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MasterCard International

December 13, 2013

Via Email (comment@fedpaymentsimprovement.org)

The Federal Reserve Banks
c/o Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Payment System Improvement – Public Consultation Paper

Ladies and Gentlemen:

MasterCard Worldwide ("MasterCard")[1] submits this response to the *Payment System Improvement – Public Consultation Paper* ("Consultation Paper") published by the Federal Reserve Banks (the "FRBs") on September 10, 2013 to provide MasterCard's views on the questions posed by the FRBs in the Consultation Paper. MasterCard appreciates the opportunity to offer our responses to the Consultation Paper.

In General

At MasterCard, we strive to meet the changing needs of consumers, merchants and other businesses by providing electronic forms of payment that are accessible to all, easy to use, secure, fast and safe. Others in our industry seek to do the same. Through the fierce competition of the marketplace, the payment industry has acted, and continues to act, as the key innovator in payment system development. Furthermore, market pressures have led to the benefits of electronic payments being delivered in the U.S. at a low cost to consumers and payment system participants, and electronic payments have contributed to incredible gains across all parts of the U.S. economy. We see no reason why this will not continue in the future.

[1] MasterCard advances global commerce by providing a critical link among financial institutions and millions of businesses, cardholders and merchants worldwide. In the company's roles as a franchisor, processor and advisor, MasterCard develops and markets secure, convenient and rewarding payment solutions, seamlessly processes more than 34 billion payments each year, and provides analysis and consulting services that drive business growth for its banking customers and merchants. With more than 1.15 billion cards issued through its family of brands, including MasterCard®, Maestro® and Cirrus®, MasterCard serves consumers and businesses in more than 210 countries and territories, and is a partner to more than 20,000 of the world's leading financial institutions. With more than 35.9 million acceptance locations worldwide, no payment card is more widely accepted than MasterCard.

Moreover, we believe that the industry has responded well to market demands and that a market-based approach to payment industry evolution is best. In our view, a government-led, top-down approach to improving the payment system in the United States will inevitably discourage innovation and unintentionally or otherwise have the effect of picking winners and losers based on factors other than the superiority of products and services as judged by market acceptance. Such an approach also will unavoidably generate unintended adverse consequences for the very consumers, merchants and other businesses that it intends to benefit.

The FRBs can most effectively advance electronic payments in the United States by helping to maintain the integrity of the financial system through appropriate and thoughtful regulation of banks and through its research and public education regarding electronic payments and its facilitation of industry communication regarding the evolving state of the payment system in the United States.

Background on MasterCard

MasterCard does not issue payment cards of any type (credit, debit or prepaid), nor does it contract with merchants to accept those cards. MasterCard operates a payment system in which those functions are performed in the United States by numerous banks. MasterCard refers to the banks that issue payment cards bearing the MasterCard brands as "issuers." MasterCard refers to the banks that enter into contracts with merchants to accept MasterCard-branded payment cards as "acquirers." MasterCard owns the MasterCard family of brands and licenses issuers and acquirers to use those brands in conducting payment transactions. MasterCard also provides the networks through which issuers and acquirers interact to complete payment transactions, and sets certain rules regarding those interactions.

MasterCard's Responses to the FRBs' Questions for the Public

Q1. Are you in general agreement with the payment system gaps and opportunities identified above? Please explain, if desired.

While some of these observations seem accurate (*e.g.*, check writing persists because checks are widely available; businesses can have complex systems that create challenges for electronic payments), we do not agree with all aspects of all of these observations. For example, our system provides "ubiquitous near-real-time retail payments" and "near-real-time posting/availability of funds." Users of the MasterCard system can obtain real-time payment authorization, with prompt settlement in good funds for purchase transactions, and the same technology is being deployed for person-to-person payments. The U.S. consumer payments market does not currently demonstrate strong demand for payments and funds availability in a materially shorter time period than what is now offered (*i.e.*, instantaneous authorization and prompt settlement). More importantly, however, we generally do not accept the characterization of these observations as "gaps and opportunities." The U.S. payment system is an open and competitive marketplace in which banks, networks, payment solution providers and others have done an excellent job developing products and services to meet the needs of consumers and other customers. That is, the customer needs *in the U.S. market* drive the payment system developments *in the U.S. market*. As a result, although, as the FRBs observe, some "payment

innovations have yet to gain significant market penetration," we believe that that observation reflects insufficient, rather than unmet, demand in the market for such innovations.

