these Standards.

1. Before the Card is Used

The Issuer must make information available to Cardholders as to where the Card may be used (that is, wherever, at home or abroad, the relevant Mark is displayed). The Issuer must also provide the following information to the Cardholder:

- a. The price of the Card.
- b. Specific charges, if any, to be paid to the Issuer for the kind(s) of service (both at home and abroad) provided through the Card. Examples of these charges are: cash advance fee, ATM usage fee, and interest rate(s) to be applied to credit Card accounts.
- c. The basis for calculation of the exchange rate.
- d. Notice that exchange rates can fluctuate and that they may change between the time when the transaction is made and the time when it is billed to the Cardholder's account.
- e. For credit and charge Cards, information concerning any auxiliary charges applicable to the account linked to the Card: for example, fees for additional statements, account excess fees and late payment fees.
- f. The Cardholder's liability, including the cost, if the Card is lost or stolen. This information must be stated clearly in the body of the product literature. The Cardholder must also be told what to do if the Card is lost or stolen.
- g. The standard limit, if any, up to which the Cardholder can use the Card.
- h. Information concerning when the Transaction is likely to be billed to the Cardholder's account.
- i. Information required to be provided by Rule 3.6.5.2 herein.

2. At the Time of Billing the Transaction

As applicable, the following information must be provided to the Cardholder:

- a. Transaction type (for example sale, ATM cash withdrawal, cash advance), and location (if technically feasible).
- b. Amount in Transaction currency.

- c. Amount in billing currency.
- d. Exchange rate applied.
- e. Total commission applied (if applicable).
- f. Interest rate applied (if applicable).

3.6.1.2 Information to Merchants

This additional Rule applies only in the EEA.

An Acquirer:

- must inform existing and prospective Merchants that interchange fees and rules set by the Corporation are available on the MasterCard public Internet site (www.mastercard.com);
- must inform existing and prospective Merchants that they may apply different surcharges to Credit Card Transactions, Commercial Card Transactions, Debit Card Transactions and Maestro transactions, while respecting Rule 5.11.2 (Charges to Cardholders) of this Chapter 12.
- must inform existing and prospective Merchants that they are not obliged to accept Maestro cards and/or the cards of any other network as a condition for accepting Cards;
- may not prohibit existing or prospective Merchants from entering into a Merchant Agreement with any other Acquirer with respect to Credit Card Transactions, Commercial Card Transactions, Debit Card Transactions, Maestro transactions and/or the transactions of other card networks, unless the Merchant elects to enter into a Merchant Agreement solely with the Acquirer.
- must provide to existing and prospective Merchants pricing information that specifies separately (including separately from those of any other card network) the financial terms to be applied to Credit Card Transactions, Commercial Card Transactions, Debit Card Transactions and Maestro transactions, unless the Merchant elects that the Acquirer shall not have to provide such separate pricing information; and
- must indicate on Merchant invoices the number of Transactions, Volume and total amount of the Merchant service charge separately (including separately from those of any other card network) for Credit Card Transactions, Commercial Card Transactions, Debit Card Transactions and Maestro transactions, unless the Merchant elects that the Acquirer shall not have to provide such separate invoice information.

3.6.5 Data Protection

The following are additional Standards relating to Personal Data. The following definitions are solely for the purposes of Rule 3.6.5 of this chapter:

1. "Controller" means the entity which alone or jointly with others determines the purposes and the means of the Processing of Personal Data.
2. "Data Subject" means a Cardholder or Merchant, or other natural or legal person (to the extent a legal person is subject to national data protection law) whose Personal Data are processed by a Customer in the EEA or Switzerland and the Corporation.
3. "EU Privacy Directive" means, collectively, Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data and Directive 2002/58/EC of the European Parliament and of the Council of 12 July 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector, as may be amended from time to time.
4. "Personal Data" means any information relating to an identified or identifiable natural person; an identifiable natural person is one who can be identified, directly or indirectly, in particular, by reference to an identification number or to one or more factors specific to his or her physical, physiological, mental, economic, cultural, or social identity.
5. "Processor" means the entity which processes Personal Data on behalf of a Controller.
6. "Processing of Personal Data" means any operation or set of operations which is performed upon Personal Data, whether or not by automatic means, such as collection, recording, organization, storage, adaptation or alteration, retrieval, consultation, use, disclosure by transmission, dissemination or otherwise making available, alignment or combination, blocking, erasure or destruction of such data.
7. "Transaction-related Personal Data" means Personal Data required for authorizing, recording, settling and clearing a Transaction processed by the Corporation.

3.6.5.1 Processing of Transaction-Related Personal Data

With regard to Transaction-related Personal Data, Customers in the EEA or Switzerland must comply with the applicable national legislation implementing the EU Privacy Directive or any other applicable data protection law. Customers are Controllers with regard to the Processing of Personal Data for the purposes of authorizing, recording, clearing and settling transactions, and the Corporation acts as a Processor for these purposes.

The Corporation will, to the extent it acts as a Processor, only undertake Processing of Personal Data in accordance with the Standards and will comply with security obligations equivalent to those imposed on the Customers as Controllers by Article 17 of the EU Privacy Directive 95/46, as implemented by national legislation.

3.6.5.2 Data Subject Notice and Consent

Customers in the EEA or Switzerland must ensure that Data Subjects are properly informed and, if necessary, have given proper consent in accordance with applicable laws and regulations that Personal Data relating to them may be used, disclosed or otherwise processed by the applicable Customer and the Corporation as set forth for the purposes provided for in Rule 3.6.2.

In accordance with applicable laws and regulations, Customers in the EEA or Switzerland must ensure that Data Subjects are properly informed, at a minimum:

1. that Data Subjects have the right to (a) request access to and receive information about the Personal Data maintained by the applicable Customers, or the Corporation, (b) update and correct inaccuracies in the Personal Data, and (c) have the Personal Data blocked or deleted as appropriate.
2. that Data Subjects may withdraw any consent they previously provided to the applicable Customer or the Corporation or object at any time on legitimate grounds to the Processing of Personal Data;
3. about the choices and means that Data Subjects have for limiting the Processing of Personal Data by the Corporation;
4. that Personal Data may be processed outside the EEA or Switzerland; and
5. about the categories of recipients of Personal Data.

3.6.5.3 Data Subject Access to Personal Data

In accordance with applicable laws and regulations, Customers in the EEA or Switzerland must develop and implement appropriate procedures for handling requests by Data Subjects for access to, correction and/or deletion of Personal Data maintained by the applicable Customer or the Corporation. The Corporation will cooperate with Customers in responding to such requests and will provide access to Personal Data maintained by the Corporation to assist Customers in complying with requests for access to such Personal Data.

If an access request is made directly to the Corporation, Customers must cooperate with the Corporation in promptly responding to the request.

3.6.5.4 Integrity of Personal Data

Each Customer in the EEA or Switzerland must take reasonable steps to ensure that Personal Data the Customer provides to the Corporation is reliable for its intended use and is accurate, complete and current.

3.8 Authorization Service

3.8.3 Stand-In Processing Service

Rule 3.8.3 of Chapter 3, "Customer Obligations," does not apply if on or before 17 September 2008, the Issuer commenced its use of an alternative on-behalf authorization service that meets the Corporation's performance standards.

3.8.4 Issuer Performance Standards

The following additional Standards apply in the Europe Region. Issuers that fail to meet performance standards may be subject to the assessments set forth in Rule 3.8.4.3 below and will be mandated to implement the Stand-In Processing Service. Chip Issuers mandated to implement the Stand-In Processing Service will also be required to register for M/Chip Cryptogram Validation in Stand-In.

3.8.4.1 Issuer Failure Rate (Substandard Performance)

An Issuer failure rate that exceeds one percent (1%) for Transactions for two months in any six-month period is substandard performance. The Issuer failure rate will not apply to an Issuer or its processor until:

- a. After the fourth calendar month of operation; or
- b. Upon processing five thousand (5,000) Transactions in a calendar month; whichever occurs first.

3.8.4.2 Calculation of the Issuer Failure Rate

The Issuer failure rate is calculated according to the formula below:

The sum of the following ISO 8583 response codes:

- a. 31 issuer signed off
- b. 82 time out at Issuer EM
- c. 96 system malfunction

divided by the total Transactions processed through the Issuer connection to the Interchange System.

3.8.4.3 Assessments for Substandard Performance

An Issuer that fails to meet the Corporation's performance standards may be subject to the following assessments.

Occurrence	Assessment
First occurrence	USD 15,000
Second occurrence within the twelve (12) month period following the first occurrence	USD 15,000
Third and any subsequent occurrence within the twelve (12) month period following the second occurrence	USD 20,000

After completion of a full calendar year without any violations, a subsequent violation is counted as a first violation.

4.1 Right to Use the Marks

4.1.2 Protection and Registration of the Marks

Rule 4.1.2 of Chapter 4, "Trademarks and Service Marks," is modified to include the following additional Standard.

MasterCard Europe sprl is the exclusive owner of the Eurocard and eurocheque marks. Customers must not, either by act or omission, do anything inconsistent with the exclusive ownership of the Eurocard or eurocheque marks, or do anything that may harm the Eurocard or eurocheque marks.

5.1 The Merchant Agreement

5.1.2 Required Terms

Rule 5.1.2 of Chapter 5, "Merchants," is modified to include the following additional Rule that applies in the EEA:

Each Merchant Agreement with a Merchant located in the EEA must contain a term requiring the Merchant to respond to Cardholder disputes and handle chargebacks in accordance with the *Chargeback Guide*.

5.8 Card Acceptance Requirements

5.8.2 Merchant Acceptance

The following additional Rule applies in the Europe Region.

Merchants that accept Cards must accept all types of Cards (for example, consumer Cards, MasterCard Corporate Card® Cards, World MasterCard™ Cards, Debit MasterCard Cards, etc.).

5.11 Prohibited Practices

5.11.2 Charges to Cardholders

Rule 5.11.2 of Chapter 5, "Merchants and Sales Transactions," does not apply in the EEA.

If a Merchant applies a surcharge for payment by Card, the amount or method of calculation of the surcharge must be clearly indicated to the Cardholder at the POI location and must bear a reasonable relationship to the Merchant's cost of accepting Cards.

5.13 Discounts or Other Benefits at the Point of Interaction

The following additional Rule applies in the Europe Region.

A discount or other benefit may be applied at a POI location in the Europe Region upon simple presentation of a particular Card for payment. The promotion at the POI of a discount or other benefit that may be accessed by any particular Card is prohibited.

6.2 Affinity and Co-Brand Card Programs

6.2.5 Multiple Partners

Rule 6.2.5 of Chapter 6, "Special Issuer Programs," is modified to allow more than one Partner's name or logo or both to appear on the Card face.

6.3 Co-Residing Applications

Rule 6.3 of Chapter 6, "Special Issuer Programs," is replaced in its entirety with the following.

6.3.1 Definitions

"Co-residing application" means a Customer or third party proprietary application or function unrelated to the Payment Scheme that co-resides on a Card.

Any of a Customer's proprietary intracountry payment functions or brands, whether stored value, debit or credit, is a co-residing application if it resides on a chip embedded on a Card. If such a function or brand does not reside on the chip, the Rules for co-residing applications do not apply.

6.3.2 Basic Requirements

Customers may not use any Mark as part of the identification of any co-residing application without the Corporation's prior written approval.

Co-residing payment applications may not use or be associated with any competitive brand (for example, American Express, JCB, Diners Club, Visa).

6.3.3 Notification

The Corporation must be notified of co-residing payment applications with the form provided in the *Citrus Worldwide Operating Rules*. Principals and Associations may provide notification of co-residing applications on behalf of their Sponsored Affiliate. If a co-residing payment application is discontinued, the Corporation must be notified without delay.

8.1 Transaction Requirements

8.1.1 Euro Migration

Transactions submitted into interchange that take place in countries that convert to the euro must be submitted in the euro. To allow a grace period for exceptional cases, the Interchange System will not reject Transactions submitted in currencies that have been replaced by the euro within six months after the transition period.

Within this six-month period, Issuers may not reject or charge back Transactions submitted in currencies that the euro has replaced exclusively on grounds that such Transactions have not been submitted in euro.

Provided that the national currency of a country that converts to the Euro is still valid and accepted by the Interchange System, the greater of the euro floor limit or the floor limit in the national currency applies to intracountry Transactions, regardless of the Transaction currency.

8.2 Authorization Requirements

8.2.2 Full and Partial Approvals and Account Balance Responses

Effective for Transactions occurring on or after 11 April 2014, Customers in the United Kingdom must provide partial approval and account balance response authorization services as set forth below:

1. Issuers must support:
 - a. Partial approval for all prepaid MasterCard and all Debit MasterCard (including prepaid) Card account ranges; and
 - b. Account balance response for all prepaid MasterCard and all prepaid Debit MasterCard Card account ranges.
2. Acquirers must support:
 - a. For Merchants properly identified with MCC 5542, partial approval for all prepaid MasterCard and all Debit MasterCard (including prepaid) Card account ranges; and
 - b. For Merchants properly identified with any of the MCCs listed below, with respect to Card-present Transactions conducted at attended terminals, partial approval and account balance response for all prepaid MasterCard and all Debit MasterCard (including prepaid) Card account ranges.

MCC	Description
5310	Discount Stores
5311	Department Stores
5411	Grocery Stores, Supermarkets
5541	Service Stations (with or without Ancillary Services)
5612	Women's Ready to Wear Stores

MCC	Description
5691	Men's and Women's Clothing Stores
5732	Electronic Sales
5812	Eating Places, Restaurants
5814	Fast Food Restaurants
5912	Drug Stores, Pharmacies
5999	Miscellaneous and Specialty Retail Stores

8.3 Card Acceptance Procedures

8.3.3 Obtaining an Authorization

8.3.3.1 When to Obtain an Authorization

Rule 8.3.3.1 of Chapter 8, "Sales Transactions and Cash Disbursements," is modified to include the following:

The Merchant must obtain an online authorization from the Card Issuer for a magnetic stripe Transaction if the Card has a service code of X2X (Positive Online Authorization Required).

The service code is encoded in the magnetic stripe in positions 5.1 through 5.3, in accordance with ISO 7813. Refer to section 3.10 of the *Security Rules and Procedures* manual for more information about service code values.

8.3.5 Completing the Transaction

8.3.5.1 TID Information Requirements

Rule 8.3.5.1 of Chapter 8, "Sales Transactions and Cash Disbursements," is modified to include the following:

An electronically-generated terminal receipt may show the Transaction amount in the Transaction currency and a maximum of one different currency. The Transaction amount in a different currency must be printed at the bottom of the receipt with a clear indication that it is being provided only for information purposes.

8.4 Requirements for Specific Transaction Types

8.4.1 Chip Transactions and Acceptance at Hybrid POS Terminals

Rule 8.4.1 of Chapter 8, "Sales Transactions and Cash Disbursements" is modified to include the following with respect to chip Transactions effected wholly within the Region.

For purposes of these Rules, "EMV-compliant" means in compliance with the EMV standards then in effect.

1. **Chip Liability Shift.** The liability for intraregional counterfeit fraudulent Transactions in which one Regional Customer (either the Issuer or the Acquirer) is not yet EMV-compliant is borne by the non-EMV-compliant Regional Customer.
2. **Chip/PIN Liability Shift.** The liability for intraregional lost, stolen, and never received fraudulent Transactions in which one Regional Customer (either the Issuer or the Acquirer) is not yet able to support chip/PIN Transactions is borne by the non-chip/PIN-compliant Regional Customer.
3. **PIN Entry Device Mandate.** All new, replaced, or upgraded chip terminals must have a PIN pad. These terminals must at a minimum support offline PIN (encrypted and clear text) for processing chip Transactions. New, replaced, or upgraded hybrid terminals will not pass the Acquirer Terminal Integration Process unless they are equipped with a PIN pad.

The PIN pad mandate does not apply to CAT Level 2 and 3 hybrid POS Terminals.
4. **Technical Fallback.** At Cardholder-activated terminals (CATs) Level 1 and 2, if both the Card and the CAT support chip technology, the Transaction may only be completed using the chip. Technical fallback is not permitted at such terminals.
5. **Presentment Data.** For each chip Transaction, the Acquirer must send EMV chip data in DE 55 (Integrated Circuit Card [ICC] System-Related Data) of the First Presentment/1240 message.

8.4.2 Card-Not-Present Transactions

The Issuer must not authorize card-not-present (CNP) Transactions (that is, mail order/telephone order [MO/TO] and electronic commerce [e-commerce] Transactions) if the CVC 2 transmitted by the Acquirer does not match the CVC 2 on file with the Issuer corresponding to the Card number in question (that is, DE 48, subelement 87 of the Authorization Request Response/0110 message = "N").

The Acquirer must ensure that a CNP Merchant that has exceeded 100 basis points in fraudulent CNP Transactions for two consecutive calendar months:

1. For all MO/TO Transactions, captures and transmits the CVC 2 value to the Issuer for validation; and
2. For all e-commerce Transactions, captures and transmits the CVC 2 value to the Issuer for validation or becomes MasterCard *SecureCode*[™]-enabled.

Acquirers must ensure that Merchants comply with this requirement within 120 days following the second trigger month.

Refer to section 3.9 of the *Security Rules and Procedures* manual for additional CVC 2 requirements.

8.4.5 Purchase with Cash Back Transactions

The following additional Rules apply in the Europe Region.

Merchants in the Europe Region may at their option support purchase with cash back Transactions on all types of Cards other than Debit MasterCard Cards in accordance with the Rules in this section.

The following Acquirer and Merchant requirements apply to purchase with cash back Transactions:

1. Cash may be provided **only** when combined with a purchase Transaction. The purchase, cash back, and total Transaction components of the purchase with cash back Transaction must be in the same currency.
2. Purchase with cash back is available only for chip/PIN and chip/signature Transactions.
3. The Acquirer must obtain positive online authorization of the full Transaction amount; support for authorization of the purchase amount only is optional.
4. An offer of purchase with cash back that is promoted at the point of interaction (POI) must be available to all Cardholders and the Merchant may prompt the Cardholder to use this service.

If a Merchant decides to provide purchase with cash back only upon presentation of particular Cards, then the Merchant must not promote the service at the POI location or prompt the Cardholder to use purchase with cash back.

5. Before the Merchant first offers purchase with cash back Transactions to Cardholders, the Acquirer and Merchant must establish an education program for retail employee staff, including but not limited to POS terminal operators.

Europe Region Rules

8.4 Requirements for Specific Transaction Types

6. The maximum cash back amount of the purchase with cash back Transaction is GBP 100 in the United Kingdom and EUR 100 or the local currency equivalent in other Europe Region countries, with the exception of Germany, where the maximum is EUR 200.
7. Acquirers or Merchants may establish a lower maximum cash back amount, provided that:
 - Any such maximum amount is applied uniformly; and
 - Any maximum amount is not lower than the maximum amount established for any other payment means on which purchase with cash back is offered at the Merchant location.
8. Acquirers or Merchants may establish a minimum cash back amount, provided that:
 - Any such minimum amount is applied uniformly; and
 - Any minimum amount is not greater than the minimum amount established for any other payment means on which purchase with cash back is offered at the Merchant location.
9. The First Presentment/1240 message of each purchase with cash back Transaction must be submitted as follows:
 - A value of 09 (purchase with cash back) must be present in DE 3 (Processing Code), subfield 1 (Cardholder Transaction Type).
 - The total transaction amount (inclusive of the purchase amount and cash back amount) must be transmitted in DE 4 (Amount, Transaction).
 - The cash back amount must be transmitted in DE 54 (Amounts, Additional).

