SCHEDULE"A"

<u>THE COMPETITION TRIBUNAL</u>.

IN THE MATTER OF an Application by the Director of Investigation and Research under sections 79 and 105 of the Competition Act, R. S.C. 1985, c. C-34, as amended;

AND IN THE MATTER OF an abuse of dominant position in the supply of shared electronic network services for consumer-initiated shared electronic financial services.

BETWEEN:

THE DIRECTOR OF INVESTIGATION AND RESEARCH

Director

- and -

**BANK OF MONTREAL, THE BANK OF NOVA SCOTIA,
CANADA TRUSTCO MORTGAGE COMPANY,
CANADIAN IMPERIAL BANK OF COMMERCE,
LA CONFÉDÉRATION DES CAISSES POPULAIRES FT D'ÉCONOMIE
DESJARDINS DU QUÉBEC, CREDIT UNION CENTRAL OF CANADA,
NATIONAL BANK OF CANADA, ROYAL BANK OF CANADA,
THE TORONTO-DOMINION BANK and INTERAC INC.**

Respondents

<u>STATEMENT OF GROUNDS AND MATERIAL FACTS</u>

I. MATERIAL FACTS[1]

1. The Director alleges the following material facts as the basis of this Application. The Respondents do not agree with all of the facts alleged, but do not contest these facts for the purposes of this Application and any proceeding initiated by the Director relating to this Consent Order, including an application to vary or rescind under section 106 of the *Act*.

A. THE PARTIES

2. The Director is the officer appointed under section 7 of the *Act* and is charged with the administration of the *Act*.

3 The Respondents, Bank of Montreal ("BMO"), having its head office at 129 St. Jacques Street, Montréal, Québec, H2Y IL6; The Bank of Nova Scotia ("BNS"), having its head office at 1709 Hollis Street, P.O, Box 2146, Halifax, Nova Scotia, B3J lMl; Canadian Imperial Bank of Commerce ("CIBC"), having its head office at Commerce Court, Toronto, Ontario, M5L IA2; National Bank of Canada ("National"), having its head office at 600 de la Gauchetière W., Montrdal, Qu6bec, H3B 4L2; Royal Bank of Canada ("RBC"), having its head office at 1 Place Ville Marie, P.O. Box 6001, Montréal, Québec, H3C 3A9; and The Toronto-Dominion Bank ("TD"), having its head office at Toronto-Dominion Centre, P.O. Box 1, Toronto, Ontario, M5K IA2; are banks incorporated under and governed by the *Bank Act*, S.C. 1991, c. 46.

4. The Respondent, Canada Trusteo Mortgage Company ("Canada Trust"), having its head office at 275 Dundas Street, London, Ontario, N6B 3LI, is a loan company continued under the Loan Companies Act, R.S.C. 1985, c. L-12 and is subject to the provisions of the *Trust and Loan Companies Act*, S.C. 199 1, c. 45.

---

1 The capitalized terms used herein are defined in the Glossary in Appendix "A".

5. The Respondent, La Conf6d6ration des Caisses Populaires et d'Économie Desjardins du Québec ("Confédération"), having its head office at 100 Ave des Commandeurs, Uvis, Québec, G6V 7N5, is a cooperative continued under la *Loi sur les caisses d'épargne et de crédit*, R.S.Q. c. C-4.1; S.Q. 1988, c. 64.

6. The Respondent, Credit Union Central of Canada ("CUCC"), formerly the Canadian Co-operative Credit Society Limited and having its head office at 300 The East Mall, Toronto, Ontario, M9B 6B7, is an association within the meaning of the *Cooperative Credit Associations Act*, S.C. 199 1, c. 48.

7. The Respondent, Interac Inc., having its head office at 121 King Street West, Suite #1905, P.O. Box 109, Toronto, Ontario M5H 3T9, is a corporation incorporated pursuant to the laws of Ontario. Interac Inc. owns or controls Inter-Member Network software ("IMN") that is utilized in the operation of a shared electronic financial services network. Interac Inc. also owns the Interac Trademarks ("Trademarks"), which it licenses to the members of the Interac Association ("Interac"). The other Respondents are the sole shareholders of Interac Inc.

B. INTERAC ASSOCIATION

8 All of the Respondents, other than Interac Inc., have formed, and are charter or founding members ("Charter Members") of Interac. lnterac was established by memorandum of association ("Memorandum") executed on or about November 9, 1984 as amended from time to time, and in particular on October 21, 1985 and November 1, 1989. In addition to the Charter Members, Interac has another class of members known as Sponsored Members ("Sponsored Members"). Under the Interac By-laws, only members of the Canadian Payments Association ("CPA") are eligible to be members of Interac ("Members"), and Charter Members must be Direct Clearers in the CPA and have an equal equity investment in Interac Inc.

9. Interac operates a business office in Toronto and maintains a separate staff to coordinate its activities. The activities of Interac and its Members are governed by by-laws ("By-laws") made in accordance with the Memorandum. Interac manages a network which provides shared electronic network services to its Members to enable them to provide consumer-initiated shared electronic financial services.

10. The Interac shared network is comprised of a number of components, including, but not limited to, the Memorandum, the By-laws, Operating Regulations, Trademarks, debit and credit cards, automated banking machines ("ABMs"), Interac Direct Payment ("IDP") terminals, IMN software and the necessary operational support. The shared or common portion of the network (*i.e.*, By-laws, Operating Regulations, Trademarks and the IMN) are owned by lnterac Inc. The cards, ABMs and IDP terminals are proprietary assets of the Members.

11. The Charter Members control the Board of Directors of Interac ("Board"), and thus control Interac. The eleven member Board is composed of representatives of all nine Charter Members and, since 1992, two directors representing Sponsored Members. Charter Members have certain rights and privileges which are not available to Sponsored Members of Interac. They are entitled to connect directly to the IMN in order to communicate directly with each other; hence Charter Members are directly connected to the Shared Services. A Sponsored Member must communicate through its sponsoring Charter Member in order to receive and send the messages necessary to complete customer transactions. Sponsored Members are, accordingly, only indirectly connected to the Shared Services.

12. Only Charter Members may vote on all matters at Board meetings. On significant issues requiring amendment to the By-laws or the Memorandum, Sponsored Members do not have any effective vote.

C. SHARED CASH DISPENSING (SCD)

13. In the early 1970s, Canadian financial institutions began to offer their customers the ability to obtain, through ABMS, access to funds on deposit in chequing or saving accounts by means of an encoded card issued by the cardholder's institution and used in conjunction with a distinctive personal identification number ("PIN").

14. Initially, a cardholder could access her funds only through an ABM owned by and generally located on the issuing financial institution's premises, although not necessarily the particular branch which held her account. The ABMS, network software and electronic communications facilities of a single financial institution are referred to as that institution's "proprietary" ABM network. In the 1970s, the electronic financial services provided on a proprietary ABM network were generally limited to the dispensing of cash.

15. ABM usage brought about efficiencies in simple banking transactions through more rapid and lower cost communication between a cardholder and her financial institution. The cardholders of each financial institution generally benefited from having continuous access to funds on deposit, and to any applicable overdraft privileges, as well as from being able to avoid congestion in branches. The financial institutions benefited from a saving in labour and other transaction costs, and the ability to satisfy customer demand for extended hours of service.

