COMPETITION TRIBUNAL
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OTTAWA, ONT. | by / par C. Fortin doc. no. 253

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
BETTY K. DEVITA

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1. I have been President of MasterCard Canada, Inc., a subsidiary of the respondent MasterCard International Incorporated ("MasterCard"), since September 15, 2010. As President of MasterCard Canada, Inc., I oversee regional strategy, business development, acceptance expansion, operations, regulatory, marketing and product introductions with a mandate for delivering continued growth and innovation in Canada.

2. Before my employment with MasterCard, I worked at Citibank Canada as Chairman and CEO. I was accountable for the franchise and its 5,000 employees across all lines of business.

3. I have served as a member of the Executive Council and Chair of the Foreign Bank Executive Committee of the Canadian Bankers Association.

4. Prior to working in Canada, I held the position of Country Business Manager and Senior Executive Vice President for Citibank Korea in the period from 2004 to 2007.

5. Before that, I was the Regional Business Executive for Citibank's Global Consumer Franchise in North Latin America, responsible for Venezuela, Columbia, Peru, Dominican Republic, Panama and the Bahamas.

6. I graduated with a B. Sc. from St. John's University, New York. I also have a CEO Program Certificate from Wharton-KMA in Seoul, Korea and certification from the Institute of Corporate Directors at the Rotman School of Management, University of Toronto. [redacted]

The MasterCard Network

7. The MasterCard payment network generally involves five entities: merchants, acquirers, MasterCard, issuers and cardholders. Where an issuing bank and acquirer are

the same entity in a transaction, fewer parties may be involved.

8. Generally, the payment process may be described as follows: When a cardholder presents a MasterCard credit card to a merchant to purchase an item, the merchant transmits a request for authorization to the merchant's acquirer. The acquirer then transmits the authorization request through the MasterCard network to the bank that issued the cardholder's card. If the issuer approves the transaction, the approval is transmitted back to the acquirer through the MasterCard network.

9. After authorization, the issuer and acquirer record the transaction and the issuer debits the cardholder's account.

10. Sometime shortly thereafter, the issuer pays the value of the transaction to the acquirer, minus an amount related to the applicable interchange rate.

11. Usually within a day of the transaction, and on terms agreed upon between the merchant and its acquirer, the acquirer settles its payment obligations to the merchant. The acquirer often recovers its fees subsequently, although the timing of payment of fees from the merchant to the acquirer may be negotiated between each merchant and its acquirer.

12. The transaction cycle is completed when the cardholder pays the issuer of his or her MasterCard card an amount equal to the value of the transaction. The cardholder may make a payment sometime during the current billing cycle or pay interest to the issuer for the extension of credit beyond the close of the billing cycle. The issuer bears the risk of non-payment from the cardholder because it has already transferred funds to the merchant's acquirer for the cardholder's purchase.

The MasterCard Brand

13. By accepting MasterCard credit cards, merchants enjoy benefits such as guaranteed payment and access to customers who are not restricted to making purchases with funds on hand without the expense and risk of developing and administering their own proprietary card programs.

14. Merchant acceptance of MasterCard credit cards in Canada has increased every year in the past five years. [redacted]

15. Further, approximately [redacted] merchant locations accept MasterCard credit cards worldwide. The aforesaid number of merchant locations reflect a MasterCard core brand promise, being that a cardholder's MasterCard credit card will be accepted at any merchant location which accepts MasterCard credit cards anywhere in the world.

16. MasterCard works hard to establish and promote a well known brand and trademark so that consumers know where their MasterCard credit card will be accepted. MasterCard makes significant efforts to market its network to issuers and acquirers and to make its network attractive to consumers and merchants. MasterCard designs and implements promotions to support its brand and invests so that parties on both sides of the four-party system benefit.

17. Just a few examples of MasterCard's marketing efforts include: MasterCard's PRICELESS sponsorships of hockey-related advertising; World MasterCard Fashion Week and other fashion-related advertising; and MasterCard's PRICELESS charitable activities.

18. MasterCard's willingness to negotiate specifically with individual merchants in particular is evidenced by commercial agreements it has concluded. These agreements may relate to issuing incentives and co-branding (further discussed below), to PayPass support, or to marketing incentives. MasterCard has concluded commercial agreements related to the Canada Region with various merchants, including: [redacted]

19. MasterCard is always open to discuss and negotiate with those participants in its network who may add value. However, MasterCard will only agree to terms which enable it to retain a balanced system.

20. A March 2011 Nilson Report shows that in 2011, MasterCard processed approximately 20% of dollar purchase volume made on MasterCard, Visa, Interac debit and American Express networks. MasterCard's share of credit dollar purchase volume in Canada is well below 35%; MasterCard's share of dollar purchase volume made on MasterCard, Visa and American Express was approximately 30%. [redacted]

21. The average number of active MasterCard credit cards per Canadian adult 20 years of age or older, based on information available from Statistics Canada for 2011, is

approximately 1.5.[1]

22. MasterCard often plays a first-adopter and innovative role in the credit card business in Canada. For example, MasterCard was the first card network to introduce a contactless card payment method, PayPass, into Canada.

23. Because MasterCard credit cards can be electronically read, merchants and consumers often conclude MasterCard credit card transactions more efficiently than those with cheques or cash. For example, MasterCard's PayPass technology provides the ability to conclude transactions even more efficiently than a credit card which does not have PayPass.

24. MasterCard data and publicly available press releases show that merchants observe up to a [redacted] reduction in average transaction time relative to other tender when PayPass is utilized as the payment method. Merchant wait times are also reduced. When a cardholder utilizes PayPass, Merchants also observe a [redacted] reduction in wait time relative to other tender. Drive through and quick service restaurants in particular observe up to a [redacted] reduction in wait time relative to other tender. This is a "win-win-win" solution for the MasterCard network, cardholders and merchants.

Default Interchange Rates

25. Interchange rates are a percentage of the transaction value retained by issuers and not paid to acquirers during clearance and settlement between them, in the absence of any agreement to the contrary.

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[1] This number is a derivation of figures from Statistics Canada and MasterCard. Statistics Canada details that there are 26,641,500 individuals 20 years of age or older: http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo10a-eng.htm. [redacted]

26. When setting default interchange rates, MasterCard attempts to achieve a balance between the value propositions that MasterCard provides to issuers and merchants. MasterCard's goal is to maximize volume on its network and default interchange rates are one tool which MasterCard uses to help achieve this goal. Other balancing tools include the Honour All Cards and No Surcharge rules.

27. Interchange retained by issuers serves to sustain a large population of cardholders and encourages card use. This is particularly important for MasterCard because of its historic role in the payments landscape in Canada.

28. Historically, only one of Canada's five largest banks, Bank of Montreal, issued MasterCard credit cards. When the Competition Bureau ended its expressed preference for non-duality, in November 2008, MasterCard pursued an association with the large Canadian banks that were members of Visa's network. MasterCard credit cards are now issued by a number of banks that once issued Visa credit cards exclusively, such as Canadian Imperial Bank of Commerce, Royal Bank of Canada and Toronto-Dominion Bank (through its recent acquisition of MBNA Canada's consumer credit card portfolio). MasterCard has also recently added Wal-Mart Canada Bank as an institution that issues MasterCard credit cards.

29. MasterCard also sets default interchange rates to encourage merchant acceptance. As MasterCard has sought to increase acceptance and volume in new merchant categories, and to remain competitive in existing ones, it has tailored default interchange rates applicable to particular merchant sectors. The point at which the optimal balance is achieved can vary from sector to sector, which is reflected in the variation in the default interchange rate from sector to sector. For example, the default interchange rates applied

to purchases made at large supermarkets and gas stations on core consumer cards are lower than the default rates applicable to other merchant sectors. MasterCard's current default interchange rates can be found in the MasterCard Worldwide Interchange Rate Overview of January 2011, which is attached as **Exhibit "C"**, together with copies of MasterCard Interchange Bulletins related to adjustments to the default interchange rate in Canada over the past five years.

30. MasterCard issuers, in competition with each other, in competition with rival networks and in competition with other payment methods, have attracted new cardholders and increased card usage by offering them, among other things, valuable reward and loyalty programs.

31. MasterCard has historically been disadvantaged in that it has had a proportionately smaller share of "transactor" cardholders. Transactor cardholders do not tend to carry a monthly balance, but instead tend to pay their outstanding balance as it comes due.

32. The programs targeted at transactor cardholders are intended to provide issuers with MasterCard-branded credit card products which compete with, amongst others, programs of Visa and American Express.

33. In particular, Visa offers an "Infinite" line of products which provide cardholders with enhanced benefits. American Express' cardholder proposition relates to travel and benefits. In response, MasterCard requires that issuers offering World or World Elite MasterCard card programs provide certain levels of benefits and rewards. These programs effectively reduce the cost to cardholders of holding and using these MasterCard credit cards.

34. Presently in Canada, World MasterCard programs, which attract high spend interchange fees, require that the cardholder have an annual individual income of [redacted] household income of [redacted] or a minimum annual purchase volume of [redacted] per account. World Elite MasterCard programs, which attract premium high spend interchange fees, require that the cardholder have an annual individual income of [redacted] or household income of [redacted] or a minimum annual purchase volume of [redacted] per account. In setting out these requirements, MasterCard is in compliance with the Code of Conduct for the Credit and Debit Card Industry in Canada (the "Code of Conduct").

35. Issuers are subject to audit by MasterCard to ensure compliance with these requirements and programs may be discontinued or assessment fees levied if issuers do not comply.

Merchant Issuance and Co-Branding Agreements

36. Various merchants have become more directly involved with MasterCard credit cards, either as credit card issuers or as the result of co-branding agreements with MasterCard. Both forms of cards typically offer rewards programs to cardholders, which programs offer particular benefits in relation to purchases made at the related merchant.

37. Some examples of MasterCard credit card issuers who are merchant-related include: Wal-Mart, Canadian Tire Financial Services and President's Choice Financial. Merchants who have co-branding agreements with MasterCard include: [redacted]

38. I have read the Witness Statement of Mario de Armas, filed on behalf of Wal-

Mart Stores, Inc. and Wal-Mart Canada Corp. Mr. de Armas states that:

> "As a result of the Merchant Rules described above, Walmart Canada is unable to effectively encourage customers to use lower-cost methods of payment, such as cash, Interac debit cards and lower-cost credit cards, such as by surcharging credit cards with higher Card Acceptance Fees or declining to accept credit cards with higher Card Acceptance Fees [...]
>
> As a result of the Merchant Rules described above, Walmart Canada cannot create competition to constrain increases in or encourage reductions of Card Acceptance Fees. The Merchant Rules prevent Walmart Canada from effectively differentiating between Visa and MasterCard credit cards, and require Walmart Canada to treat all Visa and MasterCard credit cards alike, even those with higher Card Acceptance Fees." (Witness Statement of Mario de Armas, paras. 50 and 51)

39. Even putting aside the various types of steering which are permitted to Wal-Mart Canada, or any other Merchant, as part of MasterCard's Operating Rules and the Code of Conduct, these statements are specifically problematic for both Wal-Mart Canada.

40. MasterCard has a Customer Business Agreement with Wal-Mart Canada Bank which enables Wal-Mart Canada Bank to issue MasterCard credit cards carrying the Wal-Mart brand. The Customer Business Agreement, [redacted] provides significant financial incentives to Wal-Mart in exchange for issuance of the card.

41. The Customer Business Agreement is the product of negotiations between Wal-Mart and MasterCard and resulted in Wal-Mart obtaining significant financial benefits which effectively lower its cost of participation in the MasterCard network. These include, without limitation, payment of:

a. [redacted]

b. [redacted]

42. Rather than treating all Visa and MasterCard credit cards alike or attempting to

encourage customers to use lower-cost methods of payment, Wal-Mart has taken positive steps to commit to involvement with the MasterCard network. Among other things, [redacted] Materials promoting the Wal-Mart MasterCard credit card are attached as **Exhibit "E"**.

MasterCard Competitors

43. Due to the historical positioning of credit card networks in Canada and MasterCard's status as the second-largest credit card network, it competes vigorously with Visa. MasterCard, however, does not compete solely with Visa. Some of MasterCard's other competitors include cash, cheques, Interac debit, Interac e-Transfer, money orders, travelers cheques, gift cards, PayPal, merchant issued credit cards, peer-to-peer solutions such as Bill Me Later, and other credit cards, including American Express and Discover. These competitors provide real threats to MasterCard in various spaces.

44. Cash is a predominant competitor for not only MasterCard, but for all other payment card types.

45. I understand that the Discover credit card network is in the process of making significant investments to generate issuance and expand acceptance of its credit cards in Canada.

46. As recently as March 2012, Interac ran advertisements on television focusing on substitution of Interac debit payments for credit card payments.[2]

47. Additionally, Interac has begun offering programs mirroring those offered by the

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[2] The advertisement is retrievable at www.interac.ca as of the date this Witness Statement is signed.

MasterCard network. One example is "Interac Flash", which mimics MasterCard's PayPass technology. Another example is the selection of co-branded Interac debit programs being offered by financial institutions, such as the SCENE ScotiaCard, BMO Club Sobeys card and RBC Shoppers Optimum card. A news article date January 17, 2012 related to the RBC Shoppers Optimum and BMO Club Sobeys debit products is attached as **Exhibit "F"**.

48. MasterCard seeks to maintain a fair playing field when competing with other forms of payment, including other credit card brands. MasterCard competes with various forms of payment, and cannot afford regulations or restrictions which permit merchants to purport to accept MasterCard credit cards and then prejudicially decline them or levy a fee for their use (as some merchant witnesses being called by the Commissioner of Competition are expressly threatening to do). This is especially true in light of MasterCard's historic role as the second-largest (and in some sectors third-largest) credit card network in Canada.

MasterCard's Network Has Excess Capacity

49. MasterCard has the ability to accommodate a significant increase in transaction volume in a timely manner. [redacted]

50. If, for example, Visa attempted to reduce its Canadian transaction volume by 5 or 10 percent, this volume could be processed by MasterCard without any system upgrades.

The MasterCard Operating Rules

51. Broadly speaking, MasterCard's Operating Rules maintain the integrity of the network and permit the MasterCard network to function as an attractive, efficient payment mechanism for both consumers and merchants, thereby increasing the number of transactions processed. The MasterCard Operating Rules are of particular importance to MasterCard due to the network's smaller size and the smaller issuers who issue MasterCard credit cards.

52. However, 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 consumers.

53. The "Honour All Cards Rule" has value for cardholders, small merchants in particular, the network and issuers. The rule prevents discrimination between MasterCard credit cards. It is fundamental to cardholders because it gives them confidence in the MasterCard network. This reflects the acceptance which cardholders expect as a brand promise. That is why cardholders come to use the card - and what makes it so valuable to merchants.

54. The Honour All Cards Rule is also important to MasterCard issuers because it reassures new or small issuers that any MasterCard credit card they issue will be as widely accepted as MasterCard credit cards issued by a much larger issuer.

55. Also, because of the Honour All Cards Rule, a small acquirer can offer its merchant customers the ability to accept payment cards issued by any issuer that participates in the MasterCard network.

56. In addition, but for the Honour All Cards Rule, competing merchants might

choose not to accept co-branded MasterCard credit cards, or credit cards issued by competing merchants. For example, Sobeys might not be willing to accept a President's Choice issued card, or Loblaws might not accept a Sobeys co-branded card. Permitting merchants to decline cards because they are associated with another merchant would impact upon MasterCard's core brand promise of worldwide acceptance and also upon MasterCard's ability to negotiate cobranded or merchant issued credit cards.

57. The "Non-Discrimination Rule" prevents a merchant from advertising acceptance of MasterCard credit cards and then discriminating against it during acceptance in favour of other brands.

58. The Non-Discrimination Rule does not prohibit encouraging consumers to use other payment methods in a non-disparaging way. Steering or advertising acceptance of other forms of payment is quite acceptable to MasterCard and is not in contravention of the Non-Discrimination Rule.

59. Signage promoting the use of other payment methods is not in contravention of the Non-Discrimination Rule. One example of merchant steering can be found in the Canadian Federation of Independent Business' signage provided to merchants in a campaign to encourage consumers to use payment types other than credit cards. The Canadian Federation of Independent Business' signage, permitted by MasterCard, is marked as **Exhibit "G".**

60. The "No Surcharge Rule" prevents merchants from charging a surcharge to MasterCard cardholders if they use a MasterCard credit card to pay for goods or services.

61. On the other hand, the MasterCard Operating Rules permit merchants to offer discounts for consumers who pay with other methods of payment (e.g. cash, debit card,

other brands of credit card). MasterCard permits merchants to provide different discounts for each different method of payment. Agreements between merchants and acquirers which restrict such discounting or steering - if any - are not the result of MasterCard's Operating Rules or any agreement between an acquirer and MasterCard.

62. If the No Surcharge Rule is eliminated, a particular merchant's threat to surcharge MasterCard credit cards will not necessarily result in a reduction in the default interchange rate. It would still be important that MasterCard's cards remain attractive to cardholders and the default interchange rate may well be set to minimize injury to MasterCard in that regard. MasterCard's upward or downward adjustment to the default interchange rate, if any, may differ depending on the market as a whole, and would relate to what action would be most likely to maximize transaction volume on the network.

63. The Commissioner has alleged that merchant surcharging would result in lower consumer prices on the basis that the cost of the merchant discount rate is currently built into existing prices. I am not aware of any instance where a merchant has advised MasterCard that it would lower its prices if permitted to surcharge. I understand that surcharging has been permitted elsewhere in the world, without an observable reduction in merchant pricing.

64. If surcharges for using MasterCard credit cards become widespread, it is reasonable to believe that many World and World Elite MasterCard cardholders, who have higher average annual spend will resort to use of other payment methods, such as American Express credit cards, to receive the benefits of rewards programs without being surcharged.

Publication of Interchange Rates

65. As of October 2008, confirmed merchants could obtain customized reports from MasterCard about the default interchange rates applicable to their business. MasterCard used this method of communication to prevent competitors from gaining information about MasterCard's default interchange rates.

66. Since introduction of the Code of Conduct, MasterCard has published its default interchange rates on its publicly available website.

Convenience Fees

67. Convenience fees are permitted under MasterCard's No Surcharge Rule. In Canada, a convenience fee is a fee permitted if a MasterCard credit card is accepted by way of an added service or convenience for the cardholder. In order to be compliant with MasterCard's Operating Rules as a convenience fee, all forms of payment accepted in the same manner must have the same fee applied.

68. MasterCard's convenience fees are often utilized by payment processors who provide merchants who do not traditionally accept credit cards through a certain channel to do so. An example may be a municipality who sets up a system for paying parking tickets online through a payment processor.

69. MasterCard's permission is not required in order for a merchant to levy a convenience fee so long as the merchant is in compliance with the Operating Rules.

The Code of Conduct for the Credit and Debit Card Industry in Canada

70. After consultation with industry stakeholders, the Canadian federal government enacted the Code of Conduct on or around April 16, 2010, and updated it on May 18, 2010. MasterCard complies with the Code of Conduct, a copy of which is attached as

Exhibit "H".

71. Among other things, the Code of Conduct requires that:

a. merchants receive a minimum of 90 days notice of any fee increases or the introduction of a new fee related to any credit or debit card transactions. MasterCard must provide at least 90 days notice to acquirers for rate or fee changes and at least 180 days notice for structural changes;

b. merchants be allowed to cancel their contracts without penalty following notification of a fee increase or the introduction of a new fee;

c. merchants provide their express consent to accept new products or services;

d. MasterCard make available all applicable interchange rates easily available on its website; and

e. MasterCard post any upcoming changes to interchange fees once they have been provided to acquirers.

72. The Code of Conduct addresses the same concerns as the Commissioner's application purports to address, such as cost awareness, interchange awareness and differential discounting for different methods of payment. The Ministry of Finance, in crafting the Code of Conduct, chose not to set aside the Honour All Cards Rule, the Non-Discrimination Rule or the No Surcharge Rule. Similarly, in the Task Force for the

Payments System Review's Report on Credit and Debit Card Markets, attached as **Exhibit "I"**, there is no recommendation to repeal these rules.

Conclusion

73. Many of the complaints by merchants in this application appear to relate to concerns about perceived transparency. As President of MasterCard Canada, I am being proactive to ensure that our organization is as transparent as possible to those parties involved in the MasterCard system, while at the same time protecting MasterCard's legitimate business interests.

74. One such step towards increased perceived transparency are the forthcoming set of changes to MasterCard's branding requirements which will distinctly label cards related to MasterCard's World and World Elite programs.

75. MasterCard values trust, partnership, agility and initiative. MasterCard endeavours to work as one team to the benefit of all – consumers, merchants, business partners, governments and the communities we serve. Every day, everywhere, we use our technology and expertise to make payments safe, simple and smart.

Signed: April 10, 2012

BETTY DEVITA

CT – 2010- 010

THE COMPETITION TRIBUNAL

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

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Respondents

-and-

THE TORONTO-DOMINION BANK and CANADIAN BANKERS ASSOCIATION

Intervenors

WITNESS STATEMENT OF BETTY K. DEVITA

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This is Exhibit "A" referred to in the Witness Statement of BETTY K. DEVITA

REDACTED

This is Exhibit "B" referred to in the Witness Statement of BETTY K. DEVITA

REDACTED

This is Exhibit “C” referred to in the Witness Statement of BETTY K. DEVITA

MasterCard
Worldwide

January 2011

MasterCard Interchange Rate Overview

As a MasterCard merchant, it's important for you to know the economic model that underlies payment card transactions. Although MasterCard interchange rates have been available to merchants by request, we want the process to be as transparent as possible because as a vitally important constituency in the MasterCard network, you are trusted partners and critical to our collective success.