The following Issuer requirements apply to purchase with cash back Transactions:

1. An Issuer that intends to support purchase with cash back Transactions must properly personalize the chip on its Cards.
2. Issuers should use partial authorization to approve only the purchase amount of magnetic stripe Transactions, if they have implemented partial authorization. The cash back amount of a magnetic stripe Transaction must under no circumstances be authorized.
3. When using message reason codes 4853, 4855, 4859, and 4860 to submit a chargeback of a purchase with cash back Transaction, the Issuer may charge back only the purchase amount or a portion thereof, using Function Code of 453 (Partial Amount) in the First Chargeback/1442 message. An Issuer must not charge back the cash back amount or any portion thereof under any of these message reason codes.

8.4.9 Payment Transactions

8.4.9.1 Gaming Payment Transactions

In addition to the Payment Transaction Rules described in Rule 8.4.9 of Chapter 8, "Sales Transactions and Cash Disbursements," the following requirements apply to Gaming Payment Transactions:

1. The Gaming Payment Transaction may only be used to transfer winnings or unspent chips or other value usable for gambling to the same Card that the Cardholder used to place the bet or purchase value used or usable for gambling.
2. The Gaming Payment Transaction must be properly identified in authorization and clearing messages using MCC 7995, a Transaction type value of 28, and a Payment Transaction program type value of C04.
3. The Gaming Payment Transaction must not exceed EUR 5000.
4. Gaming Payment Transactions may not be processed by Acquirers in Andorra, Cyprus, Latvia, and San Marino.
5. Electronic commerce Merchants that process Gaming Payment Transactions must be MasterCard® *SecureCode*™-enabled, and must seek Cardholder authentication during authorization of the Transaction in which the bet is placed or the value to be used for gambling is purchased. The MasterCard Advanced Registration Program (MARP) is not available for such Merchants.
6. Mail order and telephone order Merchants may process Gaming Payment Transactions.
7. Gaming Payment Transactions must not be processed to any type of MasterCard Corporate Card.
8. Anti-Money-Laundering requirements:
 - a. The Acquirer must consider its Merchants that submit Gaming Payment Transactions as higher risk under its anti-money laundering compliance program.
 - b. In addition to any requirement under applicable local law or regulation, the Acquirer must satisfy the Corporation requirement to design and implement processes to conduct enhanced customer due diligence reviews of Merchants that submit Gaming Payment Transactions.
 - c. The Acquirer must ensure that Merchants that submit Gaming Payment Transactions have appropriate controls in place to identify their own customers and block suspicious activities or Cards.

Europe Region Rules

8.4 Requirements for Specific Transaction Types

- d. The Acquirer must have robust procedures and ongoing controls in place to monitor Transactions conducted by Merchants that submit Gaming Payment Transactions and to detect and report any potentially suspicious activity.
9. Gaming Payment Transactions may only be processed by Europe Region Acquirers in countries where such Transactions are not prohibited by applicable law and only to Cards issued in the following countries:

Country Code	Country	Country Code	Country
020	Andorra	428	Latvia
040	Austria	442	Luxembourg
056	Belgium	470	Malta
100	Bulgaria	492	Monaco **
196	Cyprus	528	Netherlands
203	Czech Republic	578	Norway
208	Denmark	642	Romania
233	Estonia	674	San Marino
250	France	703	Slovak Republic
280	Germany	705	Slovenia
292	Gibraltar	724	Spain
300	Greece	752	Sweden
348	Hungary	756	Switzerland
352	Iceland	792	Turkey
372	Ireland	826	United Kingdom
380	Italy		

10. Issuers in the countries listed must support the Gaming Payment Transaction in authorization and clearing messages.
11. Gaming Payment Transactions will not be authorized in MasterCard Stand-In or Down Option Services. Authorization is entirely under the control of the Issuer.

8.8 Use of Automatic Billing Updater

The following Rule applies in the Republic of Ireland.

Each Customer located in the Republic of Ireland must use the Automatic Billing Updater for all Cards issued in the Republic of Ireland, excluding non-reloadable prepaid Cards in the BIN range of 539366 to 539585, as follows.

Information about ABU may be found on MasterCard OnLine in the Payment Programs product under Automatic Billing Updater.

8.8.1 ABU Support by Acquirers

Acquirers must be capable of sending, receiving and processing ABU data, and must ensure that the acquiring host processing system used by the Acquirer incorporates ABU functionality.

Acquirers are required to register each Merchant located in the ROI that conducts recurring payment Transactions in the ABU program.

Acquirers must submit Card account number queries to ABU on behalf of each registered Merchant before submitting an authorization request message. Acquirers must then take appropriate action based on any response codes received from ABU.

Acquirers must submit account inquiry updates on behalf of each enrolled Merchant no less than once every 180 days.

8.8.2 ABU Support by Issuers

Issuers must be able to send, receive and process ABU data. All of the types of Card account changes defined in the *ABU Reference Guide*, excluding any such account changes to non-reloadable prepaid Cards, must be submitted to ABU.

8.9 Cash Disbursements

8.9.2 Maximum Cash Disbursement Amounts

Rule 8.9.2 of Chapter 8, "Sales Transactions and Cash Disbursements," is modified so that the maximum cash disbursement transaction amounts of USD 5,000 and USD 1,000 therein stated are replaced in the Europe Region by EUR 5,000 and EUR 1,000, respectively.

12a Europe Region Debit-related Rules

This chapter contains debit-related Rules that apply only to the Europe Region.

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Organization of this Chapter

The Rules in this Chapter 12a are variances and additions to the “global” Rules that apply to:

1. Debit MasterCard Cards issued in a Debit MasterCard Country and presented for payment in the Europe Region;
2. Debit MasterCard Transactions that take place in the Europe Region; and
3. Merchants and Acquirers of those Transactions.

The rules set forth in *Intracountry Debit MasterCard Rules for the United Kingdom* also apply to Transactions effected with a Debit MasterCard Card that take place wholly within the United Kingdom.

Customers and Merchants must continue to comply with the global Rules with respect to Cards issued by Customers outside of the Europe Region and presented for payment at Merchant locations in the Europe Region, unless otherwise agreed by the Corporation.

Definitions

The defined terms provided in Chapter 12 apply to Rules in this Chapter 12a.

Solely for the purposes of Rules in this Chapter 12a, the following terms have the meanings set forth below.

1. “Debit MasterCard Card” means a Debit Card as defined in the Definitions section of Chapter 12.

Cards offering credit facilities for which the Cardholder has to enter into a written credit agreement with the Card issuing institution that would qualify as consumer credit under the applicable legislation governing consumer credit are explicitly excluded. Overdraft facilities linked to an Account are excluded from the above definition of credit facilities.

2. “Other Card” shall mean any MasterCard-branded device, program, or card that does not qualify as a “Debit MasterCard Card.”
3. “Debit MasterCard Country” shall mean a country designated by the Corporation, in its sole discretion, as a participant in the Intracountry Debit MasterCard Program. Only a country so designated is a Debit MasterCard Country.

2.7 Liability for Assigned ICAs and BINs

Rule 2.7 of Chapter 2, "Licensing and Licensed Activities," is modified to include the following:

Transaction/BIN Identification. Debit MasterCard Card Issuers must use specific and unique bank identification numbers (BINs) for Debit MasterCard Cards. Acquirers must provide a complete list of the BINs that apply to Debit MasterCard Cards to their Merchants upon any form of reasonable request.

4.2 General Rules for Use of the Marks

4.2.6 Particular Use of a Mark

4.2.6.6 Use on Cards

Rule 4.2.6.6 of Chapter 4, "Trademarks and Service Marks," is modified to include the following:

Debit MasterCard Hologram. Debit MasterCard Card Issuers must replace the MasterCard Global Hologram with the Debit MasterCard Hologram.

When the Debit MasterCard Hologram is on the Card back, placement of the word "Debit" on the Card front is recommended.

Debit MasterCard Cards must conform to the Standards set forth in the *Security Rules and Procedures* and *Card Design Standards* manuals.

5.8 Card Acceptance Requirements

5.8.1 Honor All Cards

Rule 5.8.1 of Chapter 5, "Merchants," is modified as follows.

1. **If Debit MasterCard Cards are Accepted.** Merchants in a Debit MasterCard Country that choose to accept Debit MasterCard Cards issued in the Europe Region but not Other Cards issued in the Europe Region must honor all valid Debit MasterCard Cards issued in the Europe Region without discrimination, when properly presented for payment. The Merchant must not discriminate among customers seeking to make purchases with a Debit MasterCard Card issued in the Europe Region.

2. **If Other Cards are Accepted.** Merchants in a Debit MasterCard Country that choose to accept Other Cards must honor all valid Debit MasterCard Cards issued in the Europe Region and all valid Other Cards issued in the Europe Region and all valid Cards without discrimination, when properly presented for payment. The Merchant must not discriminate among customers seeking to make purchases with another Card.

5.8.2 Merchant Acceptance

Rule 5.8.2 of Chapter 12, "Europe Region Rules," is modified to permit Merchants in a Debit MasterCard Country to choose to accept only Debit MasterCard Cards issued in the Europe Region or both Debit MasterCard Cards and Other Cards issued in the Europe Region. Acquirers must inform existing and prospective merchants that they have this right.

A merchant may choose to stop accepting Other Cards issued in the Europe Region by providing no less than 30 days advance written notice to its Acquirer.

Acquirers must identify to the Corporation any Merchant in a Debit MasterCard Country that chooses to accept Debit MasterCard Cards but not Other Cards issued in the Europe Region, and inform the Corporation of the reason for the Merchant's decision.

Merchants may request signage for the purpose of indicating their acceptance of Debit MasterCard Cards at www.mastercardweacceptdebit.com.

5.8.6 Purchase with Cash Back Transactions

A Merchant must offer purchase with cash back Transactions on all Europe-issued Debit MasterCard Cards if the Merchant offers this transaction type on any other debit brand.

12b SEPA Rules

This chapter contains Rules that apply only within the Single European Payments Area (SEPA).

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Organization of this Chapter

The Rules in this Chapter 12b are variances and additions to the "global" Rules that apply within the Single European Payments Area (SEPA).

Definitions

The defined terms provided in Chapter 12 apply to Rules in this Chapter 12b.

Solely for the purposes of Rules in this Chapter 12b, the following term has the meaning set forth below.

"SEPA Cards Framework (SCF)" means the SEPA Cards Framework as published by the European Payments Council, as it may be amended from time to time.

2.1 Purpose of License; Eligibility

2.1.1 Single European Payments Area License

The following additional Rules apply within SEPA:

1. Any entity that is eligible to become a Customer in one of the SEPA countries may request a SEPA License.
2. The Standards applicable to other Licenses also apply to SEPA Licenses, unless otherwise provided.
3. The SEPA License may be granted to a Principal or Association or an Affiliate.
4. A Principal or Association holding a SEPA License may Sponsor Affiliate in one or more SEPA countries. The Affiliate(s) may receive either a SEPA License or a License.
5. If a SEPA License is held by a Customer that will undertake Activities in one or more SEPA countries via separate legal entities, the separate legal entities must also sign Licenses.
6. The SEPA License may cover all of the countries in SEPA. If the SEPA License will cover both Switzerland and an EEA country, any Customer legal entity or SEPA Licensee that will be active both in Switzerland and in an EEA country must be regulated both in Switzerland and in an EEA country. The holder of a SEPA License must meet all local legal requirements in each country in which it intends to undertake Activities.

7. Each Principal or Association is assigned a separate ICA for each SEPA country in which it is active, must use that ICA only for its Activity in that country, and must not undertake Activity in that country before the relevant ICA has been implemented.

The Principal or Association is assigned a separate BIN or BIN range for each SEPA country in which it is active, must use that BIN or BIN range only for its Activity in that country, and must not undertake Activity in the country before the relevant BIN or BIN range has been implemented. For Card issuance, different ranges within a BIN may be linked to ICAs assigned for different SEPA countries.

8. With regard to Intracountry Transactions, the holder of a SEPA License must comply with the applicable intracountry rules and fees.

3.2 Conduct of Activity

3.2.6 Nondiscrimination

Rule 3.2.6 of Chapter 3, "Customer Obligations," is modified to include the following:

A Customer must not, directly or indirectly, prevent or discriminate against the use of MasterCard as a brand for Intracountry Transactions or Intra-SEPA Transactions.

By way of example but not limitation:

1. A single certification must be valid for both intracountry and intra-SEPA use of the MasterCard payment application at the terminal.
2. The prevalence of any particular chip-based payment application at terminal or Acquirer system level must not be mandated or implemented.
3. If the MasterCard payment application is supported by both the Card and the terminal, its use must not be blocked or impaired by technical or other means.
4. If the MasterCard payment application is supported by both the Card and the terminal, the Cardholder must be given the opportunity to complete the Transaction with the MasterCard payment application, in an EMV environment and in all other cases where the terminal is technically capable of providing that choice to the Cardholder. In an EMV environment, if the Cardholder is not able to choose a payment application, the priority order defined by the Issuer in the chip must be respected.

5. Neither the Cardholder's chosen payment application nor the Issuer's priority order may be disregarded or overridden by technical or other means.

4.2 General Rules for Use of the Marks

4.2.13 Use of Other Acceptance Marks on Cards

Rule 4.2.13 of Chapter 4, "Trademarks and Service Marks," is modified to include the following:

1. The Marks may co-reside on Cards with other payment scheme marks upon written agreement with the Corporation. If Cards bear multiple payment scheme marks in addition to the Marks, only one of the additional payment scheme marks may be placed on the Card front.
2. Effective 1 January 2011, only the marks of payment schemes that are SCF-compliant may co-reside on Cards with the Marks.

8.1 Transaction Requirements

Paragraph 5 in Rule 8.1 of Chapter 8, "Sales Transactions and Cash Disbursements" that applies to Cross-border Transactions, does not apply to Intra-SEPA Transactions.

8.4 Requirements for Specific Transaction Types

8.4.1 Chip Transactions and Acceptance at Hybrid POS Terminals

The following additional Rules apply within SEPA:

1. An Issuer of Cards that does not support both magnetic stripe and EMV chip technology must have an EMV migration project registered with MasterCard Customer Implementation Services.
2. An Acquirer with any POS Terminals deployed that do not support both magnetic stripe and EMV chip technology must have an EMV migration project registered with MasterCard Customer Implementation Services. (Note: This requirement does not apply with respect to terminals at Merchants located in the Netherlands until 1 October 2012.)

SEPA Rules

8.4 Requirements for Specific Transaction Types

3. Cards and POS Terminals must support both magnetic stripe and EMV chip technology. As an exception to the preceding Rule, nonreloadable prepaid Cards are not required to support EMV chip technology. (Note: Terminals at Merchants located in the Netherlands are not required to support EMV chip technology until 2013.)
4. Hybrid POS Terminals must support the use of PIN as the CVM for intra-SEPA chip Transactions.

13

Latin America and the Caribbean Region Rules

This chapter contains Rules that apply only in the Latin America and the Caribbean Region.

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Organization of this Chapter

The Rules in this Chapter 13 are variances and additions to the “global” Rules that apply in the Latin America and the Caribbean Region.

Refer to Appendix A for the Latin America and the Caribbean Region geographic listing.

2.6 Obligation to Issue Cards

Rule 2.6 of Chapter 2, “Licensing and Licensed Activities,” is modified to include the following.

A Customer that is Licensed to acquire Transactions in the United States that extends its Area of Use to acquire Transactions in Puerto Rico is not required to issue Cards in Puerto Rico if its acquiring Activity in Puerto Rico is limited to only the Transactions of Merchants located in Puerto Rico that are also located and have headquarters in the United States, and with whom the Customer has an existing acquiring relationship in the United States.

3.2 Conduct of Activity

3.2.7 Acquirers

This rule applies in Puerto Rico and the U.S. Virgin Islands only:

An Acquirer must not prohibit its Merchant from requesting or encouraging a customer to use a payment card with an acceptance brand other than a MasterCard or other form of payment or a Card of a different product type than the Card the consumer initially presents, or otherwise prohibit its Merchant from engaging in actions consistent Rule 5.11.1 of this Chapter 13.

4.1 Right to Use the Marks

4.1.2 Protection and Registration of the Marks

Rule 4.1.2 of Chapter 4, "Trademarks and Service Marks" is modified as it applies to debit Cards issued in Puerto Rico and the U.S. Virgin Islands:

No use of a Mark may be made on or in connection with any card, device or other application associated with a payment service that the Corporation deems to be competitive with any Activity except as set forth in this chapter.

4.2.12 Use of a Competing Mark on Cards

Rule 4.2.12 of Chapter 4, "Trademarks and Service Marks," is modified as it applies to debit Cards issued in Puerto Rico and the U.S. Virgin Islands, to include the following:

A competing debit point-of-sale mark may appear on a debit Card as set forth in the Card Design Standards or as otherwise agreed to by the Corporation.

4.2.13 Use of Other Acceptance Marks on Cards

Rule 4.2.13 of Chapter 4, "Trademarks and Service Marks," is modified as it applies to debit Cards issued in Puerto Rico and the U.S. Virgin Islands, to include the following:

Other debit point-of-sale marks may appear on a debit Card as set forth in the Card Design Standards or as otherwise agreed to by the Corporation.

5.11 Prohibited Practices

Except as provided in Rule 5.11.1 below, an Acquirer must ensure that none of its Merchants engage in any of the prohibited practices set forth in this Rule 5.11.

5.11.1 Discrimination

Rule 5.11.1 of Chapter 5, "Merchants" as it applies in Puerto Rico and the U.S. Virgin Islands is replaced with the following:

A Merchant may request or encourage a customer to use a payment card with an acceptance brand other than MasterCard or other form of payment or a Card of a different product type (e.g., traditional cards, premium cards, rewards cards) than the Card the consumer initially presents. Except where prohibited by law, it may do so by methods that include, but are not limited to:

- a. offering the customer an immediate discount from the Merchant's list, stated, or standard price, a rebate, a free or discounted product or service, or any other incentive or benefit if the customer uses a particular payment card with an acceptance brand other than MasterCard or other particular form of payment;
- b. offering the customer an immediate discount from the Merchant's list, stated, or standard price, a rebate, a free or discounted product or service, or any other incentive or benefit if the customer, who initially presents a Card, uses instead another payment card or another form of payment;
- c. expressing a preference for the use of a particular payment card or form of payment;
- d. promoting the use of a particular general purpose payment card with an acceptance brand other than MasterCard or the use of a particular form or forms of payment through posted information, through the size, prominence, or sequencing of payment choices, or through other communications to customers (provided that the Merchant will abide by the Standards relating to the display of the Marks including, but not limited to, the MasterCard Acceptance Mark); or
- e. communicating to customers the reasonably estimated or actual costs incurred by the Merchant when a customer uses particular payment cards or forms of payment or the relative costs of using different general purpose payment cards or forms of payment.