Of course, we can agree that the core need for flexible and accessible payment solutions is common to all markets. However, we believe that consumer preferences in the U.S. market – not examples of payment products in other markets – should catalyze improvements and innovations in the U.S. market and indeed already do so. In addition, developments in the United States are affected by legal requirements and industry standards (*e.g.*, regarding anti-money laundering and information security) in the United States, which differ in many respects from the requirements and standards in other countries. Furthermore, the number of participants in the U.S. banking market is larger than in many markets cited by the FRBs as examples. Coordinating with a large number of financial institutions is necessarily more complicated and difficult than in a market with fewer participants. In short, the availability of a particular payment system function or solution in another market or the absence of a particular payment function in our domestic market cannot be assumed to represent a "gap" in the U.S. market.

Finally, we encourage the FRBs to view with some skepticism those who advocate for importing policies from other jurisdictions when it favors their economic interests by claiming that the United States is "falling behind" those jurisdictions, but who argue against importation of other policies from the same jurisdictions that are against their economic interests. New products, policies and other developments should be evaluated on their own merits, with an eye toward the U.S. market's unique characteristics.

Q2. Are you in general agreement with the desired outcomes for payment system improvements over the next 10 years? Please explain, if desired.

We agree that the U.S. payment system should continue to meet evolving market needs. However, in the context of a healthy payment system such as ours, the pace and direction of change should be driven by market demand, not by an artificial timeline or a government-mandated top-down agenda.

i. What other outcomes should be pursued?

As noted above, we believe that the outcomes to be pursued will be determined through market forces, as providers introduce new and innovative products to meet the demands of the market.

Q3. In what ways should the Federal Reserve Banks help improve the payment system as an operator, leader, and/or catalyst?

MasterCard believes that the FRBs should have two major roles in helping to improve the U.S. payment system. As a regulator and supervisor of banks, the FRBs serve a vital role in ensuring the integrity of the U.S. payment system. Public confidence in the payment system is necessary for any innovation to take hold, especially as the payment system migrates to more frequent use of electronic payments. In addition, the FRBs have a unique capability to sponsor research and facilitate dialogue through conferences and other industry meetings that bring together leaders from various stakeholder groups to discuss issues and developments and thereby foster improvement and innovation, with the FRBs as neutral participants and moderators.

Ubiquitous near-real-time payments

Q4. In discussions with industry participants, some have stated that implementing a system for near-real-time payments with the features described in the second desired outcome (ubiquitous participation; sender doesn't need to know the bank account number of the recipient; confirmation of good funds is made at the initiation of the payment; sender and receiver receive timely notification that the payment has been made; funds debited from the payer and made available in near real time to the payee) will require coordinated action by a public authority or industry group. Others have stated that current payment services are evolving toward this outcome and no special action by a public authority or industry group is required.

i. Which of these perspectives is more accurate, and why?

MasterCard believes that the second perspective is more accurate. U.S. banks, merchants and networks have already created a ubiquitous interoperable electronic payment system that delivers real-time payment authorization and prompt settlement in good funds for purchase transactions. This same technology is increasingly being deployed for person-to-person payments. Moreover, the well-developed U.S. electronic payment system is already moving from a static message format to a dynamic infrastructure that will support chip cards, mobile devices and other payment form factors that are in the early stages of adoption. No outside intervention by a public authority or industry group is required to move the payment services industry in the direction it is already going.

ii. What other perspective(s) should be considered?