Please find below MasterCard Canada's Interchange Rate Programs and a glossary of terms.

While we are confident that these documents provide the information needed to understand interchange, we also recognize that this information is being made available to a very diverse audience, with diverse needs and expectations. That's why we also encourage merchants to speak with their acquirer, or other card acceptance service provider, if they have questions regarding any aspect of MasterCard Canada's Interchange Rate Programs, acceptance of MasterCard cards, or their card acceptance agreements.

The MasterCard Canada's Interchange Rate Programs contained in this document are provided for informational purposes only, and all rates are subject to change. In the event of any discrepancy between information contained in this document and any other provisions or contracts prepared by MasterCard and applicable to such rates, such other provisions or contracts will govern.

Some interchange rates have specific qualifying criteria. For specific rate requirements, please contact your acquirer, or other card acceptance service provider. All amounts are in Canadian dollars, except as otherwise noted.

Canada Consumer Interchange Rates

	Core	High Spend	Premium High Spend
Merchants with Annual MasterCard dollar volume in Canada in Excess of $1 billion	1.40%	1.60%	2.00%
Merchants with annual MasterCard dollar volume in Canada in excess of $400 million	1.45%	1.65%	2.00%
Petroleum merchants with annual MasterCard dollar volume in Canada in excess of $400 million	1.21%	1.41%	2.00%

Supermarket merchants with annual MasterCard® dollar volume in Canada in excess of $400 million	1.36%	1.56%	2.00%
All other electronically-captured MasterCard card present transactions	1.59%	2.00%	2.25%
All other MasterCard transactions	1.72%	2.13%	2.65%

Canada Commercial Interchange Rates

	Core	Premium High Spend
Merchants with annual MasterCard dollar volume in Canada in excess of $1 billion	2.00%	2.00%
Merchants with annual MasterCard dollar volume in Canada in excess of $400 million	2.00%	2.00%
Petroleum merchants with annual MasterCard dollar volume in Canada in excess of $400 million	2.00%	2.00%
Supermarket merchants with annual MasterCard dollar volume in Canada in excess of $400 million	2.00%	2.00%
All other electronically-captured MasterCard card present transactions	2.00%	2.25%
All other MasterCard transactions	2.00%	2.65%

International Consumer Interchange Rates

	Core	Premium
Electronically-captured transactions	1.10%	1.85%
eCommerce transactions where only the merchant is enrolled in MasterCard SecureCode™	1.44%	1.85%

eCommerce transactions where both merchant and cardholder are enrolled in MasterCard® SecureCode™	1.54%	1.85%
All other MasterCard transactions	1.60%	1.85%

International Commercial Interchange Rates

	Commercial
Electronically-captured transactions with the MasterCard Electronic Commercial card product only	1.85%
Transactions conducted with a MasterCard Corporate Purchasing Card or MasterCard Corporate Fleet card that are submitted with particular financial details	1.70%
Transactions conducted with a MasterCard Corporate Purchasing Card or MasterCard Corporate Fleet card - Large Ticket	0.90% + USD30.00
All other MasterCard transactions	2.00%

Interchange glossary of terms

Core – Refers to a MasterCard credit card not designated as High Spend or Premium High Spend.

High Spend – A MasterCard credit card that is designed for cardholders who meet certain spending and income requirements.

Premium High Spend – A MasterCard credit card carrying the MasterCard World or MasterCard World Elite branding and mandatory requirements, and designed for cardholders who meet certain spending and income requirements.

Premium (for International Cards) – MasterCard credit cards originating in other countries that qualify for programs similar to High Spend and/or Premium High Spend.

Petroleum – Merchants that sell fuel for consumer use and may or may not also have a convenience store, car wash, or automotive repair shop on the premises. These merchants process MasterCard credit card transactions by requiring customers to present the card to an attendant or unattended Automated Fuel Dispensers, enabling cardholders to purchase fuel by completing the transaction at the pump.

Supermarket – Merchants that sell a complete line of food merchandise for home consumption. Food products for sale include groceries, meat, produce, dairy products, and canned, frozen, prepackaged, and dry foods. Other products for sale may include a limited selection of housewares, cleaning and polishing products, personal hygiene products, cosmetics, greeting cards, books, magazines, household items, and dry goods. These merchants may also operate specialized departments such as an in-store deli counter, meat counter, pharmacy, or floral department.

Domestic – A transaction initiated at a Canadian merchant by a cardholder using a MasterCard® card issued by a Canadian issuer.

Consumer – Describes a MasterCard card used primarily to make purchases for goods or services for personal use.

Electronically-captured – A transaction authorized and settled electronically where full data from either the magnetic stripe or the integrated circuit chip is read by a point-of-sale (POS) terminal and transmitted in its entirety to the issuer.

All other MasterCard transactions – A transaction where full data from either the magnetic stripe or the integrated circuit chip is not read by a point-of-sale (POS) terminal and/or not transmitted in its entirety to the issuer, or a transaction where the card, the cardholder, and/or the merchant representative is not present at the time of the transaction. Mail order, telephone order and electronic commerce are examples of these transactions.

Commercial – Describes a MasterCard card used primarily to make purchases by an employee on behalf of a business.

International – A transaction initiated at a Canadian merchant by a cardholder using a MasterCard® card issued by a non-Canadian issuer.

MasterCard SecureCode – MasterCard SecureCode is a program supporting cardholder authentication and guaranteed payments over the Internet for MasterCard card and Maestro® card transactions.

Particular financial details (International Commercial) – Refers to additional descriptive data transmitted with a purchase transaction by the merchant to the issuer and may include sales tax and SKU-level descriptions of items or services purchased.

MasterCard
Worldwide

Canada Region

Operations Alert

Bulletin No. 16 • 18 November 2008

MasterCard Announces New and Revised Intracountry Interchange Rate Programs for the Canada Region

Craig Penney, Chief of Staff, Canada Region

Applies To: ☑ Issuers ☑ Acquirers ☑ Processors

Summary:	In conjunction with Global Clearing Management System (GCMS) Release 09.1 and effective 17 April 2009, MasterCard will revise the rates for the default intracountry interchange rate structure for domestic transactions in the Canada region.

Action Indicator:

M Mandate

F Financial impact

C Coding or development changes typically required

A Attention warranted

Effective Date: 17 April 2009

Background

Effective 17 April 2009, MasterCard will announce a new default domestic interchange rate structure for transactions that are acquired in the Canada region and that are initiated with a MasterCard® card issued in the Canada region. These transactions must qualify for the Canada intracountry business service arrangement (BSA ID 4/124001).

Canada Region Intracountry Interchange Enhancements

Effective 17 April 2009, the new interchange rates for domestic transactions in the Canada region are as follows, as determined by MasterCard. The rates are shown below as basis points (bps).

	Consumer Programs	Consumer High Spend Programs	Consumer Premium High Spend Programs
Volume Rate A (CAD 1 billion net purchase volume)	140 bps	160 bps	200 bps
Volume Rate B (CAD 400 million net purchase volume)	145 bps	165 bps	200 bps
Supermarket (min. CAD 400 million net purchase volume)	136 bps	156 bps	200 bps
Petroleum (min. CAD 400 million net purchase volume)	121 bps	141 bps	200 bps
Electronic – card-read transactions and qualifying Recurring Payments transactions	159 bps	200 bps	225 bps
Standard – keyed transactions	172 bps	213 bps	265 bps

	Commercial Programs
Commercial Programs	200 bps

To facilitate these changes, MasterCard will create unique Interchange Rate Designators (IRDs) for each identified rate. In some cases multiple IRDs will be assigned to rates. Specific criteria will be communicated in the *GCMS Release 09.1 Document* available on 10 December 2008.

Consumer Interchange Scenarios

The interchange rates for Consumer programs are below.

Merchants Qualifying for Volume Rate A

	Consumer Programs	High Spend Programs	Premium High Spend Programs
Electronic, card-read transactions [a]	140 bps	160 bps	200 bps
Qualifying Recurring Payments transactions [b]	159 bps	200 bps	225 bps
All other transactions	172 bps	213 bps	265 bps

Merchants Qualifying for Volume Rate B

	Consumer Programs	High Spend Programs	Premium High Spend Programs
Electronic, card-read transactions [a]	145 bps	165 bps	200 bps
Qualifying Recurring Payments transactions [b]	159 bps	200 bps	225 bps
All other transactions	172 bps	213 bps	265 bps

Petroleum Merchant Specific (meeting the CAD 400 million volume test)

	Consumer Programs	High Spend Programs	Premium High Spend Programs
Electronic, card-read transactions [a]	121 bps	141 bps	200 bps
All other transactions	172 bps	213 bps	265 bps

Supermarket Specific (meeting the CAD 400 million volume test)

	Consumer Programs	High Spend Programs	Premium High Spend Programs
Electronic, card-read transactions [a]	136 bps	156 bps	200 bps
All other transactions	172 bps	213 bps	265 bps

All Other Merchants

	Consumer Programs	High Spend Programs	Premium High Spend Programs
Electronic, card-read transactions [a]	159 bps	200 bps	225 bps
Qualifying Recurring Payments transactions [b]	159 bps	200 bps	225 bps
All other transactions	172 bps	213 bps	265 bps

a An Electronic transaction is a cardholder present (DE 22, subfield 5, value 0) card-present transaction (DE 22, subfield 6, value 1) where the magnetic stripe or chip on the card is read (DE 22, subfield 7, value 2, A, B, C, M, N), full unaltered data is transmitted in the authorization message, and where the transaction is fully authorized online through the Banknet® telecommunications network.

b Recurring payment transactions will qualify for Electronic where transactions are properly identified as such in DE 22 (POS Data Code), subfield 5 (Cardholder Present Data = 4).

Card Acceptor Business Segments

The Card Acceptor Business Segments and their associated card acceptor business codes (MCCs) are as follows.

Card Acceptor Business Segment Available MCCs

Segment	Description
Supermarket	5411—Grocery Stores, Supermarkets
Petroleum	5541—Service Stations (with or without ancillary services) 5542—Fuel Dispenser, Automated

MasterCard Assigned ID

Rates (exclusive of Electronic and Standard) will be applied using Override Functionality via the MasterCard Assigned ID. Please refer to the *GCMS Release 07.2 Document* for more information regarding the MasterCard Assigned ID.

Acquirers must obtain a MasterCard Assigned ID for all merchants eligible for incentive rates (all tiers exclusive of Electronic and Standard). To be eligible, merchants must meet a series of requirements including a minimum of CAD 400 million annual net MasterCard purchase volume and data quality compliance. Merchants must demonstrate full Payment Card Industry (PCI) compliance, support primary account number (PAN) truncation on receipts, and fully comply with applicable MasterCard processing requirements, rules and procedures.

For More Information

Information in this bulletin is current as of the publication date and is provided as a reference to members. For coding purposes, members should use this bulletin and the December update to the *GCMS Release 09.1 Document*, which will contain an article titled "Canada Interchange Program Modifications."

Routing

MasterCard frequently recommends that persons having certain responsibilities read certain articles. Each member is responsible for ensuring that it remains in compliance with MasterCard Standards at all times. Thus, it is the responsibility of each member to determine who within its organization is afforded access to MasterCard information.

Revisions

In the event of a conflict between this document and a subsequently published edition, the subsequently published edition shall have precedence.

MasterCard
Worldwide

Canada Region

Operations Alert

Bulletin No. 9 • 9 July 2008

MasterCard Announces New and Revised Intracountry Interchange Rate Programs for the Canada Region

Craig Penney, Chief of Staff, Canada Region

Applies To: ☑ Issuers ☑ Acquirers ☑ Processors

Summary: Effective 3 November 2008, MasterCard will revise the rates for the default intracountry interchange rate structure for domestic transactions in the Canada region.

Action Indicator:

M Mandate

F Financial impact

C Coding or development changes typically required

A Attention warranted

Effective Date: 3 November 2008

Background

Effective 3 November 2008, MasterCard will announce a new default domestic interchange rate structure for transactions acquired in the Canada region and that are initiated with a MasterCard® credit card issued in the Canada region. These transactions must qualify for the Canada intracountry business service arrangement (BSA ID 4/124001).

Canada Region Intracountry Interchange Enhancements

Effective 3 November 2008, the new interchange rates for domestic transactions in the Canada region are as follows, as determined by MasterCard.

Interchange Rate Designator (IRD) Category	IRD Code	Current Rate	Revised Rate
MasterCard Rate 1—Purchasing Programs	40	200 bps—CAD 0.15, min. CAD 0.10	200 bps
MasterCard Rate 2 (Standard)—Standard Programs	70	170 bps—CAD 0.25, min. CAD 0.05	See Table below
MasterCard Rate 2 (Electronic)—Standard Programs	71	170 bps—CAD 0.25, min. CAD 0.05	See Table below
MasterCard Rate 3[a]—Premium High-Spend Programs	70/71	N/A	225 bps

[a] Applicable to transactions of eligible cards enrolled in qualified and approved Premium High-Spend Programs and that have a Product Code/Product Identifier/Licensed Product ID of MCW. When submitted with an IRD of 70 or 71, the Global Clearing Management System (GCMS) will use the Override Functionality, as described later in this bulletin, based on a product code of MCW.

The hierarchy for the rate assignment is as follows:

1) Rate 1 or Rate 3
2) Rate 2 CAB Override
3) Rate 2 MasterCard Assigned ID Code
4) Rate 2 Electronic
5) Rate 2 Standard

MasterCard Rate 2 (Electronic and Standard)

MasterCard Rate 2 Tiers	IRD Code	New Rate
Volume Rate A[b] Annual MasterCard Volume greater than CAD 1 billion	70/71	140 bps
Volume Rate B[b] Annual MasterCard Volume between CAD 400 million and CAD 1 billion	70/71	145 bps
Electronic[c]	71	159 bps
Standard[d]	70	172 bps
Airline[e]	70/71	140 bps
Supermarket[e]	70/71	136 bps

MasterCard Rate 2 Tiers	IRD Code	New Rate
Petroleum[e]	70/71	121 bps

b These rates will be applied using Override Functionality via the MasterCard Assigned ID (Tiered Merchant ID). Submission of a qualifying transaction for the MasterCard Rate 2 (Electronic) (IRD 71) or MasterCard Rate 2 (Standard) (IRD 70) interchange rate categories with an eligible MasterCard Assigned ID in private data subelement (PDS) 0176 will result in the application of the corresponding rate.

MasterCard will make a determination based on historical information and will provide the MasterCard Assigned ID to the merchant and its acquirer(s) as applicable. Qualification criteria may be adjusted from time to time to reflect overall MasterCard volumes.

c Any Electronic transaction that does not otherwise qualify for another rate category. An Electronic transaction is a cardholder present (DE 22, subfield 5, value 0) card-present transaction (DE 22, subfield 6, value 1) where the magnetic stripe or chip on the card is read (DE 22, subfield 7, value 2, A, B, C, M, N), full unaltered data is transmitted in the authorization message, and where the transaction is fully authorized online through the Banknet® telecommunications network.

d The default rate applied to any transaction that does not otherwise qualify for another rate category.

Recurring payment transactions will qualify for Electronic where transactions are properly identified as such in DE 22 (POS Data Code), subfield 5 (Cardholder Present Data = 4).

MasterCard® SecureCode® enabled transactions will qualify for Electronic where transactions are properly identified as such in PDS 0052 (Electronic Commerce Security Level Indicator), subfield 3 (UCAF Collection Indicator = 1 or 2).

e These rates will be applied using Override Functionality via the card acceptor business code (MCC). Submission of a qualifying transaction for the MasterCard Rate 2 (Electronic) (IRD 71) or MasterCard Rate 2 (Standard) (IRD 70) interchange rate categories with an eligible MCC will result in the application of the corresponding rate.

Override Functionality

MasterCard assigns MasterCard Assigned IDs to applicable high volume and specific industry card acceptors in all regions.

Card acceptors that receive a MasterCard Assigned ID must provide this ID in all first presentment and subsequent second presentment transactions, new and life cycle, regardless of the interchange program for which the transaction qualifies. This allows MasterCard to track and report data according to the MasterCard Assigned ID, thereby providing valuable data analysis information to these high volume members. In addition, the clearing system has been enhanced with the ability to apply specific interchange rates according to the MasterCard Assigned ID.

With Global Clearing Management System (GCMS) Release 07.2, MasterCard has implemented card acceptor-level interchange, which allows MasterCard to override the published interchange rate for any existing interchange program according to the MasterCard Assigned ID. The MasterCard Assigned ID can be used alone or in conjunction with the card acceptor business code (MCC) and type of card to establish a unique interchange rate for any interchange program.

Member Benefit

This enhancement is a customized approach to card acceptor-level interchange that does not require unique interchange rate designators (IRDs) and does not restrict the interchange rate to a rate that exists in a pre-established tier. By doing so, the enhancement allows MasterCard and its members to support and promote relationships with high-volume card acceptors.

With this enhancement, GCMS will support the following three independent interchange override categories:

- *MasterCard Assigned ID (new)*—A unique interchange rate can be established for a specific MasterCard Assigned ID.
- *Card Acceptor Business Code (MCC) or Card Acceptor Business Type (existing)*—A unique interchange rate can be established for one or more individual merchant category codes (such as, MCC 3001 [American Airlines]), or for a group of MCCs assigned to the same Type code (for example, type code A for Airlines).
- *Product Class (existing)*—A unique interchange rate can be established for a specific product class (such as, product class W = MasterCard® World Cards). With GCMS Release 08.2, the one-digit product class will be replaced with a three-digit product class (such as MCW).

The clearing system permits combinations of these overrides.

If a transaction qualifies for more than one override, the clearing system will check for combinations of overrides, and apply the first one it finds, using the hierarchy below:

1. MasterCard Assigned ID plus Product Class plus MCC
2. MasterCard Assigned ID plus Product Class plus Card Acceptor Business Type
3. MasterCard Assigned ID plus Product Class
4. MasterCard Assigned ID plus MCC
5. MasterCard Assigned ID plus Card Acceptor Business Type
6. MasterCard Assigned ID
7. Product Class plus MCC
8. Product Class plus Card Acceptor Business Type
9. MCC
10. Card Acceptor Business Type
11. Product Class

For additional information regarding the Override Functionality, refer to section 2.1, Expanded Functionality of the Tiered Merchant ID, in the *GCMS Release 07.2 Document.*

Card Acceptor Business Segments

The Card Acceptor Business Segments and their associated MCCs are below.

Card Acceptor Business Segment	Available MCCs
Airline	3000–3299—Airlines, Airline Carriers 4511—Air Carriers, Airlines–not elsewhere classified
Supermarket	5411—Grocery Stores, Supermarkets
Petroleum	5541—Service Stations (with or without ancillary services) 5542—Fuel Dispenser, Automated

IRD Criteria Tables

The IRD criteria tables for IRDs 40, 70, and 71 are as follows.

IRD 40—Canada Intracountry MasterCard Rate 1—Purchasing Programs

Criteria	Requirement
General Qualification Criteria	
Card Program Identifier	MCC
GCMS Product Identifier:	
Consumer Credit	The following are restricted to High-Spend: MCC, MCE, MCG, MCS, MPL, MRC, MRG
Commercial Credit	MCB, MCF, MCO, MCP, MNF
Transaction Type:	First and Second Presentments/1240 message First and Arbitration Chargebacks/1442 message
Processing Code	0 = Purchase 18 = Unique 20 = Credit

Criteria	Requirement
General Qualification Criteria	
Card Acceptor Business (CAB) Program	A001 = Airline B001 = Cruise/Steamships F001 = Restaurant H001 = Lodging M001 = MO/TO P001 = Beauty Salons R001 = Railway S001 = Supermarket T001 = Telephone U001 = Unique V001 = Automobile/Vehicle Rental W001 = Warehouse V001 = Other
Timeliness	None
Approval Code	Required for consumer card qualification for Enhanced Value Platform processing.
Magnetic Stripe Data from Authorization Message	Not required
Trace ID	Not required If present, the Banknet Date must contain a valid date in the format MMDD.
Card Acceptor Business Code (MCC)	Required Must contain an MCC belonging to a CAB program previously listed in this table.
Amount Tolerance	Not required
Card Acceptor ID Code	Required
Card Acceptor Name	Required
Card Acceptor Street Address	Required
Card Acceptor City	Required Must be left-justified and cannot contain all spaces or all zeros.
Card Acceptor Postal (ZIP) Code	Required
Card Acceptor State, Province, or Region Code	Required When DE 43 (Card Acceptor Name/Location), subfield 6 (Card Acceptor Country Code) contains CAN, this subfield must contain a valid province code.

Criteria	Requirement
General Qualification Criteria	
Card Acceptor Country Code	Required Cannot contain spaces.
MasterCard Assigned ID	Not required
Financial Detail Addendum/1644	Not required
Purchasing Card account ranges and Fleet Card account ranges at non-fuel locations	Not Applicable
MasterCard Fleet Card account ranges at fuel locations (MCC 4468, 5541, 5542, 5499, 5983, 7511, and 9752)	Not Applicable
MasterCard BusinessCard and MasterCard Corporate Card account ranges	Not Applicable
Notes, Exclusions, and Exceptions	PDS 0170 (Card Acceptor Inquiry Information), subfield 1 (Customer Service Phone Number) is required for all mail order/telephone order (MO/TO) and recurring payment transactions. High-Spend is accounts, cards, or both that the issuer defines as eligible for this interchange program and are registered to use Enhanced Value Platform functionality.

