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<http://www.wsj.com/articles/biggest-mastercard-issuers-scuttled-deal-on-target-data-breach-1433253072>

## MARKETS

# Biggest MasterCard Issuers Scuttled Deal on Target Data Breach

Citigroup, Capital One and J.P. Morgan Chase vetoed MasterCard's deal with Target over hacked credit-card data



The MasterCard settlement's unusual defeat underscores banks' frustration with hacking incidents at U.S. retailers in the past year and the relatively small reimbursements they have received for losses. *PHOTO: ANDREW HARRER/BLOOMBERG NEWS*

By **ROBIN SIDEL**

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Citigroup Inc., Capital One Financial Corp. and J.P. Morgan Chase & Co. rejected a \$19 million pact backed by MasterCard Inc. last month over the huge Target Corp. data breach, resulting in the settlement's unexpected failure, people familiar with the matter said.

News that the settlement didn't obtain approval from enough banks was reported last month. The names of the big banks opposing the pact hadn't previously been reported.

The three banks decided to quash the pact that was negotiated on the industry's behalf by MasterCard because they thought it was too small to cover their losses in the incident, the people said.

As a result, the carefully negotiated pact is now in flux as other banks and credit unions hope that they can get a better deal in court, while Target and MasterCard discuss what their next move should be.

Target's breach was one of the largest in recent years, exposing 40

million credit and debit cards to fraud and causing an unknown amount of losses to card-issuing banks.

Trade groups representing community banks and credit unions estimate that they have spent more than \$350 million to reissue credit and debit cards and deal with other issues related to the Target breach and a subsequent hacking at Home Depot Inc.

Thieves made \$9 billion of fraudulent transactions that were tied to existing card accounts last year, according to Javelin Strategy & Research, a unit of consulting firm Greenwich Associates LLC.

The settlement's unusual defeat underscores the banking industry's growing frustration with both the hacking incidents that have hit U.S. retailers in the past year and the relatively small reimbursements they have received for their losses.

The rejection by the three institutions was especially important because as MasterCard's largest U.S. credit-card issuers, they carried more sway than other issuers. The three represent roughly 40% of all purchases made on MasterCard-branded credit cards, or 100 million cards, according to the Nilson Report, a Carpinteria, Calif.-based newsletter that tracks industry data.

MasterCard announced the settlement with Target in April, but the deal didn't receive the required 90% backing from banks representing cardholder accounts that were affected by the data breach.

Banks typically support such agreements, which are negotiated on their behalf by card networks. In 2010, for example, banks supported settlements that called for Heartland Payment Systems Inc. to pay more than \$100 million to Visa Inc. and MasterCard issuers for a large 2008 breach.

More recently, thieves have exposed card information from a string of well-known merchants, including Home Depot, Neiman Marcus Group Ltd., Staples Inc., Sears Holdings Corp.'s Kmart chain, International Dairy Queen Inc. and others.

Retailers are responding by installing technology at checkout counters that, combined with new cards embedded with computer chips, is designed to prevent thieves from creating counterfeit cards.

Small banks and credit unions have long griped that settlements like Target's pay them just pennies on the dollar for their losses.

In this case, however, the big banks also were unhappy with the payouts that they would have received, said the people familiar with the matter. In addition, the card issuers wanted to send a message to merchants that they are unhappy with their security efforts, they said.

While cardholders aren't responsible for unauthorized purchases, lenders are on the hook to cover the cost of fraud and expense of reissuing cards when a breach occurs. MasterCard and Visa typically negotiate with the breached entities to recover losses for their card-issuing banks.

With the future of a potential settlement unclear, more negotiations and court hearings loom. Target had the right to extend the voting deadline in a bid to secure more support, but it didn't do so.

Representatives of MasterCard and Target have held conversations about their next steps, according to other people familiar with the talks.

Meanwhile, large card issuers are paying increased attention to proceedings in a Minnesota court case in which small banks and credit unions have sued Target over the breach. While large issuers officially aren't part of the litigation, they could eventually become plaintiffs in the case if it receives class-action status in coming months.

Neither MasterCard nor Target disclosed how much support the proposed settlement received. They also didn't disclose how issuers voted.

It also isn't clear what it will take for Citigroup, Capital One and J.P. Morgan Chase to support a potential new settlement.

The Target breach exposed credit- and debit-card accounts to potential fraud during the 2013 holiday shopping season. The Minneapolis-based retailer agreed in March to pay \$10 million to settle a consumer class-action suit tied to the breach.

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