GSA Federal Supply Service

Citibank and MasterCard
Citibank® Commercial Cards, Government Services

Citibank and MasterCard

The Eighth Annual GSA SmartPay Conference
Ethan Carr, Daniel Rose, August 2, 2006
Goal & Objectives

- Explanation of transaction flow and the definition of enhanced data in a card transaction
- To understand the benefits of enhanced data and to learn how to improve your 1099 and socio-economic reporting capabilities
- To gain better a understanding of QPCA and its benefits to the organization
Agenda

- Transaction Flow
- Enhanced Data:
  - Definition and Benefits
  - How Does It Work?
  - Challenges in Obtaining Data
- Enhanced Merchant Reporting
- QPCA Update
- Q&A
Citibank and MasterCard

Daniel Rose
MasterCard
Public Sector Payment Solutions
Transaction Flow
Transaction Life Cycle

The Players

The Merchant

Bank Of The Acquirer

Bank Of The Issuer

The Merchant
Transaction Flow: Authorization

1. Cardholder swipes MasterCard at merchant.
2. Merchant’s bank asks MasterCard to determine cardholder’s bank.
3. MasterCard network determines cardholder’s bank and requests approval for purchase.
4. Cardholder’s bank approves purchase.
5. MasterCard sends approval to merchant’s bank.
6. Merchant’s bank sends approval to merchant.
7. Cardholder completes purchase and receives receipt.
Transaction Flow: Clearing

1. Merchant’s bank sends purchase information to MasterCard network.

2. MasterCard sends purchase information to cardholder’s bank, which prepares data for cardholder’s statement.

3. MasterCard provides complete reconciliation to merchant’s bank.
Transaction Flow: Settlement

1. Cardholder’s bank sends payment to MasterCard.
2. MasterCard’s settlement bank sends payment to merchant’s bank.
3. Merchant’s bank pays merchant for cardholder’s purchase.
4. Cardholder’s bank bills cardholder.
MasterCard Calculates Net Positions

Bank A
- Sends $30
- Receives $40
- Net debit $10

Bank B
- Sends $40
- Receives $60
- Net debit $20

Bank C
- Sends $80
- Receives $50
- Net credit $30

Net Position is $10 for Bank A
Net Position is $20 for Bank B
Net Position is $30 for Bank C

8/25/2006
Enhanced Data Definition and Benefits
What is Enhanced Data?

- Information captured at the point-of-sale that is more comprehensive than what is needed to clear and settle a transaction
- Enhanced data is captured by the merchant and provided to their acquiring bank for transmission through MasterCard’s global clearing and settlement systems
- Enhanced travel data is information captured by the merchant or its POS system provided to MasterCard under a merchant-direct relationship
Why Is It Important?

- Travel management is becoming more closely aligned with procurement.
- Demand is increasing for quality information to make better management decisions
- Better control over travel, purchasing and fleet expenditures
- Simplified expense reporting process via pre-population of data
- Increased policy and regulatory (i.e. SOX) compliance
- Data for maximizing buying power during vendor negotiations
# Enhanced Data Capture: Purchasing Card

<table>
<thead>
<tr>
<th>Data Element</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardholder information</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Transaction amount/date</td>
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<td>Currency code/conversion</td>
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<td>✔️</td>
<td>✔️</td>
</tr>
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</tr>
<tr>
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</tr>
<tr>
<td>Customer code (up to 16 digits)</td>
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<tr>
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<tr>
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<td>✔️</td>
</tr>
<tr>
<td>Merchant postal code</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Merchant state/province code</td>
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<td>✔️</td>
<td>✔️</td>
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<tr>
<td>Ship from postal code</td>
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<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
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<tr>
<td>Item unit of measure</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>
Enhanced Data Capture: Airline and Passenger Railway

**Level I: General Ticket Information**
- Passenger Name - Ticketing Number - Issuing Carrier

**Level II: Trip Leg Data**
- Travel Date - Carrier Code - Service Class Code
- City of Origin/Airport Code - City of Destination/Airport Code

**Level III: Additional General Ticket Information & Trip Leg Data**
- Total Fare - Additional Trip Leg Data - Stop Over Code
- Fare Basis Code - Flight Number - Departure Time
Enhanced Data Capture: Vehicle Rental

Level I: General Ticket Information
- Passenger Name - Ticketing Number - Issuing Carrier

Level II: Vehicle Rental Detail
- Rental Agreement Number - Renter Name - Return City
- Rental Return State/Province - Rental Return Country
- Return Location ID - Return Date - Rental Check-Out Date
- Customer Service Toll-Free (800) Number