In a well-functioning payment system such as ours, the risks of government intervention far outweigh any perceived benefits. Therefore, we urge the FRBs to proceed with caution as they consider their role in the development of the U.S. payment system. While we share the FRBs' desire for a U.S. payment system that is constantly improving to better meet the needs of consumers and businesses, the overlay of government mandates on a well-functioning market often has unintended adverse effects. For example, intervention by the FRBs to set requirements of collaboration and cooperation may discourage private actors from incurring the R&D costs that are necessary for breakthrough technologies. In other words, mandated cooperation may create an institutional "free rider" problem that will disincentivize industry participants from innovation. Who will be willing to bear the high costs of innovation with the knowledge that the fruits of their labor will be shared by all? Also, government-established goals may push the industry in a direction that ultimately will not garner the best results, or in a direction that will cause potentially groundbreaking innovations to be set aside in favor of innovations that satisfy government objectives, or in a direction that will elevate and entrench technologies or processes that will become prematurely outmoded.

Free markets are messy. However, industry is willing to invest heavily in innovation and compete fiercely for customers because of the knowledge that the best products and services will be rewarded. When governments dictate market outcomes, the incentives are fundamentally altered and likely for the worse.

Q5. The second desired outcome articulates features that are desirable for a near-real-time payments system. They include:

a. Ubiquitous participation

b. Sender doesn't need to know the bank account number of the recipient

c. Confirmation of good funds is made at the initiation of the payment

d. Sender and receiver receive timely notification that the payment has been made

e. Funds debited from the payer and made available in near-real time to the payee

i. Do you agree that these are important features of a U.S. near-real-time system? Please explain, if desired.

With the exception of item (e), for which we believe that prompt settlement is adequate, we agree that these are important features of a U.S. near-real-time system. Indeed, they are *already* present in the U.S. credit, debit and prepaid payment systems. For example, MasterCard's Maestro system has all of these characteristics, allowing real-time authentication, assurance of payment for authorized transactions and real-time transaction messaging and alerts, among other features. In addition, the industry is already developing further enhancements to improve the safety and efficiency of payments in the United States. To cite some examples:

- MasterPass, MasterCard's digital wallet service, provides consumers with an easy-to-implement digital payment solution that provides a simplified checkout experience.

- MasterCard, Visa and American Express recently introduced a proposed global framework for a new standard to enhance the security of digital payments and simplify mobile and computer payments. The standard will allow the traditional account number to be replaced with a digital payment token for online and mobile transactions. Only the cardholder and the issuing bank will know the actual account number. The new standard will include new data fields to improve fraud detection and expedite approval; consistent methods to identify and verify that the cardholder is an authorized user at the point of transaction; and simplification of the process for merchants for contactless, online and other transactions.

- MasterCard is developing a standardized method and on-behalf service (MasterCard Digital Enablement System) for provisioning digital credentials to mobile devices.

- MasterCard is advancing contactless payment technology, which will work with any payment form factor or channel, including retail point-of-sale, online and ATM.

- MasterCard is leading the United States' migration to the EMV standard, which will help reduce fraud at the point-of-sale and at ATMs, and will support the conversion to digital payments.

ii. What other characteristics or features are important for a U.S. near-real-time system?

It is difficult to determine at this point what characteristics or features will be important or popular for the U.S. payment system in the future. The combined effects of technological advancement and changing customer demands will drive innovation and development in the future. However, we know that as the payment industry continues to innovate and introduce new services in response to market demands, it will continue to be essential for the industry to make growing investments in payment system security tools that can mitigate fraud in the electronic payments environment of the future.

Q6. Near-real-time payments with the features described in the second desired outcome could be provided several different ways, including but not limited to:

a. Creating a separate wire transfer-like system for near-real-time payments that leverages the relevant processes, features, and infrastructure already established for existing wire transfer systems. This option may require a new front-end mechanism or new rules that would provide near-real-time confirmation of good funds and timely notification of payments to end users and their financial institutions.

b. Linking together existing limited-participation networks so that a sender in one network could make a payment to a receiver in another network seamlessly. This option may require common standards and rules and a centralized directory for routing payments across networks.

c. Modifying the ACH to speed up settlement. This option may require a new front-end mechanism or new network rules that would provide near-real-time confirmation of good funds and timely notification of payments to end users and their financial institutions. Payments would be settled periodically during the day.

d. Enhancing the debit card networks to enable ubiquitous near-real-time payments.

e. Implementing an entirely new payment system with the features described in the second desired outcome above.

i. What would be the most effective way for the U.S. payment system to deliver ubiquitous near-real-time payments, including options that are not listed above?