16. Recognizing the demand for electronic financial services, financial institutions:

(a) deployed ABMs in locations other than their branches, where cardholders were likely to have significant requirements for cash such as airports and shopping malls, in order to maximize the number of transactions handled by ABMS;

(b) entered into various types of sharing arrangements with other financial institutions and other commercial entities to establish shared electronic networks that enabled a cardholder to use ABMs deployed by someone other than the financial institution that issued his or her card. These sharing arrangements enabled financial institutions to provide their cardholders with far greater ABM availability (or reach) than they could provide independently. For each ABM and card that had access to the network, the value of the shared network services increased for all participants; and

(c) introduced an increasingly wider variety of electronic financial services on their proprietary ABM networks than were generally available on a shared basis.

17. Principal among the rival proprietary networks were those of RBC and BMO. In the mid 1980's, RBC and BMO arranged connection between their respective proprietary networks and international shared ABM networks. They then began to recruit Canadian financial institutions to participate in these international ventures through them. By offering Canadian financial institutions connection to their proprietary networks, RBC and BMO established shared networks capable of providing their cardholders with both domestic and international shared electronic financial services.

18. In January, 1985, RBC acquired exclusive Canadian rights to Plus ("Plus"), a global ABM cash dispensing service that originated as a national shared ABM network in the U.S.A. At approximately the same time, BMO acquired membership in Cirrus ("Cirrus"), a competing global ABM cash dispensing service that also originated as a national shared ABM network in the U.S.A. RBC and BMO then offered to connect the proprietary networks of Canadian financial institutions to RBC's and BMO's proprietary networks to provide access to these international networks.

19. In late 1984, BNS, Confdddration, CIBC, RBC, and TD, the five major Canadian VISA credit card-issuing financial institutions, announced their intention to establish a shared ABM cash-dispensing service in Canada utilizing the pre-existing VISA Credit Card Authorization

Network ("VCAN") to inter-connect their proprietary ABM networks. This new shared domestic network was named Interac in 1985, and its shared ABM cash dispensing services became operational in 1986. By means of this new shared network, cardholders of the member institutions could obtain cash withdrawals from their deposit accounts at any ABM of an Interac member.

20. By the fall of 1985, the four largest MasterCard credit card-issuing financial institutions in Canada, namely BMO, Canada Trust, CUCC and National, began to accept invitations, extended by the five original members of Interac, to join Interac as Charter Members. As a result, the nine largest financial institutions in Canada became members of a single dominant shared electronic network service.

21. In response to the 1984 announcement by the above-named VISA-issuing financial institutions, BMO announced in the fall of 1985 that it and a number of other financial institutions would be offering shared electronic financial services, through a shared ABM network called "Circuit". The shared ABM services to be offered would include not only cash withdrawals against a cardholder's deposit account, but also balance inquiries and credit card cash advances. BMO was and remains the only Charter Member participating in Circuit; several of the Sponsored Members also participate in Circuit.

22. By 1984-85, certain non-financial commercial entities had begun to operate other shared networks, such as Express and Access ATM, providing shared electronic network services in Canada to enable their customers to provide shared electronic financial services. Express failed in 1986, and Access ATM did the same in 1987, in part because neither Express nor Access ATM met the eligibility criteria to become a member of Interac in its own right. If Express or Access ATM had directly connected to the Shared Services and then permitted their members to connect through it, this would have provided a competitive alternative to access to the Shared Services as Sponsored Members of Interac.

23. The Charter Members agreed that Interac would initially only offer a shared cash-dispensing service ("SCD Service"). In 1988, the Charter Members agreed to expand Interac to be a national supplier of shared electronic network services to enable its Members to offer a shared Interac Direct Payment service ("IDP Service") to their cardholders.

24. When Interac's SCD Service became operational in 1986, it offered the cardholders of its Members the ability to use Members' ABMs to obtain cash withdrawals from their deposit accounts and cash advances against Member-issued credit cards. Given the demand of consumers for these services and the predominance of the Interac network in the Canadian shared electronic network services market, by the late 1980s it had become essential for deposit-taking financial institutions to join Interac in order to access its shared electronic network services to compete effectively in the supply of retail financial services in Canada.

25. In 1988, American Express Travel Related Services Company, Inc., applied to federal regulatory authorities to obtain a banking license for the AMEX Bank of Canada ("AMEX"). The primary reason for AMEX seeking this license was to enable it to satisfy the CPA membership qualification that is a prerequisite for membership in Interac and, thereby, provide AMEX charge cardholders access to Interac's SCD Service. At about the same time, the Charter Members undertook a review of Interac's membership criteria and access fees, and for approximately 9 months suspended the admission of new Members. On completion of the review, the By-laws were amended in 1989. These amendments increased substantially the cost of new Sponsored Membership by imposing a service access fee of $7.50 per card eligible to access the SCD Service. These By-law changes also limited Charter Membership to the then 9 existing Charter Members and required unanimous approval for the admission of a new shareholder in Interac Inc. by the existing Charter Members. Shortly after these amendments were adopted (i.e. March, 1990), Interac filed an application with the Bureau of Competition Policy for an advisory opinion in respect of its 1989 By-law changes. Prior to these By-law changes, AMEX could have joined Interac as a Sponsored Member and, thereby, given all of its charge cardholders access to Interae's SCD Service for a flat access fee of $100,000. The Charter

Members' adoption of a service access fee of $7.50 per card had the effect for AMEX of increasing the total fees for SCD Service access for its entire charge card base to more than $11,000,000.

26. The By-laws currently limit the ABM services that can be provided by Members of the SCD Service to shared cash dispensing and the disbursing of promotional coupons. However, electronic network services have developed technologically to the point where numerous other electronic financial services, such as balance inquiries, transfers and deposits, could be offered on a shared basis at ABMs in Canada. Such shared ABM services are precluded by these By-laws. Additional services to consumers are also precluded by Interac's By-laws which limit the types of accounts that are permitted access to the Interac Shared Services.

27. The By-laws of Interac require any Member that issues a card ("Issuer") used in an Interac SCD Service transaction to pay a collectively-set fee to the Member that deploys the ABM ("Acquirer") used in the transaction. This interchange fee is to compensate the Acquirer for its investment in, and its costs of operating, the ABM. The amount of the interchange fee is determined by the Board and since Interac's launch in 1986, it has been fixed at 75 cents.

28. The By-laws prohibit an Acquirer from charging any Surcharge to the cardholder of another Member in respect of any Interac transaction. The compensation of the Acquirer is as a result, fixed at, and limited to, the interchange fee. Since such surcharges by the Acquirer at the ABM are prohibited, pricing of the SCD Service in accordance with competitive factors has been materially inhibited. As a consequence, the incentive for entering the business of acquiring transactions and deploying terminals has been diminished with the result that consumer choice of terminals has been limited. It is notable that while the Acquirer is not explicitly prohibited from rebating part of the interchange fee to the cardholders this has not occurred in connection with an Interac Shared Service transaction.

D. <u>INTERAC DIRECT PAYMENT ("IDP")</u>

29. The Charter Members caused Interac to cease to admit new Charter Members between 1989 and 1992. Certain Sponsored Members, who were seeking to become Charter Members during that period and thereby participate in directing the evolution of the new IDP Service, were prevented from doing so.