IRD 70—Canada Intracountry MasterCard Rate 2—Standard

Criteria	Requirement
General Qualification Criteria	
Card Program Identifier	MCC
GCMS Product Identifier:	
Credit	MCC, MCE, MCG, MCS, MCW, MPL, MRC, MRG
Debit	MCD, MDG, MDO, MDP, MDR, MDS, MPG, MPP
Transaction Type:	First and Second Presentments/1240 message First and Arbitration Chargebacks/1442 message
Processing Code	0 = Purchase 18 = Unique 20 = Credit

Criteria	Requirement
General Qualification Criteria	
Card Acceptor Business (CAB) Program	A001 = Airline B001 = Cruise/Steamships F001 = Restaurant H001 = Lodging M001 = MO/TO P001 = Beauty Salons R001 = Railway S001 = Supermarket T001 = Telephone U001 = Unique V001 = Automobile/Vehicle Rental W001 = Warehouse V001 = Other
Timeliness	None
Approval Code	Not required
Magnetic Stripe Data from Authorization Message	Not required
Trace ID	Not required If present, the Banknet Date must contain a valid date in the format MMDD.
Card Acceptor Business Code (MCC)	Required Must contain an MCC belonging to a CAB program previously listed in this table.
Amount Tolerance	N/A
Card Acceptor ID Code	Required
Card Acceptor Name	Required
Card Acceptor Street Address	Required
Card Acceptor City	Required Must be left-justified and cannot contain all spaces or all zeros.
Card Acceptor Postal (ZIP) Code	Required
Card Acceptor State, Province, or Region Code	Required When DE 43 (Card Acceptor Name/Location), subfield 6 (Card Acceptor Country Code) contains CAN, this subfield must contain a valid province code.

Criteria	Requirement
General Qualification Criteria	
Card Acceptor Country Code	Required Cannot contain spaces.
MasterCard Assigned ID	Not required
Financial Detail Addendum/1644	Not required
Purchasing Card account ranges and Fleet Card account ranges at non-fuel locations	Not Applicable
MasterCard Fleet Card account ranges at fuel locations (MCC 4468, 5541, 5542, 5499, 5983, 7511, and 9752	Not Applicable
MasterCard BusinessCard and MasterCard Corporate Card account ranges	Not Applicable
Notes, Exclusions, and Exceptions	PDS 0170 (Card Acceptor Inquiry Information), subfield 1 (Customer Service Phone Number) is required for all mail order/telephone order (MO/TO) and recurring payment transactions. Standard defined: The default rate applied to any transaction that does not otherwise qualify for another rate category. Recurring payment transactions will qualify for Electronic where transactions are properly identified as such in DE 22 (POS Data Code), subfield 5 (Cardholder Present Data = 4). SecureCode enabled transactions will qualify for Electronic where transactions are properly identified as such in PDS 0052 (Electronic Commerce Security Level Indicator), subfield 3 (UCAF Collection Indicator = 1 or 2).

IRD 71—Canada Intracountry MasterCard Rate 2—Electronic Programs

Criteria	Requirement
General Qualification Criteria	
Card Program Identifier	MCC
GCMS Product Identifier:	
Credit	MCC, MCE, MCG, MCS, MCW, MPL, MRC, MRG
Debit	MCD, MDG, MDO, MDP, MDR, MDS, MPG, MPP

Criteria	Requirement
General Qualification Criteria	
Transaction Type:	First and Second Presentments/1240 message First and Arbitration Chargebacks/1442 message
Processing Code	0 = Purchase 18 = Unique 20 = Credit
Card Acceptor Business (CAB) Program	A001 = Airline B001 = Cruise/Steamships F001 = Restaurant H001 = Lodging M001 = MO/TO P001 = Beauty Salons R001 = Railway S001 = Supermarket T001 = Telephone U001 = Unique V001 = Automobile/Vehicle Rental W001 = Warehouse V001 = Other
Timeliness	None
Approval Code	Not Required
Magnetic stripe data from authorization message	Not required
Trace ID	Not required If present, the Banknet Date must contain a valid date in the format MMDD.
Card Acceptor Business Code (MCC)	Required Must contain an MCC belonging to a CAB program previously listed in this table.
Amount Tolerance	N/A
Card Acceptor ID Code	Required
Card Acceptor Name	Required
Card Acceptor Street Address	Required
Card Acceptor City	Required Must be left-justified and cannot contain all spaces or all zeros.
Card Acceptor Postal (ZIP) Code	Required

Criteria	Requirement
General Qualification Criteria	
Card Acceptor State, Province, or Region Code	Required When DE 43 (Card Acceptor Name/Location), subfield 6 (Card Acceptor Country Code) contains CAN, this subfield must contain a valid province code.
Card Acceptor Country Code	Required Cannot contain spaces.
MasterCard Assigned ID	Not required
Financial Detail Addendum/1644	Not required
Purchasing Card account ranges and Fleet Card account ranges at non-fuel locations	Not Applicable
MasterCard Fleet Card account ranges at fuel locations (MCC 4468, 5541, 5542, 5499, 5983, 7511, and 9752	Not Applicable
MasterCard BusinessCard and MasterCard Corporate Card account ranges	Not Applicable
Notes, Exclusions, and Exceptions	PDS 0170 (Card Acceptor Inquiry Information), subfield 1 (Customer Service Phone Number) is required for all mail order/telephone order (MO/TO) and recurring payment transactions. Electronic defined: Any electronic transaction that does not otherwise qualify for another rate category. An electronic transaction is a cardholder present (DE 22, subfield 5, value 0) card-present transaction (DE 22, subfield 6, value 1) where the magnetic stripe or chip on the card is read (DE 22, subfield 7, value 2, A, B, C, M, N), full unaltered data is transmitted in the authorization message, and where the transaction is fully authorized online through the Banknet network. Recurring payment transactions will qualify for Electronic where transactions are properly identified as such in DE 22 (POS Data Code), subfield 5 (Cardholder Present Data = 4). SecureCode enabled transactions will qualify for Electronic where transactions are properly identified as such in PDS 0052 (Electronic Commerce Security Level Indicator), subfield 3 (UCAF Collection Indicator = 1 or 2).

For More Information

For more information about the contents of this bulletin, please contact your member representative.

This is Exhibit "D" referred to in the Witness Statement of BETTY K. DEVITA

REDACTED

This is Exhibit "E" referred to in the Witness Statement of BETTY K. DEVITA

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Introducing the Walmart MasterCard® card – helping smart shoppers like you earn Walmart Rewards that you can use to save even more on our already unbeatable prices.

- Earn 1% of your purchases in Walmart Rewards, virtually anywhere you shop.
- Earn 1.25% of your purchases in Walmart Rewards for virtually every dollar spent at Walmart stores[2] in Canada.
- Free supplementary cards to help you earn Walmart Rewards faster.
- Accepted at over 29 million locations worldwide.

5 Walmart Rewards = $5 in redemption value at Walmart stores in Canada

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- Apparel
- Automotive
- Baby
- Beauty
- Electronics
- Entertainment
- For the Home
- Grocery
- Home Improvement
- Pets

*Walmart Rewards are redeemable for savings on future purchases made at Walmart stores in Canada only. Conditions, restrictions and exclusions apply. See Walmart Rewards Program Terms and Conditions for details.

1. As a special promotional offer, bonus Walmart Rewards (a $15 value) will be awarded to your Walmart Rewards account within five business days of making two required qualifying purchases using your Walmart MasterCard: One purchase at a Walmart store in Canada and one purchase at another location anywhere MasterCard is accepted. Both purchases must be made within 30 days of receiving your Walmart MasterCard. Only one bonus will be awarded per account. This special promotional offer is also subject to the full Walmart Rewards Program Terms and Conditions

2. References to dollars spent in our stores means Walmart stores in Canada, before taxes. Some exclusions apply. See Walmart Rewards Program Terms and Conditions for more information.

◊ Walmart Rewards cannot be redeemed for cash and cannot be redeemed for more than the equivalent dollar value of your purchase. To redeem your Walmart Rewards, you must redeem a minimum of $5.00. If you wish to redeem more than $5.00 worth of Walmart Rewards, you must do so

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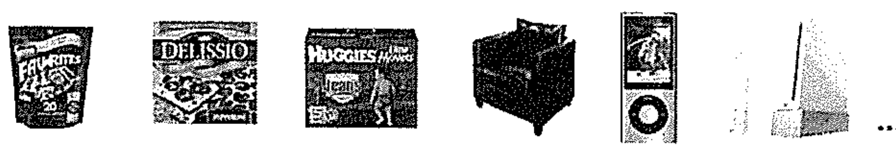
GET $15 in **bonus** Walmart Rewards

As a special bonus you'll get $15 in Walmart Rewards when you use your card at Walmart and anywhere else within the next 30 days[1].

- Use Walmart Rewards to save even more on Walmart's already unbeatable prices.
- No matter where you shop, your Walmart Rewards add up–fast! With so many opportunities to collect Walmart Rewards you'll be redeeming them in no time.
- Walmart Rewards are earned in dollar equivalents, not points, so it's easy to know how much you have to redeem[2].

Redeem Walmart Rewards for the products you want.



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Walmart Departments
- Rollback
- Apparel
- Automotive
- Baby

*Walmart Rewards are redeemable for savings on future purchases made at Walmart stores in Canada only. Conditions, restrictions and exclusions apply. See Walmart Rewards Program Terms and Conditions for details.

1. As a special promotional offer, bonus Walmart Rewards (a $15 value) will be awarded to your Walmart Rewards account within five business days of making two required qualifying purchases using your Walmart MasterCard: One purchase at a Walmart store in Canada and one purchase at another location anywhere MasterCard is accepted. Both purchases must be made within 30 days of receiving your Walmart MasterCard. Only one bonus will be awarded per account. This special promotional offer is also subject to the full Walmart Rewards Program Terms and Conditions.

2. References to dollars spent in our stores means Walmart stores in Canada, before taxes. Some exclusions apply. See Walmart Rewards Program Terms and Conditions for more information.

◊ Walmart Rewards cannot be redeemed for cash and cannot be redeemed for more than the equivalent dollar value of your purchase. To redeem your Walmart Rewards, you must redeem a minimum of $5.00. If you wish to redeem more than $5.00 worth of Walmart Rewards, you must do so in $5.00 increments.

° The paperless bonus Walmart Rewards offer ($10 in value) will be awarded to your account within two statements after you sign up. Only one paperless bonus per account. This offer is also subject to the full Walmart Rewards Program Terms and Conditions.

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Earning Walmart Rewards Is So Easy

The more you use your Walmart MasterCard® card, the more Walmart Rewards you earn. The more you earn the more you can save on Walmart's already unbeatable prices. It's that simple. Here's what you earn with every purchase:

- 1.25% of your purchases in Walmart Rewards for virtually every dollar spent at Walmart stores[2] in Canada.
- 1% in Walmart Rewards when used virtually anywhere else MasterCard is accepted.
- Walmart Rewards are earned in dollar equivalents, not points, so it's easy to know how much you have to redeem[4].

Did you know?

By setting up recurring bill payments today, you can start earning Walmart Rewards on monthly bills too.

Walmart Rewards
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Earn Walmart Rewards Faster

- Get additional cards for family members.
- Use your Walmart MasterCard card no matter where you shop.

5 Walmart Rewards = $5 in redemption value at Walmart stores in Canada

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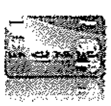
For the Walmart MasterCard®



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Walmart Departments
- Rollback
- Apparel
- Automotive
- Baby
- Beauty
- Electronics

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Grocery

Home Improvement

Pets

Seasonal

Sports

Toys

Video Games

1. As a special promotional offer, bonus Walmart Rewards (a $15 value) will be awarded to your Walmart Rewards account within five business days of making two required qualifying purchases using your Walmart MasterCard: One purchase at a Walmart store in Canada and one purchase at another location anywhere MasterCard is accepted. Both purchases must be made within 30 days of receiving your Walmart MasterCard. Only one bonus will be awarded per account. This special promotional offer is also subject to the full Walmart Rewards Program Terms and Conditions.

2. References to dollars spent in our stores means Walmart stores in Canada, before taxes. Some exclusions apply. See Walmart Rewards Program Terms and Conditions for more information.

◊ Walmart Rewards cannot be redeemed for cash and cannot be redeemed for more than the equivalent dollar value of your purchase. To redeem your Walmart Rewards, you must redeem a minimum of $5.00. If you wish to redeem more than $5.00 worth of Walmart Rewards, you must do so in $5.00 increments.

* The paperless bonus Walmart Rewards offer ($10 in value) will be awarded to your account within two statements after you sign up. Only one paperless bonus per account. This offer is also subject to the full Walmart Rewards Program Terms and Conditions.

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Redeeming your Walmart Rewards

- Redeem your Walmart Rewards instantly at the cash register in Walmart stores across Canada.
- You can start redeeming once you've earned a minimum of $5
- Redeem in $5 increments.
- Plus, your Walmart Rewards don't have an expiry date, so you can save them up or use them right away*.

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See how easy it is to earn and redeem your Walmart Rewards.

Walmart Rewards Save even more.

Purchases	Monthly Spend	Walmart Rewards Rate	Walmart Rewards Redeemable	Redeem Walmart Rewards to Save Even More on the Products You Want!
Walmart	$300	1.25%	This adds up to $159 in Walmart Rewards per year!	
• Groceries	$150			
• Clothes	$50			
• Electronics/Games	$35			
• Housewares	$65			
Anywhere else	$950	1.00%		
• Gas	$160			
• Home/Auto Insurance	$150			
• Dining/Entertainment	$300			
• Utility Bills/Cell Phone	$250			
• Gym Membership	$90			

$5 Walmart Rewards = $5 in redemption value

$15 in bonus Walmart Rewards
Click for details

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For the Walmart MasterCard®

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Walmart Rewards Terms & Conditions

Walmart Departments

*Walmart Rewards are redeemable for savings on future purchases made at Walmart stores in Canada only. Conditions, restrictions and exclusions apply. See Walmart Rewards Program Terms and Conditions for details.

1. As a special promotional offer, bonus Walmart Rewards (a $15 value) will be awarded to your Walmart Rewards account within five business days of making two required qualifying purchases using your Walmart MasterCard: One purchase at a Walmart store in Canada and one purchase at another location anywhere MasterCard is accepted. Both purchases must be made within 30 days of receiving your Walmart MasterCard. Only one bonus will be awarded per account. This special promotional offer is also subject to the full Walmart Rewards Program Terms and Conditions.

2. References to dollars spent in our stores means Walmart stores in Canada, before taxes. Some exclusions apply. See Walmart Rewards Program Terms and Conditions for more information.

◊ Walmart Rewards cannot be redeemed for cash and cannot be redeemed for more than the equivalent dollar value of your purchase. To redeem your Walmart Rewards, you must redeem a minimum of $5.00. If you wish to redeem more than $5.00 worth of Walmart Rewards, you must do so in $5.00 increments.

* The paperless bonus Walmart Rewards offer ($10 in value) will be awarded to your account within two statements after you sign up. Only one paperless bonus per account. This offer is also subject to the full Walmart Rewards Program Terms and Conditions.

Walmart
Canada Financial Services

Manage Your Account | Apply Now

Use **Walmart Rewards** to save even more* on Walmart's already unbeatable prices.

Walmart Canada Financial Services > Frequently Asked Questions

Frequently Asked Questions

Walmart MasterCard

- How To Apply
- Walmart Rewards
- Special Features
- Extra Benefits
- Even More Options
- Chip & PIN Technology
- Managing Credit
- Optional Insurance
- MasterCard SecureCode
- Contact Us

Walmart MasterCard

1. How do I apply for a Walmart MasterCard card?

You can apply for a Walmart MasterCard card at the register, in any Walmart store in Canada, excluding Quebec, or by completing the online application and mailing it in to Walmart Canada Bank.

2. When will I receive my card in the mail?

You will receive your Walmart MasterCard card in the mail within 2-4 weeks from the time you applied.

3. How do I get a PIN?

You will automatically receive your assigned PIN in the mail a few days before your card arrives. You will be prompted to personalize your PIN upon activation. You can also change your PIN at any time by calling customer service at 1.888.331.6133.

4. What do I do if I forget my PIN?

Simply call customer service at 1.888.331.6133 and a new PIN will be sent to you through the mail.

5. Can I manage my account online?

Yes. Simply click on the Manage Your Account button at the top of the page to sign up and follow the instructions.

6. How do I change my address?

You can change your address through Manage Your Account or by calling customer service at 1.888.331.6133 and updating your account.

7. How does the Pre-Authorized Payment Plan work?

The Pre-Authorized Payment Plan is available to help protect your credit rating by ensuring your monthly credit card payments are made on time. Simply fill out the Pre-Authorized Payment Plan form and mail to Walmart Canada Bank.

8. How do I make a payment to my Walmart MasterCard account?

Your Walmart MasterCard payment options are:

Print and complete the Pre-Authorized Payment Plan form or to request a form by mail call Customer Service toll-free at 1-888-331-6133 Monday to Saturday 8am to midnight EST and Sunday 10am to 9pm EST.

At any Walmart Canada Store with an Associate at any register.

By mail – please make your cheque or money order payable to Walmart Canada Bank and mail to Walmart Canada Bank, P.O. Box 187, Orangeville, ON, L9W 2Z6 (Please do not send cash in the mail).

Online and Telephone Banking may also be available depending on the financial institution you use.

In person at your bank or financial institution.

9. What should I do if my card gets lost or is stolen?

Call 1.888.925.6218 immediately within Canada and the US or call collect 647-436-1419 outside of Canada and the US. Both numbers are open 24/7.

10. How do I set up recurring bill payments on my Walmart MasterCard card?

Contact the company you wish to set up a recurring payment for and provide them with your Walmart MasterCard account details.

11. How do I sign up for Paperless statement?

Once you have enrolled in our online account management service, Manage Your Account, click on the "Go Paperless!" link to sign up for Paperless statements.

12. Can I get additional cards for my spouse/family members?

Yes, call customer service at 1.888.331.6133 to add or remove additional cards on your account.

Walmart Rewards

1. What are Walmart Rewards?

Walmart Rewards is the loyalty program associated with the Walmart MasterCard card. This program allows customers to earn rewards that can be redeemed for merchandise at Walmart Canada stores.

2. How do I earn Walmart Rewards?

You earn Walmart Rewards when you make purchases using your Walmart MasterCard card anywhere MasterCard is accepted worldwide. That's 1.25% of your purchases in Walmart Rewards for virtually every dollar spent at Walmart stores[3] in Canada and 1% of your purchases in Walmart Rewards when used virtually anywhere else MasterCard is accepted.

3. How do I get my $15 in bonus Walmart Rewards?

As a special promotional offer, bonus Walmart Rewards (a $15 value) will be awarded to your Walmart Rewards account within five business days of making two required qualifying purchases using your Walmart MasterCard: one purchase at a Walmart store in Canada and one purchase at another location anywhere MasterCard is accepted. Both purchases must be made within 30

4. How do I get the $10 in bonus° Walmart Rewards for going paperless?

The paperless bonus Walmart Rewards offer ($10 in value) will be awarded to your account within two statements after you sign up. Only one paperless bonus per account. This offer is also subject to the full Walmart Rewards Program Terms and Conditions. To sign up for paperless statements go to Manage Your Account and click on the "Go Paperless!" option.

5. How do I find out my Walmart Rewards balance?

Your Walmart Rewards balance is available on your monthly statement, online at Manage Your Account or in-store at the register.

6. How do I redeem Walmart Rewards?

Walmart Rewards can be redeemed instantly at the cash register in Walmart stores across Canada. You can start redeeming once you've earned a minimum of $5 and keep redeeming in $5 increments.

7. Does my Walmart Rewards expire?

Walmart Rewards do not have an expiry date, so you can save them up or use them right away*.

8. What happens to my Walmart Rewards when I return a product?

If Walmart Rewards were used to purchase an item and the item was then returned to Walmart at a later date, the rewards will be refunded to a gift card.

9. Who can redeem for Walmart Rewards?

Both the primary and secondary cardholder can redeem Walmart Rewards as long as the account has a minimum balance of $5 of Walmart Rewards.

Walmart
Canada Financial Services

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• Français

**Help prevent unauthorized use of your cards online.
Protect your cards with a personal SecureCode™ that you create, so that only you can use them online.**

The service is simple, secure and free of charge - sign up today!

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YOUR ACCOUNT

Card Number

SecureCode (remind me)

Login to Account Manager »

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MasterCard SecureCode puts you in control when shopping online: only you can approve purchases using your private SecureCode.

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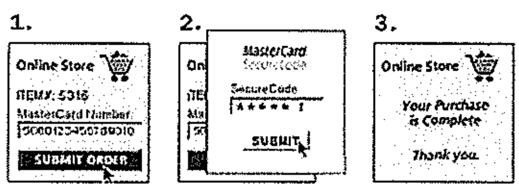

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This is Exhibit "F" referred to in the Witness Statement of BETTY K. DEVITA

Financial Post

RBC and Shoppers Drug Mart to offer new debit and loyalty card

Christine Dobby Jan 17, 2012 – 8:20 AM ET | Last Updated: Jan 17, 2012 2:39 PM ET

REUTERS/Chris Wattie

Think of all the free shampoo.

Well, it won't be free but earned, rather, with a new debit card Shoppers Drug Mart Corp. is launching with Royal Bank of Canada.

The two companies said Tuesday they will offer the co-branded RBC Shoppers Optimum banking account and debit card beginning March 17, giving customers the ability to earn extra Shoppers Optimum reward points with their debit cards.

Along with a $10.95 monthly account fee and unlimited debit transactions, the companies said the program will allow customers to earn Shoppers Optimum points when making purchases at Shoppers Drug Mart/Pharmaprix drug store locations as well as other retail outlets.

The points are part of Shoppers Drug Mart's rewards program and can be redeemed for products in the company's drug stores.