As stated in our responses to Questions 4 and 5, we believe that the U.S. payment system already delivers near-real-time payments. Also, we disagree with the characterization of existing network payment systems as "limited-participation." Existing network payment systems offer a greater degree of ubiquity than even the paper check system. All or nearly all depository institutions in the United States participate in MasterCard and/or one of the other U.S. payment networks and offer debit cards to their depositors that operate on such systems. Moreover, through the development of the prepaid card market by the industry, unbanked consumers now

have access to electronic payments where they previously did not. Thus, end users of the payment card networks now include banked and unbanked consumers. As a result of standards of interoperability developed by the industry, payment cards can be used interchangeably at merchants and ATMs across the country. Moreover, the industry is developing ways for person-to-person transfers to occur between the holders of payment cards that operate on different payment networks. This state of affairs cannot fairly be described as "limited participation."

In addition, it is important to note that the system of paper checks is not "ubiquitous." The Federal Deposit Insurance Corporation's 2011 National Survey of Unbanked and Underbanked Households, conducted by the U.S. Census Bureau, determined that 8.2 percent of U.S. households are unbanked. Without access to a deposit account, these households are shut out from the paper check and ACH systems. However, as noted above, payment cards are accessible to all consumers, whether or not they have a deposit account. In our view, any discussion of the ubiquity of various payment methods must take into account the households that do not have access to traditional financial services.

ii. What are the likely pros and cons or costs and benefits of each option? What rule or regulation changes are needed to implement faster payments within existing payment processing channels?

No rule or regulation changes are needed. Existing network payment systems have for decades responded to marketplace demands by expanding the scope of payment types, venues, form factors and features, as well as the core security, speed and reliability of the overall payment system. To cite one example, in recent years new systems and tools have evolved to assist smaller merchants in enabling payments to help grow e-commerce and increasing card acceptance in face-to-face, card-present transactions. These developments have come not because of regulatory mandates or by regulators choosing a particular technology, but through an open competitive market that facilitates innovation.

In addition, imposing rule or regulation changes on the payment system would be expensive for payment system participants, including the banks and other financial institutions that are currently bearing the costs of complying with the Dodd-Frank Act and its associated rulemakings. Adding further compliance obligations to financial institutions' already extensive obligations would not be productive.

iii. Is it sufficient for a solution to be limited to near-real-time authorization and confirmation that good funds are on their way, or must end-user funds availability and/or interbank settlement take place in near-real time as well?

We believe that real-time settlement is not necessary. Real-time authorization and confirmation of funds is sufficient; this now occurs millions of times every day in the United States via MasterCard and other payment networks that establish a trusted counterparty environment via their licensing structure.

iv. Which payment scenarios are most and least suitable for near real-time payments? (B2B, P2P, P2B, POS, etc.)

Each payment scenario may be suitable for near-real-time payments; however, the market will determine which use cases are most desired, and market pressures will lead development in those directions. We have no separate opinion regarding the rate at which various payment scenarios will adopt near-real-time payments.

Q7. Some industry participants have said that efforts to make check payments easier to use, such as by enabling fully electronic payment orders and/or by speeding up electronic check return information, will incrementally benefit the payment system. Others argue the resources needed to implement these efforts will delay a shift to near-real-time payments, which will ultimately be more beneficial to the payment system. Which of these perspectives do you agree with, and why?

We agree with the second perspective. The check system as it functions today meets the needs of consumers who use checks. However, making check payments easier to use will not foster payment system improvement. It will only perpetuate an outmoded payment method that is rapidly declining in usage because superior methods of payment have overtaken it.

Q8. How will near-real-time payments affect fraud issues that exist with today's payment systems, if at all?

See (i) below.

i. Will near-real-time payments create new fraud risks? If yes, please elaborate on those risks.