5.11.2 Charges to Cardholders

Rule 5.11.2 of Chapter 5, "Merchants" as it applies in Puerto Rico and the U.S. Virgin Islands is replaced with the following:

A Merchant must not directly or indirectly require any Cardholder to pay a surcharge or any part of any Merchant discount or any contemporaneous finance charge in connection with a Transaction. A Merchant is permitted to charge a fee (such as a bona fide commission, postage, expedited service or convenience fees, and the like) if the fee is imposed on all like transactions regardless of the form of payment used, or as the Corporation has expressly permitted in writing. For purposes of this Rule:

1. A surcharge is any fee charged in connection with a Transaction that is not charged if another payment method is used.
2. The Merchant discount fee is any fee a Merchant pays to an Acquirer so that the Acquirer will acquire the Transactions of the Merchant.

5.11.3 Minimum/Maximum Transaction Amount Prohibited

Rule 5.11.3 of Chapter 5, "Merchants" as it applies in Puerto Rico and the U.S. Virgin Islands is modified to include the following:

A Merchant may set a minimum Transaction amount to accept a Card that provides access to a credit account, under the following conditions:

1. the minimum Transaction amount does not differentiate between Issuers; and
2. the minimum Transaction amount does not differentiate between MasterCard and another acceptance brand; and
3. the minimum Transaction amount does not exceed USD 10 (or any higher amount established by the Federal Reserve by regulation).

A Merchant may set a maximum Transaction amount to accept a Card that provides access to a credit account, under the following conditions:

1. the Merchant:
 - a. is a department, agency or instrumentality of the U.S. Government; or
 - b. is a corporation owned or controlled by the U.S. Government; or
 - c. is a Merchant whose primary business is reflected by one of the following MCCs:
 - i. MCC 8220—Colleges, Universities, Professional Schools, Junior Colleges; or
 - ii. MCC 8244—Schools, Business and Secretarial; or

- iii. MCC 8249—Schools, Trade and Vocational; and
2. The maximum Transaction amount does not differentiate between Issuers; and
3. The maximum Transaction amount does not differentiate between MasterCard and another acceptance brand.

5.11.8 Disparagement

A Merchant must not disparage the Corporation or any of the Corporation's products, programs, services, networks, or systems.

5.13 Discounts or Other Benefits at the Point of Interaction

A Card may access a discount or other benefit at a point of interaction (POI) located in the Latin America and the Caribbean Region, and the Merchant may promote such discount or other benefit at the POI, provided such promotion does not disparage other Card Programs.

6.2 Affinity and Co-Brand Card Programs

6.2.5 Multiple Partners

Rule 6.2.5 of Chapter 6, "Special Issuer Programs," is modified such that for Affinity Card Programs and Co-brand Card Programs issued by Customers in the LAC Region, more than one Partner's name or logo or both may appear on the face of the Card subject to the following conditions:

1. The Card design shall comply in all respects with the Card design guidelines,
2. In no way may any Partner name and/or logo, or combination, obscure in any way the fact that the card is a Card, and
3. The decision as to whether any given Card design conforms to these conditions is reserved to the Corporation's staff.

8.4 Requirements for Specific Transaction Types

8.4.1 Chip Transactions and Acceptance at Hybrid POS Terminals

Rule 8.4.1 of Chapter 8, "Sales Transactions and Cash Disbursements," is modified to include the following.

For purposes of these Rules, "EMV chip-capable" means the ability to become "compliant"; and "EMV chip-compliant" means operating any chip device including cards, ATMs, point-of-interaction (POI) terminals, electronic cash registers (ECRs), PIN pads, and terminals that are in accordance fully with the Standards relative to EMV standards.

1. **New Terminals.** All new ATMs and POI terminals must be EMV-compliant.
2. **Critical Fraud Percentage.** The Acquirer of a Merchant located in the Latin America and Caribbean Region with a ratio of fraud and counterfeit volume to Card sales volume that equals or exceeds the Standards must replace any magnetic-stripe-only POI or ECR terminal at such Merchant with an EMV-capable terminal, either POI or ECR.
3. **Intraregional Chip Liability Shift.** The liability for Latin America and Caribbean intraregional counterfeit fraudulent Transactions in which one Customer (either the Issuer or the Acquirer) is not yet EMV chip-compliant is borne by the non-EMV chip-compliant Customer.
4. **Incentive Interchange Rate.** An incentive interchange rate applies to intraregional international chip Transactions to:
 - a. Compensate the Issuers of Cards with an increased intraregional interchange of ten basis points when the Card is used at a non-EMV chip-compliant terminal.
 - b. Compensate the Acquirers using EMV-compliant terminals with a reduced intraregional interchange of ten basis points when a non-EMV chip-compliant Card is used at that terminal.
5. **Domestic Chip Liability Shifts.** The liability for domestic counterfeit fraudulent Transactions in which one Customer (either the Issuer or the Acquirer) is not yet EMV chip-compliant is borne by the non-EMV chip-compliant Customer in the following countries: Brazil, Colombia, Venezuela.

9.3 Currency Conversion

Rule 9.3 of Chapter 9, "Settlement," is modified to include the following.

Within the country in which the Card was issued, if that country is within the LAC Region, and if the Transaction currency is the same as the currency of the Issuer and is not U.S. dollars, the Acquirer must accept payment for the Transaction in the local currency, unless the Acquirer and Issuer have agreed otherwise, or unless local law requires otherwise.

Noncompliance by any Customer with this requirement will result in the imposition of a USD 50 fine for each USD 1,000 of affected settlement volume, payable monthly for the volume in the prior month.

9.5 Establishment of Intracountry Interchange and Service Fees

Rule 9.5 of Chapter 9, "Settlement," is modified to include the following.

Integrated Service for Intracurrency Settlement (ISIS) certification is a standard feature of the certification process for Card Programs in which an LAC Region Customer participates. All Principals or Associations in the LAC Region and Service Providers providing Program Services to Principals or Associations in the LAC Region must settle Transactions through ISIS at the applicable intracountry interchange rate and conditions with each LAC Region Customer that chooses to use ISIS as its settlement platform of choice for intracountry Transactions.

14

South Asia/Middle East/Africa Region Rules

This chapter contains Rules that apply only to the South Asia/Middle East/Africa Region.

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Organization of this Chapter

The Rules in this Chapter 14 are variances and additions to the “global” Rules that apply in the South Asia/Middle East/Africa (SAMEA) Region.

Refer to Appendix A for the South Asia/Middle East/Africa Region geographic listing.

3.6 Provision and Use of Information

3.6.1 Obligation of Customer to Provide Information

3.6.1.1 Information to Cardholders

The Issuer must provide information to its Cardholders as set forth below.

1. **Card Solicitations.** Each Issuer of Cards must disclose, clearly and conspicuously, in all Solicitations any amounts relating to the MasterCard Issuer Cross-border Assessment and/or the MasterCard Currency Conversion Assessment that the Issuer charges, or will charge, to the Cardholder.
2. **Cardholder Communications.** Each Issuer of Cards must disclose, clearly and conspicuously, in all new and existing Cardholder Communications, including Cardholder agreements and account agreements, any amounts relating to the MasterCard Issuer Cross-border Assessment and/or the MasterCard Currency Conversion Assessment that the Issuer charges, or will charge, to the Cardholder.
3. **Periodic Billing Statement.** Each Issuer of Cards must provide adequate disclosure on each applicable periodic billing statement, such that the Cardholder can readily determine from the billing statement any amounts that the Issuer charges to the Cardholder relating to the MasterCard Issuer Cross-border Assessment and/or the MasterCard Currency Conversion Assessment during that billing cycle, either in gross or on a per Transaction basis.

4. Currency Conversion Procedure. The Corporation further recommends and encourages Issuers to inform their Cardholders that part of the Corporation's currency conversion procedure includes use of either a government-mandated exchange rate or a wholesale exchange rate, selected by the Corporation, and that the government-mandated exchange rate or wholesale exchange rate that the Corporation uses for a particular Transaction is the rate the Corporation selects for the applicable currency on date that the Transaction is processed (the Central Site Business Date), which may differ from the rate selected on the date the Transaction occurred or on the date the Transaction is posted to the Cardholder's account.

For information about the MasterCard Currency Conversion Assessment, refer to the *GCMS Reference Manual*. For information about the MasterCard Cross-border Assessment, refer to the *MasterCard Consolidated Billing System—SAMEA Region* manual.

3.10 Limitation of Liability of Cardholders for Unauthorized Use

The following applies with respect to SAMEA Region Cardholders.

1. Limitation on amount. Subject to the laws of the country within which a Card is issued, the liability of a Cardholder for unauthorized use of a Card (regardless of the type of account to which Transactions initiated with such Card are posted)
 - a. shall not exceed USD 0 if the conditions set forth in paragraph 2, below, have been met or,
 - b. shall be in accordance with the corresponding Cardholder agreement if the conditions set forth in paragraph 2 have not been met.
2. Conditions to USD 0 liability. The liability limitations set forth in clause (a) of paragraph 1, above, shall apply only if
 - a. the Cardholder has exercised vigilant care in safeguarding such Card from risk of loss, theft, or unauthorized use;
 - b. the Cardholder immediately and without delay notifies the Issuer upon discovery of the loss, theft, or unauthorized use;
 - c. the Cardholder has not reported two or more incidents of unauthorized use to the Issuer in the immediately preceding 12-month period;
 - d. the account to which Transactions initiated with such Card are posted is in good standing; and

- e. the Cardholder has complied with the terms and conditions of the corresponding Cardholder agreement.
3. Effect of other applicable law or agreement. If country or local law or an agreement between a Cardholder and the Issuer of a Card (regardless of the type of account to which Transactions initiated with such Card are posted) imposes lesser liability than that provided in this Rule, the lesser liability shall govern.
4. Unauthorized use. For purposes of this Rule, "unauthorized use" means the use of a Card (regardless of the type of account to which Transactions initiated with such Card are posted) by a person other than the Cardholder who does not have actual, implied, or apparent authority for such use, and from which the Cardholder receives no benefit.
5. Nonapplicability. This Rule shall not apply to Cards issued
 - a. to an entity other than a natural person;
 - b. primarily for business, commercial, or agricultural purposes; or
 - c. if a PIN or MasterCard *SecureCode* is used as the Cardholder verification method for unauthorized Transaction(s).

5.13 Discounts or Other Benefits at the Point of Interaction

A discount or other benefit may be applied at a POI located in the SAMEA Region upon presentation of a particular Card for payment. Promotion of any such discount or other POI benefit is permitted provided such promotion does not result in discrimination against other Card Programs. The determination of whether any promotion discriminates against other Card Programs is at the sole discretion of the Corporation.

8.4 Requirements for Specific Transaction Types

8.4.1 Chip Transactions and Acceptance at Hybrid POS Terminals

Rule 8.4.1 of Chapter 8, "Sales Transactions and Cash Disbursements," is modified to include the following.

For purposes of these Rules, a counterfeit Transaction is a type of fraudulent Transaction.

South Asia/Middle East/Africa Region Rules
8.4 Requirements for Specific Transaction Types

1. **New Terminals.** All new or retrofitted ATMs and POI terminals deployed by Regional Customers must be EMV-capable.
2. **Incentive Interchange Rate.** An incentive interchange rate is applied to intraregional Transactions to:
 - a. Compensate Issuers of EMV-compliant Cards with an increased intraregional interchange of ten basis points when the Card is used at a non-EMV-compliant terminal
 - b. Compensate Acquirers using EMV-compliant terminals with reduced intraregional interchange of 10 basis points when a non-EMV-compliant Card is used at that terminal.
3. **Chip Liability Shift for SAMEA.** The liability for SAMEA intraregional counterfeit Card Transactions in which one member (either the Issuer or the Acquirer) is not yet EMV-compliant will be borne by the non-EMV-compliant member.

An interregional chip liability shift is in effect between the Asia/Pacific and South Asia/Middle East/Africa Regions. All countries within each of these regions participate.

14a South Africa Rules

This chapter contains Rules that apply only in South Africa.

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Organization of this Chapter

The Rules in this Chapter 14a are variances and additions to the “global” Rules that apply to Cards issued in South Africa by South Africa Customers and presented for payment at Merchant locations in South Africa.

Customers and Merchants in South Africa must continue to comply with the global Rules for Cards issued by Customers outside of South Africa and presented for payment at Merchant locations in South Africa.

Definitions

Solely for the purposes of this Chapter 14a, the following terms have the meanings set forth below.

1. “Debit” or “Debit MasterCard Card” or “Debit Card” shall mean any Access Device, Program, or Card issued in South Africa, by a Customer licensed in South Africa, that when presented for payment in South Africa, accesses, debits, holds, or settles funds from a consumer’s deposit, current, saving, asset or other type of money account. “Debit” or “Debit MasterCard Card” shall include consumer signature and/or PIN debit Programs, stored value Programs, prepaid Cards, payroll Cards and electronic benefit transfer Cards. Zero floor limits apply and all Transactions are authorized online.
2. “Other Card” shall mean any Access Device, Program, or Card that is not defined as “debit” or “Debit MasterCard Card”.

2.6 Obligation to Issue Cards

Rule 2.6 of Chapter 2, “Licensing and Licensed Activities,” does not apply in South Africa.

2.7 Liability for Assigned ICAs and BINs

Rule 2.7 of Chapter 2, “Licensing and Licensed Activities,” is modified to include the following:

Transaction/BIN Identification. Issuers must use specific and unique bank identification numbers (BINs) for Debit MasterCard Cards. Acquirers must provide a complete list of the BINs that apply to Debit MasterCard Cards to Merchants upon any form of reasonable request.

4.2 General Rules for Use of the Marks

4.2.6 Particular Use of a Mark

4.2.6.6 Use on Cards

Rule 4.2.6.6 of Chapter 4, "Trademarks and Service Marks," is modified to include the following:

Clear and Conspicuous Debit Identifier. Issuers must display

1. the Debit MasterCard Hologram instead of the MasterCard Global Hologram on the front of all Debit MasterCard Cards issued in South Africa in the position required for the MasterCard Global Hologram, or
2. the "Debit" word mark on the Card front if the Debit MasterCard Hologram is on the Card back. Debit MasterCard Cards must conform to the Standards set forth in the *Security Rules and Procedures* manual and the Card Design Standards System.

5.1 The Merchant Agreement

5.1.2 Required Terms

Rule 5.1.2 of Chapter 5, "Merchants," is modified to include the following:

In addition to the Standards set forth in Chapter 5, Merchant Agreements must provide the Merchant with the option, and the applicable Merchant discount rate for each option, to elect to accept Debit MasterCard Cards only, Other Cards only, or both Debit MasterCard Cards and Other Cards. A Merchant may choose to stop accepting Debit MasterCard Cards or Other Cards by providing no less than 30 days advance written notice to its Acquirer.

5.8 Card Acceptance Requirements

5.8.1 Honor All Cards

Rule 5.8.1 of Chapter 5, "Merchants," is modified as follows.

1. **Honor All Debit MasterCard Cards.** Merchants that choose to accept Debit MasterCard Cards must honor all valid Debit MasterCard Cards without discrimination when properly presented for payment. The Merchant must maintain a policy that does not discriminate among customers seeking to make purchases with a Debit MasterCard Card.
2. **Honor All Other MasterCard Cards.** Merchants that choose to accept Other Cards must honor all Other Cards without discrimination when properly presented for payment. The Merchant must maintain a policy that does not discriminate among customers seeking to make purchases with another Card.

5.8.2 Merchant Acceptance

Merchants that accept Cards may choose to accept Debit MasterCard Cards only, Other Cards only, or both Debit MasterCard Cards and Other Cards. Acquirers must advise the Corporation when a Merchant chooses not to accept either Debit MasterCard Cards or Other Cards.

Merchants may request signage for the purpose of indicating their acceptance of Debit MasterCard Cards at www.mastercardweacceptdebit.com.

5.8.6 Purchase with Cash Back Transactions

Rule 5.8.6 of Chapter 5, "Merchants and Sales Transactions," is modified to include the following:

A Merchant that has received prior approval from its Acquirer may offer a purchase with cash back Transaction with or without an accompanying purchase to a Debit MasterCard Cardholder for intracountry, Card-present, face-to-face Transactions conducted in South Africa.

PIN verification must be obtained for each purchase with cash back Transaction without an accompanying purchase.

8.4 Requirements for Specific Transaction Types

8.4.1 Chip Transactions and Acceptance at Hybrid POS Terminals

Rule 8.4.1 of Chapter 8, "Sales Transactions and Cash Disbursements," is modified to include the following:

The liability for South Africa intracountry counterfeit Card Transactions in which one Customer (either the Issuer or the Acquirer) is not yet EMV-compliant will be borne by the non-EMV-compliant Customer.

14b India Rules

This chapter contains Rules that apply only in India.

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Organization of this Chapter

The Rules in this Chapter 14b are variances and additions to the “global” Rules that apply to Cards issued in India by India Customers and presented for payment at Merchant locations in India.

Customers and Merchants in India must continue to comply with the global Rules for Cards issued by Customers outside of India and presented for payment at Merchant locations in India.

Definitions

Solely for the purposes of this Chapter 14b, the following terms have the meanings set forth below.

“Debit” or “Debit MasterCard Card” or “Debit Card” shall mean any Access Device, Program, or Card issued in India, by a Customer licensed in India, that when presented for payment in India, accesses, debits, holds, or settles funds from a consumer’s deposit, current, saving, asset or other type of money account. “Debit” or “Debit MasterCard Card” shall include consumer signature debit Programs, stored value Programs, prepaid Cards, payroll Cards and electronic benefit transfer Cards.

8.4 Requirements for Specific Transaction Types

8.4.2 Card-Not-Present Transactions

Electronic commerce and IVR Transactions effected at a Merchant located in India with a Card issued in India must be authenticated. An authenticated Transaction occurs when:

- a. The Merchant is Universal Cardholder Authentication Field (UCAF)-enabled;
- b. The Issuer provided the UCAF data for that Transaction;
- c. All other authorization and clearing requirements applicable to the Transaction were satisfied; and
- d. The Authorization Request Response/0110 message reflected the Issuer’s approval of the Transaction.

India Rules

8.4 Requirements for Specific Transaction Types

For purposes of this Rule, an IVR Transaction is a phone order Transaction conducted by means of an interactive voice response (IVR) phone system. Each IVR Transaction must contain a value of 2 (*SecureCode* phone order) in DE 61 (point-of-service [POS] Data), subfield 7 (POS Transaction Status) of the Authorization Request/0100 message.

Refer to section 3.4 of the *Chargeback Guide* for chargeback rights applicable to electronic commerce Transactions under the MasterCard *SecureCode* liability shift program.

An Issuer may not use message reason codes 4837, 4849 or 4863 to charge back an IVR Transaction that occurs at a Merchant located in India, if:

- a. The Merchant is UCAF-enabled;
- b. The Issuer provided the UCAF for that Transaction;
- c. All other phone order authorization and clearing requirements were satisfied, including the presence of a value of 2 (*SecureCode* phone order) in DE 61 (Point-of-Service [POS] Data), subfield 7 (POS Transaction Status) of the Authorization Request/0100 message;
- d. The Authorization Request Response/0110 message reflected the Issuer's approval of the Transaction.