As part of the drug store chain's foray into financial services, Shoppers said it plans to roll out more than 300 new RBC ATMs in Shoppers Drug Mart/Pharmaprix locations. Cardholders can earn one Shoppers Optimum point for every $1 spent outside Shoppers Drug Mart using the RBC Shoppers Optimum banking account.

"This is the first step in a new alliance that will make banking more convenient by expanding beyond our branches and providing Canadians with enhanced reward options on everyday spending," said Dave McKay, group head of Canadian banking at RBC.

Domenic Pilla, president and CEO of Shoppers Drug Mart, said the new initiative will allow the drug store chain to "expand upon our current financial services offering, providing our customers with even greater convenience and enhanced rewards."

This marks the second financial product launched by Shoppers Optimum in concert with a bank partner.
The retailer debuted a credit card, Shoppers Optimum MasterCard, close to three years ago with MBNA Canada Bank, now known as BofA Canada Bank. Credit card holders earn five Shoppers Optimum Points for every $1 they spend.

Posted in: Retail Tags: Banking, Financial Services, RBC, Royal Bank Of Canada, Shoppers Drug Mart Corp.

CHRISTINE DOBBY
cdobby@nationalpost.com

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RBC, Shoppers Drug Mart launch debit card that earns points

By Dana Flavelle | Tue Jan 17 2012

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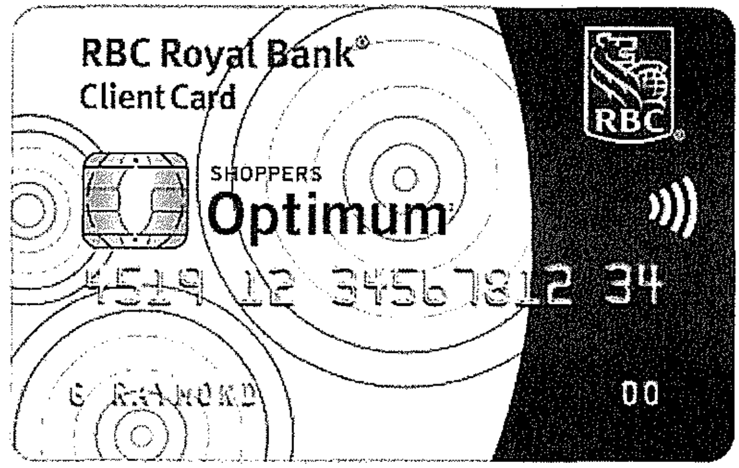
A leading Canadian bank and one of the country's most popular loyalty programs have joined forces to offer consumers more ways to earn points on a new co-branded debit card.

Royal Bank of Canada and Shoppers Drug Mart Corp. jointly announced Tuesday they're launching the RBC Shoppers Optimum card, effective March 17.

Cardholders can earn twice as many Optimum points every time they make a purchase at a Shoppers Drug Mart store (or a Pharmaprix in Quebec) and also earn points on purchases made at other retailers.



New RBC Shoppers Optimum Banking Account - Debit Card.

Handout/RBC

"Together, we are advancing the banking and retail experience by making financial products and everyday banking more accessible," said Dave McKay, group head, Canadian Banking RBC.

The move, which will see Shoppers install RBC bank machines in 300 of its 1,200 stores across the country, will give the bank a stronger presence in Ontario and Eastern Canada, McKay said in a telephone interview Tuesday.

Noting that 85 per cent of Shoppers customers are not customers of RBC, McKay said the bank plans to put its salespeople in Shoppers' stores to help promote the product and eventually sell them on other financial services, from mortgages to insurance.

"It's a unique opportunity from a geographic perspective and a client acquisition perspective," McKay said.

The move is the latest example of innovative ways Canada's banks are competing to secure new chequing account customers, industry experts observed. The banks are also sprucing up their branches, extending their hours on weekends, and improving customer service.

"About 15 to 20 years ago you did almost everything with your local bank," said David McVay, a principal in McVay and Associates, a Toronto-based financial services consulting firm. "Today, it's easy to split your relationship between one bank for your chequing account, another one for your mortgage and another for your RRSPs.

"The consumer is more fragmented than they used to be," McVay said.

The move comes three months after BMO Bank of Montreal launched a co-branded debit card with Sobeys, the country's second largest supermarket chain.

However, the two programs differ on several key points.

The BMO Club Sobeys card is a discount banking product, more like those offered by ING or PC financial, featuring a no-fee chequing account and high-interest savings account.

In comparison, the RBC Shoppers Optimum card will be a "full-service" product, comparable to the bank's "no-limit" chequing account, which comes with a monthly fee of $10.95 but includes unlimited debit transactions.

RBC and Shoppers say they plan to back up the program with extensive marketing, including salespeople in the stores.

The companies say they also plan to jointly offer additional banking and insurance products. No specifics were announced.

"Aligning with RBC allows us to expand upon our current financial services officer, providing our customers with even greater convenience and enhanced rewards," Shoppers' president and chief executive officer, Dominic Pilla, said in a statement.

The retailer offers a co-branded Optimum credit card with MasterCard.

Members of Shoppers' Optimum loyalty program currently earn 10 points for every $1 spent in the store. With an RBC Optimum card, they'll earn an additional 10 points in Shoppers and a single point for every $1 spent at other locations.

As well, holders of other RBC loyalty cards, such as its Visa Avion brand credit card, will be able to transfer those points to the Optimum program if they wish, using them to buy cosmetics or groceries or other drugstore merchandise instead of travel.

More on: Smart Spending

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Surprise Surprise....

Two gouging behemoths of the Canadian Business scene get together to doubly screw around the Canadian public. Has anyone gone to Shoppers

UrbanCouple
Jan 18, 2012 6:07 PM

recently to buy anything that isn't priced 25% more then anywhere else? Spare me the frills RBC and start paying real interest on money saved.

0 Agree | 0 Disagree | Alert a moderator

guidobuschwald
Jan 18, 2012 6:07 PM

Its RBC No Limit Banking®

Its step back by greedy rbc, this sdm/rbc account is just another way of ripping of customers by rbc. while bmo/sobeys & cibc/pc give free chequing accounts wonder who is foolish enough to sign up sdm/rbc $10.95 for chequing account while sobeys bmo or ING provide fair free service.

0 Agree | 0 Disagree | Alert a moderator

3Monkeys
Jan 18, 2012 11:35 AM

I love points but I'm not willing to pay for them. I am an RBC customer but I wouldn't upgrade my account to gain the extra points. I know nothing comes free, but I wish things like this had 2 options: one, you pay a higher monthly fee and get more points, and a second where you don't earn as many points but don't have to change your banking plan.

0 Agree | 0 Disagree | Alert a moderator

acbr
Jan 17, 2012 12:15 PM

Carrot on a stick

Not enough for RBC to get my business back.

2 Agree | 0 Disagree | Alert a moderator

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By Krystal Yee

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By sherylsmolkin

Scotia launches NHL rewards credit card

30-Something
By Robb Engen

When a friend or family member asks to borrow money, it can be difficult to say no.

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What to do about cheapskate sister?

Our Money Manners feature takes a look at what to do when a freeloading sibling pushes you a bit too far.

More Money Manners

Should I lend my son $50,000 for a home down payment? These bills are unfairly shared. What to do? Should an inheritance be shared equally?

Fame & Fortune: Famous people and their finances

Jian Ghomeshi's lessons from his frugal parents

Our Fame & Fortune series continues with broadcaster Jian Ghomeshi who learned a lot by delivering newspapers.

More Fame & Fortune

Music festival founder says follow your dreams Why architect Jack Diamond likes Dickens' money advice Why architect Jack Diamond follows Dickens' advice on money

This is Exhibit "G" referred to in the Witness Statement of BETTY K. DEVITA

CFIB
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Credit Card Merchant Fee Fighter Kit

As you know, credit card merchant fees consume a considerable amount of each sale and serve to lower overall business income. The introduction of new premium credit cards has caused merchant fees (often called "non-qualified" transaction fees) to rise even further. Certain premium cards are easily recognized (such as Visa Infinite) while others are hard to spot (such as certain MasterCards which have higher fees after a consumer spends a certain amount). Some corporate cards also carry higher fees.

CFIB has created a Code of Conduct for the credit and debit card industry which was largely endorsed by the Federal Government and has since been adopted by all industry players. We believe the Code will help improve transparency and give merchants more power with credit card companies, banks and card processors. Most importantly, the Code will protect Canada's very low-cost Interac debit system by putting some ground rules in place for any attempts from Visa and MasterCard to get into debit.

Some members have had success in reducing their credit card merchant fees by informing their customers of the rising costs and encouraging them to use lower cost cards, like Interac debit cards. In fact, one restaurant member successfully switched his transactions from 60% credit card to 60% debit card by providing simple information to his customers at the time of payment. This move saved his firm thousands of dollars each year. His experience was that the vast majority of consumers were unaware that merchants pay the entire cost of accepting credit cards and, once they were aware, most were more than happy to pay with Interac.

The Code of Conduct does not allow firms to surcharge for accepting credit cards or to refuse to accept certain types of credit cards, if they accept the card brand itself (e.g. a merchant cannot refuse a Visa Infinite card if he/she accepts regular Visa cards). However, the Code does allow businesses to discount their products if a customer pays with Interac or cash. In addition, merchants are free to encourage customers to pay with lower cost payment methods. CFIB believes that the best way to ensure the credit card companies do not increase merchant fees even further is for merchants to use their own power to promote the benefits of paying with Interac or cash.

While this approach may not be possible in all firms, if you believe your firm would benefit from encouraging customers to pay with cash or Interac, CFIB has prepared small information posters for you to display at your cash register or to inspire you to create your own. As different firms may prefer to encourage customers to pay with cash, debit or both, we have provided several options. We have also provided various sizes that can be cut out and laminated before display.

More information and additional copies of this piece are available on CFIB's special credit-debit website (**www.cfib.ca/credit-debit**). This website also contains an explanation of the size and scope of the credit card cost challenge facing merchants to which you can refer your customers or staff.

Canada's Code of Conduct for the credit and debit card industry is unique in the world and provides merchants with some new powers in their dealings with credit card companies and banks. Working to promote the benefits of paying with lower cost options like Interac or cash can help small businesses save money and fight back against rising credit card merchant fees.

CFIB
CANADIAN FEDERATION OF INDEPENDENT BUSINESS

Would you consider paying by cash or Interac?

Most Canadians are unaware that small businesses pay huge fees to the banks and credit card companies to process credit card transactions. Paying with cash or by Interac helps independent firms keep prices down for us all.

To learn more, visit **www.cfib.ca/credit-debit**

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This is Exhibit "H" referred to in the Witness Statement of BETTY K. DEVITA

ARCHIVED - CODE OF CONDUCT FOR THE CREDIT AND DEBIT CARD INDUSTRY IN CANADA

PURPOSE

The purpose of the Code is to demonstrate the industry's commitment to:

1. Ensuring that merchants are fully aware of the costs associated with accepting credit and debit card payments thereby allowing merchants to reasonably forecast their monthly costs related to accepting such payments.
2. Providing merchants with increased pricing flexibility to encourage consumers to choose the lowest-cost payment option.
3. Allowing merchants to freely choose which payment options they will accept.

SCOPE

The Code applies to credit and debit card networks, (referred to herein as payment card networks), and their participants (e.g. card issuers and acquirers[1]).

The payment card networks that choose to adopt the Code will abide by the policies outlined below and ensure compliance by their participants. The Code of Conduct will be incorporated, in its entirety, into the payment card networks' contracts, governing rules and regulations.

The Code will apply within 90 days of being adopted by the card networks and their participants. Networks and acquirers will have up to nine months to implement Element 1. Issuers will have up to one year to re-issue cards already in circulation that contravene Element 6 or 7.

REQUIREMENTS FOR PAYMENT CARD NETWORKS

By adopting the Code, payment card networks agree to provide any requested information regarding actions taken by themselves or participants to the Financial Consumer Agency of Canada, for the purpose of monitoring compliance with the Code. In addition, payment card networks agree to pay for the fees associated with monitoring compliance with the Code, as determined by the Financial Consumer Agency of Canada.

POLICY ELEMENTS

1. Increased Transparency and Disclosure by Payment Card Networks and Acquirers to Merchants

The payment card networks and their participants will work with merchants, either directly or through merchant associations, to ensure that merchant – acquirer agreements and monthly statements include a sufficient level of detail and are easy to understand. Payment card networks will make all applicable interchange rates easily available on their websites. In addition, payment card networks will post any upcoming changes to these fees once they have been provided to acquirers.

Payment card network rules will ensure that merchant statements include the following information:

- Effective merchant discount rate[2] for each type of payment card from a payment card network;
- Interchange rates and, if applicable, all other rates charged to the merchants by the acquirer;
- The number and volume of transactions for each type of payment transaction;
- The total amount of fees applicable to each rate; and,
- Details of each fee and to which payment card network they relate.

This information must be presented in a manner that is clear, simple and not misleading.

2. Payment card network rules will ensure that merchants will receive a minimum of 90 days notice of any fee increases or the introduction of a new fee related to any credit or debit card transactions. Payment card networks will provide at least 90 days notice to acquirers for rate and / or fee changes and at least 180 days notice for structural changes[3].

Notification is not required for fee changes made in accordance with pre-determined fee schedules, such as those based on merchant sales volume, provided that the schedules are included in the merchant's contract.

3. Payment card network rules will ensure that following notification of a fee increase or the introduction of a new fee, merchants will be allowed to cancel their contracts without penalty.

By signing a contract with an acquirer, a merchant will have the right to cost certainty over the course of their contract. As a result, in the event of a fee increase or the introduction of a new fee, merchants will be allowed to opt out of their contracts, without facing any form of penalty, within 90 days of receiving notice of the fee increase or the introduction of a new fee.

Merchants may not cancel their contracts in relation to fee increases made in accordance with pre-determined fee schedules, such as those based on merchant sales volume, provided that the schedules are included in the merchant's contract.

4. Payment card network rules will ensure that merchants who accept credit card payments from a particular network will not be obligated to accept debit card payments from that same payment card network, and vice versa.

Payment card networks will not require merchants to accept both credit and debit payments from their payment card network. A merchant can choose to accept only credit or debit payments from a network without having to accept both.

5. Payment card network rules will ensure that merchants will be allowed to provide discounts for different methods of payment (e.g. cash, debit card, credit card). Merchants will also be allowed to provide differential discounts among different payment card networks.

Discounts will be allowed for any payment method. As well, differential discounting will be permitted between payment card networks.

Any discounts must be clearly marked at the point-of-sale.

6. Competing domestic applications from different networks shall not be offered on the same debit card. However, non-competing complementary domestic applications from different networks may exist on the same debit card.

A debit card may contain multiple applications, such as PIN-based and contactless. A card may not have applications from more than one network to process each type of domestic transaction, such as point-of-sale, Internet, telephone, etc. This limitation does not apply to ABM or international transactions.

7. Payment card networks will ensure that co-badged debit cards are equally branded.

Payment card network rules shall ensure that the payment networks available on payment cards will be clearly indicated. Payment card networks will not include rules that require that issuers give preferential branding to their brand over others. To ensure equal branding, brand logos must be the same size, located on the same side of the card and both brand logos must be either in colour or black and white.

8. Payment card network rules will ensure that debit and credit card functions shall not co-reside on the same payment card.

Debit and credit cards have very distinct characteristics, such as providing access to a deposit account or a credit card account. These accounts have specific provisions and fees attached to them. Given the specific features associated with debit and credit cards, and their corresponding accounts, such cards shall be issued as separate payment cards. Consumer confusion would be minimized by not allowing debit and credit card functions to co-reside on the same payment card.

9. Payment card network rules will require that premium credit and debit cards may only be given to consumers who apply for or consent to such cards. In addition, premium payment cards shall only be given to a well-defined class of cardholders based on individual spending and/or income thresholds and not on the average of an issuer's portfolio.

Premium payment cards have a higher than average interchange rate. They must be targeted at individuals who meet specific spending and/or income levels.

10. Payment card network rules will ensure that negative option acceptance is not allowed.

If payment card networks introduce new products or services, merchants shall not be obligated to accept those new products or services. Merchants must provide their express consent to accept the new products or services.

---

[1] "Acquirers" are entities that enable merchants to accept payments by credit or debit card, by providing merchants with access to a payment card network for the transmission or processing of payments.

[2] The effective merchant discount rate is calculated as the total fees paid by the merchant to an acquirer, related to the processing of a specific type of payment card from a payment card network, divided by the total sales volume for that type of payment card.

[3] Structural changes are significant changes to the fee structure for a payment card network. This includes the introduction of new types of interchange or other fees, a change to the interchange rate structure or the introduction of a new type of credit or debit card.

Date Modified: 2010-05-18

This is Exhibit "I" referred to in the Witness Statement of BETTY K. DEVITA

Task Force for the
Payments System Review

Credit and Debit Card Markets

TABLE OF CONTENTS

Foreword

Credit and debit cards are an important part of Canada's payments system. Canadians are among the world's heaviest users of card-based payments, and for good reason: they are widely accepted, generally offer better protection than cash or cheques, and allow users to purchase high-priced goods without having to carry large sums of money.

Our mandate directs us to consider whether consumers and merchants are well served by the payments system. Accordingly, the Task Force has undertaken a review of the credit and debit card markets in Canada. The work on credit and debit cards was substantial, in part because of the keen interest of stakeholders, and readily available international examples, where government action on public policy challenges in credit and debit card markets has taken numerous forms.

The Task Force has been unrelenting in its efforts to consult with as many stakeholders as possible, including hundreds of meetings and a nationwide series of roundtable discussions in Halifax, Montreal, Toronto, Winnipeg, Calgary and Vancouver to develop our appreciation of users' needs in this particular payments space.

Our research included both academic sources and in-person interviews with officials from Australia, New Zealand, the United Kingdom and the United States. We met with credit and debit card companies, issuers, acquirers, and merchant and consumer groups until we were confident we had come to understand this complex environment. We also used lessons learned in the credit card and debit space, where governance issues are manifest, to work through the practical implications of the Task Force's governance recommendations, detailed in our Policy Papers.

Our recommendations on credit and debit cards are founded in our belief that prescriptive regulation in this market would not be effective. Given the rapid change in retail payments, we believe that market forces will be much more effective controls. Prescriptive regulation in this environment would only stifle innovation and delay Canada's transition to the digital economy.

At the same time, we believe that card networks, issuers and merchant acquirers do require the structure and parameters afforded through mechanisms like voluntary codes, so that the concerns of users can be heard and effectively addressed. We also see a role for public authorities to review developments in this market and to help guide the collective decisions of stakeholders to ensure the credit and debit card market evolves broadly in line with the public interest. In the absence of prescriptive regulation, public oversight is essential.

Though robust unto itself, the *Report on Credit and Debit Card Markets* is one of a series of papers that respond to our Mandate. We encourage readers to consult both the Policy Papers and *Going Digital: Transitioning to Digital Payments* so that credit and debit card issues can be situated within the context of the broader payments system and our full response to the Minister of Finance.

Sincerely,

Pat Meredith, Chair
Task Force for the Payments System Review

Summary and Recommendations

Canadians are among the heaviest users of credit and debit cards in the world. Credit and debit cards are widely used and accepted in Canada for retail payments and their usage has continued to grow.

Retail electronic debit and credit card services benefit two parties: merchants and consumers. Consumers enjoy payment choice and the ability to buy goods instantly through debit cards or credit lines. In accepting card payments, merchants benefit from faster guaranteed payments as compared to cheques, as well as lower cash handling costs, and appreciate that customers can conveniently purchase high-priced articles without the merchant having to extend credit directly to them. Since credit and debit cards generally offer better protection from fraud and theft than do cash or cheques, both parties enjoy safer payment transactions.

For consumers, using credit cards with deferred payment and rewards for purchases is attractive. Merchants, however, contend that a significant portion of the cost of consumer benefits is borne by them in the form of interchange fees; the more "premium" the card, the higher the fee. In 2008, both Visa and MasterCard made significant changes to the interchange fee formulae and introduced premium cards that carry higher interchange fees. As well, the introduction of new technology and standards has added costs for merchants, especially those that don't rent but own their point of sale equipment. Chip and Personal Identification Number (chip & PIN) technology, which uses embedded microchips in the card to enhance authentication and reduce fraud, required merchants to make expensive system changes. In addition, merchants have had to invest time and money to comply with the Payment Card Industry Data Security Standard (PCI DSS) to improve payment account data security.

Debit cards are preferred by merchants because of their much lower merchant costs compared to credit cards. Merchants are concerned that the entry of Visa and MasterCard into the Canadian point of sale debit card market currently monopolized by Interac Debit would inevitably lead to higher merchant fees. The operator of Interac Debit, the Interac Association, is required to operate on a cost recovery basis and does not have an interchange fee. Consumers, as opposed to merchants, are directly paying for most of the cost of the debit card payment system through their banking fees. The lower relative cost of credit cards for Canadian cardholders (including credit card rewards programs) is one influencing factor in consumers recently increasing their use of credit cards as compared to debit cards.

The payments industry is dynamic, and technology changes rapidly. Governments are hamstrung by their inability to move rapidly, having in general only ad hoc and reactive tools at their disposal. In the time it takes to enact a new rule or code, the technology or payment behaviour it is meant to address may have already evolved, leading to waste and inefficiencies.

Recent examples have greatly informed this conclusion. Consider the *Code of Conduct for the Credit and Debit Card Industry in Canada*: many stakeholders have told us that it has had a positive effect, providing merchants with more power in their relationship with networks, issuers and acquirers. It is also improving transparency, disclosure and choice for merchants and has helped merchants resolve disputes in their favour. These are encouraging developments.

But as soon as the Code was rolled out, it was overtaken by the ongoing change in the credit and debit card market. The Code is virtually silent on new payment forms like mobile, and provides no guidelines whatsoever for mobile wallets – a product already entering the market. Simply put, prescriptive regulation is ill-suited to dynamically changing markets.