Level III: Additional Vehicle Rental Detail
- Rental Location City/State/Country - Day Rental
- Rental Class ID - Tax Exempt Indicator
Enhanced Data Capture: Hotel/Motel

**Level I: General Ticket Information**
- Passenger Name - Ticketing Number - Issuing Carrier

**Level II: Lodging Detail**
- Arrival Date - Departure Date - Folio Number
- Proprietary Phone Number or Customer Service Toll-Free (800) Number

**Level III: Additional Lodging Detail**
- Room Rate - Room Tax - Total Room Nights
- Fire Safety Act Indicator
Enhanced Data Breakdown: % of MasterCard B2B and Government Card Transactions

- Purchases (inc. fuel): 79%
- T&E: 21%

% of Purchase Transactions

- Level II/III: 76%
- Level I: 24%

% of T&E Transactions (with enhanced data)

- Airlines: 96%
- Rail: 95%
- Hotel: 61%
- Car Rental: 53%
Benefits of Enhanced Data

• Cost savings
  – Price negotiations
  – System integration
• Decreased fraud and increased policy compliance
• Improved tax reporting
• Account reconciliation
Value of Data for Negotiations

- Integrated data offers valuable information on vendor compliance and utilization, as well as buying trends.
- 39% of respondents indicate routine use of travel data as leverage in negotiations with suppliers*
- Companies which use card data are also very likely to have a preferred vendor program in place*

* 2004 Corporate Travel Card Benchmark Survey Results; RPMG Research Corporation
Value of Data for System Integration

- The use of automated expense reports that integrate into back end accounting systems can provide significant organizational efficiencies.

- Governments lag behind the private sector regarding usage of electronic expense reports either with pre-populated travel data or without*

- The use of expense reports pre-populated with travel card data is associated with a 56% increase in expense report efficiency*

* 2004 Corporate Travel Card Benchmark Survey Results; RPMG Research Corporations
Improving Compliance and Tax Reporting

• Enhanced data provides a clear audit trail of how organizational funds were utilized.**

• Misuse also occurs where spending is legitimate but not compliant to policy

• Reporting enhanced data through MIS tools, such as CitiDirect, provide visibility on all aspects of spending

• Accurate data ensures accurate reporting of expenses

The Source of Enhanced Data

- Presence of data with financial/clearing record is dependent on the ability of the Acquirer to pass it (Levels I, II, III)
- MasterCard also obtains data directly from Data Providers outside standard clearing/settlement process that is not dependent on the Acquirer and is more comprehensive
- MasterCard matches the enhanced data with the original financial transaction in our Global Data Repository for transmission to issuer and end customer via EMR, Expensys, or custom exports
Participating Airline Merchants

Travel Agency Global Distribution Systems (GDS)
(Airline/Ticketing Data)

Travel Management Companies
Hotel Folio Merchants

Marriott Hotels

Hilton Hotels

Carlson Hotels

Choice Hotels
Enhanced Data – How it’s Done

MATCHED OR UNMATCHED

Day 0
Day 1-2
Day 2-3
Day 3-4
Challenges in Obtaining Enhanced Data

- Low cost airline carriers have not historically participated with GDS’s
- Agencies have not consolidated their backend systems globally
- Percentage of corporate vs. franchise owned agencies and hotels
- Changes in hotel ownership (approx. 5-10% industry turnover annually)
- Compatible property management systems
- Product coding and folio generation varies by chain and may vary by property
- Folio changes at time of checkout
- Data Privacy laws outside the US are more restrictive can have different interpretations in different countries
Enhanced Merchant Reporting
EMR – Enhanced Merchant Reporting

- A web-based solution providing Pcard customers secured access to their Pcard spend data
- Access directly at https://cps.mastercardbusiness.com
- Access via secure User ID and Password
  - Organization determines user access
  - Access can be at organization level or specific level of hierarchy
EMR – Enhanced Merchant Reporting

- EMR benefits/usage:
  - Easy access to Pcard transactions and supplier data to facilitate IRS 1099 reporting
  - Tracking and reporting of spending by socio-economic categories
  - Summary and transaction level reporting for Pcard
  - Identifying volume contractors to negotiate discount pricing
  - Comprehensive reporting including Standard, ad-hoc reporting and Custom Query Export Tool
EMR – Data Sources

• MasterCard Clearing Records
  – Merchant DBA name, street address, City, State, zip, phone, MCC, Tax ID, Type

• Austin-Tetra
  – Augmenting basic merchant data (name, address, city, state, zip, tax ID, legal name, etc.)
  – Append socio-economic data (MWOB, SBE, SDE, HUB, etc.)