All Issuers and all Acquirers of e-commerce Merchants must participate in the Activation During Shopping (ADS) method of cardholder enrollment in MasterCard *SecureCode*. Cardholders must complete enrollment on the first attempt, and the Issuer must not allow a Cardholder to opt-out of the *SecureCode* enrollment process. Effective 1 January 2011, this requirement also applies to Acquirers of IVR Merchants.

Refer to the MasterCard *SecureCode Member Enrollment and Implementation Guide* for more information about MasterCard *SecureCode* and UCAF.

8.4.5 Purchase With Cash Back Transactions

Rule 8.4.5 of Chapter 8, "Sales Transactions and Cash Disbursements," is modified to include the following:

The maximum daily cash back amount per Debit MasterCard Card shall be in accordance with applicable law including circulars published by the Reserve Bank of India.

A Merchant that has received prior approval from its Acquirer may offer:

- a. A purchase with cash back Transaction to a Cardholder for intracountry, Card-present, face-to-face Transactions conducted in India; and

- b. A purchase with a cash back Transaction to a Cardholder with no accompanying purchase for intracountry, Card-present, face-to-face Transactions conducted in India.

15

United States Region Rules

This chapter contains Rules that apply only in the United States Region.

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Organization of this Chapter

The Rules in this Chapter 15 are variances and additions to the “global” Rules that apply in the United States Region.

Definitions

Solely for the purposes of this Chapter 15, the following terms have the meanings set forth below.

1. “Affiliate” means a financial institution that is eligible and approved to be a Customer pursuant to Rule 1.1.3 and is Sponsored by a Principal, Association, or a Type I TPP.
2. “Sponsor” means the relationship described in the Standards between a Principal, Association, or a Type I TPP and an Affiliate that engages in Activity indirectly through the Principal, Association, or Type I TPP. In such event, the Principal, Association, or the Type I TPP is the Sponsor of the Affiliate and the Affiliate is Sponsored by the Principal, Association, or the Type I TPP.
3. “Sponsorship” means the relationship between a Principal, Association, or a Type I TPP that Sponsors an Affiliate and that Affiliate.
4. “Acquiring Activity Fee” means a fee assessed by the Corporation in connection with a “Change of Control,” as such term is defined in Rule 2.11.2, of an Acquirer or the acquiring business of a Customer.
5. “TPP Acquiring Fee” means a fee assessed by the Corporation in connection with a “Change of Control,” as such term is defined in Rule 7.3.2 of this Chapter 15, of a TPP.

1.1 Types of Customers

1.1.3 Affiliate

Rule 1.1.3 of Chapter 1, “Participation,” is modified to include the following:

An Affiliate that participates indirectly in Activity through the Sponsorship of a Principal, Association, or through the Sponsorship of a Type I TPP.

An Affiliate must be Sponsored by a Principal or Association to participate in Acquirer Activity.

1.5 Obligations, Rights and Responsibilities

1.5.2 Obligation to Participate

Rule 1.5.2 of Chapter 1, "Participation" is modified to include the following:

An Affiliate that is Sponsored by a Type I TPP may not also participate in Activity as a Principal or Association.

2.6 Obligation to Issue Cards

Rule 2.6 of Chapter 2, "Licensing and Licensed Activities," is modified to include the following:

1. Any Customer that does not issue or have outstanding any cards of a competing card program within the U.S. Region is not obligated to issue Cards to customers in the U.S. Region before it may acquire Transactions from Merchants located in the U.S. Region.
2. A Customer that is Licensed to acquire Transactions in the United States that extends its Area of Use to acquire Transactions in Puerto Rico is not required to issue Cards in Puerto Rico if its acquiring Activity in Puerto Rico is limited to only the Transactions of Merchants located in Puerto Rico that are also located and have headquarters in the United States, and with whom the Customer has an existing acquiring relationship in the United States.

2.7 Liability for Assigned ICAs and BINs

2.7.1 Settlement Liability for Debit Licensees

A debit Licensee is granted a License limited to the issuance of Debit MasterCard Cards. Notwithstanding the foregoing, a principal debit Licensee is not responsible for the Debit MasterCard Card Program obligations of any affiliate debit Licensee that it Sponsors if such an affiliate debit Licensee becomes unable or unwilling to discharge its settlement obligations.

2.7.2 Settlement Liability for Type I TPPs that Sponsor Affiliates

Unless otherwise provided in the Standards, a Type I TPP is not responsible for the Issuer Activity settlement obligations of an Affiliate that the Type I TPP Sponsors should such an Affiliate be unable or unwilling to discharge its Issuer Activity settlement obligations. The Corporation assumes no liability for any settlement failure dispute that arises between a Type I TPP and an Affiliate Sponsored by such Type I TPP.

2.11 Sale or Change in Ownership or Control of Customer Portfolio

Rule 2.11 of Chapter 2, "Licensing and Licensed Activities" is replaced in its entirety with the following.

2.11.1 Change of Control of Issuer or Issuing Program

In the event that an Issuer will undergo a change of Control, as the term "Control" is defined in the Definitions chapter of this manual, the Issuer must notify the Corporation in writing of such change(s) at least 90 days prior to the effective date thereof. The Issuer must promptly provide the Corporation any information requested by the Corporation relating to such an event or proposed event and the Corporation may:

1. Suspend or impose conditions on Membership or any License granted to the Issuer or both.
2. Amend the rights or obligations or both of the Issuer.
3. Terminate the Membership any Issuer that:
 - a. transfers or attempts to transfer Control of the Issuer to an entity that is not a Customer;
 - b. merges into or is consolidated with an entity that is not a Customer;
 - c. sells all or substantially all of its assets;
 - d. sells all or substantially all of its Issuer portfolio(s);
 - e. experiences a change in Control or Ownership; or
 - f. transfers or assigns, or attempts to transfer or assign, its Membership.

2.11.2 Change of Control of Acquirer or Acquiring Program

In the event that an Acquirer or the acquiring business of a Customer that is both an Issuer and an Acquirer will undergo a "Change of Control," as such term is defined herein, the Acquirer must notify the Corporation in writing of such change(s) at least 90 days prior to the effective date thereof. The Acquirer must promptly provide the Corporation any information requested by the Corporation relating to such an event or proposed event and the Corporation may:

1. Suspend or impose conditions on Membership or any License granted to the Acquirer or both.
2. Amend rights or obligations or both of the Acquirer.
3. Terminate the Membership of the Acquirer.
4. Assess an Acquiring Activity Fee. The Acquiring Activity Fee will be determined based on one or more factors which shall include, but not be limited to:
 - a. The Transaction volume acquired annually by the Acquirer; or
 - b. Any other factor(s) that could significantly impact the integrity of the MasterCard system.

For purposes of this Rule, a "Change of Control" shall mean an Acquirer or the acquiring business of a Customer that is both an Issuer and an Acquirer:

1. Merges with another entity, where such other entity is the surviving entity;
2. Undergoes a transfer involving 10 percent (10%) or more of any class of its voting securities (including any options, warrants, or convertible securities that convert into voting securities) or ownership interest;
3. Undergoes a change in ownership of 10 percent (10%) or more of outstanding shares;
4. Transfers 10 percent (10%) or more of its assets, in each case in a single transaction, or a series of related transactions;
5. Undergoes a change in ownership of a "controlling interest;"
6. Undergoes a change which results in a third party having the power to exercise, directly or indirectly, a controlling influence over its management or policies based on the totality of facts and circumstances;
7. Sells, transfers or closes down a specified division or line of its business which is related to or is in connection with the Corporation's business;
8. Offers all or a portion of the company to the public in an initial public offering; or
9. Undergoes a financial restructuring giving effective control to bondholders.

3.2 Conduct of Activity

3.2.7 Acquirers

An Acquirer must not prohibit its Merchant from requesting or encouraging a customer to use a payment card with an acceptance brand other than a MasterCard or other form of payment or a Card of a different product type than the Card the consumer initially presents, or otherwise prohibit its Merchant from engaging in actions consistent with Rule 5.11.1 of this Chapter 15.

3.6 Provision and Use of Information

3.6.1 Obligation of Customer to Provide Information

3.6.1.1 Information to Cardholders

The Issuer must provide information to its Cardholders as set forth below.

1. **Card Solicitations.** Each Issuer of Cards must disclose, clearly and conspicuously, in all Solicitations any amounts relating to the MasterCard Issuer Cross-border Assessment and/or the MasterCard Currency Conversion Assessment that the Issuer charges, or will charge, to the Cardholder.
2. **Cardholder Communications.** Each Issuer of Cards must disclose, clearly and conspicuously, in all new and existing Cardholder Communications, including Cardholder agreements and account agreements, any amounts relating to the MasterCard Issuer Cross-border Assessment and/or the MasterCard Currency Conversion Assessment that the Issuer charges, or will charge, to the Cardholder.
3. **Periodic Billing Statement.** Each Issuer of Cards must provide adequate disclosure on each applicable periodic billing statement, such that the Cardholder can readily determine from the billing statement any amounts that the Issuer charges to the Cardholder relating to the MasterCard Issuer Cross-border Assessment and/or the MasterCard Currency Conversion Assessment during that billing cycle, either in gross or on a per Transaction basis.

4. **Currency Conversion Procedure.** The Corporation further recommends and encourages Issuers to inform their Cardholders that part of the Corporation's currency conversion procedure includes use of either a government-mandated exchange rate or a wholesale exchange rate, selected by the Corporation, and that the government-mandated exchange rate or wholesale exchange rate that the Corporation uses for a particular Transaction is the rate the Corporation selects for the applicable currency on date that the Transaction is processed (the Central Site Business Date), which may differ from the rate selected on the date the Transaction occurred or on the date the Transaction is posted to the Cardholder's account.

For information about the MasterCard Currency Conversion Assessment, refer to the *GCMS Reference Manual*. For information about the MasterCard Cross-border Assessment, refer to the *MasterCard Consolidated Billing System—United States Region* manual.

3.8 Authorization Service

3.8.1 Selective Authorization

Rule 3.8.1 of Chapter 3, "Customer Obligations," is modified to include the following:

An Issuer may geographically restrict Card usage to the United States for Debit MasterCard Card Programs, except in the case of a prepaid Card program, subject to the following requirements:

1. The Issuer must inform the Cardholder clearly in writing of the geographic scope of the Card;
2. The Issuer must also inform the Cardholder clearly in writing that he/she has the option of enabling expanded geographic use of the Card upon the Cardholder's request. An Issuer must comply with requests from Cardholders for expanded geographic use of a Card. If the Issuer cannot expand a Card's use to a specific country or a select group of countries as requested by the Cardholder, the Issuer must enable the Card for global use and must inform the Cardholder accordingly; and
3. The geographic restriction must be clearly printed on the Card back, for example, "For use only in the United States. To enable for use outside the United States, please call (Issuer)."

For additional information, refer to the *Card Design Standards* manual.

For purposes of this rule, if an Issuer chooses to geographically restrict Debit MasterCard Card usage to the United States, the Issuer must permit Debit MasterCard Card usage in the U.S. Region, Puerto Rico, U.S. Virgin Islands, American Samoa, Guam, and the Northern Mariana Islands.

3.8.3 Stand-In Processing Service

Rule 3.8.3 of Chapter 3, "Customer Obligations," is replaced in its entirety by the following:

For all Card Programs, Issuers must use the Stand-In Processing Service, including the Stand-In Investigation Service. For all Card Programs except Debit MasterCard Card Programs, Stand-In Parameters must be set at or above the Corporation's default limits.

In the event that fraudulent activity is detected with respect to a BIN or BIN range, the Corporation, in its sole discretion and judgment, may take such action as the Corporation deems necessary or appropriate to safeguard the goodwill and reputation of the Corporation's Marks. Such action may include, by way of example and not limitation, declining some or all Transaction authorization requests received by the Stand-in Processing Service relating to the use of Cards issued under such BIN or BIN range.

For Debit MasterCard Card Programs, the following requirements apply:

1. For all Transactions identified with a TCC of C, P, T, U, or Z, the Transaction category code (TCC) limit may be set below the Corporation's default value.
2. For all Card-not-present Transactions, the TCC limit may be set below the Corporation's default value.
3. For Card-present Transactions identified with a TCC of A, F, H, O, R, or X and effected with a Debit MasterCard Gold Card or Debit MasterCard Platinum Card, the TCC limit may be set below the Corporation's default value to an amount no less than USD 100.
4. For Card-present Transactions identified with a TCC of A, C, F, H, O, R, or X and effected with a Debit MasterCard BusinessCard Card or Debit MasterCard Professional Card, the TCC limit may be set below the Corporation's default value to an amount no less than USD 400.
5. For Debit MasterCard Card Programs, the accumulative limit(s) may be set below the Corporation's default values as follows.

United States Region Rules
3.8 Authorization Service

Day	Minimum Transaction Count	Recommended Transaction Count	Minimum Transaction Amount
1	4	6	USD 50
2	6	12	USD 100
3	6	18	USD 150
4	6	24	USD 200

6. For Debit MasterCard Gold Card and Debit MasterCard Platinum Card Programs, the accumulative limit(s) may be set below the Corporation's default values as follows.

Day	Minimum Transaction Count	Recommended Transaction Count	Minimum Transaction Amount
1	4	6	USD 100
2	6	12	USD 200
3	6	18	USD 300
4	6	24	USD 400

7. For Debit MasterCard BusinessCard Card and Debit MasterCard Professional Card Programs, the accumulative Limit(s) may be set below the Corporation's default values as follows.

Day	Minimum Transaction Count	Recommended Transaction Count	Minimum Transaction Amount
1	4	4	USD 750
2	6	6	USD 1,000
3	6	6	USD 1,000
4	6	6	USD 1,000

In the event that fraudulent activity is detected with respect to a BIN or BIN range, the Corporation, in its sole discretion and judgment, may take such action as the Corporation deems necessary or appropriate to safeguard the goodwill and reputation of the Corporation's Marks. Such action may include, by way of example and not limitation, declining some or all Transaction authorization requests received by the Stand-in Processing Service relating to the use of Cards issued under such BIN or BIN range.

3.9 Additional Customer Obligations

3.9.4 Integrity of Brand and Network

Rule 3.9.4 of Chapter 3, "Customer Obligations," is modified to include the following:

Pursuant to this Rule, with respect to any potentially illegal Internet gambling Transaction attempted on or after 1 June 2010, the Issuer of the Card must either employ a method of systemic Transaction blocking or decline all such Transaction authorization requests on an individual basis.

An Internet gambling Transaction that may be potentially illegal when involving a U.S. region Cardholder is any Transaction that the Acquirer has identified in the authorization request message as both:

- a. a gambling Transaction, by the use of MCC 7995 in DE 18 (Merchant Type), and
- b. an e-commerce Transaction, by the use of a value of 6 (electronic commerce Transaction) in DE 61 (Point of Service [POS] Data), subfield 10 (Cardholder-Activated Terminal Level Indicator).

Issuers may approve, on an individual basis, any Internet gambling Transaction authorization requests identified with MCC 9754 (Gambling—Horse Racing, Dog Racing) that involve a U.S. region Cardholder. In using MCC 9754, the Acquirer asserts that the Transaction involves gambling activity deemed by the Acquirer to be legal in the U.S. region and indemnifies the Corporation in connection with all such gambling activity. Such indemnity applies regardless of the Acquirer's or the Merchant's compliance with the Corporation's *Internet Gambling Policy* or the Standards.

3.10 Limitation of Liability of Cardholders for Unauthorized Use

The following applies with respect to United States Region Cardholders.

1. Limitation on amount. The liability of a Cardholder for unauthorized use of a Card (regardless of the type of account to which Transactions initiated with such Card are posted, except as set forth in paragraph 5 below) shall not exceed:
 - a. USD 0 if the conditions set forth in paragraph 2, below, have been met or,

United States Region Rules

3.10 Limitation of Liability of Cardholders for Unauthorized Use

- b. if the conditions set forth in paragraph 2 have not been met, the lesser of USD 50 or the amount of money, property, labor, or services obtained by the unauthorized use before notification to the Issuer.
 2. Conditions to USD 0 liability. The liability limitations set forth in clause (a) of paragraph 1, above, shall apply only if
 - a. the Cardholder has exercised reasonable care in safeguarding such Card from risk of loss or theft;
 - b. the Cardholder has not reported two or more incidents of unauthorized use to the Issuer in the immediately preceding 12-month period; and
 - c. the account to which Transactions initiated with such Card are posted is in good standing.
 3. Effect of other applicable law or agreement. If federal, state or local law, or an agreement between a Cardholder and the Issuer of a Card (regardless of the type of account to which Transactions initiated with such Card are posted) imposes lesser liability than that provided in this Rule, the lesser liability shall govern.
 4. Unauthorized use. For purposes of this Rule, "unauthorized use" means the use of a Card (regardless of the type of account to which Transactions initiated with such Card are posted) by a person other than the Cardholder who does not have actual, implied, or apparent authority for such use, and from which the Cardholder receives no benefit.
 5. Non-applicability. This Rule shall not apply:
 - a. to Cards issued to an entity other than a natural person or primarily for business, commercial, or agricultural purposes, except that the Rule shall apply to the Card Programs for small businesses described on www.mastercardbusiness.com; or
 - b. if a PIN is used as the Cardholder verification method for unauthorized Transaction(s); or
 - c. to any Card issued or sold to a person until such time as that person's identity is registered by or on behalf of the Issuer in connection with the issuance and/or use of such Card, which registration may include appropriate customer identification program requirements.

4.1 Right to Use the Marks

4.1.2 Protection and Registration of the Marks

Rule 4.1.2 of Chapter 4, "Trademarks and Service Marks" is modified to include the following:

No use of a Mark may be made on or in connection with any card, device or other application associated with a payment service that the Corporation deems to be competitive with any Activity except as set forth in this chapter.

4.2 General Rules for Use of the Marks

4.2.12 Use of a Competing Mark on Cards

Rule 4.2.12 of Chapter 4, "Trademarks and Service Marks," is modified to include the following:

A competing debit point-of-sale mark may appear on a debit Card as set forth in the Card Design Standards or as otherwise agreed to by the Corporation.

4.2.13 Use of Other Acceptance Marks on Cards

Rule 4.2.13 of Chapter 4, "Trademarks and Service Marks," is modified to include the following:

Other debit point-of-sale marks may appear on a debit Card as set forth in the Card Design Standards or as otherwise agreed to by the Corporation.

5.11 Prohibited Practices

Except as provided in Rule 5.11.1 below, an acquirer must ensure that none of its Merchants engage in any of the prohibited practices set forth in this Rule 5.11.