30. All Charter Members, as shareholders of Interac Inc., have always been required to contribute equal dollar amounts to the development of the common or jointly-owned assets (IMN, Trademarks and Operating Regulations) of any new Shared Service that Interac might choose to introduce. Any Charter Member not prepared to make the necessary capital contributions to the new Shared Service would lose its Charter Member status and the privileges attached thereto. Regardless of its investment in previous Shared Services, a Charter Member which elected not to invest in a new Shared Service of Interac has always been required by the Interac Inc. Shareholders' Agreement to forfeit its entire equity position in lnterac Inc. for $1.00. The Laurentian Bank of Canada, which was a Charter Member and shareholder in Interac Inc. prior to 1989, was required to invest in the jointly-owned assets of the IDP Service initiative in the same amount as other much larger Charter Members. The Laurentian Bank was unwilling to make the necessary financial commitment to the IDP Service and, as a result, was required to give up its Charter Member status and its equity in Interac Inc. in 1989 when the IDP Service was adopted as a new Shared Service. However, Laurentian Bank retained the right to directly connect to the SCD Service through Cannet Electronic Interchange Corporation ("CANNET") (previously VCAN).

31. In 1989, the Charter Members announced plans to introduce the IDP Service on a shared basis as an Interac trademarked service. They agreed to introduce the IDP Service initially on a pilot basis in the Ottawa area and it was launched on October 10, 1990. Sponsored Members were not able to participate in the Ottawa IDP Service pilot project until three months after the pilot was initiated by the Charter Members. After the year long pilot proved successful, and after

its results were analyzed, they agreed to introduce the IDP Service in stages into other geographic regions of Canada. While proprietary and shared electronic funds transfer at point of sale ("EFT/POS") services were offered by certain Members in certain specific areas of Canada, no Member was allowed to offer the IDP Service in any Canadian region other than those designated by Interac. Interac designated Qudbec and B.C. as the initial Provinces for full scale introduction of the IDP Service in September of 1992. This service was then offered in the Prairie Provinces and Northwestern Ontario in 1993, and finally introduced in the rest of Ontario and the Maritime Provinces in 1994. The consequence was that the nation-wide introduction of the IDP Service in Canada took two and one-half years, not counting the one year pilot project in Ottawa.

32. In 1991, AMEX, Central Guaranty Trust, Hong Kong Bank, Montreal Trust, National Trust and Royal Trust sought to establish a new shared electronic services network to be called "Sunrise". The Sunrise network members planned to offer an EFT/POS service and a number of shared ABM services in addition to shared cash-dispensing. Sunrise was not eligible to become a member of Interac in its own right, since it could not meet its eligibility criteria. Sunrise was abandoned when it became clear that its direct connection to the Interac Shared Services could not be achieved.

33. It is evident that the IDP Service provides an opportunity to retailers and other commercial entities in Canada to increase sales and expand commerce. The benefits of IDP for merchants include larger transaction sizes, reduced handling errors and cash shortages, reduced losses due to theft, a guaranteed payment device (compared to paper cheques), reduced overdraft exposure and faster transaction time. Similarly, consumers have increasingly recognized the benefits of IDP, including the security, convenience and economy of IDP transactions, and expect their financial institutions to provide this service.

34. The Interac By-laws provide for an interchange fee on IDP Service transactions, which is currently set at $0.00 (zero). As with the SCD Service, the By-laws prohibit an Acquirer from imposing any other Surcharge for an IDP Service transaction to a cardholder of another Member.

That is, Surcharges by Acquirers on IDP Service transactions are prohibited, which diminishes the incentive for Acquirers of the IDP Service to deploy terminals.

E. SERVICE INNOVATION

35. The By-laws have directly inhibited innovation in shared electronic financial services by interfering with the contractual relationships between Members and their customers. One such innovative initiative for expanding the range of available financial services through the Interac shared electronic network services was the attempt by some financial institutions to offer their cardholders ABM access on a shared basis to deposit accounts described as "zero- balance", "pass-through" or "sweep" accounts. The use of these types of accounts would have allowed a cardholder of a Member to gain access through ABMs to funds held in his or her account with non-deposit-taking financial institutions, such as brokerage firms and investment dealers. The Charter Members amended the By-laws in 1989 to prohibit the use of such "sweep" or "pass-through" accounts in connection with the Interac Shared Services.

36. The close cooperation and transparency required among Charter Members during the process of considering a proposal for the introduction of new Shared Services inhibits competitive rivalry among the Members in shared electronic financial services markets, increases the likelihood of interdependent conduct and limits product development.

37. The voting rules of the By-laws require a two-thirds majority of the Charter Members in support of any amendments to the By-laws, including the establishment of any new Shared Services. While Sponsored Members have been accorded limited representation on the Board, they have no effective voting rights with respect to By-law amendments. The effect of these voting requirements has been to vest complete control over enhancements to existing Shared Services and the adoption of new Shared Services, in the collective hands of the Charter Members.

38. Shared ABM networks such as the Interac ABM network have the potential capacity to provide numerous shared electronic financial services, including deposits, balance inquiries, bill payments and account transfers among others. Other shared electronic financial services in Canada and other countries routinely provide a wider array of financial and related services than Interac. Interac currently supplies only two shared electronic financial services: SCD and IDP.

11. **STATEMENT OF GROUNDS**

39. The Respondents jointly through Interac have substantial or complete control of a class or species of business: the supply of shared electronic network services ("Shared Electronic Network Services") that enable network participants to provide consumer-initiated shared electronic financial services ("Shared Electronic Financial Services"). The geographic market in which the Respondents possess this joint control is Canada. Finally, the Respondents have engaged in a practice of anti-competitive acts, which has had, is having, and, unless restrained, is likely to continue having the effect of preventing or lessening competition substantially in Canada:

(a) in the intermediate market" for the supply of Shared Electronic Network Services to Financial Institutions ("Fls"), retailers, other service providers, and "third party processors" (a term used herein which includes independent transaction processors and terminal deployers); and

(b) in the "retail market" for the supply of Shared Electronic Financial Services to consumers ("Cardholders");

all within the meaning of section 79 of the *Act*.

A. CLASS OR SPECIES OF BUSINESS

40. The Members issue plastic cards which contain machine readable information encoded in a magnetic strip and which, when operated in conjunction with a PIN provided by the card-issuing Member ("Issuer"), enable Cardholders to access the Interac Shared Services. A card that accesses the SCD Service can be a credit, charge, debit or banking card and is usually identified by the Interac Trademarks displayed on the card. The IDP Service can only be accessed by a debit or banking card of its Members. The Members own or control ABMs and IDP terminals ("Terminals") in Canada at which cards can be used to obtain the Shared Electronic Financial Services offered to Cardholders. Interac Terminals are generally identified to Cardholders by the Trademarks.

41. The Charter Members, through Interac, using the Trademarks and IMN software owned and controlled by Interac Inc., work together as a unit or joint venture to supply Shared Electronic Network Services to all Members to enable them to offer their Cardholders the ability to use their cards at Terminals in numerous locations in Canada to make requests of, or render instructions to Issuers for the purpose of completing a financial transaction electronically. At present, Interac supports only two shared electronic financial services: SCD and IDP.