• Dun & Bradstreet
  – Newly added source
  – Augmenting basic merchant data (name, address, city, state, zip, tax ID, legal name, DUNS number, etc.)
EMR Transaction/Data Flow

1. Merchant
2. Acquirer
3. MasterCard
   3a. MasterCard Data Warehouse
   3b. EMR
4a. Austin-Tetra
4b. D&B
5. EMR User

- Monthly – New Pcard Merchants
- Quarterly Update
- Monthly – New Pcard Merchants
EMR – Reports and Data

- Standard reports are in Adobe Acrobat “PDF” format
- Exports are tab-delimited ASCII format
- Reports available by month, quarter, year and ranges
- Ad hoc filtering tool for Merchant Type and socio-economic Data
- New merchant data provided on a monthly basis
- Data available for a rolling 27 months
Current 1099 Reporting

- Current 1099 regulations require buyers to:
  - Report payments & TINs for merchant services of $600+ (This requirement is across all payment types – cash, checks, credit cards, etc.)
  - Backup withhold (B/W) on payments if TIN is not provided to cardholder
- 1099 requirements pose challenges for Pcard transactions
  - Knowing which merchants to report – MCC (Merchant Category Code)
  - Knowing which transactions are subject to B/W – reliance on 1099 data after transaction takes place
  - How to B/W on card payments – timing issues of payment & information
1099 Sorting and Selection Criteria

- Establish complete payables file
- Eliminate:
  - Merchants paid < $600
  - Incorporated merchants*
- Non-1099able merchants

* Some corporations may be reportable (e.g., Medical/Health and Legal services). Refer to IRS Publications.
EMR – Sample 1099 Multi-Source Report

3 Sources of Data:
- MasterCard
- Austin-Tetra
- D&B
EMR – Diversity (Socioeconomic) Reporting

- Track and measure relationships with minority-owned, women-owned and disadvantaged businesses.
- To meet internal or external supplier diversity goals
  - Some industries require that vendors/sub-contractors conduct business with a percentage of socio-economic diverse groups
- Obtain Government contracts
  - Businesses or organizations that contract with the government or receive federal funding are required to track their business relationships with minority-owned, women-owned and disadvantaged businesses and report on their progress
## EMR – Sample Spending/ Socioeconomic Report

### Enhanced Merchant Reporting

<table>
<thead>
<tr>
<th></th>
<th>Total Transactions</th>
<th>%</th>
<th>Total Dollar</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Merchants</td>
<td>15,558,074</td>
<td>100%</td>
<td>$4,537,229,579.48</td>
<td>100%</td>
</tr>
<tr>
<td>By Payment Size</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$0-$2,500</td>
<td>15,395,530</td>
<td>98.90%</td>
<td>$3,292,309,715.69</td>
<td>72.56%</td>
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<tr>
<td>$2,500-$25,000</td>
<td>157,025</td>
<td>1.01%</td>
<td>$932,521,002.94</td>
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<td>$25,000-$100,000</td>
<td>5,283</td>
<td>0.03%</td>
<td>$246,944,784.75</td>
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<td>$100,000+</td>
<td>230</td>
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<td>$65,354,086.10</td>
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<tr>
<td>Average Ticket Size</td>
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<td></td>
<td>$291.63</td>
<td></td>
</tr>
</tbody>
</table>

**MBE**                        | 183,664            | 1.18% | $133,190,542.82    | 2.94% |
**WBE**                        | 369,388            | 2.37% | $215,936,968.30    | 4.76% |
**WBES**                       | 269,164            | 1.73% | $167,114,890.06    | 3.68% |
**MWBE**                       | 5,618              | 0.04% | $10,332,296.93     | 0.23% |
**SDB**                        | 33,475             | 0.22% | $55,393,049.78     | 1.22% |
**HUB**                        | 17,276             | 0.11% | $33,033,361.45     | 0.73% |
**DBE**                        | 22,229             | 0.14% | $32,609,789.91     | 0.72% |
**VET**                        | 131,110            | 0.84% | $111,140,945.49    | 2.45% |
**VETS**                       | 111,077            | 0.71% | $96,992,240.86     | 2.14% |
**DVET**                       | 8,902              | 0.00% | $8,534,839.07      | 0.19% |
**DVETS**                      | 8,015              | 0.05% | $7,570,034.38      | 0.17% |
**DIS**                        | 1,535              | 0.01% | $547,130.80        | 0.01% |
**SBE**                        | 1,981,290          | 12.73%| $968,881,227.79    | 21.35%|
**HBCU**                       | 114                | 0.00% | $171,414.39        | 0.00% |
**8(a)**                       | 19,221             | 0.12% | $16,005,447.55     | 0.35% |
# Custom Export Filter Definition