5.11.1 Discrimination

Rule 5.11.1 of Chapter 5, "Merchants," is replaced with the following:

United States Region Rules
5.11 Prohibited Practices

A Merchant may request or encourage a customer to use a payment card with an acceptance brand other than MasterCard or other form of payment or a Card of a different product type (e.g., traditional cards, premium cards, rewards cards) than the Card the consumer initially presents. Except where prohibited by law, it may do so by methods that include, but are not limited to:

- a. offering the customer an immediate discount from the Merchant's list, stated, or standard price, a rebate, a free or discounted product or service, or any other incentive or benefit if the customer uses a particular payment card with an acceptance brand other than MasterCard or other particular form of payment;
- b. offering the customer an immediate discount from the Merchant's list, stated, or standard price, a rebate, a free or discounted product or service, or any other incentive or benefit if the customer, who initially presents a Card, uses instead another payment card or another form of payment;
- c. expressing a preference for the use of a particular payment card or form of payment;
- d. promoting the use of a particular general purpose payment card with an acceptance brand other than MasterCard or the use of a particular form or forms of payment through posted information, through the size, prominence, or sequencing of payment choices, or through other communications to customers (provided that the Merchant will abide by the Standards relating to the display of the Marks including, but not limited to, the MasterCard Acceptance Mark); or
- e. communicating to customers the reasonably estimated or actual costs incurred by the Merchant when a customer uses particular payment cards or forms of payment or the relative costs of using different general purpose payment cards or forms of payment.

Notwithstanding the foregoing, a Merchant may not offer a discount or other benefit to a Cardholder if the Cardholder uses a particular Issuer's Card at the Point of Interaction (POI), unless the discount or other benefit is available for all other Cards of the same product type or is accessed 1) after the Transaction has been completed (for example, a credit on the billing statement or a rebate); or 2) at the time of or after the Transaction and is effected by a separate instrument and not by the Card (for example, a coupon or a voucher). A Merchant at the POI must not promote a discount or other benefit for use of a particular Issuer's Card.

5.11.2 Charges to Cardholders

Rule 5.11.2 of Chapter 5, "Merchants," is replaced with the following:

A Merchant must not directly or indirectly require any Cardholder to pay a surcharge or any part of any Merchant discount or any contemporaneous finance charge in connection with a Transaction. A Merchant is permitted to charge a fee (such as a bona fide commission, postage, expedited service or convenience fees, and the like) if the fee is imposed on all like transactions regardless of the form of payment used, or as the Corporation has expressly permitted in writing. For purposes of this Rule:

1. A surcharge is any fee charged in connection with a Transaction that is not charged if another payment method is used.
2. The Merchant discount fee is any fee a Merchant pays to an Acquirer so that the Acquirer will acquire the Transactions of the Merchant.

5.11.3 Minimum/Maximum Transaction Amount Prohibited

Rule 5.11.3 of Chapter 5, "Merchants" is modified to include the following:

A Merchant may set a minimum Transaction amount to accept a Card that provides access to a credit account, under the following conditions:

1. the minimum Transaction amount does not differentiate between Issuers; and
2. the minimum Transaction amount does not differentiate between MasterCard and another acceptance brand; and
3. the minimum Transaction amount does not exceed USD 10 (or any higher amount established by the Federal Reserve by regulation).

A Merchant may set a maximum Transaction amount to accept a Card that provides access to a credit account, under the following conditions:

1. the Merchant:
 - a. is a department, agency or instrumentality of the U.S. Government; or
 - b. is a corporation owned or controlled by the U.S. Government; or
 - c. is a Merchant whose primary business is reflected by one of the following MCCs:
 - i. MCC 8220—Colleges, Universities, Professional Schools, Junior Colleges; or
 - ii. MCC 8244—Schools, Business and Secretarial; or
 - iii. MCC 8249—Schools, Trade and Vocational; and

2. The maximum Transaction amount does not differentiate between Issuers; and
3. The maximum Transaction amount does not differentiate between MasterCard and another acceptance brand.

5.11.8 Disparagement

A Merchant must not disparage the Corporation or any of the Corporation's products, programs, services, networks, or systems.

6.2 Affinity and Co-brand Card Programs

6.2.5 Multiple Partners

Rule 6.2.5 of Chapter 6, "Special Issuer Programs," is modified such that more than one Affinity Card or Co-brand Card Program logo may appear on the face of the Card, subject to the discretion of the Corporation, which is charged with the responsibility of ensuring that:

1. The card is clearly identifiable as a Card product;
2. The Mark remains prominent on the Card face; and
3. The Mark is not obscured by the proliferation of other names and/or logos; and
4. The presence of multiple logos does not in any way damage or impair the strength of the MasterCard brand.

The decision as to whether any given Card design conforms to these conditions is reserved to the Corporation's staff.

7.2 Service Provider Categories

7.1.2 Third Party Processor

7.1.2.1 Type I

Rule 7.1.2.1 of Chapter 7, "Service Providers" is modified to include the following:

In addition to engaging in TPP Program Service, a Type I TPP in the U.S. Region may Sponsor an Affiliate to engage in Issuer Activity. A Type I TPP that Sponsors an Affiliate for such purpose must comply with (i) all Standards applicable to a Type I TPP, (ii) subject to Rule 2.7.2, all Standards applicable to a Principal Issuer, and (iii) such additional or alternative Standards and/or other requirements that the Corporation may determine to be necessary or appropriate from time to time.

7.3 General Obligations

7.3.2 Notification to the Corporation

Rule 7.3.2 of Chapter 7, "Service Providers" is modified to include the following:

In the event a TPP performing acquiring Program Service for a U.S. Region Customer will undergo a "Change of Control," as such is defined below, the TPP must notify the Corporation in writing of such change by sending an e-mail message to tpp_registration@mastercard.com at least 90 days prior to the effective date thereof. The TPP must promptly provide the Corporation any information requested by the Corporation relating to such an event or proposed event. The Corporation will, in writing, either:

1. Reaffirm the TPP's registration status; or
2. Reaffirm the TPP's registration status and establish additional conditions to the registration, including the assessment of a TPP Acquiring Activity Fee. The TPP Acquiring Activity Fee will be determined based on one or more of the following factors, which shall include, but not be limited to:
 - a. Transaction volume processed annually by the TPP;
 - b. The number of Customers for which the TPP performs Program Service; or
 - c. Any other factor(s) relating to the TPP's performance of Program Service that could significantly impact the integrity of the MasterCard system.

Alternatively, the Corporation may, in its sole discretion, terminate or suspend the TPP's registration.

For purposes of this Rule, a Change of Control shall mean the TPP:

1. Merges with another entity, where such other entity is the surviving entity;
2. Undergoes a transfer involving ten percent (10%) or more of any class of its voting securities (including any options, warrants, or convertible securities that convert into voting securities) or ownership interest;

3. Undergoes a change in ownership of ten percent (10%) or more of outstanding shares;
4. Transfers ten percent (10%) or more of its assets, in each case in a single transaction, or a series of related transactions;
5. Undergoes a change in ownership of a "controlling interest,"
6. Undergoes a change which results in a third party having the power to exercise, directly or indirectly, a controlling influence over the management or policies of the TPP based on the totality of facts and circumstances;
7. Sells, transfers, or closes down a specified division or line of its business which is related to or is in connection with the Corporation's business;
8. Offers all or a portion of the company to the public in an initial public offering; or
9. Undergoes a financial restructuring giving effective control to bondholders.

In the event that the TPP fails to provide the written notice set forth above, the Corporation may promptly take either or both of the following actions:

1. Suspend the TPP's registration; or
2. Terminate the TPP's registration upon written notice from the Corporation. Such termination is effective upon delivery, or inability to deliver after a reasonable attempt to do so, of written or actual notice by the Corporation to the TPP.

7.6 Service Provider Registration

7.6.2 Registration Requirements for Type I TPPs

Rule 7.6.2 of Chapter 7, "Service Providers" is modified to include the following:

In addition to TPPs that the Corporation designates to be prospective Type I TPPs, a TPP or other entity in the U.S. Region may become a Type I TPP if such TPP or other entity:

1. Is registered by the Corporation as a Type I TPP; and
2. Agrees to comply with all Standards applicable to Type I TPPs and to Principals and any additional requirements that the Corporation may deem necessary or appropriate from time to time; and

3. Provides affirmative evidence satisfactory to the Corporation that it is in compliance with the MasterCard Anti-Money Laundering Program (the "AML Program"); and
4. Pays applicable fees.

8.1 Cash Disbursements

8.9.1 Nondiscrimination

Rule 8.9.1 of Chapter 8, "Cash Disbursements," is modified to include the following:

Subject to compliance with the Standards, each Customer within the U.S. Region must provide cash disbursement services to all Cardholders at all of the Customer's offices where teller services are provided.

8.1 Transaction Requirements

Rule 8.1 of Chapter 8, "Sales Transactions and Cash Disbursements" is modified to include the following:

A Type I TPP that Sponsors an Affiliate for the purpose of Issuer Activity must process all Transactions of such Affiliate(s) arising in connection with such Issuer Activity, through the Interchange System. For purposes of this U.S. Region Rule 8.1, "processed" means authorization as required by the Standards and clearing and settlement through the Interchange System.

8.2 Authorization Requirements

8.2.1 Full and Partial Reversals

Customers must provide full and partial reversal authorization services as set forth below:

1. For all Debit MasterCard Card account ranges, Issuers must support full and partial reversals.

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8.2 Authorization Requirements

2. For all Card account ranges, an Issuer receiving a Reversal Request/0400 or Reversal Advice/0420 message must release any hold placed on the Cardholder's account for the amount specified within 60 minutes of matching the reversal message to a previous authorization request message.
3. The Acquirer of a Merchant must ensure that for any approved amount that will not be included in a Transaction presentment, the Merchant initiates, as applicable, a full or partial reversal:
 - a. Within 24 hours of the original authorization request in a card-present environment, and
 - b. Within 72 hours of the original authorization request in a card-not-present environment.

This requirement does not apply until 12 October 2012 and only applies with respect to full reversals if the Merchant is identified with any of the following card acceptor business codes (MCCs):

- MCCs 3351 through 3441 (Car Rental Agencies)
- MCCs 3501 through 3999 (Lodging—Hotels, Motels, Resorts)
- MCC 4411 (Cruise Lines)
- MCC 7011 (Lodging—Hotels, Motels, Resorts—not elsewhere classified)
- MCC 7512 (Automobile Rental Agency—not elsewhere classified).

4. The Acquirer of a Merchant properly identified under an MCC listed in the table below and that accepts Debit MasterCard Cards must support full and partial reversals performed at the POI and whenever, for technical reasons, the Acquirer is unable to communicate the authorization response to the Merchant, for all Debit MasterCard Card account ranges, by the date indicated:

Effective Date	MCC	Description
1 May 2010	4812	Telecommunication Equipment including Telephone Sales
	4814	Telecommunication Services
	5111	Stationery, Office Supplies
	5200	Home Supply Warehouse Stores
	5300	Wholesale Clubs
	5310	Discount Stores
	5311	Department Stores
	5331	Variety Stores

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Effective Date	MCC	Description
	5399	Miscellaneous General Merchandise Stores
	5411	Grocery Stores, Supermarkets
	5499	Miscellaneous Food Stores—Convenience Stores, Markets, Specialty Stores and Vending Machines
	5541	Service Stations (with or without Ancillary Services)
	5542	Fuel Dispenser, Automated
	5732	Electronic Sales
	5734	Computer Software Stores
	5735	Record Shops
	5812	Eating Places, Restaurants
	5814	Fast Food Restaurants
	5912	Drug Stores, Pharmacies
	5921	Package Stores, Beer, Wine, and Liquor
	5941	Sporting Goods Stores
	5942	Book Stores
	5943	Office, School Supply and Stationery Stores
	5964	Direct Marketing—Catalog Merchants
	5965	Direct Marketing—Combination Catalog—Retail Merchants
	5966	Direct Marketing—Outbound Telemarketing Merchants
	5967	Direct Marketing—Inbound Telemarketing Merchants
	5969	Direct Marketing—Other Direct Marketers—not elsewhere classified
	5999	Miscellaneous and Specialty Retail Stores
	7829	Motion Picture-Video Tape Production-Distribution
	7832	Motion Picture Theaters
	7841	Video Entertainment Rental Stores
	8011	Doctors—not elsewhere classified
	8021	Dentists, Orthodontists
	8041	Chiropractors
	8042	Optometrists, Ophthalmologists
	8043	Opticians, Optical Goods, and Eyeglasses
	8062	Hospitals

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Effective Date	MCC	Description
	8099	Health Practitioners, Medical Services—not elsewhere classified
1 November 2010	4111	Transportation—Suburban and Local Commuter Passenger, including Ferries
	4816	Computer Network/Information Services
	4899	Cable, Satellite, and Other Pay Television and Radio Services
	7996	Amusement Parks, Carnivals, Circuses, Fortune Tellers
	7997	Clubs—Country Membership
	7999	Recreation Services—not elsewhere classified
1 May 2011	8999	Professional Services—not elsewhere classified
	9399	Government Services—not elsewhere classified



Note

Acquirers of Merchants in the MCCs listed in this table with an effective date of 1 May 2010 or 1 November 2010 must support these requirements in all stand-alone terminal software updates performed after 1 May 2010 and for all stand-alone terminals that are deployed after 1 May 2010.

For the purposes of this section, stand-alone terminals are terminals that are not integrated into a Merchant's POS system, such that the Transaction amount must be manually entered into the terminal.

8.2.2 Full and Partial Approvals and Account Balance Responses

Customers must provide partial approval and account balance response authorization services as set forth below:

1. For all Debit MasterCard Card account ranges, Issuers must support partial approvals.
2. For all Debit MasterCard Card prepaid account ranges, Issuers must support account balance responses.
3. For all Debit MasterCard Card account ranges, the Acquirer of a Merchant properly identified with MCC 5542 (Fuel Dispenser, Automated) and that accepts Debit MasterCard Cards must support partial approvals.
4. Effective as indicated, the Acquirer of a Merchant properly identified under an MCC listed in the table below and that accepts Debit MasterCard Cards must:

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- a. For all Debit MasterCard Card account ranges, support partial approvals for Card-present Transactions occurring at attended terminals, and
- b. For all Debit MasterCard Card prepaid account ranges, support account balance responses for Card-present Transactions occurring at attended terminals.

Effective Date	MCC	Description
1 May 2010	4812	Telecommunication Equipment including Telephone Sales
	4814	Telecommunication Services
	5111	Stationery, Office Supplies
	5200	Home Supply Warehouse Stores
	5300	Wholesale Clubs
	5310	Discount Stores
	5311	Department Stores
	5331	Variety Stores
	5399	Miscellaneous General Merchandise Stores
	5411	Grocery Stores, Supermarkets
	5499	Miscellaneous Food Stores—Convenience Stores, Markets, Specialty Stores and Vending Machines
	5541	Service Stations (with or without Ancillary Services)
	5542	Fuel Dispenser, Automated
	5732	Electronic Sales
	5734	Computer Software Stores
	5735	Record Shops
	5812	Eating Places, Restaurants
	5814	Fast Food Restaurants
	5912	Drug Stores, Pharmacies
	5921	Package Stores, Beer, Wine, and Liquor
	5941	Sporting Goods Stores
	5942	Book Stores
	5943	Office, School Supply and Stationery Stores
	5964	Direct Marketing—Catalog Merchants
	5965	Direct Marketing—Combination Catalog—Retail Merchants

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Effective Date	MCC	Description
	5966	Direct Marketing—Outbound Telemarketing Merchants
	5967	Direct Marketing—Inbound Telemarketing Merchants
	5969	Direct Marketing—Other Direct Marketers—not elsewhere classified
	5999	Miscellaneous and Specialty Retail Stores
	7829	Motion Picture-Video Tape Production-Distribution
	7832	Motion Picture Theaters
	7841	Video Entertainment Rental Stores
	8011	Doctors—not elsewhere classified
	8021	Dentists, Orthodontists
	8041	Chiropractors
	8042	Optometrists, Ophthalmologists
	8043	Opticians, Optical Goods, and Eyeglasses
	8062	Hospitals
	8099	Health Practitioners, Medical Services—not elsewhere classified
1 November 2010	4111	Transportation—Suburban and Local Commuter Passenger, including Ferries
	4816	Computer Network/Information Services
	4899	Cable, Satellite, and Other Pay Television and Radio Services
	7996	Amusement Parks, Carnivals, Circuses, Fortune Tellers
	7997	Clubs—Country Membership
	7999	Recreation Services—not elsewhere classified
1 May 2011	8999	Professional Services—not elsewhere classified
	9399	Government Services—not elsewhere classified



Note

Acquirers of Merchants in the MCCs listed in this table with an effective date of 1 May 2010 or 1 November 2010 must support these requirements in all stand-alone terminal software updates performed after 1 May 2010 and for all stand-alone terminals that are deployed after 1 May 2010.

For the purposes of this section, stand-alone terminals are terminals that are not integrated into a Merchant's POS system, such that the Transaction amount must be manually entered into the terminal.

8.4 Requirements for Specific Transaction Types

8.4.8 Automated Fuel Dispenser Transactions

If an Issuer approves an authorization request for a Cardholder-activated automated fuel dispenser Transaction identified with MCC 5542 and CAT level 2 (an "AFD Transaction") occurring at a Merchant located in the U.S. region, then within 60 minutes of the time that the authorization request message was sent, the Acquirer must send an authorization advice message advising the Issuer of the Transaction amount.

If after approving an authorization request for an AFD Transaction the Issuer has placed a hold on Cardholder funds in excess of USD 1, then within 60 minutes of receiving the Acquirer's authorization advice (0120 or 0420) message, the Issuer must release any hold amount that exceeds the Transaction amount specified.

8.4.13 Refund Transactions

A Debit MasterCard Card Issuer must post funds due to a Cardholder as a result of a refund Transaction to the Cardholder's account within one business day of Transaction settlement. The Issuer may place a temporary hold on such funds to the extent allowed under applicable law if the Issuer determines that the circumstances or account history warrant the delay.

15a United States Region Debit-related Rules

This chapter contains debit-related Rules that apply only in the United States Region.

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Organization of this Chapter

The Rules in this Chapter 15a are variances and additions to the “global” Rules resulting from the settlement of In Re Visa Check/MasterMoney Antitrust Litigation. These Rules apply to Debit MasterCard Cards and Other Cards issued in the U.S. Region by U.S. Region Customers and presented for payment at Merchant locations in the U.S. Region. Customers and Merchants in the U.S. Region must continue to comply with the global Rules for Cards issued by Customers outside of the U.S. Region and presented for payment at Merchant locations in the Region.

With respect to Debit MasterCard Cards, these Rules apply where signature is used as the Cardholder verification method (CVM) or where no CVM is required. For Rules applicable to Debit MasterCard Cards where PIN is used as the CVM, refer to Chapter 15b.

Definitions

Solely for the purposes of this Chapter 15a, the following terms have the meanings set forth below.

1. “Debit” or “Debit MasterCard Card” or “Debit Card” shall mean any Access Device, Program, or Card issued in the Region, by a Regional Customer, that when presented for payment in the United States, accesses, debits, holds, or settles funds from a consumer’s demand deposit or asset account. “Debit” or “Debit MasterCard Card” shall include consumer signature debit Programs, stored value Programs, prepaid Cards, payroll Cards, electronic benefit transfer Cards, and deferred debit Cards that access, debit, hold, or settle funds from the user’s demand deposit or asset account less than fourteen days after the date of purchase. “Debit” shall not include any point-of-sale device that accesses, debits, hold, or settles funds from the user’s demand deposit or asset account fourteen or more days after the date of the purchase.
2. “Other Card” shall mean any Access Device, Program, or Card that is not defined as “debit” or “Debit MasterCard Card”.