42. The SCD Service enables the Cardholders of a Member to utilize other Members' ABMs to obtain cash from their chequing or savings accounts, or as a cash advance against a line of credit or credit/charge card account. In conjunction with the dispensing of cash, the By-laws also authorize the issuance of certain promotional coupons under the SCD Service.

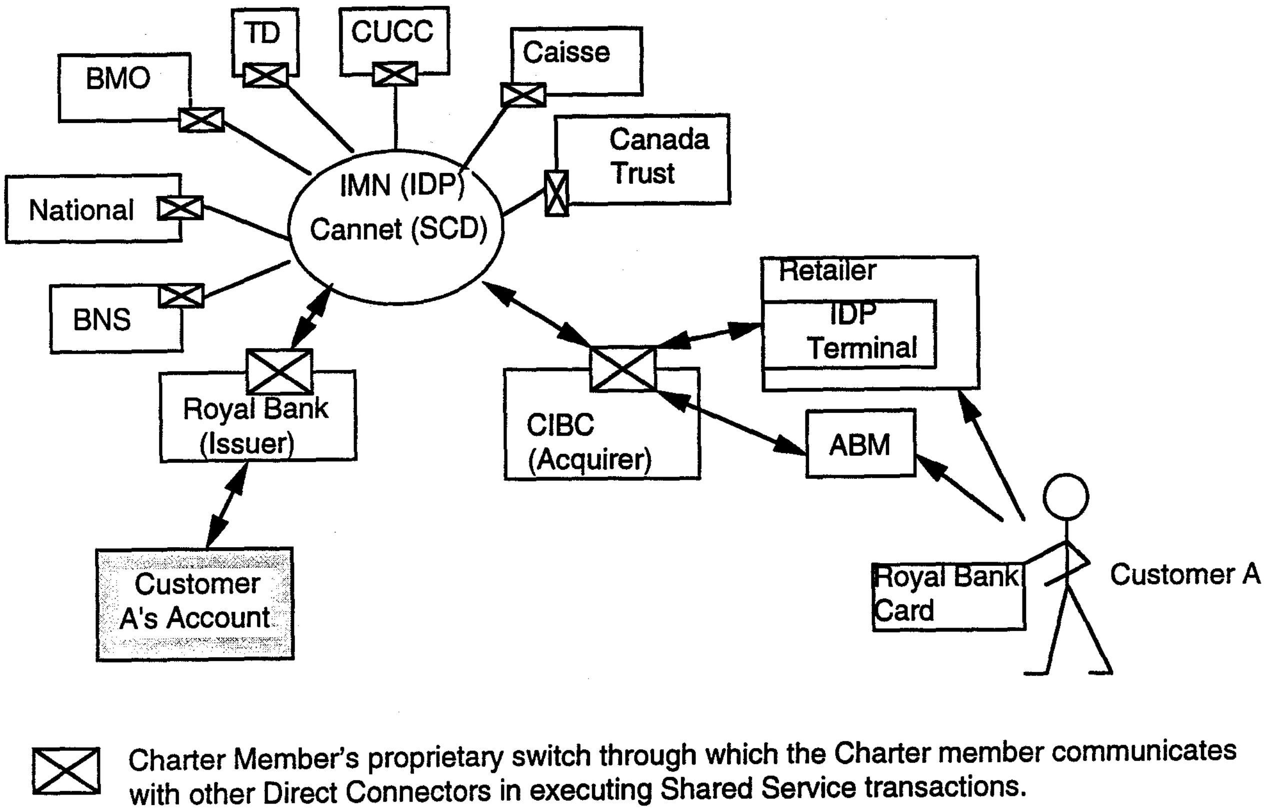
43. The IDP Service provides Cardholders of Members with an alternative payment choice for the purchase of goods and services at retail or other commercial outlets. Through IDP terminals located at retailers' and other service providers' premises in Canada, Cardholders of Members are able to make payments for purchases by using their debit or banking card to send

electronic instructions that will result in a debit from the cardholder's account and a corresponding credit to the account of the retailer or other service provider.

44. A card eligible to participate in the two Shared Services ("Card"), and the Terminals of the two Shared Services, must meet specific standards and requirements set forth in the By-laws, Standards and Operating Regulations enacted by the Board.

45. The Cards, ABMS, and IDP terminals are essential components of the Interac Shared Services. The vast majority of these Cards and Terminals (i.e., more than 90 %) are owned by, or are under the control of, the Charter Members on a proprietary basis.

46. The SCD and IDP Services are delivered over CANNET and the IMN, respectively, by electronic communications initiated by Cardholders of Members using Cards at Terminals. The speed of transmission and accuracy of the electronic messages communicated over the Interac Shared Services are such that immediate confirmation of account status is available to carry out the Cardholder's payment instructions. The following diagram illustrates an Interac Shared Electronic Financial Service transaction:



(1) Customer "A", the Cardholder, uses a Card issued by a Member, for example the RBC, at a Terminal connected to another Charter Member, say the CIBC. At present, the Terminal will be either an ABM or an IDP terminal. If Customer "A" is seeking to obtain cash directly from her deposit (*i.e.*, savings or chequing) account or as an advance against her credit or charge card, she would be using an ABM. If she is at a retail outlet, and wants to purchase goods or services by means of a debit from her deposit account, then she would be using an IDP terminal. Whether using an ABM or an IDP terminal, Customer "A" will use the Interac Card issued by the RBC in conjunction with her PIN to initiate the request message she is sending to the RBC.

(2) The request message being sent by Customer "A" instructs the Issuer (*i.e.*, RBC) to debit her account so as to enable her to obtain cash or purchase goods.

(3) In a shared transaction like this one, the Acquirer is different from the Issuer. Thus, the transaction is an Interac Shared Service transaction because the Interac shared network is used to enable Customer "A" to carry out the transaction. The customer's instructions, acquired by the CIBC, are routed and delivered to the Issuer, the RBC, through a private telecommunications service. Unlike most other comparable shared electronic networks, the Interac network does not have a central switch; an Interac communication is routed through each Direct Connector's switch to the other Direct Connector involved in the transaction.

(4) The Issuer, the RBC, receives the message from the Acquirer that Customer "All has initiated the transaction. The Issuer verifies the validity of the Interac Card used by Customer "A", matches the PIN and confirms the availability of sufficient funds or credit for Customer "A" to complete the requested transaction. The Issuer then returns to the Acquirer, through the Interac shared network, an electronic authorization for the transaction to proceed. In authorizing the transaction, the Issuer guarantees that it will make payment to the Acquirer of the amount authorized.

(5) Once this authorization is received by the CIBC, it will enable the ABM to dispense cash to the Cardholder or authorize the retailer to complete the sale.

In short, the Interac shared network has enabled the Cardholder, Customer "A", to access her demand account with the RBC by means of electronic communication from a Terminal deployed by another Member, in this instance the CIBC.

47. Consumers and commercial entities in Canada demand a convenient, comprehensive and speedy method of communicating instructions to carry out various financial services. Shared Electronic Financial Services help satisfy this demand. It has become essential for all Financial Institutions, and increasingly essential for other entities, including retailers, and other service providers, to have access to Shared Electronic Network Services of sufficient coverage and quality to satisfy consumer demand for immediate execution of Shared Electronic Financial Services.