Fraud is a serious long-term challenge for the payment system. All forms of payment are targeted by criminals, and payment fraud is increasingly sophisticated, organized and international. Payment networks, banks and merchants have invested enormous resources in fighting fraud, and will continue to do so in the future. Near-real-time payments are not intrinsically more or less susceptible to fraud. However, new payment technologies will reduce overall fraud risks (*e.g.*, tokenization, EMV, etc.). Static data environments (such as data kept on a payment card magnetic stripe) are more vulnerable to fraud, for example, than the dynamic data environment supported by EMV chip technology. Migration to a dynamic data environment is a very high priority for the payment industry.

Q9. To what extent would a ubiquitous near-real-time system bring about pivotal change to mobile payments?

Adoption of mobile payment technologies is determined more by the overall consumer value proposition than by the presence or absence of ubiquitous near-real-time payments. Merchants and consumers will adopt mobile payments where appropriate, as advancing technology and changing market demands dictate. Ubiquitous near-real time payment networks such as MasterCard already provide the foundational technology on which many mobile payment innovations are built (*e.g.*, iTunes, Dwolla Credit, Google Wallet, Square, Uber and PayPal).

Q10. What would be the implication if the industry and/or the Federal Reserve Banks do not take any action to implement faster payments?

Implementation of faster payments has already begun, and we anticipate that it will continue based on increasing demand from the market. We believe that FRB intervention is unwarranted and, as discussed in response to Question 4, will stymie the very innovations that will lead to faster payments.

i. What is the cost, including the opportunity cost, of not implementing faster payments in the United States?

As the demand for faster payments grows in the U.S. marketplace – and we believe it is growing from a currently small user base – faster payments are being developed by competitors in the market. The companies that develop technology to meet the market demand for faster payments will be successful, and any cost of not implementing faster payments will be borne by the companies that fail to either recognize or meet market demands for faster payments as they arise.

Q11. To what extent will the industry need to modernize core processing and other backend systems to support near-real-time payments?

As discussed above, the MasterCard system already supports near-real-time payments.

i. What is the likely timeframe for any such modernization?

N/A.

Q12. Some industry participants suggest that a new, centralized directory containing account numbers and routing information for businesses and/or consumers, to which every bank and other service providers are linked, will enable more electronic payments. A sender using this directory would not need to know the account or routing information of the receiver.

i. What are the merits and drawbacks of this suggestion?

See (ii) below.

ii. What is the feasibility of this suggestion?

We believe that the current BIN system employed by payment networks already serves this function. The current BIN system enables routing of payments without the sender knowing the account or routing information of the receiver. This is so for purchase transactions and more recently for person-to-person payments.

Electronification

Q13. Some industry participants say that check use is an enduring part of the U.S. payment system and that moving away from checks more aggressively would be too disruptive for certain end users.

i. Is accelerated migration from checks to electronic payment methods a high-priority desired outcome for the U.S. payment system? (Accelerated means faster than the current trend of gradual migration.)

See (ii) below.

ii. Please explain, if desired.

MasterCard believes that moving away from paper checks is desirable and also a consequence of a well-developed electronic payment system. The declining use of paper checks for payment is already an accelerating long-term trend in the U.S. market, which is mirrored in other markets with a highly developed and ubiquitous electronic payment infrastructure. Accelerated migration from paper checks to electronic payment methods will increase economic inclusion (by opening the payment system to unbanked and underbanked consumers) and potentially reduce system costs. However, we recognize that paper checks are, at the moment, still an important component of the payment system, and that cutting support for paper checks on a too-rapid timeframe could cause unnecessary disruption to the payment system.

iii. If yes, should the Federal Reserve Banks establish a target for the percent of noncash payments to be initiated via electronic means, by a specific date? For example: "By the year 2018, 95% of all noncash payments will be made via electronic means."

See (iv) below.

iv. What is the appropriate target level and date?

The best support the FRBs can provide for accelerated migration away from checks would be to curtail support for the systems that facilitate paper check payments. Rather than setting a target date and target share of electronic payments, the FRBs could consider establishing a "trigger point" for the share of check payments below which the FRBs will begin phasing out their support of paper check payments. This approach would allow for an orderly migration away from paper check payments, without unnecessary disruption.