We believe markets should be allowed to operate with as much flexibility as possible so long as merchants and consumers have the ability to make informed choices, and the public interest is served through an oversight body that can monitor industry practices and developments in the market. In this way, Canadians will benefit from innovation and competition. Drawing on the private sector's ability to adapt and respond quickly, an association of payment industry participants, both users and suppliers, should be given the opportunity to set rules and voluntary codes – including codes of conduct – collaboratively. As the payments industry would be keen to avoid government intervention, they should have an incentive to create codes that comply with the public policy objectives of government.

The regulation of credit card interchange fees is problematic and can have unintended adverse consequences. The process of setting or capping interchange fees is administratively complex and difficult to get right. In practice, it is difficult to identify the optimal level of interchange fees. The regulated payment card networks would also be vulnerable to issuer migration to unregulated networks such as AMEX, which does not have an 'interchange fee' (but does charge merchant service fees). Given the complexity of the credit card market, there would also be unintended consequences on competition, innovation and consumers.

The Task Force has a number of recommendations regarding credit and debit card markets, which tie into our recommended governance model for the payments system, presented in the Policy Papers. While our recommendations specific to Interac can also be found in Policy Paper D, we recommend in this paper that:

I. **The Public Oversight Board (POB) in the recommended governance model closely monitor developments in the credit and debit card markets so that the government can take timely action, if necessary, to ensure that the market operates efficiently and innovation is fostered.**

II. **The Self-Governing Organization (SGO) in the proposed governance model, which would include all participants in this market (including consumers and merchants), be given the opportunity to set rules and voluntary codes – including codes of conduct – collaboratively for retail payment networks, including credit and debit card networks.**

III. **The *Code of Conduct for the Credit and Debit Card Industry in Canada* be reviewed (say, every two years) and updated on a regular basis to take into account new policy issues and emerging payment technological changes.**

We also see a role for legislation – but its function would be in defining the payments industry and its governance model, including credit card and debit card markets. And we see a role for principles to guide the decisions and actions of public and private sector actors. We need to shift our regulatory mind-set away from prescriptive, reactive solutions towards one that is more risk-based, flexible and collaborative.

Chapter 1
Importance of Credit and Debit Cards

Credit and debit cards are widely used and accepted in Canada for retail payments and their usage has continued to grow. Canadians are among the heaviest users of credit and debit cards in the world.

Canadians currently hold about 75 million general purpose, Visa, MasterCard and American Express credit cards and over 80% of Canadian households have at least one credit card. Canadians hold fewer debit cards, at about 22 million, but the number of debit card transactions outnumbered credit card transactions by a factor of almost 1.5 to 1 in 2009. In 2009, credit and debit cards accounted for approximately $289 billion and $171 billion respectively in net retail sales or 32% and 19% respectively of consumer spending in Canada.

According to the Bank for International Settlements (BIS), card payment transactions represented 68% of payment transactions (non-bank and non-cash volume) in Canada during 2009 – 28% credit card and 41% debit card. The Canadian credit card and debit card shares are the third and fourth largest shares respectively amongst reporting countries. However, in terms of the value of non-bank payment transactions, the credit card and debit card shares are small. In 2009, the credit card and debit card shares were 2.7% and 1.6% respectively compared to credit transfers[1] of 59% and cheques of 31%.

In the last five years (2004 to 2009), the use of both credit and debit cards has continued to increase but the use of credit cards has increased faster than debit cards. Credit card usage in terms of transaction value has increased more quickly at an average annual rate of 9.8% compared to 6.6% for debit card usage. The rate of credit card usage in Canada has increased faster than the average of the countries in the Bank for International Settlements (BIS) Committee on Payment and Settlement Systems (CPSS) but debit card usage has remained fairly constant.

A large majority of Canadians use credit cards as a charge card by paying off the balance in full each month and not as an instrument to access a revolving line of credit. A 2011 survey by The Strategic Counsel found that 64% of Canadians pay their credit card balance off in full every month.

Credit cards are used primarily to pay for retail purchases with an average transaction value of about $110. The average transaction value for debit card transactions is smaller at about $45.

1 Credit transfers are payment orders for the transfer of funds from the payer's bank account to the payee's bank account.

Chapter 2: Benefits and Costs of Credit Card Payments

Credit cards are relatively convenient and safe payment instruments for consumers that are widely accepted by merchants in a large number of countries around the world.

For consumers, the advantages of holding and using credit cards include:

- Convenience (no need to go to ATM or bank branch) and record keeping as compared to cash;
- Global acceptance – accepted in almost every country in the world;
- Interest-free payment from time of purchase to the payment due date for that billing period (an average of about 36 days);
- Access to unsecured credit (no collateral required against amounts charged);
- Fraud protection with, in many cases, zero liability to the consumer[2] when there is fraud; and
- Other rewards and benefits such as air travel points, cash back programs, travel insurance, rental car insurance, and extended warranty programs.

The big disadvantage for consumers is that one will be charged a relatively high rate of interest if the balance is not paid in full every month[3]. For premium cards, consumers have to pay an annual fee with the typical fee being around $100.

According to a preliminary study of the results of the Bank of Canada 2009 Method of Payment Survey of Canadian consumers, cash is used intensively for low value transactions owing to speed, merchant acceptance and low costs. On the other hand, debit and credit cards are used for higher transaction values because of their safety, record keeping, the possibility of delaying the payment and rewards.

A recent Ipsos Reid study[4] indicates that Canadian consumers who have at least one credit card for personal spending heavily favour debit and credit cards over cash. Results from the study show that about one-in-three cardholders (34%) say they are heavy debit card users, using it more than cash and credit cards combined. One-in-four (25%) use credit cards more than the other methods of payment combined. Only one-in-ten prefer to pay with cash. The remainder (28%) use a more even mix of methods for personal spending.

According to the study, heavy credit card users use credit cards twice as much as the average cardholder, both in terms of frequency and dollar value. They tend to replace the debit card with the credit card, using it for a greater variety of purchases, including grocery shopping and small purchases – categories that are traditionally associated with cash and debit.

For merchants, the advantages of accepting credit cards include:

- Faster guaranteed payment as compared to cheques;
- Reduced time to complete a payment at the point of sale as compared to cheques and perhaps cash;
- Eliminating cash handling, counterfeit and deposit costs;
- Reduced security risks related to handling cash and losses from robbery and employee theft; and
- Elimination of need to extend credit directly to customers to increase sales.

Credit cards are a relatively expensive payment instrument for merchants. According to findings from the Bank of Canada 2006 National Merchant Survey[5], debit cards are most preferred by merchants at 53%, followed by cash at 39% and credit card at only 5%. The findings suggest that cash is perceived to be cheaper than credit cards for all transaction values, and debit cards are cheaper than cash for transactions greater than $23.40 based on a debit card transaction fee of $0.12, the median amount paid by merchants in the survey. The average merchant fee for credit cards is 2% of the transaction value. The merchants who do not accept credit cards cited lack of consumer demand and cost as the main barriers.

According to an online survey of independent owners of small and medium enterprises (SMEs) conducted by the Canadian Federation of Independent Business (CFIB) in July 2011[6]:

- Cheques (at 35%) are the most preferred payment instrument by SME owners followed by debit cards (at 22%) and electronic transfers/pre-authorized payments (at 19%). Cash (at 17%) is more preferred than credit cards (at only 6%).
- The retail and hospitality sectors, which are more relevant to the credit and debit card discussion, prefer mostly debit (44%) and cash (36%) payments since those are of lower cost for businesses to process, while just over 5% prefer payments by credit cards.
- In terms of total value of sales, cheques accounted for the largest share at 46% followed by credit card at 22% and debit cards at 13%. On average, the retail and hospitality sectors experience the highest volume of transactions with the heaviest reliance on credit (35%), debit (27%), and cash (19%) transactions. Cheques (at 15%) are less relied upon by the retail and hospitality sectors.

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2 It should be noted that each card network has specific limitations on its zero liability policy, which in effect gives card issuers wide scope to determine the outcome of claims.

3 Lower interest rate cards are available to individuals with good credit ratings.

4 Ipsos Payment Methods Report, December 2010.

5 It is likely worth noting that this survey was completed before the widespread reform of credit card interchange fee structures, and the resulting complaints from the merchant stakeholder community.

6 Marvin Cruz, and Queenie Wong, *Changing the Way We Pay: Getting the Transition Right for SMEs*, Canadian Federation of Independent Business Research (October 2011).

Chapter 3: Features of Credit and Debit Card Markets

a) Operations of Card Networks

The ability to use credit cards and debit cards to purchase goods and services rests largely on a behind-the-scenes architecture of procedures, rules and technology that govern how funds and information are transferred between people and institutions in the process of settling accounts, i.e., of ensuring that merchants that sell goods and services get paid by the people who purchase them.

A payment card transaction involves some or all the following participants:

1. **Consumers or cardholders** that use payment cards to purchase goods and services;
2. **Issuers** that market and issue payment cards to consumers and set the terms and conditions for their use;
3. **Merchants** that accept payment cards for the purchase of goods and services;
4. **Acquirers** or payment processors that market card acceptance services to merchants, obtain transaction authorization, and clear and settle card transactions for the merchant; and
5. **Network operator** that oversees the system and coordinates the transmission of information and the transfer of funds between issuers and acquirers.

The number of participants involved in a payment card transaction varies depending on whether the consumer is using a card supported by a "three-party" or a "four-party" payment system. In a three-party payment system, the card company is at once network operator, card issuer and acquirer. It therefore deals directly with consumers and merchants, and sets all relevant terms and fees. American Express operates a three-party payment system in Canada. In a four-party payment system, the issuer is a financial institution that markets cards and sets fees and terms with consumers, while the acquirer sets and negotiates fees and terms with merchants. The network operator is the card company. Visa, MasterCard and Interac operate four-party payment systems. An illustration of a four-party system credit card transaction is provided in Appendix A.

Since the network operator's revenue depends on the value of transactions that flow through its network, it tries to ensure the widest possible acceptance among consumers and merchants. In order to increase use and acceptance, the networks use marketing techniques to gain brand recognition, create products that encourage consumer usage and merchant acceptance, and set fees and impose rules on system participants including:

- **Membership requirements** – Visa and MasterCard require issuers and acquirers to be regulated financial institutions or be sponsored by a regulated financial institution. Interac also requires issuers to be regulated financial institutions;
- **Interchange fees** – They are set by the network but are generally paid by acquirers to issuers and are usually reflected in the merchant service fee paid by merchants to acquirers. Interchange fees can be calculated either as a flat fee per transaction, as a percentage of the transaction value, or a combination of both;
- **Network switch fees** – These fees are charged to acquirers and/or issuers, and are set and collected by the network. They can be calculated either as a flat fee per transaction or as a percentage of the transaction value.
- Merchant acceptance rules include the following:
  - **no discrimination rules** which prohibit merchants from encouraging consumers to consider (or steering consumers toward) lower cost payment instruments;
  - **no surcharge rules** which prevent merchants from charging consumers a fee for the use of a credit card rather than some other credit card or method of payment;
  - **honour-all-cards rules** which require merchants that accept any of the network's credit cards to accept all of that network's credit cards (core, high spend and premium high spend in the case of MasterCard), regardless of the applicable interchange fee. The networks have also expanded this rule to include debit cards (i.e. if a merchant accepts one debit card, they must accept all of that network's debit cards).

It is also important to note that in four-party card networks, such as Visa and MasterCard, the card networks seek to maximize the transactions flowing through them by attracting more card issuers. The networks do this by offering the prospect of interchange income to issuers, thus creating an incentive to increase interchange as much as the market (i.e. the parties paying the interchange fees) will bear.

- One final feature of credit and debit card markets is that Interac members clear and settle their transactions through the Automated Clearing Settlement System and are therefore subject to the rules and standards of the Canadian Payments Association (CPA); Visa and MasterCard have their own proprietary clearing systems and are not subject to any formal rules or standards in Canada.

b) Economics of Card Networks

The demand for payment card services[7] is often described by economists as a "two-sided" market in that a payment card has value only if both the consumer and merchant agree to use it for a transaction. The network acts as a matchmaker between them.

Card transactions also create "network externalities," that is, a good or service's value increases with greater usage. Card payments become more valuable to consumers when more merchants accept them and more valuable to merchants when more consumers use them, yet each individual merchant and consumer considers only their own direct benefit when deciding to participate. This may lead to an inefficiently low number of transactions taking place. In cases where there are positive externalities, economic theory indicates that subsidies or transfers can be used to align private and social costs and benefits.

Interchange fees can be viewed as transfer payments used to increase the number of transactions. In theory, an efficient interchange fee can induce the socially optimal number of payment card transactions. In practice, however, it is difficult to identify the socially optimal level of interchange fees. US Federal Reserve Board staff in a 2009 paper noted some basic properties of socially optimal interchange fees:

- An efficient interchange fee is not solely related to the cost of producing a card-based transaction, nor is it zero.
- An efficient interchange fee may subsidize one side of the market at the expense of the other, even producing a negative price for one side of the market. For example, the revenues from interchange fees often are used to provide rewards programs for consumers.

According to the 2009[8] US Federal Reserve Board staff paper, it is an open question as to whether the private marketplace and competition will yield efficient interchange fees. The conclusions of the theoretical literature vary substantially. Although no findings are completely robust, most theoretical models suggest that, **when merchant prices do not vary by payment method:**

- Profit maximization does not, in general, lead a network to set an interchange fee at the efficient level.
- Privately set interchange fees can be either too high or too low relative to the efficient interchange fee.
- In most markets, an increase in the level of competition among firms generates downward pressure on prices; however, this is not necessarily true for interchange fees. In general, competition among payment networks is unlikely to exert downward pressure on interchange fees because the networks tend to focus their competitive efforts on getting their card to be the favoured card of a consumer. This objective is facilitated by having a higher interchange fee that can be used to fund more attractive terms (e.g., lower fees and higher rewards) for the consumer.

7 Note that we are referring to the market for services, not the other market that card networks compete in: that for issuers, which – as noted above – also affects incentives related to the setting of interchange fees. The dynamics at play here would likely benefit from more analysis.

8 Robin A. Prager, Mark D. Manuzak, Elizabeth K. Kiser, and Ron Borzekowski, *Interchange Fees and Payment Card Networks: Economics, Industry Developments, and Policy Issues* (May 13, 2009).

Chapter 4: Credit Card Networks

a) Networks

Visa and MasterCard have dominated Canada's credit card market and together account for about 92% of the value of general purpose credit card transactions in Canada. Visa had a 64% market share and MasterCard 28% in 2009 but more MasterCard cards are in circulation than Visa cards.

Their only competitor currently is American Express (AMEX) with an 8% share. It has been targeting such niche markets as upper income consumers and corporate and government accounts.

Both Visa and MasterCard started as associations of bank issuers but their operations in Canada are now subsidiaries of publicly traded companies.

In the case of Visa, an alliance of banks started to issue credit cards in Canada under the Chargex name in 1968 and then joined Visa in 1977. With the exception of western Europe, Visa was restructured in 2008 as a publicly traded company, Visa Inc. Visa Europe remains a membership association and is a licensee of, and owns a minority interest in, Visa Inc. Visa Canada is a subsidiary of Visa Inc.

MasterCard came to Canada in its first international expansion outside the US in 1973 but didn't open its first Canadian office until 1993. MasterCard Worldwide was originally a cooperative of the card issuing banks and became a publicly traded company in 2006. MasterCard Canada, incorporated in Delaware, is a subsidiary of MasterCard Worldwide.

AMEX Bank of Canada is the issuer and acquirer of AMEX cards in Canada and is a wholly owned subsidiary of the New York-based American Express Travel Related Services Company, Inc.

Visa and MasterCard receive network switch fees from both the issuers and acquirers based on the value of the transactions and they are obligated to indemnify issuers and acquirers for any settlement loss due to the failure of another issuer or acquirer to fund its daily settlement obligations.

Visa and MasterCard set the interchange fees but these fees are paid to issuers by acquirers. Since AMEX Bank of Canada is both the issuer and acquirer, there is no interchange fee or network switch fee for AMEX transactions, but merchants pay privately-negotiated ad valorem service fees on each transaction.

b) Issuers and Acquirers

Visa and MasterCard generally require issuers and acquirers to be, or be sponsored by, a regulated financial institution. The regulated financial institution is ultimately responsible to the network for the obligations of the sponsored institution.

With respect to the membership requirements for issuers, it does not appear to restrict competition. The Task Force has not heard any concerns from consumers regarding access to credit cards[9]. Visa has 10 financial institution issuers and MasterCard has 16. RBC Royal Bank and CIBC are issuers of both Visa and MasterCard credit cards.

In the last 10 years, the acquirer sector has transformed from internal divisions of banks to standalone business lines. In the early 2000s, a number of banks including CIBC and Scotiabank divested their acquirer operations to major US payments processors. RBC Royal Bank and BMO Bank of Montreal established Moneris Solutions as a joint venture. TD Canada Trust and Desjardins Group kept their acquirer operations.

The membership requirements for acquirers also do not appear to restrict entry and competition in the acquirer sector. Most of the major US payment processors now service Canadian merchants including Chase Paymentech, Global Payments, First Data, Elavon and Heartland Payment Systems through Collective Point of Sales Solutions. Smaller financial institutions such as Home Trust, operating through PSIGate, and Peoples Trust have become acquirers. Visa has agreed to Global Payments becoming an acquirer of record as a regulated loan company. Currently, eight acquirers are registered by both Visa and MasterCard and of the remaining two, one is listed by Visa only and the other by MasterCard only.

With the entry of US payment processors and smaller financial institutions into the acquirer sector, Independent Service Organizations (ISOs) that act as sales agents for acquirers and payment processors have emerged and become prevalent in Canada. At the end of March 2011, there were 69 merchant ISOs registered with Visa.

9 Consumer associations are more concerned with issuers making it too easy for consumers to get into debt.

c) Interchange Fees

In the spring of 2008, Visa made the first significant change to the interchange fee formulae in more than 30 years. It also introduced a new premium credit card, Visa Infinite, with higher interchange fees that provides more benefits to cardholders. Prior to April 2008, Visa had only two formulae: one for consumer cards and the other for commercial cards:

- Consumer: 1.75% minus $0.25, with a minimum fee of $0.10; and
- Commercial: 2.00% minus $0.15 with a minimum of $0.10.

In April 2008, Visa moved to 21 interchange formulae from two. There are now 24 formulae that vary from 1.00% to 2.00% based on:

- Sector of activity – emerging (1.00%), gasoline (1.21%), grocery (1.36%) and other (1.54%);
- High transaction volume – performance programs tier 1 (1.40%) & 2 (1.45%);
- Nature of the transaction – recurring (1.40%), in person (1.00% to 1.54%) and card not present (1.65%);
- Type of card used – standard (including classic, gold & platinum), and infinite (+0.20%); and
- Consumer or corporate (+0.35% to +0.60%).

TABLE E1: VISA CANADA CONSUMER CREDIT AND COMMERCIAL PRODUCTS INTERCHANGE REIMBURSEMENT FEES

	CONSUMER CREDIT CARDS		COMMERCIAL CREDIT CARDS
	Classic, Gold, Platinum	Infinite	Business Corporate Purchasing
Standard	1.65%	1.85%	2.00%
Electronic	1.54%	1.74%	1.90%
Performance Program – Tier One	1.40%	1.60%	1.80%
Performance Program – Tier Two	1.45%	1.65%	1.85%
Program – Gas Industry	1.21%	1.41%	1.80%
Program – Grocery	1.36%	1.56%	1.85%
Recurring Payments	1.40%	1.60%	1.85%
Cash Advance – Manual	$1.55 (payable from Issuer to Acquirer)		
Cash Advance – ATM	$0.75 (payable from Issuer to Acquirer)		

Similarly, in the fall of 2008, MasterCard made the first significant changes to its interchange fees in seven years. MasterCard moved from three formulae to 18 formulae ranging from 1.21% to 2.13%. It also introduced a new category of interchange fees, high spend, that applies to new premium cards and carries higher fees ranging from +0.20% to +0.41%. In some cases, standard or core cards (gold and platinum) were reclassified by issuers to high spend without the issuance of new cards. Even today, merchants cannot differentiate a core MasterCard from a high spend MasterCard.

In March 2010, MasterCard introduced another new category of interchange fee for a new type of credit card, World and World Elite, called premium high spend, that carries higher interchange fees than MasterCard high spend and Visa infinite. As a result, MasterCard moved from 18 formulae to 30 formulae with fees ranging from 1.21% to 2.65%.

TABLE E2: MASTERCARD CANADA CONSUMER AND COMMERCIAL INTERCHANGE RATES

	CONSUMER			COMMERCIAL	
	Core	High Spend	Premium High Spend	Core	Premium High Spend
Merchants with Annual MasterCard dollar volume in Canada in Excess of $1 billion	1.40%	1.60%	2.00%	2.00%	2.00%
Merchants with annual MasterCard dollar volume in excess of $400 million	1.45%	1.65%	2.00%	2.00%	2.00%
Petroleum merchants with annual MasterCard dollar volume in Canada in excess of $400 million	1.21%	1.41%	2.00%	2.00%	2.00%
Supermarket merchants with annual MasterCard dollar volume in Canada in excess of $400 million	1.36%	1.56%	2.00%	2.00%	2.00%
All other electronically-captured MasterCard card present transactions	1.59%	2.00%	2.25%	2.00%	2.25%
All other MasterCard transactions	1.72%	2.13%	2.65%	2.00%	2.65%

TABLE E3: COMPARISON OF PREMIUM VISA AND MASTERCARD INTERCHANGE FEES

	VISA INFINITE	MASTERCARD WORLD/WORLD ELITE	DIFFERENCE
Electronic Card Present	1.74%	2.25%	0.51%
Card Not Present	1.85%	2.65%	0.80%

At the point of sale, merchants are able to identify the Visa Infinite and MasterCard World and World Elite cards but not the MasterCard high spend cards.