48. lnterac was developed by participants in the Canadian payments system and historically, participation in these network services was restricted to entities that could perform all three core functions involved in a payments system (i.e. holding demand accounts, processing/network operations, and clearing/settlement). However, there is nothing inherent in the nature of either Shared Electronic Network Services or Shared Electronic Financial Services that dictates that all their requisite functions must be provided exclusively by Financial Institutions. Increasingly, it is now recognized that non-financial institutions are able to participate in these network services because of advances in computing and networking technologies. As a result of these developments, non-financial institutions are capable of participating, and in other countries do actively participate, in the supply and use of Shared Electronic Network Services and in the delivery of shared financial services similar to, and frequently broader than, those offered by Interac.

B. **SUBSTANTIAL CONTROL**

49. The Respondents together substantially or completely control the Shared Electronic Network Services business throughout Canada. They have combined to offer Shared Electronic Network Services to the Canadian market through a single Association, controlled and governed by the Charter Members. These Members jointly fon-nulate and implement legally binding By-laws, Standards and Operating Regulations with respect to these inputs, Shared Electronic

Network Services, into the supply of Shared Electronic Financial Services to consumers. Having assured their joint control of Interac, the Charter Members have caused Interac to become the dominant Shared Electronic Network Service supplier in Canada.

50. More than 90% of shared cash dispensing transactions in Canada take place through Interac. Interac links approximately 17,000 ABMS, which comprise virtually all of the ABMs in Canada; of these ABMS, approximately 95 % are deployed by the Charter Members. As of 1995, Interac Members had issued approximately 42 million cards which access Terminals in Canada, with the Charter Members being by far the largest issuers of these cards.

51. Although a few small shared electronic financial service networks exist in Canada, they lack access to a sizable deposit base and broad geographic ABM coverage. Accordingly, these networks are of limited scope and convenience to consumers, retailers and other service providers and are not competitive alternatives to the Interac Shared Services. In order to obtain access to an adequate deposit base and broad geographic ABM coverage for their cardholders, the members of these small networks have had no alternative but to join Interac as Sponsored Members and connect to the SCD Service indirectly through a Charter Member.

52. Circuit is a shared electronic financial services network in Canada comprised of BMO (which controls Circuit) and certain Sponsored Members of Interac, that are sponsored by BMO. The limited size and geographic coverage of Circuit is such that access to its shared electronic network services is not a viable substitute for access to those supplied by Interac. Confronted with a new cost of Interac access of potentially $11,000,000 for all of its Canadian charge cardholders, AMEX joined Circuit in 1991, at a substantially lesser cost, to provide a portion of its cardholders (and corporate accounts in particular) with shared ABM access. Since Circuit provides shared ABM services among only about 30% of the ABMs connected to the lnterac Shared Services, Circuit could not meet the needs of AMEX and its customers. AMEX ultimately became a Sponsored Member of Interac, but only for a limited number of its cardholders, because the access fee was and remains, in its view, excessive.

53. Proprietary electronic financial service networks by their very nature do not provide the same opportunities to Cardholders or to Financial Institutions and other potential participants as shared electronic financial service networks. Proprietary networks offer cardholders a smaller choice of terminals and thus more limited convenience than the Interac shared network. Accordingly, proprietary and small or regional shared electronic financial services are inadequate in comparison with the Interac Shared Services, and they therefore do not represent a close competitive substitute for the Shared Services.

54. Consumer demand for Shared Electronic Financial Services in Canada grew significantly over the period following the implementation of the SCD Service and eventually the IDP Service. In the face of that growing demand, it became essential for Financial Institutions to connect to the Interac Shared Services in order to retain their customer base and to compete effectively in other retail financial services markets. Access to Interac's Shared Electronic Network Services is equally and increasingly essential for other financial institutions, retailers, service providers and others who compete with Financial Institutions in retail financial services markets.

55. The Charter Members, through Interac, control the IDP Service, which is the only, and therefore the dominant, EFT/POS shared service in Canada and do not permit anyone other than Financial Institutions to participate in it either as an Issuer or Acquirer.

56. Two distinct subgroups of the Charter Members control the two major credit card associations in Canada (VISA and MasterCard). A subgroup of the Charter Members through the VISA Canada Association control and manage, within guidelines determined by VISA International, the service offerings associated with the Plus trademark in Canada. Similarly, MasterCard issuers in Canada, another subgroup of the Charter Members, are members in another competing international shared network, Cirrus. Neither of these networks currently afford a viable alternative to the Interac network for the supply in Canada of Shared Electronic Network Services for transactions involving Cardholders of Canadian Issuers ("domestic

transactions"). While Plus network provides access to 75 percent of the ABMs connected to the Interac SCD Service, a Sponsored Member of Plus would pay approximately the same fee per card for providing its cardholders with Plus access as it would pay to provide its Cardholder's with access to Interac's SCD Service (i.e., $7.50 per card). Cirrus does not provide a close substitute for access to the Interac network because it provides access to only 25 percent of Interac's ABMS.

57. Pursuant to the *Canadian Payments Association Act*, R. S.C. 1985, c. C-21, as amended, the Charter Members have the votes to appoint a majority of the board of the CPA. The statute declares that the association is created "to establish and operate a national clearing and settlements system and to plan the evolution of the national payments system". The CPA has developed certain standards and rules pertaining to consumer-initiated shared ABM and EFT/POS transactions.

58. A subgroup of the Charter Members control CANNET, a private company which until recently was the predominant supplier in Canada of electronic credit card authorization services and, at present, carries all Interac SCD transactions.

59. The Respondents have jointly acquired and exercised substantial or complete control of the market for Shared Electronic Network Services in Canada. Their ability to maintain this control is enhanced by the control that the Charter Members, or subgroups thereof, possess over financial services organizations other than Interac that could otherwise create a more competitive environment.

C. PRACTICE OF ANTI-COMPETITIVE ACTS

60. The Respondents have engaged, and continue to engage, in the practice of anti-competitive acts set out in paragraphs 61 and 62 below.

61. Through the enactment of exclusionary By-laws, the Charter Members have imposed certain restrictive policies, conditions and requirements that govern access to Shared Electronic Network Services. These requirements limit the eligibility of candidates for membership as Charter Members and Sponsored Members and govern fees and services. These requirements for Interac's Shared Electronic Network Services in Canada include the following:

(a) Membership - Charter Members

(i) The right to directly connect to the Interac Shared Service is restricted to Charter Members (Interac By-law 2.07). As a result, all other Members are required to connect to the Shared Services as Sponsored Members through a Charter Member, in most instances at an additional cost to that incurred by Charter Members.

(ii) Charter Membership is restricted to those Financial Institutions that are also Direct Clearers of the CPA, a class consisting substantially of the Charter Members, thereby precluding all other CPA-member Financial Institutions. The Charter Membership category was closed to all new applicants during the 1989-1992 period. Non-Financial Institution entities such as retailers, other service providers and third party processors have also been barred from Charter Membership (Interac By- law 2.03) as a result of this eligibility requirement.