Q14. Business-to-business payments have remained largely paper-based due to difficulties with handling remittance information. Consumer bill payments also are heavily paper-based due to the lack of comfort some consumers have with electronic alternatives. In addition, many small businesses have not adopted ACH for recurring payments due to technical challenges and/or cost constraints. The payment industry has multiple efforts underway to address these issues.

i. To what extent are these efforts resulting in migration from checks to other payment types?

See (iv) below.

ii. What other barriers need to be addressed to accelerate migration of these payments?

See (iv) below.

iii. What other tactics, including incentives, will effectively persuade businesses and consumers to migrate to electronic payments?

See (iv) below.

iv. Which industry bodies should be responsible for developing and/or implementing these tactics?

Businesses have been slow to adopt electronic payments because internal business practices are frequently complicated, and implementing electronic payment technologies can be difficult. However, current developments will lead to the adoption of electronic payments as they become more convenient and the cost of electronic payments falls below the costs of maintaining legacy business systems. Similarly, the current trend is already moving consumers toward electronic payments; intervention from regulators is not needed to artificially move consumers in that direction.

Cross-border payments

Q15. To what extent would the broader adoption of the XML-based ISO 20022 payment message standards in the United States facilitate electronification of business payments and/or cross-border payments?

We do not have any specific comments with respect to the ISO 20022 payment message standards. We agree that it is imperative for payment system standards in the United States to be fully interoperable with payment systems worldwide, as ISO standards are, to foster international commerce. However, we do not believe it would be appropriate for the FRBs to require use of a particular payment standard or technology. The payment market is best served by allowing the development of new and improved standards over time without regulatory intervention.

Q16. What strategies and tactics do you think will help move the industry toward desired outcome four - consumers and businesses have greater choice in making convenient, cost-effective, and timely cross-border payments?

The issues that make cross-border payments cumbersome are less a function of the payment system and more a function of the nature of international commerce. When offering multi-jurisdictional payments, payment systems and their participants face differing and sometimes conflicting regulations on security, privacy and other issues. Varying security methods and protocols often raise barriers to authorization of cross-border transactions. In addition, difficulties in transporting goods across borders constitute an obstacle to fulfilling

orders, which adds costs and increases uncertainty that goods will be delivered. Concerns that goods will not be delivered make determining the finality of payments more difficult. These issues constitute a more significant obstacle to cross-border payments than anything in the payment system.

In addition, the consumer and business cross-border payments markets are very different, both in their scope and their nature. Business payments are much larger both on average and in total transaction volume. Solutions that address issues in the consumer market may not address the business market, and vice versa.

Safety

Q17. Payment security encompasses a broad range of issues including authentication of the parties involved in the transaction, the security of payment databases, the security of software and devices used by end users to access payment systems, and security of the infrastructure carrying payment messages.

i. Among the issues listed above, or others, what are the key threats to payment system security today and in the future?

While each of the issues listed above does constitute a potential threat to payment security, we believe that the most salient threat comes from devices that access payment networks. Since the devices that access payment networks are often outside the control of the entities that are in the best situation to ensure security of payments, they can often be the "weakest link" in the security chain.

ii. Which of these threats are not adequately being addressed?

MasterCard and the payments industry in general are engaged in an ongoing effort to identify new threats as they arise, and to both prevent security breaches and remediate their effects when they occur. While this represents an ongoing challenge due to the ever-changing nature of cyber threats, we believe that these industry efforts, and MasterCard's efforts in particular, are adequately addressing payment security threats.

iii. What operational or technology changes could be implemented to further mitigate cyber threats?

The single biggest technology change that could currently be implemented to further mitigate cyber threats is the adoption of dynamic data for U.S. consumer payments. This standard is already being adopted, but the FRBs could encourage broader adoption of this standard.

Q18. What type of information on threat awareness and incident response activities would be useful for the industry?

See (i) below.

i. How should this information be made available?