A few very large merchants have recently been able to negotiate lower interchange fees with Visa and MasterCard. It appears that the networks are using higher interchange fees to compete for active cardholders and increase their market share. Higher interchange fees would provide more fees for issuers and motivate them to encourage active cardholders to switch their credit cards for ones with a higher interchange fee.

There has not been a significant increase in the average interchange fee according to Visa, but the impact on merchants has varied widely. For a Visa consumer credit card transaction of $100:

- Prior to April 2008: $1.50;
- Today: ranges from $1.00 (e.g. utilities) to $1.54 (e.g. restaurants) but higher for card not present ($1.65) and use of Visa Infinite (+$0.20).

For a Visa business or commercial credit card transaction of $100:

- Prior to April 2008: $1.85;
- Today: ranges from $1.80 to $1.90 but higher for card not present ($2.00).

The change in interchange fee formulae in 2008 took place against the backdrop of a number of other developments including:

- Premium credit cards with higher interchange fees were introduced at the same time – Visa Infinite and MasterCard high spend in 2008 and MasterCard premium high spend later in 2010;
- Merchants were concerned that high debit card fees were coming to Canada when MasterCard processed its first-ever Maestro debit card transaction in Canada as part of a pilot project and Visa published fees for debit cards that were effective May 28, 2009.
  - In addition, Interac had applied to the Competition Bureau in early 2009 to convert from a non profit association to a for-profit organization. Critics were concerned that Interac as a for-profit corporation would charge higher fees and be vulnerable to takeover by the international credit card networks. However, the Bureau declined to consent to Interac's application in February 2010;
- Merchants were required to invest in new point of sale equipment and training to accommodate the new chip & PIN cards;
- Merchants were required to meet new Payment Card Industry Data Security Standards;
- Regulatory and legal scrutiny of the pricing and terms governing credit card and debit card use was taking place in a number of developed and developing countries;
- Acquirers are now required to pay a network switch fee or assessment fee of 0.06% plus HST to Visa and 0.062% plus HST to MasterCard. Prior to 2008, all network fees were paid by issuers; and
- There are strong indications that acquirers used the changes in interchange fee formulae to increase their own transaction fees especially to small merchants.

Compared to other countries, interchange fees in Canada are high but they are generally lower than those in the US, Mexico and South American countries.

TABLE E4: VISA CONSUMER CREDIT CARD DEFAULT INTERCHANGE FEES – JUNE 2011

	ELECTRONIC STANDARD CARD	ELECTRONIC PREMIUM CARD	RANGE
Canada	1.54%	1.74%	1.00% to 1.85%
US	1.54% + $0.10	2.10% + $0.10	US$0.75 and 1.15% + $0.05 to 2.95% + $0.10
EC	0.50%	0.50%	0.50% to 0.75%
UK	0.77%	0.77%	0.65% to 1.30%
Australia	0.44%	1.87%	0%[10] to 1.87%

The interchange fee formulae for cross border transactions involving the use of a credit card issued by a foreign financial institution to purchase goods and services in Canada are different from the domestic interchange fee formulae discussed above in this section.

10 In Australia the rate is zero for registered charities.

d) Merchant Service Fees

Fees paid by merchants to acquirers for credit card acceptance are commonly called the merchant discount rate or merchant service fees (MSFs). The MSF can be calculated either as a flat fee per transaction, as a percentage of the transaction value, or a combination of both of them and is the sum of the following:

- Interchange fees paid by acquirers to issuers – could account for over 90% of a large merchant's MSF;
- Network switch fees paid to the card networks – Visa: 0.06% of the transaction value plus HST and MasterCard: 0.062% plus HST;
- Transaction fees retained by the acquirer – the acquirer spread – range from $0.04 per transaction for a large merchant to over 1.0% of the transaction value for a small merchant; and
- Monthly fees to the acquirer for equipment rental and administration for example, $17.00 per pin pad, $30 per terminal and $7.00 administration fee.

Fees paid by merchants to acquirers can be calculated in a number of ways, including:

- For large merchants that own their point of sale equipment: interchange fee, network switch fee and a flat fee per transaction (cost plus contract);
- For small merchants: a rate for standard (qualified) transactions, network switch fee and additional fees for non-qualified transactions such as Visa Infinite, MasterCard High Spend and Premium High Spend as well as card not present (tiered pricing); and
- For very small merchants, a single rate based on transaction value and a flat fee per transaction.

On the basis of information provided to the Task Force by merchants, we found that the average MSF for a few large merchants declined slightly over the period 2007 to 2010 and the average MSF for smaller merchants increased by as much as 40% over the same period. There are also strong indications that acquirers took advantage of the changes in the interchange fee formulae to increase their transaction fees, especially to small merchants who were subject to tiered pricing from the application of higher acquirer spreads on premium card transactions.

Numerous merchant associations have negotiated special MSFs with acquirers for their members including the Canadian Federation of Independent Businesses, Retail Council of Canada, Canadian Chamber of Commerce, Canadian Restaurant and Foodservices Association and Atlantic Provinces Chambers of Commerce.

Since the introduction of the Code of Conduct, we have found that acquirers and Independent Service Organizations (ISOs) are posting more information on their websites regarding MSFs. Also, Canadian merchants can shop for MSFs, with no obligations, on the internet using FeeFighters.com.

Chapter 5: Debit Card Networks

a) Brief History of Interac

The only debit card network in Canada for point of sale purchases today is Interac Debit operated by the Interac Association.

Interac is a payment system that is operated by two entities, Interac Association, an unincorporated not-for-profit association and Acxsys, a for-profit organization, while a third entity, Interac Inc., owns the Interac trademarks.

In 1984, five major Visa-issuing financial institutions formed a cooperative venture to link together their automated banking machine (ABM) networks[11], marking the beginning of the Interac Association. By the end of 1985, the four largest MasterCard-issuing financial institutions had also joined the association. In the early 1990s, Interac launched the Interac Debit as a pilot project, allowing customers to use their bank or convenience card for point-of-sale purchases. By 1994, Interac Debit was available nationwide.

The Competition Bureau began its examination of the Interac Association and Interac Inc. in 1990 followed by an inquiry in July 1992 into allegations that Interac engaged in three broad categories of anticompetitive acts; namely, restricting access to the network, creating barriers to product innovation, and controlling access and service pricing. In 1996, after an extensive public hearing, the Competition Tribunal approved a Consent Order[12] that is in force today with only minor changes. Among other things, the Consent Order:

- Expanded the list of eligible Interac Association members. The Consent Order amended the bylaws to allow any commercial entity to become a member, provided it was capable of providing services related to Interac's debit networks except for card issuing activities. Effectively, Interac's membership has been expanded from 27 at the time of the Consent Order to 58 at present. A card issuer has to be a regulated financial institution as of 2002.
- Implemented a new governance structure for the Interac Association. Prior to the Consent Order, only the charter members, the large financial institutions that are directly connected to Interac's network, could vote on any matters of significance. The Consent Order imposed measures to transfer some decision making power from charter members to other Interac members. It established a board with no fewer than 14 members, with a minimum of two appointed by non-financial institutions that are directly connected to Interac's network and three by members that are not directly connected. Fundamental changes require a two-thirds majority. Decisions related to network enhancements, new services and interchange fees are subject to a simple majority vote.
- Required the Interac Association to set its prices on a cost recovery basis. The Consent Order mandates that all Interac Association revenues must be derived from a switch fee – a fee charged on a per message basis to users of Interac's network – which is based on the cost of delivering this service and on the cost of developing the network. The Consent Order also requires Interac Inc. to continue to operate on a not-for-profit basis. However, the Consent Order did not restrict the ability of the Interac Association to set the level of the interchange fee, which it currently sets at zero.
- Allowed merchants to impose a surcharge on Interac debit transactions. Prior to the Consent Order, surcharging was prohibited.
- According to the Competition Bureau, the purpose of the Consent Order was "to open access to the network to create an environment that is conducive to the introduction of new services".

11 The only other ABM network in Canada is The Exchange, a much smaller network that connects some 2,300 ABMS in Canada compared to almost 60,000 for Interac. Some of the smaller banks and almost all credit unions are members of The Exchange. There is no interchange fee on The Exchange but on Interac, the issuer pays the ABM operator (or acquirer) $0.75 for each transaction.

12 A Consent Order in this instance refers to a remedy to abuse of dominance negotiated between the Competition Bureau, and nine charter members of the Interac Association and Interac Inc. and subsequently approved by the Competition Tribunal. The Consent Order was replaced with a Consent Agreement in 2002.

As a result of the restrictions in the Consent Order, in 1996 the nine charter members of the Interac Association[13], who were also the shareholders of Interac Inc., founded Acxsys Corporation, a for-profit organization, to provide management services for Interac Association and specialize in the development and operation of new payment service opportunities. The President and CEO of Acxsys is also the President and CEO of the Interac Association. Acxsys's current businesses include the operation of Interac e-Transfer service, the Interac Online service, and Cross Border Debit. The latter is offered through a partnership with NYCE Corporation, one of the leading debit networks in the United States. Interac Association's businesses have been limited to those it had prior to the Consent Order, Interac Cash service which is the network that links the member's ABMs and Interac Debit for point of sale transactions.

In early 2009, concerned with the entry of MasterCard and the imminent entry of Visa into the debit card market the Interac Association applied to the Competition Bureau for consent to convert itself from a non-profit association to a for-profit organization. In its presentation to the Senate Standing Committee on Banking, Trade and Commerce, Interac management indicated that it was a proponent of competition in a free market, but only if it were allowed to compete on a level playing field by converting to a for-profit company. Interac described its governance structure as dysfunctional and said that the structure shackled the organization's ability to make the investments and pricing decisions that were needed to compete effectively with well-financed and experienced competitors such as Visa and MasterCard. Interac said that if the Interac Association were successful in its effort to become a for-profit entity, it would compete with Visa and MasterCard by taking advantage of its wide merchant acceptance and by promoting itself as a low-cost provider, with flat fee-based pricing. However, merchants were concerned that the Interac Association as a for-profit corporation would charge higher fees and be vulnerable to takeover by the international credit card networks.

In February 2010, the Competition Bureau declined to consent to the Interac Association's application. It indicated that "based on currently available information, including Interac's current dominant position in the market, the Bureau cannot support changing or removing the safeguards in the Consent Order, which are effective in protecting consumers from potentially anti-competitive activity". However, the Bureau indicated that it was prepared to accept some changes to the board structure such as independent directors.

13 Following the merger of TD Bank and Canada Trust, there are now eight founding members of the Interac Association.

b) Entry of MasterCard and Visa

MasterCard entered the Canadian debit card market with Maestro in late 2008. BMO Bank of Montreal and CUETS, a division of MBNA, issued co-badged Maestro and Interac debit cards. For the consumer, Maestro worked exactly like Interac by directly withdrawing a purchase amount from a cardholder's bank account but was slightly less expensive for acquirers and merchants to accept at the point of sale. Like Interac Debit, there was no interchange fee and it had a switch fee of $0.005 that was lower than Interac Debit's switch fee of $0.008253 at that time[14]. However, Maestro had priority over Interac Debit meaning that if the merchant accepted both networks, transactions would automatically be routed on MasterCard's network. According to MasterCard, Maestro was a superior product to Interac Debit in that it could be used anywhere in the world that Maestro is accepted and plans were in place to allow for its usage online or for telephone purchases, and to equip the cards with MasterCard PayPass technology allowing contactless debit transactions at the point of sale.

However, as a result of pressure by merchants and their associations to protect Interac, the government amended the *Code of Conduct for the Credit and Debit Card Industry in Canada* after it was released as a draft for consultation in order to ban competing applications from different networks on debit cards for domestic applications such as point of sale debit.[15] This meant that the issuer would have to provide a second card for cardholders to access Maestro or Visa Debit at the point of sale if the issuer also wanted to continue to enable its cardholders to use the Interac network.

Merchants raised concerns that the entry of international credit card networks into the Canadian debit card market would inevitably lead to higher merchant service fees. According to the Canadian Federation of Independent Business (CFIB), "international experience has shown that the entry of credit card companies into the debit card market has pushed out the domestic, low cost debit network which is then followed by large increases in debit fees for merchants".

As a result of merchant opposition and the ban on competing applications from different networks on debit cards for domestic applications under the new Code of Conduct, MasterCard terminated the operations of Maestro in the Canadian point of sale debit card market in 2010. However, these cards can continue to be used outside Canada through the Maestro debit network.

Although Visa first published interchange fees for debit cards that were effective May 2009, Visa didn't enter the debit market until October 2010 with the launch of CIBC's Advantage debit card. In early 2009, Visa indicated that issuers could choose to issue Visa Debit on a chip card that was co-badged with Interac Debit or a standalone Visa Debit card. This card, however, required chip enabled terminals at the point of sale. Unlike Maestro, consumers that held co-badged cards would be given the option to choose the network to process the transaction at the point of sale terminals but the default option would be Visa Debit. The Interchange fees (not including MSFs) for Visa consumer debit cards range from 0.15% of the value of the transaction plus $0.05 ($0.125 for a $50 transaction) for grocery and gasoline purchases to 1.15% of the value of the transaction ($0.575 for a $50 transaction) for card not present transactions for example, online and telephone purchases. For an electronic card present transaction, the fee (not including MSFs) is 0.25% of the value of the transaction plus $0.05 ($0.175 for a $50 transaction). Both Interac and Maestro have no interchange fee.

In October 2010, CIBC started issuing Visa Debit along with Interac on its CIBC Advantage debit cards. The CIBC Advantage Card provides cardholders the ability to shop widely online, by phone or mail and outside Canada using funds from their bank accounts processed through the Visa network. When the card is used at a point of sale at a Canadian merchant, the transaction is processed through Interac Debit.

14 Interac Debit reduced its switch fee for acquirers to $0.007299 in November 2009.

15 However, the Code specifies that non-competing complementary domestic applications (e.g., Internet versus physical point of sale) from different networks may exist on the same debit card. The Code also prohibits cards with both credit and debit functions from being offered in Canada.

c) Interchange Fees and Consumer Costs

In contrast to Visa and MasterCard credit card transactions, there is no interchange fee on Interac Debit transactions and the network switch fee is only $0.0073 per transaction for both the issuer and the acquirer.[16] Interac Debit requires the use of a PIN or personal identification number, although it is currently rolling out 'tap and go' cards, branded Flash™, which can be used to complete small-value transactions without the need for the cardholder to enter their PIN. According to CFIB, its merchants pay less than $0.07 per transaction for Interac Debit.

According to the September 2010 survey by the US Board of Governors of the Federal Reserve, the average interchange fee in the US in 2009 paid to issuers for all debit transactions including prepaid cards was $0.44 per transaction. The average interchange fee for transaction using signature debit cards of $0.56 is much higher than that for transactions using PIN debit cards of $0.23. Consequently, the average cost of debit card transactions for merchants is much lower in Canada than in the US as the interchange fees are generally passed onto merchants by acquirers in both countries.

The reality is that many Canadians have to pay to use their debit cards. Debit card issuers in Canada typically charge cardholders a fee for every debit transaction or charge for service packages that include a number of free transactions. Under certain circumstances, such as if the customer maintains a minimum balance, or at some financial institutions, there is no service package fee.

The Canadian Bankers Association reports that 31 per cent of accounts pay no service fees but the minimum account balance for a "free" account was usually $1,000. The typical Canadian pays between $131 and $167 a year for a premium account with unlimited debit transactions and $84 and $125 a year for a basic account with 240 debit transactions annually. The fees are as much as $0.65 per transaction for consumers who have exceeded their monthly limit.[17]

Therefore, we conclude that many of the costs of point of sale debit in Canada are borne by consumers through their banking fees. The financial institutions have also benefitted over time from the Interac Debit network through the cost savings of the movement of customer account debit transactions out of physical branches in favour of lower-cost ATMs and the point of sale (which also generate revenue). While this situation does not strike us as ideal, the Task Force cannot posit what the effect would be of the introduction of interchange fees for direct debit, and would not claim that it would be a more efficient solution than the current, indirect subsidization of Interac Debit through banking fees.

16 Though, as previously mentioned, merchants pay a median fee of $0.12 per transaction.

17 It is worth noting that debit card fee income is changing in the US. A newly introduced Federal Reserve rule in the United States as required under the *Dodd-Frank Wall Street Reform* and the *Consumer Protection Act* (under the Durbin amendment) sets a maximum permissible interchange fee for debit card transactions. There have been numerous media reports of some banks introducing or considering new account fees in response to this regulation, which will lower their interchange income.

Chapter 6
Technology Changes

a) Chip & PIN

To make payments at a point of sale with a chip card, cardholders have to insert their card first into a chip enabled terminal and enter their PIN (personal identification number). In Canada, the roll out of chip & PIN has taken close to a decade and was initially not well coordinated among the card payment networks. Visa committed to upgrade to chip & PIN in Canada in 2003 and provided an incentive in October 2004 to acquirers and merchants to upgrade by reducing the interchange fee by 10 basis points for transactions using chip enabled terminals. MasterCard did not announce its commitment to chip & PIN until the commencement of a market trial in Kitchener-Waterloo in 2008, five years later. Visa, MasterCard and Interac participated in that market trial but American Express did not. Interac announced its migration to chip & PIN in late 2008 following the market trial and American Express only recently announced its commitment to chip & PIN:

- In late 2008 following the market trial in Kitchener-Waterloo, the Interac Association announced that its members would begin distributing the new cards to customers and were also continuing the process of replacing ATMs and retail terminals with chip-enabled devices. It indicated that the migration would take several years, with each financial institution and payment processor following its own timeline, but it hoped the majority of ATMs and debit cards would be converted by 2010. The Interac Association has set up deadlines for the industry and requires all ATMs to be chip & PIN compliant by the end of 2012, while all merchant terminals must be compliant by the end of 2015.
- American Express has announced that it will start issuing cards with chip & PIN technology in Canada in 2011 in order to provide cardholders with greater protection against fraud.

The Task Force knows of one earnest attempt (aside from the 2008 market trial) by the industry to coordinate its efforts and also engage the merchant community: Visa sponsored a forum that ran for two years for this purpose. While the key industry players were present, as well as a number of merchant associations, only one merchant was at the table. The one merchant that did participate in the Visa-led forum on chip & PIN rollout enjoyed a smoother and less-costly rollout in its stores compared to many competitors.

According to the acquirers, the migration to chip & PIN was an expensive infrastructure upgrade for all of them. Merchants who purchased their point of sale equipment and chose to upgrade would have to pay for devices to accommodate chip & PIN technology, while those who rent from acquirers paid over time through their rental fees.[18] Encouragingly, however, for merchants that have upgraded to chip & PIN, one acquirer claims the number of disputes and charge-backs were generally less than 50% compared to merchants who have not upgraded.[19]

Visa and MasterCard have been responsive to merchants regarding the deadline for liability shift. In September 2010, both Visa and MasterCard announced that in response to requests from the merchant community, they and their issuers were postponing the domestic chip liability shift's effective date to March 31, 2011. This is the date when merchants became liable for domestic card-present fraudulent transactions that might have been avoided by adopting chip technology. Liability involving chip cards used at non-chip devices was originally slated to shift on October 1, 2010 for Visa and October 15, 2011 for MasterCard, but issuers will continue to absorb the liability for domestic transactions until March 31, 2012. In addition, Visa and MasterCard have extended the chip liability shift deadline for petroleum retailers with pay at the pump technology by six months to December 31, 2012.

In the UK, the rollout of chip & PIN took place over a couple of years and the three card payment networks, Visa, MasterCard and American Express, used APACS, the trade association for institutions that deliver payment services to customers, to coordinate the roll out in 2004, following a market trial in Northampton, England in 2003. On January 1, 2005, the liability for fraudulent magnetic swipe card transactions shifted to merchants, which acted as an incentive for them to upgrade their point of sale equipment.

18 The Retail Counsel of Canada estimates that the cost to its members of implementing chip & PIN exceeded $1 billion.

19 Testimony of Jim Baumgartner, President and Chief Executive Officer, Moneris Solutions, at the Senate Banking, Trade and Commerce Committee hearing on Bill S-201, March 2, 2011.

b) Payment Card Industry Data Security Standard (PCI DSS)

PCI DSS was developed and published by the PCI Security Standards Council. This Council was formed in September 2006 by the five payment card brands: Visa, MasterCard, American Express, Discover and JCB. The standard was created to establish a comprehensive set of international security principles and requirements for enhancing payment account data security and standardize card data protection. Prior to PCI DSS, each card brand had their own set of requirements.

PCI DSS is a set of 12 security requirements with roughly 230 sub-requirements with which organizations must comply. These requirements impact the systems and networks used to store, process or transmit payment card transactions involving one of the five payment card brands listed above. Both the systems and the technology used are impacted by these requirements. The current version of the standard is version 2.0, released in October 2010. PCI DSS version 2.0 must be adopted by all organizations with payment card data by January 1, 2011, and from January 1, 2012 all assessments of compliance must be under version 2.0 of the standard.

Any organization that stores, processes or transmits payment card data involving one of the five payment card brands must comply with the PCI DSS. The type of systems that an organization uses and the number of transactions that an organization processes annually will impact the extent to which an organization must comply with the PCI DSS.