(iii) Each Charter Member is required to invest an equal amount of equity capital in the development of the common portion of any new Shared Services and is also required to participate as a Direct Connector in all Shared Services offered by Interac (Interac By-law 2.03), which requires each Member to make additional proprietary investments. Together these requirements have the effect of erecting entry barriers and maintaining the

Charter Members' joint control of Shared Electronic Network Services in Canada.

(iv) Since 1992, obtaining Charter Member status has also been dependent upon being a shareholder in Interac Inc. (Interac By-law 2.03) at an estimated cost of $15 to $20 million. The magnitude of this investment is a significant deterrent to entry to any new Charter Members.

(v) Upon the loss of Charter Member status, a Member must surrender its shares in Interac Inc. in return for $1.00 (Interac Inc. Shareholders Agreement, paragraph 3.2). This is a significant barrier to exiting the market, which in turn creates a further deterrent to entry by new Charter Members.

(vi) Charter Membership is restricted to those entities which deploy ABMs (Interac By-law 2.05). This limits Charter Membership in Interac to those Financial Institutions which provide ABM services.

(vii) Charter Membership is restricted to Issuers (Interac By-law 2.03). This eligibility requirement limits Charter Membership in Interac to those Financial Institutions which provide that service.

(viii) Charter Members alone may vote on all matters of significance affecting the Interac Shared Services, including fees, services and eligibility rules which are established by amendments to the By-laws. Because amendment of the By-laws requires a two-thirds majority of the Charter Members, the Charter Members en oy, and have exercised, voting rights which confer effective control over the governance of Interac.

(b) Membership - Sponsored Members

(i) Sponsored Membership is restricted to Financial Institutions, which must also be members of the CPA (Interac By-law 2.03). This eligibility requirement precludes retailers and other service providers, as well as third party processors, from participating in the Shared Services.

(ii) All Sponsored Members must access the Shared Services indirectly, through a switch owned and controlled by a sponsoring Charter Member, rather than connecting directly (Interac By-law 2.07). In many instances, this raised the costs of Sponsored Members and, therefore, competitively disadvantaged them relative to Charter Members.

(iii) Sponsored Members are required to be Issuers (Interac By-law 2.03). This precludes participation by any potential Member which seeks only to acquire shared transactions.

(iv) With respect to the IDP Service, a Sponsored Member cannot deploy terminals or acquire shared transactions unless it also participates as a debit or banking card Issuer (Interac By-laws, Schedule A--ss. A(ii)).

This operates as a significant barrier to entry for, and unnecessarily increases the costs of, any person who might seek only to deploy terminals and/or acquire transactions.

(v) Sponsored Members have no effective voting power on significant matters affecting Interac which require amendment to the By-laws, such as termination or dissolution of Interac, and the extension of Shared Services offered by Interac. All of these amendments require a two- thirds majority of the Charter Members for passage, which has the effect of consolidating their control over Interac (Interac By-law 6. 1 1).

(c) Fees (See Appendix "B"--Interac Fees & Related Charges)

(i) Charter Members have, from time to time, collectively deten-nined separate Service Access Fees payable by new Sponsored Members for each of the SCD and IDP Services (Interac By-law 2.05). These fees are currently set as follows:

(1) The fees for the SCD and IDP Services have both been formulated on a per-card basis (Interac By-law, Schedule "A"). Each applicant for membership is required to estimate the number of cards it will issue that will access a Shared Service at the third anniversary of membership without regard to the frequency of card utilization. There is also a penalty for underestimation of the number of cards that would access the Shared Service. Given the magnitude of the fees and penalties involved, these requirements discouraged the entry of new Members who might otherwise have introduced a large card base into the Shared Services.

(2) The Service Access Fees for each of the SCD and IDP Services have been set at a minimum of $100,000 (Interac By-law 2.05). This discriminates against Financial Institutions with a relatively small card base by raising their cost of entry.

(3) In the case of the SCD Service, a new Sponsored Member's Service Access Fee is in part shared among the Members that deploy ABMS, even though the new Sponsored Member will connect to

the Shared Service through a switch developed, owned and operated by a single Charter Member. This fee sharing reduces or lessens competition among the Charter Members for the sponsorship of new Members.

(ii) The Charter Members collectively set an interchange fee, for each of the SCD and IDP Services and all Members are prohibited from charging Cardholders of other Members for Terminal use (Interac By- law 8.03 and Schedule A, 4(a)). This interchange fee and prohibition of surcharges have operated together to curtail competition among Members for the deployment of Terminals and the supply of Shared Electronic Financial Services to consumers.

(d) Services

(i) The Shared Services that may be offered on the Interac network are restricted to those determined by the Charter Members (Interac By-law 7.01). Without amendment of the By-laws, which requires the approval of a two-thirds majority of the Charter Members, no New Shared Services can be offered over the Interac network (Interac By-law 6. 1 1). Since an amendment is also required to implement any new service through the Interac network, agreements between two or more Members to introduce new services over the Interac network are precluded by these voting rules. These rules have stifled innovation and competition.

(ii) Interac Members are prohibited from using either the SCD or IDP Services in conjunction with any account that is not an eligible account of a Member (Interac By-law 7.02). In particular, Members are prohibited from offering the Services in conjunction with zero-balance, pass-through or sweep accounts (Interac

By-law 7.03). This restriction has precluded Members from developing, introducing or making available new innovative products on the Interac network.

62. BNS, Confédération, CIBC, RBC and TD, as the directing members of the Plus network in Canada, have structured Plus and established its fee requirements in such a way as to inhibit or exclude competition with Interac for shared cash-dispense transactions payable through Demand Accounts held in Canada (i.e., domestic transactions). For example, in 1990, using methodology that was essentially identical to that employed by the Board, Plus implemented substantially higher admission fees for new sponsored members. These fees, Re Interac's, were levied on the basis of the number of cards issued at the end of a three year period. For a new sponsored member that was not a member of Interac, the fee was $7.50 per card with a $100,000 minimum. Interac's service access fee for the SCD Service was also $7.50 per card with a $100,000 minimum. If a prospective Plus member wished to provide its cardholders with shared ABM access to perform domestic transactions, the equality of service access fees between Plus and the Interac SCD Service discouraged any new sponsored member from joining Plus to offer cardholders shared ABM access for domestic transactions.

D. **<u>SUBSTANTIAL LESSENING OF COMPETITION</u>**

63. The Respondents' practice of anti-competitive acts has had, is having, and in the absence of an order of the Tribunal, is likely to continue to have the effect of preventing or lessening competition substantially in the markets for the supply of Shared Electronic Network Services and Shared Electronic Financial Services in Canada, as stated in paragraph 39. In particular, the practice of anti-competitive acts has enhanced and facilitated the exploitation of the Respondents' market power in both markets. This heightened ability to exercise market power is manifested by: (a) the restriction of access to the Interac network for various categories of intermediate market participants, including service suppliers and service buyers; (b) a lack of competition in Acquirer pricing to consumers of Shared Services across the network; and (c) a lack of

innovation in the types of services and products available in both the market for Shared Electronic Network Services and the market for Shared Electronic Financial Services.

