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15 March 2019

Mr. Gary Sands
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RE: Communication of Recent Changes to Mastercard Interchange Rates

Dear Gary,

Thank you for taking the time to speak with us last week. We appreciated the opportunity to hear directly the concerns of your members regarding the interchange rate changes that were recently communicated by acquirers and will be effective May 2019. As discussed, I am writing to share the context surrounding these rate changes, and to hopefully help ease your members concerns.

Under the current Voluntary Agreement between Mastercard and the Government of Canada, consumer credit interchange rates are managed to an annual effective average interchange rate of 1.50% across the market. The average is calculated over a twelve-month period from May 1 to April 30 each year.

Our rate structure consists of a number of rates that apply to different transactions. These rates are determined by the card product, the merchant's industry, the sales channel and the mode of the transaction. As you will appreciate, the business mix across a market as large and varied as Canada changes constantly, and from time to time we are required to make changes in order to maintain the overall average at 1.50%. The changes typically represent relatively minor tweaking of rates within the structure, up or down, as opposed to changes that would result in material changes overall, as we continuously comply with the commitment to maintain the average at 1.50%.

It is rare for us to make frequent changes to rates, however on this occasion it was deemed necessary to make a minor downward revision of our Standard rates effective January 1 (your members would have received communication of this reduction in October), followed by a subsequent upward revision of the Standard rates effective in May. It is this second revision that your members have brought to your attention.

With regard to the impact of this change, in most cases this is likely to have a minor impact on your members because as previously shown, it reverses the decrease of rates in January; and for most members, the Standard rates that were affected by this change represent a small proportion of overall transaction volume. For example, in the specific example you shared this represented approximately 1% of sales, and translating to an annual impact of around $30/year.

The effect of the changes implemented since the introduction of the Voluntary Agreement has been an overall reduction in Mastercard's average interchange rate by up to 15%. Furthermore, to honour our obligations under the agreement, Mastercard created new interchange rates for merchants in select categories; these offer even greater reductions to specific merchant categories. As a result, a reduced rate for independent grocers has translated to a reduction of up to 21% in interchange rates. Further reductions will take effect in 2020, following the expiration of the current five-year agreement and the beginning of a new five-year agreement with an annual effective average interchange rate of 1.40% across the market.

I hope that you find this explanation useful. As discussed, please share the communication with your members and I look forward to speaking about how we can structure similar communications in the future to improve understanding within your membership and do a better, more proactive job of communicating similar changes to them.

Yours sincerely

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CC: Jennifer Sloan, Vice President Public Policy, Mastercard Canada