2.7 Liability for Assigned ICAs and BINs

Rule 2.7 of Chapter 2, “Licensing and Licensed Activities,” is modified to include the following:

Transaction/BIN Identification. Customers must use specific and unique bank identification numbers (BINs) for Debit MasterCard Cards.

2.19 Risk of Loss

In addition to the Rules in Chapter 2, "Licensing and Licensed Activities," the following applies:

The Risk of Loss Rule applies with respect to affiliate debit Licensees in the same manner as it applies to Customers.

4.2 General Rules for Use of the Marks

4.2.6 Particular Use of a Mark

4.2.6.6 Use on Cards

Rule 4.2.6.6 of Chapter 4, "Trademarks and Service Marks," is modified to include the following:

Clear and Conspicuous Debit Identifier. Customers must display

1. the Debit MasterCard Hologram instead of the MasterCard Global Hologram on the front of all Debit MasterCard Cards issued in the United States, in the position required for the MasterCard Global Hologram, or
2. the "Debit" word mark on the Card front if the Debit MasterCard Hologram is on the Card back. Debit MasterCard Cards must conform to the Standards set forth in the *Security Rules and Procedures* manual and the Card Design Standards System.

5.1 The Merchant Agreement

5.1.2 Required Terms

Rule 5.1.2 of Chapter 5, "Merchants," is modified to include the following:

In addition to the Standards set forth in Chapter 5, Merchant Agreements must provide the Merchant with the option, and the applicable Merchant discount rate for each option, to elect to accept Debit MasterCard Cards only, Other Cards only, or both Debit MasterCard Cards and Other Cards. With respect to any contract existing on or before 1 January 2004, under which a Merchant accepts Cards, a Merchant may choose to stop accepting Debit MasterCard Cards or Other Cards by providing no less than 30 days advance written notice to its Acquirer.

5.8 Card Acceptance Requirements

5.8.1 Honor All Cards

Rule 5.8.1 of Chapter 5, "Merchants," is replaced with the following:

Honor All Debit MasterCard Cards. Merchants that choose to accept Debit MasterCard Cards must honor all valid Debit MasterCard Cards without discrimination when properly presented for payment. The Merchant must maintain a policy that does not discriminate among customers seeking to make purchases with a Debit MasterCard Card.

Honor All Other MasterCard Cards. Merchants that choose to accept Other Cards must honor all Other Cards without discrimination when properly presented for payment. The Merchant must maintain a policy that does not discriminate among customers seeking to make purchases with another Card.

5.8.2 Merchant Acceptance

Merchants that accept Cards may choose to accept Debit MasterCard Cards only, Other Cards only, or both Debit MasterCard Cards and Other Cards. Acquirers must advise the Corporation when a Merchant in the Region chooses not to accept either Debit MasterCard Cards or Other Cards.

Merchants that request signage for the purpose of indicating their acceptance of Debit MasterCard Cards must display such signage for a minimum of three months. The signage may be requested at www.mastercardweacceptdebit.com.

Acquirers must provide a complete list of the BINs that apply to Debit MasterCard Cards to Merchants upon any form of reasonable request.

15b United States Region PIN-based Debit Transaction Rules

This chapter contains Rules that apply only to PIN-based Debit MasterCard Transactions occurring in the United States Region.

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4.2.6 Particular Use of a Mark	15b-2
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Organization of this Chapter

Rules in this Chapter 15b are variances and additions to the “global” Rules that apply in the U.S. Region. These Rules relate to Debit MasterCard Cards where a PIN is used as the Cardholder verification method.

Definitions

Solely for the purposes of this Chapter 15b, the following terms have the meanings set forth below.

1. “Debit” or “Debit MasterCard Card” shall mean any Access Device or Card that, when presented for payment in the United States, accesses, debits, holds, or settles funds from a demand deposit or asset account and where PIN is used as the Cardholder verification method.
2. “Service Marks” shall mean (i) from an issuing perspective, the MasterCard Word Mark and/or the MasterCard Brand Marks as those terms are defined in the Definitions chapter of this manual, and (ii) from an acquiring perspective, the MasterCard Word Mark and/or the MasterCard Brand Marks as those terms are defined in the Definitions chapter of this manual and the MAESTRO trademarks, trade names, service marks, logotypes, and trade designations made available for use pursuant to License by the Corporation.
3. “Maestro Service Marks” shall mean the MAESTRO trademarks, trade names, service marks, logotypes, and trade designations made available for use pursuant to license by the Corporation.
4. “Cirrus Service Marks” shall mean the CIRRUS trademarks, trade names, service marks, logotypes, and trade designations made available for use pursuant to license by the Corporation.

3.9 Transaction Requirements

3.9.6 PIN-based Debit Transactions

Customers may choose to issue Debit MasterCard Cards where a PIN is used as the Cardholder verification method and/or acquire Transactions effected with such Cards as defined in this Chapter 15b. If Customers so choose, the rules contained in the *Maestro Global Rules* will apply to such Transactions except

1. for the requirements contained in sections 1.2 Eligibility to be a Customer, 1.3 Application to be a Customer (as those requirements relate to issuing Activity), 1.7 Termination of License, 4.5 Display on Cards, and 6.1.1 b.1. Eligible Cards, of that rulebook, and
2. that when the term "Member" appears in the text of the *Maestro Global Rules*, the definition of that term contained in the Definitions chapter of this manual applies, and
3. that when the term "Service Marks" appears in the text of the *Maestro Global Rules*, the definition of that term contained in part 2 of the Definitions section in this Chapter 15b applies.

4.2 General Rules for Use of the Marks

4.2.6 Particular Use of a Mark

4.2.6.6 Use on Cards

Rule 4.2.6.6 of Chapter 4, "Trademarks and Service Marks," is modified to include the following:

1. The Maestro and/or Cirrus Service Marks must not appear on Debit MasterCard Cards issued on or after 1 June 2006. Effective 1 June 2007, the Maestro and/or Cirrus Service Marks must not appear on Debit MasterCard Cards.
2. Issuers that display regional debit brands on their Debit MasterCard Cards must place the MasterCard Brand Mark on the back (in equal size and prominence with those regional debit brands) as well as on the front of the Card. Refer to the *Card Design Standards* manual for additional information.

A

Geographical Regions

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A.1 Asia/Pacific Region

The Asia/Pacific Region includes the following countries or territories.

American Samoa	Australia
Brunei Darussalam	Cambodia
China	Christmas Island
Cocos (Keeling) Islands	Cook Islands
Timor-Leste	Fiji
French Polynesia	Guam
Heard and McDonald Islands	Hong Kong
Indonesia	Japan
Kiribati	Korea, Republic of
Lao People's Democratic Republic	Macao
Malaysia	Marshall Islands
Micronesia, Federated States of	Mongolia
Nauru	New Caledonia
New Zealand	Niue
Norfolk Island	Northern Mariana Islands
Palau	Papua New Guinea
Philippines	Pitcairn
Samoa	Singapore
Solomon Islands	Taiwan
Thailand	Tokelau
Tonga	Tuvalu
U.S. Minor Outlying Islands	Vanuatu
Viet Nam	Wallis and Futuna

A.2 Canada Region

The Canada Region is composed of Canada.

Geographical Regions

A.3 Europe Region

A.3 Europe Region

The Europe Region includes the following countries or territories.

Albania	Andorra
Antarctica	Armenia
Austria	Azerbaijan
Belarus	Belgium
Bosnia and Herzegovina	Bulgaria
Channel Islands (Guernsey, Jersey)	Croatia
Cyprus	Czech Republic
Denmark (Faroe Islands)	Estonia
Faroe Islands	Finland (Aland Islands)
France ^a	Georgia
Germany, Republic of	Gibraltar
Greece	Greenland
Hungary	Iceland
Ireland	Isle of Man
Israel	Italy
Kazakhstan	Kosovo
Kyrgyzstan	Latvia
Liechtenstein	Lithuania
Luxembourg	Macedonia
Malta	Moldova, Republic of
Monaco	Montenegro, Republic of
Netherlands	Norway (Svalbard, Jan Mayen)
Poland	Portugal
Romania	Russian Federation
San Marino	Serbia
Slovakia	Slovenia
Spain	St. Helena, Ascension and Tristan Da Cunha
Svalbard and Jan Mayen	Sweden
Switzerland	Tajikistan
Turkey	Turkmenistan
Ukraine	United Kingdom (Falkland Islands, Malvinas)
Uzbekistan	Vatican City

^a Includes Mayotte, Guadeloupe, Martinique, French Guiana, St. Martin, and St. Barthélemy.

Changes in allegiance or national affiliation of a part of any of the countries listed in this appendix shall not affect the geographic coverage of the definition.

A.3.1 Single European Payments Area (SEPA)

The Single European Payments Area includes the following countries or territories.

Andorra	Greece	Netherlands
Austria	Hungary	Norway
Belgium	Iceland	Poland
Bulgaria	Ireland	Portugal
Channel Islands	Isle of Man	Romania
Cyprus	Italy	San Marino
Czech Republic	Latvia	Slovakia
Denmark	Liechtenstein	Slovenia
Estonia	Lithuania	Spain
Finland	Luxembourg	Sweden
France	Malta	Switzerland
Germany	Monaco	United Kingdom
Gibraltar		Vatican City

A.4 Latin America and the Caribbean Region

The Latin America and the Caribbean Region includes the following countries or territories.

Anguilla	Antigua and Barbuda
Argentina	Aruba
Bahamas	Barbados
Belize	Bermuda
BES Islands ^b	Bolivia
Brazil	Cayman Islands
Chile	Colombia
Costa Rica	Curacao
Dominica	Dominican Republic
Ecuador	El Salvador
Grenada	Guatemala
Guyana	Haiti

Geographical Regions

A.5 South Asia/Middle East/Africa Region

Honduras	Jamaica
Mexico	Montserrat
Nicaragua	Panama
Paraguay	Peru
Puerto Rico	St. Kitts-Nevis
St. Lucia	St. Maarten
St. Vincent and the Grenadines	Suriname
Trinidad and Tobago	Turks and Caicos Islands
Uruguay	Venezuela
Virgin Islands, British	Virgin Islands, U.S.
^b Bonaire, St. Eustatius and Saba.	

A.5 South Asia/Middle East/Africa Region

The South Asia/Middle East/Africa Region includes the following countries or territories.

Afghanistan	Algeria
Angola	Bahrain
Bangladesh	Benin
Bhutan	Botswana
Bouvet Island	British Indian Ocean Territory
Burkina Faso	Burundi
Cameroon	Cape Verde
Central African Republic	Chad
Comoros	Congo
Côte D'Ivoire	Democratic Republic of the Congo
Djibouti	Egypt
Equatorial Guinea	Eritrea
Ethiopia	Gabon
Gambia	Ghana
Guinea	Guinea-Bissau
India	Iraq
Jordan	Kenya
Kuwait	Lebanon
Lesotho	Liberia
Libyan Arab Jamahiriya	Madagascar
Malawi	Maldives
Mali	Mauritania

Mauritius	Morocco
Mozambique	Namibia
Nepal	Niger
Nigeria	Oman
Pakistan	Palestinian Territory, Occupied
Qatar	Reunion
Rwanda	Sao Tome and Principe
Saudi Arabia	Senegal
Seychelles	Sierra Leone
Somalia	South Africa
Sri Lanka	Swaziland
Syrian Arab Republic	Tanzania, United Republic of
Togo	Tunisia
Uganda	United Arab Emirates
Western Sahara	Yemen
Zambia	Zimbabwe

A.6 United States Region

The United States Region is composed of the United States.

B

Transaction Identification Requirements

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B.1 Transaction Date

The Transaction date appearing in DE 12 (Date and Time, Local Transaction) is specified as follows.

For the following transaction...	The transaction date is the date on which...
Face-to-Face	The products or services are exchanged.
Non-Face-to-Face	The products are shipped or services performed.
Vehicle Rental	The vehicle is returned, or, if applicable, the prepayment date.
Lodging	Checkout occurred, or if applicable, the prepayment date.
No-show	The Cardholder was expected to arrive at the lodging Merchant and failed to appear.
Airline/Railway	The airline or railway ticket was issued.
Cruise Line	The transportation documents were issued.
On-board Cruise Line	The passenger disembarks.
Refund	The Merchant grants a credit or price adjustment.
All in-flight commerce transactions except in-flight commerce mailed purchases	The flight departs from the originating city. The transaction date for in-flight commerce mailed purchases is the shipment date unless otherwise disclosed to the cardholder.
Post-authorized Aggregated MasterCard <i>PayPass</i> Transit	One or more MasterCard <i>PayPass</i> taps performed with one MasterCard <i>PayPass</i> account number and occurring with one transit Merchant are aggregated in a First Presentment/1240 message.

B.2 MasterCard *PayPass* Transactions

A properly identified MasterCard *PayPass* Transaction occurs when the following values are present in the Authorization Request/0100 or Financial Transaction Request/0200 message. A Transaction must not be identified as a MasterCard *PayPass* Transaction if the Card information is contact chip-read, magnetic stripe-read, or key-entered.

Transaction Identification Requirements

B.2 MasterCard PayPass Transactions

Data Element	Subfield	Value
22 (Point of Service [POS] Entry Mode)	1 (POS Terminal PAN Entry Mode)	One of the following: <ul style="list-style-type: none"> • 07 (PAN auto-entry via contactless M/Chip) • 91 (PAN auto-entry via contactless magnetic stripe—the full track data had been read from the data on the card and transmitted within the authorization request in DE 35 [Track 2 Data] or DE 45 [Track 1 Data] without alteration or truncation)
61 (Point-of-Service [POS] Data)	11 (POS Card Data Terminal Input Capabilities)	One of the following: <ul style="list-style-type: none"> • 3 (Contactless M/Chip) • 4 (Contactless Magnetic Stripe)

A properly identified *PayPass* Transaction occurs when the following are present in the First Presentment/1240 message.

Data Element	Subfield	Value
22 (Point of Service Data Code)	1 (Terminal Data: Card Data Capability)	One of the following: <ul style="list-style-type: none"> • A (PAN auto-entry via contactless magnetic stripe) • M (PAN auto-entry via contactless M/Chip)
22 (Point-of-Service Data Code)	7 (Card Data: Input Mode)	One of the following: <ul style="list-style-type: none"> • A (PAN auto-entry via contactless magnetic stripe) • M (PAN auto-entry via contactless M/Chip) • N (Contactless input, <i>PayPass</i> Mapping Service applied [This value is visible only to issuer; acquirers use value A or M.]

B.2.1 Post-Authorized Aggregated *PayPass* Transit Transactions

A properly identified post-authorized aggregated *PayPass* transit Transaction occurs when the following values are present in the Authorization Request/0100 or Financial Transaction Request/0200 message.

Data Element	Subfield	Value
18 (Merchant Type)		One of the following: <ul style="list-style-type: none"> • 4111 (Transportation-Suburban and Local Commuter Passenger, including Ferries) • 4131 (Bus Lines)
22 (Point-of-Service [POS] Entry Mode)	1 (POS Terminal PAN Entry Mode)	One of the following: <ul style="list-style-type: none"> • 07 (PAN auto-entry via contactless M/Chip) • 91 (PAN auto-entry via contactless magnetic stripe—the full track data has been read from the data on the card and transmitted within the authorization request in DE 35 [Track 2 Data] or DE 45 [Track 1 Data] without alteration or truncation.)
48 (Additional Data—Private Use)	1 (Transaction Category Code [TCC])	X (Airline and Other Transportation Services)
61 (Point-of-Service [POS] Data)	1 (POS Terminal Attendance)	1 (Unattended terminal)
	3 (POS Terminal Location)	0 (On premises of card acceptor facility)
	4 (POS Cardholder Presence)	0 (Cardholder present)
	5 (POS Card Presence)	0 (Card present)
	6 (POS Card Capture Capabilities)	0 (Terminal/Operator has no card capture capability)
	7 (POS Transaction Status)	0 (Normal request)
	10 (Cardholder-Activated Terminal Level)	0 (Not a CAT transaction)

Transaction Identification Requirements
B.2 MasterCard PayPass Transactions

Data Element	Subfield	Value
	11 (POS Card Data Terminal Input Capability)	One of the following: <ul style="list-style-type: none"> • 3 (Contactless M/Chip) • 4 (Contactless Magnetic Stripe)

A properly identified post-authorized aggregated *PayPass* transit Transaction occurs when the following values are present in the First Presentment/1240 message.

Data Element	Subfield	Value
22 (Point of Service Data Code)	1 (Terminal Data: Card Data Capability)	One of the following: <ul style="list-style-type: none"> • A (PAN auto-entry via contactless magnetic stripe) • M (PAN auto-entry via contactless M/Chip)
	3 (Terminal Data: Card Capture Capability)	0 (No capture capability)
	4 (Terminal Operating Environment)	2 (On card acceptor premises; unattended terminal)
	5 (Card Present Data)	0 (Cardholder present)
	6 (Card Present Data)	1 (Card present)
	7 (Card Data: Input Mode)	One of the following: <ul style="list-style-type: none"> • A (PAN auto-entry via contactless magnetic stripe) • M (PAN auto-entry via contactless M/Chip) • N (Contactless input, <i>PayPass</i> Mapping Service applied [This value is visible only to issuer; acquirers use value A or M.]
	26 (Card Acceptor Business Code [MCC])	One of the following: <ul style="list-style-type: none"> • 4111 (Transportation-Suburban and Local Commuter Passenger, including Ferries) • 4131 (Bus Lines)

B.2.2 PayPass-only Transactions

A properly identified *PayPass*-only Transaction at an unattended POS Terminal occurs when the following values are present in the Authorization Request/0100 or Financial Transaction Request/0200 message.

Data Element	Subfield	Value
18 (Merchant Type)		An MCC approved to be <i>PayPass</i> -only as published from time to time in the <i>Global Operations Bulletin</i> .
22 (Point-of-Service [POS] Entry Mode)	1 (POS Terminal PAN Entry Mode)	One of the following: <ul style="list-style-type: none"> • 07 (PAN auto-entry via contactless M/Chip) • 91 (PAN auto-entry via contactless magnetic stripe—the full track data has been read from the data on the card and transmitted within the authorization request in DE 35 [Track 2 Data] or DE 45 [Track 1 Data] without alteration or truncation.)
61 (Point-of-Service [POS] Data)	1 (POS Terminal Attendance)	1 (Unattended terminal)
	3 (POS Terminal Location)	One of the following: <ul style="list-style-type: none"> • 0 (On premises of card acceptor facility) • 1 (Off premises of card acceptor facility [merchant terminal—remote location])
	4 (POS Cardholder Presence)	0 (Cardholder present)
	5 (POS Card Presence)	0 (Card present)
	7 (POS Transaction Status)	0 (Normal request)

Transaction Identification Requirements
B.2 MasterCard PayPass Transactions

Data Element	Subfield	Value
	10 (Cardholder-Activated Terminal Level)	One of the following: <ul style="list-style-type: none"> 1 (Authorized Level 1 CAT: Automated dispensing machine with PIN) 2 (Authorized Level 2 CAT: Self-service terminal) 3 (Authorized Level 3 CAT: Limited-amount terminal)
	11 (POS Card Data Terminal Input Capability)	One of the following: <ul style="list-style-type: none"> 3 (Contactless M/Chip) 4 (Contactless Magnetic Stripe)

A properly identified *PayPass*-only Transaction at an unattended POS Terminal occurs when the following values are present in the First Presentment/12/0 message.