64. The entry of competitors such as Express, Access ATM, and Sunrise into the Shared Electronic Network Services market in Canada has been prevented or impeded, or their expansion therein restricted, with the consequence that competition has been substantially lessened in the intermediate market. Consumers have also been deprived of potential competitive benefits arising from additional services offered over the Interac network and from price competition for the services currently being offered. Since the introduction of Interac's SCD Service in 1986, no new shared ABM services have been made available to consumers over ABMs on the Interac network. Although available on proprietary networks and on other shared electronic networks, the Respondents have withheld from consumers additional services such as deposits, balance inquiries and bill payments with the consequence that competition has been substantially lessened in the retail market.

65. Through their collective control over the governance of Interac and Interac Inc., the Charter Members have substantially lessened competition by:

a) restricting who is able to connect directly to the Interac network through the establishment of narrow eligibility criteria and other barriers to entry, and as a consequence, excluding potential suppliers (i.e., sponsors), in the intermediate market for Shared Electronic Network Services;

b) restricting who is able to connect indirectly to the Interac network through the establishment of narrow eligibility criteria and Service Access Fees that discriminate against smaller entrants and discourage entry of larger entrants, and as a consequence, limiting the pool of potential Sponsored Members who purchase Shared Electronic Network Services;

c) requiring that Service Access Fees be shared among all Charter Members, even though Sponsored Members connect through a single Charter Member, and as a consequence, limiting competition among Charter Members for sponsorship of new Members who would purchase Shared Electronic Network Services in the intermediate market;

d) restricting the licensing of the IMN software owned by Interac Inc. to the Charter Members and to those Shared Services approved by the Charter Members, and as a consequence, limiting both Charter Members' opportunities to use the IMN to obtain a competitive advantage over each other in the supply of Shared Electronic Network Services in the inten-nediate market, and preventing the entry of competitors who require direct connection to the IMN from competing in the intermediate market;

e) restricting potential competitors' and Members' uses of the IMN software and network, and as a consequence, restricting the introduction of New Shared Services such as deposits, balance inquiries and bill payments, or Bilateral/Multilateral Services, with a resultant lessening of competition and stifling of innovation in the retail market;

f) establishing excessive Service Access Fees for the indirect connection of Sponsored Members and requiring Sponsored Members to be Issuers, and as a consequence of both, raising the costs of Sponsored Members relative to Charter Members, thus disadvantaging Sponsored Members as competitors in the retail market;

g) lessening competition among themselves through the collective establishment of both the quantum of interchange fees and a prohibition on surcharges, and as a consequence, curtailing competition for ABM deployment in the retail market; and

h) restricting the types of transactions that can be conducted over the Interac network through the imposition of strict account eligibility requirements, and as a consequence, impeding other persons from competing aggressively in the retail market.

III. RELIEF SOUGHT

66. The Director has engaged in discussions with the Respondents and has determined that the foregoing practice of anti-competitive acts and consequent prevention or substantial lessening of competition in the markets as described above can be adequately dealt with and remedied through the provisions of the Draft Consent Order, attached to the Notice of Application as Schedule "B". Accordingly, the Director thus seeks, pursuant to subsections 79(l) and (2) and section 105 of the Act, the issuance of the Draft Consent Order attached hereto.

APPENDIX "A"

Glossary
(Terms & Acronyms)

Acquirer	- A Member that obtains a request Message from a Cardholder for delivery to an Issuer.
Affiliate	- An Affiliate: (a) in the case of a Financial Institution ("Fl") (other than the Confédération or CUCC) is an entity that is controlled by the Fl or an entity that is controlled by the same person that controls the FI within the meaning of subsection 3(l) of the *Bank Act*; (b) in the case of the Confédération or CUCC, is any entity that is controlled by them; and (c) for non- financial institutions, an entity is affiliated with another entity if one of them is the subsidiary of the other or both are subsidiaries of the same body corporate or each of them is controlled by the same person; and when two bodies corporate are affiliated with the same body corporate at the same time, they are deemed to be affiliated with each other within the meaning of subsections 2(ii) and (iii) of the *Canada Business Corporations Act.*
Bilateral/Multilateral Service	- A service that is certified by the senior management of Interac Inc. as meeting the eligibility criteria set out in 4(f).
Board	- The Board of Directors of the Interac Association.
By-laws	- The By-laws of the Interac Association.
CANNET	- Network software formerly known as the VISA Canada Authorization Network ("VCAN"), for authorizing the use of certain credit cards and over which Interac SCD transactions are presently routed.
Card	- Any magnetically or otherwise encoded plastic financial service card.
Cardholder	- A customer to whom a Card has been issued by a Financial Institution.
Charter Member	- A Financial Institution which is directly connected to the Interac Shared Services, is a CPA member with the status of a Direct Clearer of the CPA and is a shareholder in Interac Inc. All the Respondents other than Interac Inc. are the current Charter Members.
CPA	- The Canadian Payments Association.

Direct Connected Financial Institution IIDCFI") - A Financial Institution which is directly connected to a Shared Service.

Direct Connected Non-Financial Institution I'DCNFI'I) - Any commercial entity, other than a Financial Institution, which is directly connected to a Shared Service.

Demand Account - An account held by a Financial Institution from which funds are payable on demand by a Cardholder.

Direct Clearer - A CPA member that: (a) meets the requirements of subsections 10.01 or 10.2 of the CPA Clearing By-Law (No.3); (b) settles for payment items drawn on or payable by it through a settlement account at the Bank of Canada; and (c) is a participant at one or more of the regional settlement points prescribed by the CPA Clearing By-Law (No.3).

Direct Connector - Any commercial entity or Fl using the IMN to communicate directly with other Members for the purpose of accessing a Shared Service or a Bilateral/Multilateral Service.

Financial Institution - A corporation incorporated in Canada that is:

(a) carrying on, under the regulatory supervision of federal or provincial law, the business of providing fmancial services in Canada, including the receipt of deposits from the public that are:

(i) insured or guaranteed under an arrangement acceptable to the responsible regulatory authority; and

(ii) transferable by items that are admissible for clearing by members of the Canadian Payments Association; or

(b) a Central Cooperative Credit Society or a Federation of Cooperative Credit Societies (as defined in the *Canadian Payments Association Act*).

Fundamental Change - Decisions of the Board relating to security, minimum performance standards, use of the Trademarks, Interac structure and membership criteria, Board composition and voting rules, and fees (other than interchange fees as defined in the By-laws) that require the affirmative vote of two-thirds of the Board's directors for enactment.

Indirect Connector ("IC")	-	Any commercial entity or FT which must communicate with other Members in an Interac Shared Service or Bilateral/ Multilateral Service through a Direct Connector.
Inter Member Network ("IMN")	-	Network software used to directly connect to the Services (which includes the rights to use CANNET as long as the SCD Service uses CANNET).
Interac	-	Interac Association.
Issue	-	Any Financial Institution that issues Cards that facilitate access to its Demand Accounts.
Member	-	A member of the Interac Association.
Message	-	The electronic messages exchanged between Members of a Shared Service are of two types: the request message transmitted by an Acquirer, and the response message transmitted by an Issuer.
New Shared Service	-	A Service that is certified by the senior management of Interac Inc. as meeting the eligibility criteria set out in 4(f) and that is adopted as a Shared Service by the Board.
Operating Regulations	-	The operating regulations of Interac.
Rebate	-	An amount paid to a Cardholder by an Acquirer in connection with the provision of a Shared Service.
Service	-	The term used to refer to the Shared Services, any Bilateral/Multilateral Service, or any combination of the two categories.
Service Access Fees	-	An entrance or initiation fee paid by prospective members for access to either of Interac's SCD or IDP Services.
Shared Electronic	-	The shared services that allow Cardholders on-line Financial Services electronic access to Demand Accounts.
Shared Electronic Network Service	-	The shared services required to enable network participants to provide Cardholders with Shared Electronic Financial Services.