All merchants that store, process, or transmit cardholder data must comply with PCI DSS and validate their compliance using the appropriate method. Failure to comply with PCI DSS and the payment card networks' compliance programs may result in a merchant being subject to fines or increases in transaction fees. The card network will levy these penalties on the acquirer, who most likely will then pass them down to merchants. In extreme cases, the merchant's ability to use payment cards could be terminated. Assessed penalties are not openly discussed or publicized; they are kept confidential between the merchant and its acquirer or card network.

As the Interac Association does not participate in the PCI Security Standards Council, Interac Debit transactions are not subject to PCI DSS.

It is very efficient for the card payment networks to have the PCI Security Standards Council develop one international standard for cardholder data protection that applies in all countries where the networks operate. The PCI Security Standards Council has built into its governance a process for consulting with stakeholders. An organization that is involved in the payment industry in any way is eligible to join the PCI Security Standards Council as a Participating Organization for $3,000 a year and provide feedback directly to the Council. It will have the opportunity to review and provide comments on standards and supporting materials in advance of their release.

Chapter 7: Recent Actions Taken by Merchants

Like merchants in other countries, merchants in Canada are concerned about the power of the credit card networks, rising MSFs and lack of influence in setting interchange fees. Merchants are constrained in their choices regarding accepting credit cards given their widespread use by consumers. In the case of debit cards, merchants are concerned that the entry of Visa and MasterCard into the Canadian point of sale debit card market that is monopolized by Interac Debit would inevitably lead to higher merchant fees.

As a result of complaints by merchants and their associations, there have been a number of federal government actions. Section 8 provides a brief description of those actions.

Merchants have also recently taken a number of initiatives to challenge the networks:

- Merchants have recently launched class action suits against the networks for anti-competitive behaviour. A class action lawsuit for anti-competitive behaviour was commenced against Visa and MasterCard in Quebec in December 2010. At the end of March 2011, a Vancouver businesswoman filed a potential class-action lawsuit against Visa, MasterCard and the major financial institutions, alleging that the defendants had engaged in a price-fixing conspiracy to increase or maintain the fees paid by merchants on credit card transactions. In April 2011, a class action lawsuit was commenced against AMEX in Quebec, challenging its anti-steering rules as being anti-competitive.
- In early March 2011, the Canadian Federation of Independent Business (CFIB) launched a campaign to inform consumers about the high cost of credit card merchant fees and ask them to consider paying with Interac or cash instead. CFIB is providing its members with signs to be placed at cash registers and tables that promote the benefits of Interac and cash. In a press release on April 14, 2011, the Retail Council of Canada again called on the government to regulate the credit and debit card industry, including requiring flat merchant fees for debit card transactions and the elimination of higher merchant service fees for premium credit card transactions.
- In August 2011, following discussions with CFIB, MasterCard and Visa posted on their websites lists of their credit cards issued in Canada with the associated interchange rate categories. In September 2011, CFIB published a list of credit cards issued in Canada and their associated merchant service fees for electronic transactions with card present at a point of sale using the preferred merchant service fees that Chase Paymentech provides for CFIB members. CFIB indicated that it has asked MasterCard to ensure all its cards are separately branded to allow merchants to understand their rate categories and to replace the high spend cards with separately branded cards[20]. CFIB also indicated that CIBC voluntarily reclassified its Aventura MasterCard from high spend to core (or premium to standard) after CFIB announced plans to publish the list of credit cards and their associated merchant fees.

Other initiatives that merchants could take to challenge the networks and to try to reduce their merchant service fees include the following:

- Deciding not to accept a brand of credit card;
- Deciding not to accept new products or services including Visa and MasterCard debit cards for point of sale transactions;
- Offering the customer a discount[21] for using a particular form of payment or a particular brand of credit card and for Visa only, a particular type of credit card (e.g. Visa Classic, Gold and Platinum);
- For MasterCard, steering the customer to a particular form of payment or a particular brand of credit card and for Visa, a particular type of credit card (e.g. Visa Classic, Gold and Platinum) as well. AMEX prohibits steering;
- Communicating to a customer the merchant's costs of the various forms of payment;
- Taking advantage of merchant service fees negotiated by merchant associations; and
- Using the threat to cancel the acquirer contract without penalty following a fee increase or the introduction of a new fee to negotiate lower MSFs.

20 MasterCard high spend cards are credit cards that will escalate to a higher interchange fee category, high spend, from standard or core once the cardholder meets the spending or income requirements and consents to the card.

21 The practical aspects of merchant discounting would benefit from greater analysis; discounting is not a popular option for Canadian merchants, suggesting this option gives them limited power in practice.

Chapter 6: Recent Actions Taken by Government

a) Actions by Competition Bureau

The Competition Bureau has been active in addressing competition issues in the credit and debit card markets in Canada. A summary of Competition Bureau actions relating to the debit card market is provided in Section 5, *Debit Card Network*.

In November 2008, the Bureau advised that it would not take enforcement action against financial institutions that simultaneously issued multiple credit card brands or acquired transactions for multiple credit card networks. With the restructuring and conversion of Visa and MasterCard to publicly traded stock companies, the Bureau was no longer concerned about the potential for a member of one network to influence the competitive operations of another network through dual governance. Previously, the Competition Bureau had ensured that a financial institution did not issue or acquire transactions for both Visa and MasterCard, especially in the case of mergers between a Visa issuer and a MasterCard issuer.

In December 2010, the Competition Bureau announced that it had filed an application with the Competition Tribunal to strike down Visa and MasterCard's merchant acceptance rules: no discrimination, no surcharging and honour all cards. The Bureau is challenging Visa and MasterCard's rules under the price maintenance provisions of the Competition Act. It launched this investigation in response to complaints by merchants and their associations and initiated a formal inquiry in April 2009. The Tribunal has granted the Canadian Bankers Association and TD Bank intervenor status and set out the schedule for the pre-hearing steps and the hearing. The hearing is scheduled to start on April 23, 2012 and end on June 7, 2012.

In their response to the Competition Tribunal, Visa and MasterCard argued that their operating rules are not merchant restraints but are rules that allow the payment networks to function as an attractive, efficient and competitive payment mechanism for both consumers and merchants. The networks also argued that credit cards compete in the payment marketplace against all forms of payment, including cash, cheques, other card-based payments and other electronic payments, and that many new payment methods are being developed.

b) Other Actions Taken by Government

In 2009, two parliamentary committees held hearings on the credit and debit card systems in Canada.

From March to May 2009, the Senate Standing Committee on Banking, Trade and Commerce held hearings on the credit and debit card systems. In June 2009, it released the report, "Transparency, Balance and Choice: Canada's Credit Card and Debit Card Systems". The report made five recommendations to the federal government and they include the following:

- The appointment of an oversight board within an existing federal organization to:
  - make recommendations on regulatory and legislative measures that were required to ensure fairness for participants in the credit and debit card payment systems;
  - monitor and publish annually information on trends in interchange, switch, merchant and other payment systems fees; and
  - establish a code of conduct for payment systems participants.
- On credit cards, take appropriate action to:
  - permit surcharging and/or discounting by merchants;
  - require merchants to display, at the point of purchase, the amount of any applicable surcharge or discount;
  - permit merchants to inform customers about relatively lower cost payment methods; and
  - prohibit any honour-all-cards rules.
- On debit cards, take appropriate action to:
  - require the calculation of switch and interchange fees on the basis of a flat fee for debit card transactions;
  - set the interchange fee at zero for a period of three years for all debit card transactions; and
  - prohibit priority routing in order that cardholders are able to select, at the point of sale, their preferred payment method when using a co-badged card.

From May to November 2009, the House of Commons Standing Committee on Industry, Science & Technology held hearings on credit card interchange fees and the debit card system.

In addition to the Competition Bureau investigation and application to the Competition Tribunal, the government has also recently taken action to address the concerns of consumers and merchants regarding the credit card market. In September 2009, the Government promulgated new credit card regulations, the Credit Business Practices Regulations and regulations amending the existing Cost of Borrowing Regulations, that require issuers to provide increased disclosure for consumers, and to make changes to customer documentation and business practices.

In May 2010, the Minister released a final version of the *Code of Conduct for the Credit and Debit Card Industry in Canada* and indicated that all payment card networks, major credit and debit card issuers and payment processors have adopted the Code. The objective of the Code is to improve transparency, disclosure and choice for merchants regarding the acceptance of credit and debit cards. Under the Code, merchants are provided with clear information regarding fees and rates, given advance notice of any new fees and fee increases and given the right to cancel contracts without penalty should fees rise or new fees be introduced. The Code is provided in Appendix B.

Much of the Code came into effect in August 2010 but all the elements only came into effect in May 2011. The Financial Consumer Agency of Canada (FCAC) is monitoring compliance of networks, issuers and acquirers with the Code. According to FCAC, all payment card networks have adopted the Code and agreed to incorporate it into their contracts, governing rules and regulations. With the passage of the *Payment Card Networks Act* in July 2010, the Minister of Finance has the power to regulate the market conduct of card networks and their participants though the promulgation of regulations.

Chapter 9: What Other Countries Have Done

The international experience with credit and debit card markets reveals a number of similar challenges to those faced in Canada: competition, hardware upgrades, restrictions on merchants and the methods for determining credit and debit card interchange fees. More than 30 countries have acted or were considering acting to address competition and merchant concerns regarding the cost of payment cards as of September 2009.

International government actions have focused on:

- Regulating relationships between merchants and issuers and card networks, such as prohibiting card networks from imposing certain rules on merchants;
- Establishing maximum interchange fees or capping average interchange fees;
- Allowing more institutions to enter the credit card market by changing the requirements to qualify to act as issuers or acquirers; and
- conducting investigations into the functioning of the payment card market, including legal antitrust proceedings.

The various national responses can be categorized as either legislative/regulatory or an action by the competition authority (anti-trust), while some have taken a cooperative approach, usually coupled with the threat of regulatory action. Interchange fees are set under a variety of arrangements: network management, collectively by network members and limits established by regulations. Interchange fees have declined or are declining in a number of countries mainly due to recent government actions. Countries exhibit considerable variations across the principal categories of network rules as applied to merchants. For example, surcharging is permitted in a number of countries including Australia, New Zealand, the Netherlands and the UK; and for MasterCard in Spain and EU cross-border payments.

The Task Force has reviewed developments in credit and debit card markets in dozens of countries around the world. Below is a brief description of recent developments in Australia, the US, New Zealand and Mexico, which we believe provided interesting and relevant lessons.

Australia has taken a legislative or regulatory response. The Reserve Bank of Australia (RBA) designated the three four-party credit card networks in Australia (Visa, MasterCard and Bankcard) for oversight and regulation in 2001. RBA undertook studies and concluded that the pricing structure of the credit card networks was encouraging inefficient use of credit cards as compared to the domestic debit card payment system. From 2003 to 2006, the RBA progressively introduced reforms to address this issue: credit card interchange fees were reduced, and merchants were permitted to surcharge and given more freedom to choose the payment instruments that they accept. The RBA has, however, left credit interchange fees unchanged since 2006 and indicated that it would prefer to see fees held down by competition rather than by regulation, but judged the current state of competition to be insufficient to allow this.[22]

In the US, as required by the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, the Federal Reserve Board (FRB) issued a final rule in June 2011 establishing standards for debit card interchange fees and prohibiting network exclusivity arrangements and routing restrictions. Effective October 1, 2011, the maximum interchange fee that an issuer may receive from an electronic debit transaction is the sum of $0.21 per transaction, 5 basis points of the transaction value and $0.01 per transaction if the issuer develops and implements policies and procedures reasonably designed to achieve the fraud prevention standard. Thus, for an average debit card transaction of $38, the maximum interchange fee would be approximately $0.24. Issuers with assets of less than $10 billion are exempt from the debit card interchange fee standard. All issuers and networks are prohibited from restricting the number of networks over which electronic debit transactions may be processed to less than two unaffiliated networks. The effective date for this network exclusivity prohibition is April 1, 2012 for issuers and October 1, 2011 for payment card networks. Effective October 1, 2011, issuers and networks are prohibited from inhibiting a merchant's ability to direct the routing of the electronic debit transaction over any network that the issuer has enabled to process it.

22 See the speech by Malcolm Edey, Assistant Governor (Financial System), Reserve Bank of Australia, *Competition and Regulation In The Card Payments Market*, Speech to Annual Conference of Cards & Payments Australasia, Sydney (March 15, 2010)

The setting of debit card interchange fees has been a very controversial subject in the US. FRB had received more than 11,000 submissions commenting on its proposed rule released in December 2010. According to Ben Bernanke, FRB Chair[23], "Congress has directed the Board to accomplish a very difficult task." According to an unaffiliated economic analysis of the impact of the reduction in debit card interchange fees proposed by the FRB[24], consumers and small business would face higher retail banking fees and lose valuable services as banks rationally seek to make up as much as they can for the debit interchange revenues they would lose under the FRB's proposal[25]; large retailers would receive a substantial windfall owing to lower fees.

In October 2010, The US Department of Justice (DOJ) filed a civil anti-trust-lawsuit against Visa, MasterCard and AMEX challenging their credit card rules that prevent merchants from offering discounts, rewards and information about card costs. At the same time, DOJ reached a proposed settlement with Visa and MasterCard but not American Express. In July 2011, the settlement was approved by the United States District Court for the Eastern District of New York. The lawsuit against AMEX is continuing.

In the settlement with Visa and MasterCard, the two card networks agree to allow merchants more flexible discounting and price differentiation and information disclosure:

- to offer customers a discount or rebate if the customer uses a particular brand or type of general purpose card, or any other form of payment;
- to offer a free or discounted product, enhanced service, or any other incentive for the above;
- to express a preference for the use of a particular brand or type of general purpose card or other particular form of payment;
- to promote a particular brand, card type, or any other form of payment;
- to communicate to a customer the reasonably estimated or actual costs incurred by the merchant when a customer uses a particular brand card type relative to costs of using different brands, types, or other forms of payments; and
- to prohibit MasterCard and Visa from preventing an acquiring bank from providing the merchant with information about the costs or fees of accepting credit cards.

According to an economic analysis of the settlement prepared by staff of the Federal Reserve Bank of Boston[26], the settlement represents a significant step toward promoting competition in the credit card market but merchants are unlikely to be able to take full advantage of the settlement's new freedoms because they currently lack comprehensible and complete information on the full and exact merchant service fees for their customers' credit cards.

As in Australia, the Reserve Bank of New Zealand oversees the payments system for the purpose of promoting a sound and efficient financial system. However, unlike Australia, the Reserve Bank has not intervened in the credit and debit card markets. It has been the Commerce Commission, New Zealand's competition authority, which has taken action against Visa and MasterCard as well as the credit card issuers.

23 Statement by Chairman Ben S. Bernanke, Board of Governors of the Federal Reserve System (June 29, 2011).

24 David S. Evans, Robert E. Litan, and Richard Schmalensee, *Economic Analysis of the Effects of the Federal Reserve Board's Proposed Debit Card Interchange Fee Regulations on Consumers and Small Businesses* (February, 2011).

25 Indeed, recent press reports confirm that a number of US banks are increasing banking fees to offset debit interchange income.

26 Scott Schuh, Oz Shy, Joanna Stavins, and Robert Triest, *An Economic Analysis of the 2010 Proposed Settlement between the Department of Justice and Credit Card Networks*, Federal Reserve Bank of Boston, Public Policy Discussion Papers, No. 11-4 (July, 2011).

In November 2006, the Commerce Commission started civil proceedings against Visa, MasterCard and 11 financial institutions for price fixing of credit card interchange fees. According to the Commission, the interchange fee was up to 1.8%. The Commission did not allege collusion between Visa and MasterCard but that the price fixing was between the card schemes and their member financial institutions. In August 2009, two days before the court case was to commence, the Commission reached similar agreements with both Visa and MasterCard that settled the Commission's claims. The agreements provided for the following changes to the card scheme rules:

- Issuers are to individually set interchange fees subject to a cap determined by the card scheme, and the fees along with the cap must be publicly available;
- Merchants can apply surcharges to payments made by credit cards or by specific types of credit cards, as well as employ 'steering' methods, to encourage customers to pay by other means; and
- Non-bank institutions that meet financial and prudential criteria are permitted to act as acquirers.

Two months later, the Commission reached separate agreements with each of the financial institutions and the agreements provided for the following commitments from the financial institutions:

- Significantly reducing the average interchange fee;
- Offering merchants the option of unblended service fees as between Visa and MasterCard transactions;
- Offering merchants the option of unbundled service fees as between the types of credit cards (disclosing the interchange fee for each transaction) in order to assist merchants in negotiating lower service fees; and
- Refraining from any contracting practices that prohibit merchants from surcharging or steering.

As a result of these agreements, the Commission indicated that the average interchange fee has declined significantly for all merchants in New Zealand. The largest retailer in New Zealand has managed to reduce its average interchange fees to 0.20% from 1.02%. Smaller merchants are joining associations in order to negotiate with issuers for lower interchange fees. They are also surcharging for payments by credit card.

In Mexico, the central bank, Banco de México (BM), has the legislative power to regulate retail payment systems throughout the country and was able to use moral suasion on Mexico's Bank Association (ABM) starting in 2004 to force a reduction in interchange fees (and the resulting merchant service fees) in order to encourage merchant acceptance of card payments and thereby boost the use of electronic payments. At the same time, the Mexican government subsidized the installation of point of sale card terminals. Together, these two initiatives have achieved the intended result of increasing the use of cards (and reducing the use of cash) for payments in Mexico.

In August 2004, ABM started to set different interchange fees for debit and credit cards. Prior to this, the fees were the same for both types of cards based on a merchant's monthly transaction volume. By August 2005, the debit card interchange fee for the largest merchants fell from 2% to 0.75% while the credit card interchange fee fell from 2% to 1.80%. The category that applied to the smallest merchants was eliminated and consequently the average interchange fee of this group fell from 3.50% to 1.95% for debit, and from 3.50% to 2.70% for credit cards. In 2008, ABM further reduced credit and debit card interchange fees by a weighted average of 12.5% and 9% respectively. As expected, merchant fees also decreased. From 2005 to 2008, the average merchant service fee decreased by 12.3% and 23.3% for credit and debit cards respectively.

Chapter 10: What We Heard

This section summarizes what we heard from stakeholders and other interested parties regarding the credit and debit market in Canada, including through submissions in the fall of 2010 and input from consultations with small and medium-sized businesses in early 2011.

In our July 2011 discussion paper, *The Way We Pay: Transforming the Canadian Payments System (TWWP)*, the Task Force had identified one of the four challenges that must be addressed for Canada to become a leader in payments to be increasing fairness in credit and debit card networks. The discussion paper also identified as issues, rising costs for merchants of accepting credit cards and constraints on domestic debit card competition. The discussion paper asked stakeholders to respond to the following questions:

- Is the competition in the networks leading to unintended consequences for other businesses like merchant acquirers and card-issuing bodies like banks?
- Are merchants ultimately disadvantaged as a result of the many different dimensions of credit card practices?
- Should point of sale debit be controlled so that prices stay low?

A number of parties provided us with comments on the discussion paper and their comments on credit and debit card markets are also summarized below.

a) Merchants

Merchants are very concerned, with the rising cost of accepting credit cards, that the entry of Visa and MasterCard into the debit card market would lead to higher merchant fees. In general, merchants would like to see a better balance between the needs of merchants and the credit card networks, the government regulating credit card fees, and the Interac Association continuing as a non-profit entity. Some merchants have complained about the cost of both migrating to chip & PIN and implementing and complying with PCI DSS, claiming they do not receive any direct benefits from these additional costs.

The merchants agree that the *Code of Conduct for the Credit and Debit Card Industry in Canada* has helped in addressing these concerns. Some have argued that the Code of Conduct should be the framework for implementing further reforms in the payments system. However, merchants generally don't agree as to the further actions that the government should take.

Both the Canadian Federation of Independent Business (CFIB) and the Retail Council of Canada (RCC) have recently made public comments regarding credit and debit card markets. CFIB is of the view that regulation is not required if there is a properly structured code of conduct. In an August 17, 2011 report, CFIB had high praise for the effectiveness of the Code of Conduct in the last year. According to CFIB, the Code of Conduct's biggest achievement has been to protect Canada's debit card system. The other big accomplishment is providing merchants with some power in their relationship with credit card companies, banks and card processing companies. CFIB claims it has used the Code to resolve issues on debit cards for e-commerce, disclosure of important merchant fee information, and exit penalties for fee changes in merchant processing agreements. CFIB also recommended some changes to the Code of Conduct, including amending it to allow merchants to accept only lower cost cards from a particular network or to surcharge for accepting higher cost cards.

On April 14, 2011 the RCC renewed its call for government regulation of the credit and debit card market to bring what it views as fairness, accountability and true competition to this market. RCC is of the view that the main thing that the Code of Conduct accomplished is that it shone a light on the practices of the payment card systems and made it clear to merchants that there is no real competition in the market. RCC does, however, recognize that the Code of Conduct maintains or protects Interac Debit. RCC has also called for the creation of a new forum, which includes the participation of all stakeholders including merchants and consumers, to discuss governance and identify common rules and standards for common payment methods.

b) Consumers

A couple of consumer groups indicated that they were concerned with rising merchant fees and believe that the government should regulate interchange fees. On the other hand, the Consumers' Association of Canada (CAC) is not keen on government regulation.

The paper, *Demystifying Credit and Debit Cards in Canada*, published by CAC concludes that "regulatory intervention in card markets should be seen as last resort as regulation may create unintended and detrimental consequences for those it is seeking to protect". In its view, the voluntary agreement of credit card issuers to reforms would produce better outcomes and permit flexibility in approaches by both the cards industry and government.