Data Element	Subfield	Value
22 (Point of Service Data Code)	1 (Terminal Data: Card Data Capability)	One of the following: <ul style="list-style-type: none"> A (PAN auto-entry via contactless magnetic stripe) M (PAN auto-entry via contactless M/Chip)
	4 (Terminal Operating Environment)	One of the following: <ul style="list-style-type: none"> 2 (On card acceptor premises; unattended terminal) 4 (Off card acceptor premises; unattended) 6 (Off cardholder premises; unattended)
	5 (Card Present Data)	0 (Cardholder present)
	6 (Card Present Data)	1 (Card present)

Transaction Identification Requirements
B.3 Quick Payment Service Transactions

Data Element	Subfield	Value
	7 (Card Data: Input Mode)	One of the following: <ul style="list-style-type: none"> • A (PAN auto-entry via contactless magnetic stripe) • M (PAN auto-entry via contactless M/Chip)
26 (Card Acceptor Business Code [MCC])		An MCC approved to be <i>PayPass</i> -only as published from time to time in the <i>Global Operations Bulletin</i> .

B.3 Quick Payment Service Transactions

A properly identified QPS Transaction occurs when the following values are present in the First Presentment/1240 message.

Data Element	Subfield	Value
22 (Point of Service Data Code)	1 (Terminal Data: Card Data Capability)	One of the following: <ul style="list-style-type: none"> • 2 (Magnetic stripe reader capability) • 5 (Integrated circuit card [ICC] capability) • A (PAN auto-entry via contactless magnetic stripe) • B (Magnetic strip reader and key entry capability) • C (Magnetic stripe reader, ICC, and key entry capability) • D (Magnetic stripe reader and ICC capability) • E (ICC and key entry capability) • M (PAN auto-entry via contactless M/Chip)

Transaction Identification Requirements
B.4 Cardholder-activated Terminal (CAT) Transactions

Data Element	Subfield	Value
	4 (Terminal Operating Environment)	<ul style="list-style-type: none"> • 1 (On card acceptor premises; attended terminal) • 3 (Off card acceptor premises; attended terminal)
	5 (Cardholder Present Data)	0 (Cardholder present)
	6 (Card Present Data)	1 (Card present)
	7 (Card Data: Input Mode)	One of the following: <ul style="list-style-type: none"> • 2 (Magnetic stripe reader input) • A (PAN auto-entry via contactless magnetic stripe) • B (Magnetic strip reader input; track data captured and passed unaltered) • C (Online Chip) • F (Offline Chip) • M (PAN auto-entry via contactless M/Chip) • N (Contactless input, <i>PayPass</i> Mapping Service applied) (This value is visible only to issuer; acquirers use value A or M.)
26 (Card Acceptor Business Code [MCC])		An eligible Quick Payment Service (QPS) MCC.
PDS 0044 (Program Participation Indicator)	2	1 (Ineligible for chargeback)

B.4 Cardholder-activated Terminal (CAT) Transactions

A CAT Transaction must be identified with the appropriate CAT level indicator value in authorization and clearing messages, as follows:

- CAT Level 1: Automated Dispensing Machines (CAT 1)
- CAT Level 2: Self-Service Terminals (CAT 2)

- CAT Level 3: Limited Amount Terminals (CAT 3)
- CAT Level 4: In-Flight Commerce Terminals (CAT 4)
- CAT Level 6: Electronic Commerce Transactions (CAT 6)
- CAT Level 7: Transponder Transactions (CAT 7)

In Authorization Request/0100 and Authorization Request Response/0110 messages, the CAT level indicator is located in DE 61 (Point-of-Service Data), subfield 10 (Cardholder-Activated Terminal Level). In First Presentment/1240, Chargeback/1442, Second Presentment/1240, and Arbitration Chargeback/1442 messages, the CAT level indicator is located in PDS 0023 (Terminal Type). For additional requirements, see the *Customer Interface Specification* and the *IPM Clearing Formats* manuals.

Messages used at CATs must communicate to the Cardholder, at a minimum, the following:

- Invalid Transaction;
- Unable to Route;
- Invalid PIN—re-enter (does not apply to CAT 2, CAT 4, CAT 6, or CAT 7); and
- Capture Card (if Card retention is available).

The First Presentment/1240 message of a CAT Transaction must contain one of the following values in DE 22 (Point of Service Data Code), subfield 7 (Card Data: Input Mode):

- **A**—(PAN auto-entry via contactless magnetic stripe)
- **B**—(Magnetic stripe reader input, with track data captured and passed unaltered; does not apply to CAT 3)
- **C**—(Online Chip)
- **F**—(Offline Chip)
- **M**—(PAN auto-entry via contactless M/Chip)
- **N**—(Contactless input, *PayPass* Mapping Service applied [This value is visible only to Issuer; Acquirers use value A or M])
- **S**—(Electronic commerce; applies to CAT 6 only)
- **2**—(Magnetic stripe reader input; applies to CAT 3 only)

B.4.1 CAT Level Requirements

The following requirements apply to the specific CAT levels indicated.

B.4.1.1 Dual Capability for CAT 1 and CAT 2

A CAT device may have dual capability as a CAT 1 and a CAT 2. Dual capability allows a CAT device to identify each Transaction as CAT 1 or CAT 2, depending on the presence of a PIN (online or offline).

IF...	THEN...
A Cardholder is prompted for a PIN and enters a PIN (online or offline)	The Acquirer must identify the Transaction with the CAT Level 1 indicator.
A Cardholder is not prompted for a PIN and does not enter a PIN (online or offline)	The Acquirer must identify the Transaction with the CAT Level 2 indicator.

A CAT 1 device that supports offline PIN, but not online PIN, must have dual capability as a CAT 2 device and comply with all CAT 2 requirements (including support of "No CVM").

B.4.1.2 CAT Level 1: Automated Dispensing Machines (CAT 1)

The following CVM requirements apply to CAT 1 devices:

1. CAT 1 devices must accept PIN as the CVM.
2. CAT 1 devices must support online PIN and may also support offline PIN.
 - a. Online PIN is the mandatory CVM for magnetic stripe Transactions.
 - b. PIN (online or offline) is the mandatory CVM for chip Transactions.
3. CAT 1 devices must not support only offline PIN as CVM.
4. CAT 1 devices must not perform the CVM fallback.
5. CAT 1 devices must not accept signature or "No CVM" as the CVM.
6. The Standards relating to PIN and key management security apply to CAT 1 devices.

The following authorization requirements apply to CAT 1 devices:

1. CAT 1 devices must have online capability.
 - a. All magnetic stripe Transactions, regardless of amount, must be authorized online by the Issuer on a zero floor limit basis.
 - b. Chip Transactions greater than USD 100, or its local currency equivalent, must be authorized online by the Issuer.

Transaction Identification Requirements
B.4 Cardholder-activated Terminal (CAT) Transactions

2. CAT 1 devices may have offline capability. Chip Transactions less than or equal to USD 100, or its local currency equivalent, may be authorized offline by the EMV chip.
3. Limit-1 processing does not apply.
4. The MIP X-Code authorization response must be a decline. The Issuer is liable for Transactions that are approved under acquirer MIP X-Code, up to the MIP X-Code limits specified by the Corporation.

The following additionally apply to CAT 1 devices:

1. There is no maximum amount limit for Transactions authorized online by the Issuer. The maximum amount limit for Transactions authorized offline by the EMV chip is USD 100, or its local currency equivalent.
2. A CAT 1 hybrid POS Terminal must be capable of performing fallback procedures from chip to magnetic stripe, unless it is prohibited by a region.
3. CAT 1 devices may support Address Verification Service (AVS) and CVC 2 validation.
4. Chargeback rights apply to Transactions at CAT 1 devices under message reason codes 4808 and 4847, and do not apply with respect to message reason codes 4837 and 4863.
5. Card retention at CAT 1 devices is not required; however, if the capability is available, the Merchant may do so only at the Issuer's specific direction and in accordance with the procedures set forth in Chapter 5, "Card Recovery and Return Standards," of the *Security Rules and Procedures* manual.

B.4.1.3 CAT Level 2: Self-Service Terminal (CAT 2)

The following CVM requirements apply to CAT 2 devices:

1. CAT 2 devices must accept "No CVM" as the CVM.
2. CAT 2 devices must not accept signature or PIN (online or offline) as the CVM.

The following authorization requirements apply to CAT 2 devices:

1. All magnetic stripe Transactions, regardless of amount, must be authorized online by the issuer on a zero floor limit basis.
2. Chip Transactions must be authorized either online by the Issuer or for Transactions less than or equal to USD 100 or its local currency equivalent, may be authorized offline by the EMV chip.
3. Limit-1 processing does not apply.

Transaction Identification Requirements

B.4 Cardholder-activated Terminal (CAT) Transactions

4. The issuer is liable for Transactions that are approved under acquirer MIP X-Code, up to the MIP X-Code limits specified by the Corporation.

The following additionally apply to CAT 2 devices:

1. There is no maximum amount limit for Transactions authorized online by the Issuer. The maximum amount limit for Transactions authorized offline by the EMV chip is USD 100, or its local currency equivalent.
2. A CAT 2 hybrid POS Terminal must be capable of performing fallback procedures from chip to magnetic stripe, unless it is prohibited by a region.
3. CAT 2 devices may support AVS and CVC 2 validation.
4. Chargeback rights apply to Transactions at CAT 2 devices under message reason codes 4808, 4837, 4840, and 4847, and do not apply with respect to message reason codes 4862, 4863, and 4871.
5. Card retention at CAT 2 devices is not required; however, if the capability is available, the Merchant may do so only at the Issuer's specific direction and in accordance with the procedures set forth in Chapter 5 of the *Security Rules and Procedures* manual.

B.4.1.4 CAT Level 3: Limited Amount Terminals (CAT 3)

The following CVM requirements apply to CAT 1 devices:

1. CAT 3 devices must accept "No CVM" as the CVM.
2. CAT 3 devices may accept offline PIN as the CVM for chip Transactions, in accordance with the security requirements for PIN and key management.
3. CAT 3 devices must not accept signature as the CVM.
4. Use of CAT 3 devices is restricted to the following MCCs:
 - 4784—Bridges and Road Fees, Tolls
 - 7523—Automobile Parking Lots and Garages
 - 7542—Car Washes
 - 5499—Miscellaneous Food Stores-Convenience Stores, Markets, and Specialty Stores, solely for *PayPass*-only Transactions occurring within Germany, Poland, Slovenia, Spain, Switzerland, Turkey, and the United Kingdom

The following authorization requirements apply to CAT 3 devices:

1. The CAT 3 device must not have online capability. Chip Transactions may be authorized offline by the EMV chip.
2. The CAT 3 device must check the Card account number against the Electronic Warning Bulletin when the device has such capability.

3. Limit-1 and X-code processing does not apply.

The following maximum Transaction amount requirements apply to CAT 3 devices:

1. At *PayPass*-only CAT 3 devices located in:
 - a. Belgium, Germany, Italy, the Netherlands, Slovenia, and Spain, the maximum Transaction amount is EUR 25
 - b. Poland, the maximum Transaction amount is PLN 50
 - c. Switzerland, the maximum Transaction amount is CHF 40
 - d. Turkey, the maximum Transaction amount is TRY 35
 - e. the United Kingdom, the maximum Transaction amount is GBP 15
2. For intra-European CAT 3 Transactions, the maximum Transaction amount is EUR 50 for magnetic stripe and chip Transactions.
3. For Hong Kong domestic Transactions occurring at CAT 3 devices identified with MCC 7523 (Automobile Parking Lots and Garages), the maximum Transaction amount is HKD 500.
4. For all other CAT 3 devices, the maximum Transaction amount is USD 40, or its local currency equivalent, for magnetic stripe and chip Transactions.

The following additionally apply to CAT 3 devices:

1. A CAT 3 device that also is an EMV hybrid device is prohibited from performing fallback procedures from EMV chip to magnetic stripe.
2. Chargeback rights apply to Transactions at CAT 3 devices under message reason codes 4808, 4837, and 4847, and do not apply with respect to message reason codes 4863 and 4871.
3. There is no card retention requirement for CAT 3 devices.

B.4.1.5 CAT Level 4: In-Flight Commerce (IFC) Terminals (CAT 4)

The following CVM requirements apply to CAT 4 devices:

1. CAT 4 devices must accept "No CVM" as the CVM.
2. CAT 4 devices must not accept signature or PIN (online or offline) as the CVM.

The following authorization requirements apply to CAT 4 devices:

1. Prior to authorization, the Merchant must conduct a Mod-10 check digit routine to verify Card authenticity and must confirm that the Card account number is within a valid MasterCard BIN range (51xxxx to 55xxxx).
2. All magnetic stripe Transactions, regardless of amount, must be authorized online by the Issuer on a zero floor limit basis.

Transaction Identification Requirements
B.4 Cardholder-activated Terminal (CAT) Transactions

3. Chip Transactions must be authorized either online by the Issuer or offline by the EMV chip.
4. Online authorization by the Issuer may occur either air-to-ground during the Transaction or in a delayed batch.
5. An authorization request may not contain a key-entered Card account number or expiration date.
6. The Acquirer must convert all "refer to card issuer" and "capture card" messages received from Issuers to "decline."
7. Limit-1 processing does not apply.
8. The Issuer is liable for Transactions that are approved under acquirer MIP X-Code, up to the MIP X-Code limits specified by the Corporation.

The following requirements also apply with respect to CAT 4 devices:

1. Acquirers must ensure timely delivery and installation of the IFC Blocked Gaming File to gambling service providers. IFC Blocked Gaming File access is required before every gambling Transaction.
2. Transactions at CAT 4 devices are conducted on interactive video terminals by passengers on airline flights.
3. Use of CAT 4 devices is restricted to the following six MCCs:
 - 4899—Cable, Satellite, and Other Pay Television and Radio Services
 - 5309—Duty Free Stores
 - 5964—Direct Marketing—Catalog Merchants
 - 7299—Other Services—not elsewhere classified
 - 7994—Video Game Arcades/Establishments
 - 7995—Gambling Transactions
4. For each flight, Acquirers must generate one Authorization Request/0100 message per MCC for each Card account. "Flight" is defined as one or more segments of a continuous air flight with the same flight number.
5. The Authorization Request/0100 message must contain a Transaction category code (TCC) of U for gambling Transactions or R for any other Transactions.
6. DE 43 must include the airline Merchant name and flight identification in subfield 1. The city field description must contain the Merchant customer service telephone number for mailed purchases and gambling Transactions; for all other CAT 4 Transactions, this information is optional. The telephone number is not required to be toll-free.

Transaction Identification Requirements
B.4 Cardholder-activated Terminal (CAT) Transactions

7. For all transactions at CAT 4 devices, except mailed purchase Transactions, the Transaction date is defined as the date that the flight departs from the originating city. The Transaction date for mailed purchases is defined as the shipment date unless otherwise disclosed to the Cardholder.
8. The Acquirer must ensure that the Merchant provides full disclosure to the Cardholder via the CAT 4 device before the initiation of any Transactions, as detailed below. The CAT 4 device must prompt the Cardholder to acknowledge these disclosure terms before initiating Transaction(s). Disclosure must include the following:
 - a. Full identification of the Merchant and provision for recourse in terms of Cardholder complaints or questions
 - b. Notification that Transactions will be billed upon the Issuer's approval of the authorization request
 - c. For mailed purchase Transactions only, any additional shipping or handling charges
 - d. Policy on refunds or returns
 - e. Provision for a paper TID

For gambling Transactions (where permitted), Merchants must additionally disclose the following:

- a. Maximum winnings (USD 3,500) and maximum losses (USD 350)
 - b. Notification that the total net Transaction amount (whether a net win or loss) will be applied to the Card account
 - c. Notification that Cardholder must be at least 18 years of age to play
 - d. Notification that some Issuers may not allow gambling
9. The Acquirer must ensure that the Merchant can provide an itemized TID to the Cardholder by printing a TID at the passenger's seat, printing a TID from a centralized printer on the plane, or mailing a TID to the Cardholder. The device must describe any mailed TID offer and, if accepted, must require the Cardholder to input his or her name and address. For gambling Transactions, the Merchant must provide a printed TID. Each TID must contain:
 - a. Identification of the passenger's flight, seat number, and date of departure
 - b. Itemized Transaction detail
 - c. Gambling Transaction specified as a net win or net loss
 - d. The truncated Card account number
 10. The Acquirer must not submit declined Transactions into clearing.

Transaction Identification Requirements

B.4 Cardholder-activated Terminal (CAT) Transactions

11. No surcharges or service fees may be assessed on any Transaction, including gambling Transactions.

The following additional requirements apply with respect to gambling Transactions:

1. Gambling Transactions are not permitted at CAT 4 devices acquired within the Europe Region.
2. Net gambling losses cannot exceed USD 350 per flight per Card account. Net payouts to Cardholders for gambling wins cannot exceed USD 3,500 per flight per Card account. The Merchant must monitor losses and winnings throughout the flight to ensure compliance.
3. A gambling win Transaction will result in posting of net winnings (credit) to the Card account. Under no circumstance may winnings be paid in cash or other form of payment.
4. Before participating in gambling Activity, the Acquirer must undertake all reasonable and necessary steps to assure itself and, if requested, the Corporation, that such gambling Activity will be effected in full compliance with all applicable laws and regulations. By participating in gambling Activity, the Acquirer agrees to indemnify, defend, and hold the Corporation harmless with respect to any claim, damage, loss, fine, penalty, injury, or cause of action arising or resulting from or attributable to the Acquirer's gambling Activity.
5. The Card account number must be checked against the IFC Blocked Gaming File. Cardholders whose Card account numbers are listed on the IFC Blocked Gaming File must be prohibited from initiating gambling Transactions. Updates to the IFC Blocked Gaming File will be effective on the first and the 15th day of each month. The Corporation must receive Card account ranges or BINs that Issuers choose to list on the next effective updated IFC Blocked Gaming File at least two weeks before the effective date.
6. All gambling losses authorized post-flight must be submitted for authorization for the net amount. All gambling Transactions authorized during the flight will be for the full wager amount (USD 350 or a lower amount predetermined by the airline and gambling Merchant). No gambling wins will be submitted for authorization.
7. Gambling Transactions submitted for clearing must be for the net amount won or lost. Gambling win Transactions will be submitted as a refund Transaction (DE 3, subfield 1 must contain a value of 20). Interchange will be paid to Issuers by Acquirers on gambling win Transactions. An Acquirer may resubmit a gambling Transaction for a different amount within the specified Transaction limits if it previously was rejected for exceeding the specified Transaction limits—USD 3,500 for wins and USD 350 for losses.

Transaction Identification Requirements
B.4 Cardholder-activated Terminal (CAT) Transactions

The following additionally apply to CAT 4 devices:

1. There is no maximum amount limit for any Transaction at CAT 4 devices, except for gambling Transactions.
2. A CAT 4 device that also is a hybrid POS Terminal is prohibited from performing fallback procedures from EMV chip to magnetic stripe.
3. CAT 4 devices may support AVS and CVC 2 validation.
4. There are no chargeback restrictions for Transactions at CAT 4 devices.
5. There is no Card retention requirement for CAT 4 devices.