MasterCard participates in a number of information-sharing programs and initiatives, both based in the private industry and with government agencies. These initiatives include:

- Financial Services – Information Sharing & Analysis Center ("FS-ISAC"): The FS-ISAC, as the operational arm of the Financial Services Sector Coordinating Council ("FSSCC"), works with both the FSSCC and Department of the Treasury to identify threats and coordinate protections against those threats, and to share information pertaining to both actual and potential physical and cyber security threats.

- National Cybersecurity & Communications Integration Center ("NCCIC"): The NCCIC, housed within the Department of Homeland Security, serves as a centralized location where operational elements involved in cybersecurity and communications reliance are coordinated and integrated. NCCIC partners include all federal departments and agencies, U.S. local government entities, the private sector, and international entities. The mission of the NCCIC is to coordinate among the private sector and government to identify and respond to threats in a synchronized manner, while protecting the constitutional and privacy rights of Americans in both the cybersecurity and communications domains.

- BITS: An initiative of the Financial Services Roundtable's Technology Task Force, BITS identifies key issues affecting the financial services industry where collaboration among members can improve the environment for those companies and their customers through the development of policies and practices. BITS practices both information sharing and collaboration with regulators to ensure adequate protections against fraud and other security threats.

In addition, MasterCard has partnered with the United States Secret Service and Federal Bureau of Investigation on information-sharing and security initiatives, as well as global regulators such as the National Bank of Belgium (our lead overseer in the European Union).

The FRBs could serve an important role by engaging in public education efforts. The general public may not be aware of threats as they arise, and the FRBs are in a position to spread awareness without creating an additional level of security bureaucracy.

Q19. What future payment standards would materially improve payment security?

As noted above, the adoption of a dynamic data infrastructure for U.S. consumer payments is the change that would create the single largest improvement in U.S. payment security in the near-term.

i. What are the obstacles to the adoption of security-related payment standards?

As with any new technology, addressing the cost of implementation is a significant barrier to adoption. However, we work hard to balance the costs and benefits of new security related payment standards when we develop standards adoption plans.

Q20. What collaborative actions should the Federal Reserve Banks take with the industry to promote the security of the payment system from end to end?

The industry already works aggressively on these issues through groups such as the PCI Security Standards Council and the groups and government initiatives noted in response to Question 18. These private industry initiatives and public-private collaborations have served the industry and the payment system well, and we believe they will continue to do so in the future.

Also, the payment industry, through EMVCo., has collaborated extensively with stakeholders in developing enhanced card and terminal security as part of the new EMV standard. The EMV standard promotes global interoperability and is designed with the future in mind. The EMV standard was developed to meet the needs of a converged product environment, while also enhancing security in today's market.

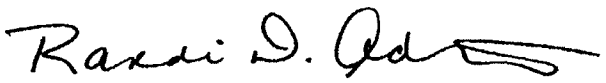
Q21. Please share any additional perspectives on U.S. payment system improvements.

We appreciate the FRBs' interest in encouraging the continued improvement of the U.S. payment system. We share that interest. As the FRBs study these issues, we encourage them to consider approaches that focus on their role as public educators, sponsors of research and hosts of industry discussions. We would discourage the FRBs from developing regulations, standards or goals that serve as top-down mandates for payment system improvement. Our experiences in the United States and overseas instruct our strongly held view that, no matter how well-intentioned, government interventions in a healthy payment system run a significant risk of inadvertently stifling innovation and slowing development of payment technologies. Our competitive and well-developed payment services market has an extraordinary track record of improvements and innovations and, by all measures, continues to proactively innovate electronic payments.

* * *

MasterCard appreciates the opportunity to provide answers to the questions posed in the Consultation Paper. If there are any questions regarding our responses, or if you would like to discuss our responses in further detail, please do not hesitate to contact the undersigned at (914) 249-6715 or randi_adelstein@mastercard.com, or our counsel at Sidley Austin LLP in this matter, Joel D. Feinberg, at (202) 736-8473.

Sincerely,



Randi D. Adelstein
Vice President, Senior Managing Counsel
U.S. Regulatory and Public Policy

cc: Joel D. Feinberg