CAC was extremely disappointed by the Competition Bureau's decision in December 2010, to challenge the two credit card merchant acceptance rules: honour-all-cards and no-surcharging. CAC considers these rules to be critical consumer protection measures. CAC has taken the position that eliminating honour-all-cards rules would create massive consumer confusion and was unworkable and anti-consumer. Also, according to CAC, surcharging would be a new profit centre for merchants and mean higher prices for consumers. A CAC-commissioned survey conducted in September 2011 and published in November 2011 found that 68% of Canadians are strongly opposed to surcharging based on its presentation of the concept, with another 16% moderately opposed.

The Canadian National Institute for the Blind recommends that the federal government regulate all point of sale devices, terminals and transactions to ensure the private and independent confirmation of transaction details by all users including those with a visual disability.

c) Networks

All the credit card networks, Visa, MasterCard and AMEX (which does not have interchange fees), are opposed to any efforts to regulate interchange fees and their merchant acceptance rules, namely the honour-all-card and no-surcharging rules. They also agree that the Task Force should take into account the impact of the Code of Conduct on credit and debit card markets and address the concerns of merchants.

Visa is concerned that many of the Task Force's proposals in TWWP "appear to be informed by a decidedly retailer-centric viewpoint" and do not believe the Task Force has yet adequately considered the effects of its proposals on Canadian consumers. In its view, the phenomenal advances in the credit and emerging payments segments were not driven by regulation or mandated industry collaboration but rather were driven by market-based competition. Visa claims to have proactively increased its engagement with merchants and their associations. Visa reported that its average interchange on a per-transaction basis has remained largely flat over the last ten years.

Visa believes that the Canadian payments market is fundamentally working and does not agree with the assessment of Canadian electronic payments as potentially falling behind other countries around the world. In its view, the principal area where Canada has fallen behind has been in the point of sale debit card market, where government intervention has led to Canadians having a single debit option. According to Visa, the Code of Conduct not only already provides a framework to resolve stakeholder concerns surrounding electronic payments, but it also already addressed many of the retailer concerns that the Task Force identified in TWWP.

MasterCard is concerned with the relative absence of the consumer voice in TWWP. MasterCard is of the view that the Code of Conduct is the newest and most directly relevant piece of the payments system regulatory and governance model. According to MasterCard, merchants receive extraordinary benefits from card acceptance and the amount of interchange fees received by card issuers is well below the costs those issuers incur to perform the services from which merchants ultimately benefit. MasterCard believes that a full analysis of the single-supplier Canadian debit card system is imperative and would reveal that Canada lags behind the rest of the world on several elements including an uncompetitive single supplier that is protected by the Code of Conduct.

AMEX believes that competition in the payments sector encourages innovation and investment and benefits consumers and merchants alike. AMEX is of the view that it is premature to determine the impact of the Code of Conduct on the current payments environment and make changes.

Interac (Interac Association and Acxsys Corporation) recommends that the Code of Conduct serve as foundation for future policy efforts as the marketplace and technology evolve. According to Interac, the Code of Conduct is an excellent example of a pragmatic solution to marketplace problems and has helped to promote more effective and fair competition. The Code of Conduct sought to foster healthy competition by increasing transparency and empowering the payment system users, merchants and consumers, with the information needed to make effective decisions.

Interac argues that the Code of Conduct is not anti-competitive because the prohibition on competitive co-badged debit cards and equal card branding requirements make consumer choice visible. In fact, issuers have the ability to offer different competitive features and functionality to their customers. The co-badged debit cards now offered by CIBC, BMO Bank of Montreal and National Bank each combine solutions from two debit brands to offer cardholders domestic point of sale (Interac) and international point of sale (Visa Debit or Maestro) transaction acceptance. In the case of the CIBC Advantage Debit Card, cardholders are also able to make online purchases using Visa Debit. The BMO Debit Card can be used to make online purchases using Interac Online.

Interac believes that the Competition Tribunal Consent Order should be rescinded or, at the minimum, amended to give Interac more flexibility. Interac argues that the Consent Order has limited the Interac Association to an outdated structure placing it at a significant disadvantage to its competitors.

d) Issuers

The Canadian Bankers Association (CBA) does not agree that the credit card system is unfair to merchants, since both consumers and merchants derive significant benefits from the use and acceptance of credit cards. Merchants, issuers, and the networks themselves are for-profit entities and all must generate a sufficient rate of return to merit participation. According to the CBA, the average interchange rate is largely unchanged in recent years, as adjustments to interchange fees made by the card networks have meant that some merchant classes have experienced increases while others have experienced decreases.

CBA strongly recommends that the views of consumers be taken into consideration in the final recommendations of Task Force.

e) Acquirers

In our meetings with a number of acquirers, they are generally of the view that the networks don't provide adequate notice of technological and standard changes. In a submission, Global Payments indicated that the Canadian payments industry is well developed and efficient and self regulation has played a key role in its successful development, for example PCI DSS. In addition, Canada-specific approaches and regulations that inhibit the ability to benefit from global standards, interoperability and scale should be avoided.

f) Others

The C.D. Howe Institute and International Center for Law and Economics recommend that the Task Force carefully define and limit what it means by fairness. They assert that the credit card system in Canada is world class in quality, innovative and fully integrated into the global economy. A review of the theoretical economic literature reveals no consensus on whether current interchange fees are too high, too low, or just right. They warn that any attempt to interfere with the setting of interchange fees can have unintended, deleterious consequences.

They are also of the view that it is important to recognize the powerful forces of competition and innovation in the payment market. It is also crucial to ensure that "political rent-seeking"[27] and the relatively limited knowledge of governmental regulators do not thwart dynamism and innovation. They recommend that the Task Force focus on removing existing regulatory and governance structures that may be impeding innovation and competition before considering adopting new ones. They claim that impediments in the debit card market have effectively precluded meaningful competition on a level playing field. The impediments include limitations on co-badge cards in the Code of Conduct, uneven rules and standards and operating constraints related to the Consent Order.

Edgar, Dunn & Company, an international management consulting company, does not agree that merchants and consumer groups do not have an effective forum in which to work together with payment service providers to resolve issues. It is of the view that the card networks, merchants, financial institutions and their industry groups provide many opportunities to debate and negotiate many technical and financial issues. According to Edgar, Dunn & Company, the continued central involvement by government has resulted in a lack of flexibility for Interac and for potential competitors to generate revenue for their networks through competitive, market driven actions. These constraints, combined with a cumbersome governance structure, appear to have curtailed Interac's ability to innovate, administrate effectively and finance the actions, products and services required to keep it at the leading edge of electronic commerce. In addition, while selected participants (e.g. merchants) may be satisfied with the low cost to them of Interac Debit, the costs to provide them with services are being incurred by other participants (in this instance, consumers) through relatively high fees on chequing accounts.

27 It is the process by which parties manipulate the political and regulatory system to transfer wealth or benefits to themselves at the expense of broader social welfare.

Chapter
Conclusio
We Believe
Recommend

The *Code of Conduct for the Credit and Debit Card Industry in Canada* is providing merchants with more power in their relationship with the networks, issuers and acquirers. It is improving transparency, disclosure and choice for merchants and has helped merchants resolve disputes in their favour. According to CFIB, the Code of Conduct's effectiveness has already been tested several times, and it has passed on every occasion. RCC indicated that the main thing that the Code of Conduct accomplished is that it shone a light on the practices of the payment system and made it clear to merchants that there was no real competition in the market. It did, however, recognize that the Code of Conduct maintained or protected Interac Debit.

To ensure its effectiveness over time, the Code of Conduct should be reviewed and updated on a regular basis, (say, every two years) to take into account new policy issues and emerging technological changes. This will help avoid the pitfall of government interventions that target a given point in time and cannot adapt to change. For example, the Code of Conduct has already begun to encounter limits of applicability with respect to mobile wallets and mobile NFC payments. With these payments form factors, consumers' credit cards, debit cards and other electronic payment instruments will reside in their cell phone. But, while Element 6 of the Code of Conduct prohibits competing domestic applications from different networks residing on the same debit card, it is not clear what this policy means for debit applications residing in cell phones. A periodic review and update would allow policymakers to amend the Code to accommodate mobile wallets and payments.

Recognizing that the Competition Bureau has challenged Visa and MasterCard's merchant acceptance rules and that the Competition Tribunal will be holding hearings in 2012, we have identified the following amendments to the Code of Conduct that would contribute to enhanced transparency and disclosure in credit and debit card markets and choice for merchants:

- The payment card networks should ensure that merchants and cardholders are able to identify premium cards and their associated interchange fee or merchant service fee prior to the transaction.
- Element 9 requires that premium payment cards must be targeted at individuals that meet specific spending and/or income criteria. The card networks should disclose these spending and income levels to consumers and merchants.
- Element 5 allows merchants to provide differential discounts among different payment card networks. Merchants should also be allowed to provide differential discounts among different types or categories of cards from the same network.
- The Code of Conduct should clarify the merchants' ability to steer their customers to use a particular form of payment. The three card payment networks, Visa, MasterCard and AMEX, have different rules regarding steering or non-discrimination.

The Task Force also recommends that our proposed Self-Governing Organization (SGO) be required to collect and publish on a regular basis information on trends in interchange, switch, merchant and other card payment systems fees.

The Task Force believes that governments are hamstrung by their inability to move rapidly, having in general only ad hoc and reactive tools at their disposal. We need to shift our regulatory mind-set away from prescriptive, reactive solutions towards one that is more risk-based, flexible and collaborative.

Drawing on private industry's ability to adapt and respond quickly, the proposed SGO should be given the opportunity to set rules and voluntary codes collaboratively, including codes of conduct. As the payments industry would be keen to avoid government intervention, they should have an incentive to create codes that comply with the public policy objectives of government.

If the Task Force's proposed governance model had been in place, the pressure to arrive at an acceptable code of conduct would have fallen to the proposed SGO and the Public Oversight Board (POB) rather than the Minister of Finance and his Department. However, given the diverse views and interests of stakeholders, the SGO and the POB would likely have required the support of the Minister of Finance and the passage of legislation similar to the Payment Card Networks Act in order to complete the development of a voluntary code that would generally be acceptable to all stakeholders and be adopted by the payment card networks.

The regulation of interchange fees is problematic and can have unintended adverse consequences.[28] The process of setting or capping interchange fees is administratively complex and difficult to get right. In practice, it is difficult to identify the optimal level of interchange fees. Given the complexity of the credit card market, there would also be unintended consequences on competition, innovation and consumers.[29]

Unlike the situation with credit cards, consumers (as opposed to merchants) are directly paying a significant portion of the cost of Interac Debit point of sale payments. The lower relative cost of credit cards for cardholders may have influenced consumers in Canada to use credit cards more intensively than debit cards. In the last five years (2005 to 2009), the use of credit cards in Canada has increased faster than debit cards. For the US, UK, Australia and the average of the countries in the BIS Committee on Payment and Settlement Systems, the inverse is true.

In the last year, the payment card networks have proactively engaged with merchants, and the Task Force believes they should continue to engage with all stakeholders including merchants, consumers and acquirers. The Competition Bureau has been addressing anti-competitive behaviour in credit and debit card markets since the early 1990s. It should continue to do so.

Given the complex and dynamic nature of credit card markets, the government (or the POB in the proposed governance model) should closely monitor developments in the credit and debit card markets so that it can take timely action, if necessary, to ensure that the market operates efficiently and innovation is fostered.

Looking more broadly at the payments system, the Task Force believes new payments legislation is appropriate - but its function would be in defining the payments industry and underpinning a new governance model for the payments system, including credit and debit card markets. We see a role for principles to guide the decisions and actions of public and private sector actors.

Credit and Debit Card Markets is one of a series of papers that respond to our mandate. We encourage readers to consult both the Policy Papers as well as *Going Digital: Transitioning to Digital Payments* so that credit and debit card issues can be situated within the context of the broader payments system, and our full response to the Minister of Finance.

28 A possible consequence is that the regulated payment card networks could be vulnerable to issuer migration to unregulated networks such as AMEX, which doesn't have an interchange fee.

29 Australia started to regulate credit card interchange fees in 2003 but has left the fees unchanged since 2006. The Reserve Bank of Australia (RBA) has indicated that it would prefer to see fees held down by competition, rather than by regulation, a development that could be realistic in the view of the RBA if the credit and debit card market became more competitive in Australia. See the speech by Malcolm Edey, Assistant Governor (Financial System), Reserve Bank of Australia, *Competition and Regulation In The Card Payments Market*, Speech to Annual Conference of Cards & Payments Australasia, Sydney (March 15, 2010)

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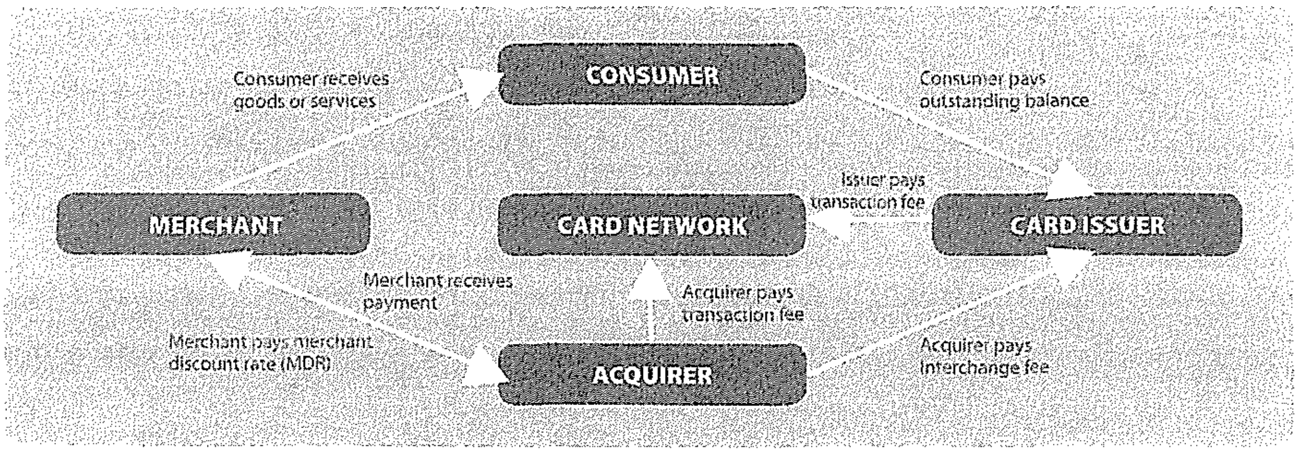
APPENDIX A: *A Four-Party System Credit Card Transaction*

BOX E1: FOUR-PARTY SYSTEM



A typical four-party system credit card transaction can be illustrated by the following 8 steps:

Step 1: The issuer issues a credit card to a cardholder.

Step 2: The cardholder provides card information to the merchant in order to make a purchase (*e.g.*, for a $100 purchase).

Step 3: The merchant sends the credit card and purchase information to the acquirer to obtain payment ***authorization*** through the credit card network to complete the transaction.

Step 4: The acquirer forwards the information to the network operator, which in turn forwards the information to the issuer for authorization.

Step 5: The issuer authorizes the transaction, and the network operator passes this authorization back to the acquirer.

Step 6: The acquirer advises the merchant that the transaction has been authorized, and the merchant completes the transaction with the cardholder.

Step 7: On a daily basis, the network operator *clears and settles* transactions between issuers and acquirers on a net settlement basis. Issuers charge the full value of the transaction on the cardholder's monthly statement (in this hypothetical example, $100), and the acquirer receives $100 less the ***interchange fee*** from the issuer. Depending on the merchant's relationship with its acquirer, it may pay fees monthly or daily. In any event, the net funds to the merchant in this hypothetical example would be $98.00, based on a *merchant service fee* of 2%.

Step 8: The cardholder is obliged to settle the credit card monthly bill, in whole or in part, with the credit card issuer (in this example, $100) no earlier than 21 days following the cardholder's purchase described in Step 2.

APPENDIX B: *Code of Conduct for the Credit and Debit Card Industry in Canada*

PURPOSE

The purpose of the Code is to demonstrate the industry's commitment to:

1. Ensuring that merchants are fully aware of the costs associated with accepting credit and debit card payments, thereby allowing merchants to reasonably forecast their monthly costs related to accepting such payments.
2. Providing merchants with increased pricing flexibility to encourage consumers to choose the lowest-cost payment option.
3. Allowing merchants to freely choose which payment options they will accept.

SCOPE

The Code applies to credit and debit card networks, (referred to herein as payment card networks), and their participants (e.g. card issuers and acquirers[1]).

The payment card networks that choose to adopt the Code will abide by the policies outlined below and ensure compliance by their participants. The Code of Conduct will be incorporated, in its entirety, into the payment card networks' contracts, governing rules and regulations.

The Code will apply within 90 days of being adopted by the card networks and their participants. Networks and acquirers will have up to nine months to implement Element 1. Issuers will have up to one year to re-issue cards already in circulation that contravene Element 6 or 7.

REQUIREMENTS FOR PAYMENT CARD NETWORKS

By adopting the Code, payment card networks agree to provide any requested information regarding actions taken by themselves or participants to the Financial Consumer Agency of Canada, for the purpose of monitoring compliance with the Code. In addition, payment card networks agree to pay for the fees associated with monitoring compliance with the Code, as determined by the Financial Consumer Agency of Canada.

1 "Acquirers" are entities that enable merchants to accept payments by credit or debit card, by providing merchants with access to a payment card network for the transmission or processing of payments.

POLICY ELEMENTS

1. Increased Transparency and Disclosure by Payment Card Networks and Acquirers to Merchants

The payment card networks and their participants will work with merchants, either directly or through merchant associations, to ensure that merchant-acquirer agreements and monthly statements include a sufficient level of detail and are easy to understand. Payment card networks will make all applicable interchange rates easily available on their websites. In addition, payment card networks will post any upcoming changes to these fees once they have been given to acquirers.

Payment card network rules will ensure that merchant statements include the following information:

- Effective merchant discount rate[2] for each type of payment card from a payment card network;
- Interchange rates and, if applicable, all other rates charged to the merchants by the acquirer;
- The number and volume of transactions for each type of payment transaction;
- The total amount of fees applicable to each rate; and,
- Details of each fee and to which payment card network they relate.

This information must be presented in a manner that is clear, simple and not misleading.

2. Payment card network rules will ensure that merchants will receive a minimum of 90 days' notice of any fee increases or the introduction of a new fee related to any credit or debit card transactions. Payment card networks will provide acquirers with at least 90 days' notice for rate and/or fee changes and at least 180 days notice for structural changes[3].

Notification is not required for fee changes made in accordance with pre-determined fee schedules, such as those based on merchant sales volume, provided that the schedules are included in the merchant's contract.

2 The effective merchant discount rate is calculated as the total fees paid by the merchant to an acquirer, related to the processing of a specific type of payment card from a payment card network, divided by the total sales volume for that type of payment card.

3 Structural changes are significant changes to the fee structure for a payment card network. This includes the introduction of new types of interchange or other fees, a change to the interchange rate structure or the introduction of a new type of credit or debit card.

3. Payment card network rules will ensure that following notification of a fee increase or the introduction of a new fee, merchants will be allowed to cancel their contracts without penalty.

By signing a contract with an acquirer, a merchant will have the right to cost certainty over the course of their contract. As a result, in the event of a fee increase or the introduction of a new fee, merchants will be allowed to opt out of their contracts, without facing any form of penalty, within 90 days of receiving notice of the fee increase or the introduction of a new fee.

Merchants may not cancel their contracts for reasons related to fee increases made in accordance with pre-determined fee schedules, such as those based on merchant sales volume, provided that the schedules are included in the merchant's contract.

4. Payment card network rules will ensure that merchants who accept credit card payments from a particular network will not be obligated to accept debit card payments from that same payment card network, and vice versa.

Payment card networks will not require merchants to accept both credit and debit payments from their payment card network. A merchant can choose to accept only credit or debit payments from a network without having to accept both.

5. Payment card network rules will ensure that merchants will be allowed to provide discounts for different methods of payment (e.g. cash, debit card, credit card). Merchants will also be allowed to provide differential discounts among different payment card networks.

Discounts will be allowed for any payment method. As well, differential discounting will be permitted between payment card networks.

Any discounts must be clearly marked at the point of sale.

6. Competing domestic applications from different networks shall not be offered on the same debit card. However, non-competing complementary domestic applications from different networks may exist on the same debit card.

A debit card may contain multiple applications, such as PIN-based and contactless. A card may not have applications from more than one network to process each type of domestic transaction, such as point-of-sale, Internet, telephone, etc. This limitation does not apply to ABM or international transactions.

7. Payment card networks will ensure that co-badged debit cards are equally branded.

Payment card network rules shall ensure that the payment networks available on payment cards will be clearly indicated. Payment card networks will not include rules that require that issuers give preferential branding to their brand over others. To ensure equal branding, brand logos must be the same size, located on the same side of the card and both brand logos must be either in colour or black and white.

8. Payment card network rules will ensure that debit and credit card functions shall not co-reside on the same payment card.

Debit and credit cards have very distinct characteristics, such as providing access to a deposit account or a credit card account. These accounts have specific provisions and fees attached to them. Given the specific features associated with debit and credit cards, and their corresponding accounts, such cards shall be issued as separate payment cards. Consumer confusion would be minimized by not allowing debit and credit card functions to co-reside on the same payment card.

9. Payment card network rules will require that premium credit and debit cards may only be given to consumers who apply for or consent to such cards. In addition, premium payment cards shall only be given to a well-defined class of cardholders based on individual spending and/or income thresholds and not on the average of an issuer's portfolio.

Premium payment cards have a higher than average interchange rate. They must be targeted at individuals who meet specific spending and/or income levels.

10. Payment card network rules will ensure that negative option acceptance is not allowed.

If payment card networks introduce new products or services, merchants shall not be obligated to accept those new products or services. Merchants must provide their express consent to accept the new products or services.