Shared Service	- The Interac Shared Cash Dispensing Service ("SCD"), the Interac Direct Payment Service ("IDP") or any New Shared Service adopted by the Interac Association.
Shared Service Enhancement	- Any improvement to the functionality, efficiency, or quality of service provided by one or more Shared Services.
Surcharge	- A fee imposed by an Acquirer on a Cardholder for provision of a Shared Service.
Switch Fee	- IMN user fee payable on a per Message basis and calculated to recover the sum of: (a) the costs Interac incurs to deliver the Services; and (b) the costs incurred by Interac Inc. in the development of the IMN, net of any Service Access Fees collected to date ("IMN recoverable costs"). The IMN recoverable costs total $16,859,000 and will be recovered over a ten year amortization period as described in evidence that will be filed with the Competition Tribunal.
Terminal	- An automated banking machine, IDP terminal, or other device that, in conjunction with a Card, provides a Cardholder access to a Shared Service.
Trademarks	- The Interac Trademarks.

APPENDIX "B"

Interac Fees & Related Charges

1. **SCD Fees & Charges**

(a) Fees and charges determined at the Interac level

Interchange Fee	$0.75 per transaction paid by the card Issuer to the Acquirer.
Initial Membership Fee	$10,000 paid to Interac by new Sponsored Members.
Annual Membership Fee	An amount paid to Interac by all Members to offset annual overhead costs of Interac according to a formula determined by Interac By-laws.
Interac Switch Fee	Paid by a Charter Member to CANNET for each Interac transaction in an amount set by agreement between CANNET and Interac.
Service Access Fee	$7.50 for each card issued within the first three years of membership, less a credit for ABMs brought on the network (with a minimum fee of $100,000). The amount to be paid on admission by new members to the Charter Members according to a formula determined by the Interac By-laws.

(b) Fees determined by each Charter Member payable by its Sponsored Members

Switch Fee	The fee paid by a Sponsored Member to its sponsoring Charter Member for each Interac transaction executed via the Charter Member in an amount negotiated between the Charter Member and the Sponsored Member (typically $0.12 to $0.17).
Transaction Fee	Typically, the total of the switch fee plus the interchange fee paid by the Sponsored Member to its Charter Member.
Access Fee	The fee charged by the Charter Member to its Sponsored Member on admission for connecting to the Interac network (typically ranging from $10,000 - $25,000).

(c) Fees determined solely by each Financial Institution

Service Charge	An amount that may be charged by a financial institution to its cardholders for Interac Shared Electronic Network Services (typically computed by reference to the Interchange Fee and an additional charge).

2. **<u>IDP Fees & Charges</u>**

(a) Fees & charges determined at the Interac level

Interchange Fee	Currently set at $0.00 per transaction.
Initial Membership Fee	$10,000 paid to Interac by new Sponsored Members.
Annual Membership Fee	The annual estimated total operating costs of the IDP Service divided by the total number of IDP members.
Service Access Fee:	
Card Issuer	$1.64 for each card issued within the first three years of membership payable by a Sponsored Member (minimum $100,000).
Transaction Acquirer	An amount per transaction for all transactions acquired during the first three years (minimum $100,000) (currently set at $0.0213).
Switch Fee	$0.05 per transaction from each of the Issuer and Acquirer, payable by the Charter Members to Interac.

(b) <u>Fees determined by each Charter Member payable by its Sponsored Member</u>

Switch/Transaction Fee	The fee paid by Sponsored Member to its sponsoring Charter Member for routing transactions through that Charter Member's switch in an amount negotiated between the Charter and Sponsored Members (typically $0.05 - $0. 10).

(C) <u>Fees determined solely by each Financial Institution</u>

Service Charge	Fees determined by each financial institution payable by its cardholders for each Interac transaction.
Retailer Transaction Fee	The amount paid to an IDP terminal-deploying financial institution by a retailer for each Interac IDP transaction.

APPENDIX "B"

Interac Fees & Related Charges

1. SCD Fees & Charges

(a) Fees and charges determined at the Interac level

Interchange Fee	$0.75 per transaction paid by the card Issuer to the Acquirer.
Initial Membership Fee	$10,000 paid to Interac by new Sponsored Members.
Annual Membership Fee	An amount paid to Interac by all Members to offset annual overhead costs of Interac according to a formula determined by Interac By-laws.
Interac Switch Fee	Paid by a Charter Member to CANNET for each Interac transaction in an amount set by agreement between CANNET and Interac.
Service Access Fee	$7.50 for each card issued within the first three years of membership, less a credit for ABMs brought on the network (with a minimum fee of $100,000). The amount to be paid on admission by new members to the Charter Members according to a formula determined by the Interac By-laws.

(b) Fees determined by each Charter Member payable by its Sponsored Members

Switch Fee	The fee paid by a Sponsored Member to its sponsoring Charter Member for each Interac transaction executed via the Charter Member in an amount negotiated between the Charter Member and the Sponsored Member (typically $0.12 to $0.17).
Transaction Fee	Typically, the total of the switch fee plus the interchange fee paid by the Sponsored Member to its Charter Member.
Access Fee	The fee charged by the Charter Member to its Sponsored Member on admission for connecting to the Interac network (typically ranging from $10,000 - $25,000).

(c) Fees determined solely by each Financial Institution

Service Charge	An amount that may be charged by a financial institution to its cardholders for Interac Shared Electronic Network Services (typically computed by reference to the Interchange Fee and an additional charge).

2. **IDP Fees & Charges**

(a) Fees & charges determined at the Interac level

Interchange Fee	Currently set at $0.00 per transaction.
Initial Membership Fee	$10,000 paid to Interac by new Sponsored Members.
Annual Membership Fee	The annual estimated total operating costs of the IDP Service divided by the total number of IDP members.
Service Access Fee:	
Card Issuer	$1.64 for each card issued within the first three years of membership payable by a Sponsored Member (minimum $100,000).
Transaction Acquirer	An amount per transaction for all transactions acquired during the first three years (minimum $100,000) (currently set at $0.0213).
Switch Fee	$0.05 per transaction from each of the Issuer and Acquirer, payable by the Charter Members to Interac.

(b) Fees determined by each Charter Member payable by its Sponsored Member

Switch/Transaction Fee	The fee paid by Sponsored Member to its sponsoring Charter Member for routing transactions through that Charter Member's switch in an amount negotiated between the Charter and Sponsored Members (typically $0.05 - $0.10).

(c) Fees determined solely by each Financial Institution

Service Charge	Fees determined by each financial institution payable by its cardholders for each Interac transaction.
Retailer Transaction Fee	The amount paid to an IDP terminal-deploying financial institution by a retailer for each Interac IDP transaction.