<table>
<thead>
<tr>
<th>Field Description</th>
<th>Action</th>
<th>Filter Value</th>
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<tbody>
<tr>
<td>MC Merchant DBA Name</td>
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<tr>
<td>MC Merchant Street Address</td>
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<td></td>
</tr>
<tr>
<td>MC Merchant City</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MC Merchant State - Two-Letter Abbreviation (e.g., NY, TX, FL...)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MC Merchant Zipcode</td>
<td>N/A</td>
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</tr>
<tr>
<td>MC Merchant Telephone Number (No dashes or parentheses)</td>
<td>N/A</td>
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</tr>
<tr>
<td>MC Federal Tax ID</td>
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<tr>
<td>MC Merchant Category Code</td>
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<tr>
<td>MC Merchant Category Name</td>
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<tr>
<td>MC 1099able Flag (Y for Yes or N for No)</td>
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<td>Y</td>
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</table>

Description:
Leggett & Platt Merchant Detail
QPCA

Qualified Payment Card Agent
IRS QPCA Objectives

- Optimization of 1099 reporting on Pcard transactions
- Address 1099 reporting complexities & difficult workflows
- Standardize TIN collection & validation efforts
- Provide a stronger framework and assistance to Pcard customers by shifting responsibilities to the card organizations
- Increase compliance
What is QPCA?

- A card organization (i.e., MasterCard, Visa, or Amex) designated by IRS to act as an agent on behalf of P-Card customers & merchants
- Responsible for exchanging validated 1099 data between merchants and P-Card customers
- Authorized to solicit, collect and validate merchant TINs on behalf of P-Card customers
- Authorized to report merchant 1099 data to P-Card customer on behalf of merchants
- Provides for a 6-month B/W waiver for P-Card customer (payor) until merchant is a “qualified payee” (QP) as determined by a QPCA
### Untangling the QPCA Confusion

<table>
<thead>
<tr>
<th>What QPCA is</th>
<th>What QPCA is NOT</th>
</tr>
</thead>
</table>
| - QPCA provides additional resources, clarity, and framework to aid in 1099 reporting compliance  
- Provides more accurate and reliable merchant data for 1099 reporting  
- QPCA will continue to evolve | - QPCA is NOT mandatory for:  
  - P-Card customers  
  - Merchants  
  - Payment card organizations  
- QPCA does NOT create NOR change 1099 reporting requirements or process  
- A QPCA does NOT (& will NOT) do 1099 reporting on behalf of P-Card customers |
MasterCard QPCA Status

• MasterCard has submitted its QPCA application to the IRS

• Systems deliverables are complete and will continue in 2006, as needed

• Continuously working with the IRS on issues & procedures; working with issuers and acquirers to build an efficient process

• MasterCard will start the QPCA process when IRS finalizes Rev. Proc.
IRS Status – July 2006

• IRS has reviewed and revised “Request for Guidance” (RFG) Issues – All card organizations had the same 3 issues:
  - Communication with cardholders & merchants must be hardcopy via US Postal Service
  - Communication (reports) to cardholders must be hardcopy
  - Merchant decline option – stop accepting cards as form of payment

• IRS has forwarded proposed Revenue Procedures (Rev. Proc.) to the U.S. Treasury Department.

• Expected 60-90 day public comment period before issuance of final Rev. Proc.

• IRS reviewing submitted applications by card organizations

• Confirming card organizations merchant data reliability
QPCA Benefits

• Acquirers
  – Increase in volume of pcard transactions
  – Cardholder confidence in continued use of pcard for merchant transactions
  – More accurate & higher reliability of Acquirer’s merchant database

• Merchants
  – Fewer W-9 forms sent to merchants
  – Backup Withholding less of an issue

• Cardholders
  – Streamlined 1099 reporting process
  – Fewer penalties (B-Notices)
  – Less need for backup withholding

• MasterCard will use several sources to obtain merchant TIN information – result will be higher number of validated TINs
Thank you.
MasterCard provides you with the tools to understand the benefits of enhanced data and to learn how to improve your 1099 and socio-economic reporting capabilities.
Citibank and MasterCard

Questions?
Reminders

- Thank you for attending this session!

- Visit the Citigroup Welcome Center
  - Majestic Ballroom C, Level Two
  - National Industries for the Blind will have a display of products

- Visit the Citigroup Technical Demonstration Center
  - Landmark 5, Level One

- Please take a moment to complete your GSA survey for this session
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