B.4.1.6 CAT Level 6: Electronic Commerce Transactions (CAT 6)

Refer to Chapter 9, "Authorization Services Details," of the *Authorization Manual* for requirements regarding the identification of electronic commerce Transactions.

B.4.1.7 CAT Level 7: Transponder Transactions (CAT 7)

The following CVM requirements apply to CAT 7 devices:

1. CAT 7 devices must accept "No CVM" as the CVM.
2. CAT 7 devices must not accept signature or PIN (online or offline) as the CVM.

The following authorization requirements apply to CAT 7 devices:

1. All magnetic stripe Transactions, regardless of amount, must be authorized online by the Issuer on a zero floor limit basis.
2. Chip Transactions must be authorized either online by the Issuer or offline by the EMV chip.
3. Limit-1 processing does not apply.
4. The Issuer is liable for Transactions that are approved under Acquirer MIP X-Code, up to the MIP X-Code limits specified by the Corporation.

The following additionally apply to CAT 7 devices:

1. There is no maximum amount limit for Transactions at CAT 7 devices.
2. A CAT 7 device that also is a hybrid POS Terminal is prohibited from performing fallback procedures from chip to magnetic stripe.
3. CAT 7 devices may support AVS and CVC 2 validation.
4. There are no chargeback restrictions for Transactions at CAT 7 devices.
5. There is no card retention requirement for CAT 7 devices.

Transaction Identification Requirements
B.5 Payment Transactions

B.5 Payment Transactions

The Acquirer must identify each Payment Transaction with the following values.

For this type of message...	In field...	Use this value...
Authorization Request/0100 message	DE 3 (Processing Code), subfield 1 (Cardholder Transaction Type)	28
	DE 18 (Card Acceptor Business Code)	One of the following; <ul style="list-style-type: none"> • 6532—if the Payment Transaction is processed by a Customer or its authorized agent. • 6533—if the Payment Transaction is processed by a Merchant. • A value specified for Payment Transactions in the applicable Customer-to-Customer intracountry, or intercountry business service arrangement, if one is in place.
	DE 48 (Additional Data— Private Use), subfield 77 (Payment Transaction Type Indicator)	Payment Transaction program type
	DE 48 (Additional Data— Private Use), TCC (Transaction Category Code)	P
First Presentment/1240 message	DE 3 (Processing Code), subfield 1 (Cardholder Transaction Type)	28
	DE 26 (Card Acceptor Business Code)	As described for DE 18 (Merchant Type) in the Authorization Request/0100 message
	DE 48 (Additional Data— Private Use), PDS 0043 (Program Registration ID)	Payment Transaction program type

The value used for the Payment Transaction program type must be that which best describes the purpose of the Payment Transaction.

The Acquirer also should provide either the customer service phone number in PDS 0170 (Card Acceptor Inquiry Information), subfield 1 (Customer Service Phone Number) or the URL address in PDS 0175 (Card Acceptor URL) in the clearing message.

A Payment Transaction Detail addendum may also be submitted with a Payment Transaction. This addendum provides the Issuer and Cardholder with enhanced data about the Merchant, the recipient of funds, and other Transaction details.

B.6 Mobile Remote Payment Transactions

A properly identified Mobile Remote Payment Transaction occurs when the following values are present in the Authorization Request/0100 and Financial Transaction Request/0200 messages.

Data Element	Subfield	Value
22 (Point of Service [POS] Entry Mode)	1 (POS Terminal PAN Entry Mode)	82 (PAN auto-entry via server)
48 (additional Data—Private Use)	23 (Payment Initiation Channel), position 1 (Device Smartphone Type)	01 (Mobile phone or smartphone)
	48 (Mobile Payment Indicators), position 1	1 (Issuer domain)
61 (Point-of-Service [POS] Data)	3 (POS Terminal Location)	2 (Off premises of card acceptor facility [cardholder terminal including home PC, Internet, mobile phone, PDA])
	4 (POS Cardholder Presence)	5 (Electronic order [home PC, Internet, mobile phone, PDA])
	5 (POS Card Presence)	1 (Card not present)
	6 (POS Card Capture Capabilities)	0 (Terminal/operator has no card capture capability)
	10 (Cardholder-Activated Terminal Level)	6 (Electronic commerce)

Transaction Identification Requirements
B.6 Mobile Remote Payment Transactions

A properly identified Mobile Remote Payment Transaction occurs when the following values are present in the First Presentment/1240 message.

Data Element	Subfield	Value
22 (Point of Service Data Code)	7 (Card Data: Input Mode)	T (PAN auto-entry via server [issuer, acquirer, or third party vendor system])
	8 (Cardholder Authentication Method)	If online PIN was transmitted: 2 (PIN)
	9 (Cardholder Authentication Entity)	If online PIN was transmitted; 3 (Authorizing agent—Online PIN)
PDS 0052 (Electronic Commerce Security Level Indicator)	3 (UCAF Collection Indicator)	If AAV is transmitted: 2 (Full UCAF)
PDS 0194 (Remote Payments Program Data)		1 (Issuer domain)
PDS 0198 (Device Type Indicator)		01 (Mobile phone or Smartphone)

C

Lodging Merchant Services

This appendix provides Card acceptance requirements relating to the Guaranteed Reservations, Express Checkout, and Advance Resort Deposit services.

C.1 Guaranteed Reservations	C-1
C.2 Express Checkout	C-2
C.3 Advance Resort Deposit	C-3

C.1 Guaranteed Reservations

A hotel, motel, resort, or other lodging Merchant participating in the Guaranteed Reservations service is obligated to have a room available when the Cardholder arrives (until checkout time the next day). The Cardholder is obligated to cancel a confirmed reservation before 18:00 at the hotel, motel, or resort (Merchant's local time). If the cardholder fails to cancel the confirmed reservation, the Merchant can charge the Cardholder a no-show charge equal to one night's lodging.

The following procedure applies:

1. A Cardholder contacts a participating Merchant and requests to guarantee a room with his or her Card. The reservation clerk explains the terms of the MasterCard Guaranteed Reservations service, specifically including the fact that an authorization will be performed at the time of arrival and the cancellation procedure that the Cardholder must follow to avoid being charged a no-show charge equal to one night's lodging.
2. The clerk records the Card and Cardholder information; confirms the room rate and location; issues the Cardholder a reservation confirmation number; and advises the Cardholder to retain it. The Merchant is recommended also to confirm the guaranteed reservation in writing, advising the Cardholder of his or her confirmation number and cancellation procedures.
3. If a Cardholder who has guaranteed his or her reservation by use of his or her Card contacts the Merchant to cancel the reservation within the agreed upon period, then the Merchant is obligated to cancel the guaranteed reservation and issue the Cardholder a cancellation number that verifies that the reservation has been canceled. The Cardholder should be advised to retain the cancellation number. The Merchant is recommended to confirm the cancellation in writing, advising the Cardholder of the cancellation number.
4. A Cardholder who has guaranteed a reservation by use of his or her Card arrives within the specified period (until checkout time the next day), the Merchant is obligated to provide a room. If the Merchant is unable to provide a room, then the Merchant must provide, at no additional charge, a comparable room for one night, transportation to the other lodging, and a three-minute domestic or long distance phone call as the Cardholder deems necessary to advise of a change of location.
5. Before the Cardholder's expected arrival, the Merchant shall prepare a registration card and assign a room number on that card.
6. If the Cardholder does not cancel and does not stay at the Merchant location, then the Merchant may bill the Cardholder for one night's room rate. The following procedure should be followed:

- a. The Merchant must obtain authorization from the Issuer and include on the TID the date of no show, assigned room number, and the words "guaranteed reservation/no-show" in place of the Cardholder's signature.
 - b. The Merchant must retain the no-show registration card, reflecting the assigned room number, for six months from the date that the TID is submitted to the Acquirer.
7. The Corporation reserves the right to prevent the Acquirer from allowing a specific Merchant to participate in the MasterCard Guaranteed Reservations service where in the opinion of the Corporation, the Merchant has abused the privilege.

C.2 Express Checkout

A Merchant participating in the Express Checkout service must follow these procedures:

1. At the time of check-in, inquire whether the Cardholder would like to use the Express Checkout service or routinely provide the necessary form (Express Checkout Authorization Form) in its "welcome package."
2. Have the Cardholder complete and sign the Express Checkout Authorization Form, which should state clearly that the Cardholder directs the Merchant to bill the Card for the Transaction amount and process the TID without a Cardholder signature.
3. Imprint a TID with the Card account number and follow normal authorization procedures.
4. On the Cardholder's departure, the Merchant must complete the TID using the checkout date as the Transaction date, indicating the total amount of the bill and print legibly in the space allotted for the customer's signature the words "signature on file—express checkout."
5. Mail a copy of the itemized bill, TID, and the Express Checkout Authorization Form to the Cardholder at the address noted on the authorization form within three business days of the date the Cardholder checked out.
6. Retain and make available to the Corporation and the Issuer all pertinent records pertaining to the itemized bill and authorization requests in the event of a dispute.

C.3 Advance Resort Deposit

A Merchant participating in the Advance Resort Deposit service must follow these procedures:

1. Explain the terms of the advance resort deposit reservation, cancellation, and refund policies to the Cardholder.
2. Request the Card account and Cardholder address information and confirm the room rate and location.
3. Obtain authorization from the Issuer and include on the TID the reservation confirmation number and the words "advance deposit" in place of the Cardholder's signature. The Merchant is recommended to note on the TID any special terms and conditions regarding its refund policy.
4. Mails a letter of confirmation, a copy of the TID (including the reservation confirmation number) and information concerning its cancellation and refund policies to the Cardholder.
5. If a Cardholder cancels his or her reservation in accordance with the agreed upon procedures, the Merchant is obligated to cancel the reservation and issue a credit to the Cardholder.

**This is Exhibit "G" referred to in the
Witness Statement of KEVIN J. STANTON**

REDACTED

**This is Exhibit "H" referred to in the
Witness Statement of KEVIN J. STANTON**

REDACTED

**This is Exhibit "I" referred to in the
Witness Statement of KEVIN J. STANTON**

REDACTED

**This is Exhibit "J" referred to in the
Witness Statement of KEVIN J. STANTON**

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**This is Exhibit "K" referred to in the
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12/16/10 Globe & Mail (Toronto Can.) A1
2010 WLNR 24829958
Loaded Date: 12/16/2010

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December 16, 2010

Section: News Business

Watchdog attacks credit giants over fees
Visa, MasterCard accused of anti-competitive behaviour that drives up retailer costs, customer prices

RITA TRICHUR

Ottawa's competition watchdog is taking on two giants of the credit card business, alleging they are engaged in anti-competitive practices that hurt merchants and consumers and drive up prices at the cash register.

The Competition Bureau launched a legal action against Visa Canada Corp. and MasterCard International Inc. for imposing 'restrictive' rules on credit cards that cost retailers about \$5-billion a year in fees, some of which is passed on to their customers, regardless of how they pay, in the form of higher prices on their merchandise.

The two companies, which control more than 90 per cent of the credit-card market in Canada, set the base fees that help determine how much stores must pay to accept plastic. Those fees, which typically range from \$1.50 to \$3 for every \$100 transaction, are nearly twice as high as the charges retailers pay in Europe, Australia and New Zealand, the bureau said.

Central to the bureau's case are the rules that retail outlets must follow, which have long been an irritant to store owners. Retailers are not permitted to add a surcharge to purchases made on 'premium' cards, which carry higher merchant fees, and are prevented from trying to persuade consumers to use lower-cost payment options, including cash or debit cards. Stores that take Visa or MasterCard are also forced to accept the companies' entire suite of credit cards regardless of fees.

The bureau, which began investigating the case in 2009, determined Visa's and MasterCard's rules are impeding merchant choice and destroying competition between the two companies. 'Visa and MasterCard's anti-competitive behaviour hurts businesses and consumers alike,' Competition Commissioner Melanie Aitken said in a release.

Her challenge, announced Wednesday, highlights shortcomings in Ottawa's voluntary code of conduct for the in-

dustry.

The code, which took effect just four months ago, was intended to give retailers more clout to negotiate fees. But critics say the voluntary measures lack teeth. While the bureau does not directly call the code ineffective, it emphasizes its limitations.

The move also highlights the bureau's new aggressiveness in pursuing complaints of anti-competitive activity. Ms. Aitken, a lawyer, became commissioner last year and has already challenged controversial practices in the wireless and real-estate industries, and recently forced the Canadian Real Estate Association to allow greater competition from companies that offer lower-cost services.

The bureau argues that permitting retailers to charge consumers extra for using higher-cost cards would be the 'most effective' way to foster competition with respect to fees. Some consumers prefer those cards because they come with more lucrative incentives, such as travel points.

Catherine Swift, chief executive of The Canadian Federation of Independent Business, now plans to ask Finance Minister Jim Flaherty to include surcharging in the code as a prudent measure.

The Retail Council of Canada does not support surcharging, but wants the payment system regulated. 'This is another piece of the puzzle, and it provides the minister with further evidence of the need for a more robust regulatory framework,' president Diane Brisebois said in an e-mail.

Mr. Flaherty told reporters the code is working and called the bureau's application a 'parallel' effort. 'We want to have as much competition as possible.'

David Russell, co-owner of Sporting Life, which runs four sporting goods and fashion stores in Ontario, said Visa charges it 12.5 per cent more for transactions made with its premium cards compared with its regular cards, while MasterCard charges 25 per cent more for purchases on its high-end plastic.

'We can't afford those kinds of increases,' said Mr. Russell, who is also chairman of the Retail Council of Canada.

The bureau was forced to take legal action, which comes in the form of an application to the Competition Tribunal, because Visa and MasterCard refused to change their business practices voluntarily, a spokesman for the competition bureau said. A final decision could take more than a year.

Visa and MasterCard criticized the legal action, arguing it would pad retailers' profits at the expense of consumers. Both said the case lacks merit.

'Visa is disappointed that the Canadian Competition Bureau has taken an anti-consumer position by filing a lawsuit against Visa to overturn policies that protect consumers from being punished by large retailers who seek to impose surcharges and take away consumer choice at the checkout counter,' the company said in a statement.

MasterCard, meanwhile, said retailers should pay their 'fair share' of credit card costs and should be prohibited from passing them on to consumers.

'If these changes were implemented by the Competition Bureau, the result would be to enrich merchants at the expense of consumers,' added Betty DeVita, president of MasterCard Canada.

Last month, Ms. Aitken asked an Ontario court to levy a \$10-million penalty against Rogers Communications Inc. for 'misleading advertising' that disparaged upstart competitors Wind Mobile, Mobilicity and Public Mobile.

With a report from Marina Strauss

--- INDEX REFERENCES ---

COMPANY: RETAIL COUNCIL OF CANADA; COMPETITION COMMISSION; MASTERCARD ASIA/PACIFIC (AUSTRALIA) PTY LTD; MASTERCARD INC; VISA CANADA CORP; ROGERS COMMUNICATIONS INC; CANADIAN REAL ESTATE ASSOCIATION (THE); MASTERCARD FRANCE SAS; MASTERCARD NETHERLANDS BV

NEWS SUBJECT: (Legal (1LE33); Antitrust Regulatory (1AN52); Monopolies (1MO68); Economics & Trade (1EC26); Business Litigation (1BU04); Corporate Events (1CR05); Business Management (1BU42); Regulatory Affairs (1RE51); Business Lawsuits & Settlements (1BU19))

INDUSTRY: (Retail Banking Services (1RE38); Banking (1BA20); Financial Services Regulatory (1FI03); I.T. (1IT96); Credit Cards (1CR30); I.T. in Retail (1IT68); Retailers (1RE64); Wholesale Trade & Distribution (1WH58); Credit, Debit & Value Cards (1CR28); Retail (1RE82); Business Services (1BU80); Retail Regulatory (1RE54); I.T. Regulatory (1IT67); Debit Cards (1DE11); Financial Services (1FI37); I.T. in Consumer Goods (1IT87); I.T. Vertical Markets (1IT38); I.T. in Wholesale, Retail & Distribution (1IT06); Cash & Carry (1CA51))

REGION: (Oceania (1OC40); Americas (1AM92); Canada (1CA33); North America (1NO39))

Language: EN

OTHER INDEXING: (CANADIAN COMPETITION BUREAU; CANADIAN FEDERATION; CANADIAN REAL ESTATE ASSOCIATION; COMPETITION; COMPETITION BUREAU; COMPETITION TRIBUNAL; MASTERCARD; MASTERCARD INTERNATIONAL INC; PUBLIC MOBILE; RETAIL COUNCIL; ROGERS COMMUNICATIONS INC) (Aitken; Betty DeVita; David Russell; Diane Brisebois; Flaherty; Jim Flaherty; Melanie Aitken; Russell) (Canada)

KEYWORDS: (Competition); (Credit cards); (Fees); (Regulation); (Retail trade)

COMPANY TERMS: COMPETITION BUREAU; MASTERCARD INTERNATIONAL INC; VISA CANADA
CORP

Word Count: 820

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**This is Exhibit "L" referred to in the
Witness Statement of KEVIN J. STANTON**

**Statement by the Consumers Association of Canada Regarding
the Competition Bureau's Challenge of Visa and MasterCard
Consumers will be the big losers under the Competition
Bureau's plan**

Bruce Cran, President of the Consumers Association of Canada, has made the following statement in response to today's decision of the Competition Bureau to challenge two rules of Visa and MasterCard:

Make A Donation!

To make a donation to the Consumers' Association of Canada, please [click here](#)

"The Consumers Association of Canada is extremely disappointed in today's decision by the Competition Bureau to challenge two critical consumer protection measures. This is a disappointing day for Canadian consumers. The Competition Bureau appears to have abandoned our interests in favour of the well-organized merchant lobby.

Allowing merchants to surcharge on credit card purchases will expose consumers to potentially predatory practices by merchants. For example, in Australia where surcharging was forced by the regulator, the result has been extremely negative for consumers. A recent report by the Australian consumer group Choice showed that consumers are now facing surcharges of up to 10% in some cases. The report also found that some merchants have embraced surcharges as a new revenue stream. The report highlighted that surcharging was most prevalent in situations where paying by credit card is a necessity. For example, Australia's largest domestic airline now imposes surcharges as high as \$30.00 per ticket.

If the threat of facing surcharges is not bad enough, the Bureau apparently now wants to take away the honour all cards rule. This will create chaos in the marketplace for consumers because they will no longer have any guarantee that their credit card will be accepted when they get to the check-out counter. If a merchant advertises that they accept a Visa credit card they should have to accept any Visa credit card that a consumer carries. Allowing merchants to decline individual consumers' cards would create confusion and frustration for consumers.

Merchants across Canada have been instrumental in driving consumers to use electronic payments - and in many cases offer no other alternative - and now they want consumers to pay extra to do so and/or dictate which particular Visa or MasterCard credit card is acceptable to them."

For more information:
Bruce Cran, President
Consumers Association of Canada
604-418-8359

Letter to Minister Strahl