VISA INC.
Form 10-Q
February 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2017

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-33977
VISA INC.
(Exact name of Registrant as specified in its charter)

Delaware	26-0267673
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
P.O. Box 8999 San Francisco, California	94128-8999
(Address of principal executive offices)	(Zip Code)

(650) 432-3200
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer o Smaller reporting company o
Non-accelerated filer o (Do not check if a smaller reporting company.) Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of January 26, 2018 there were 1,802,624,578 shares of class A common stock, par value $0.0001 per share, 245,513,385 shares of class B common stock, par value $0.0001 per share, and 12,400,261 shares of class C common

stock, par value $0.0001 per share, of Visa Inc. outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
VISA INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2017	September 30, 2017
	(in millions, except par value data)	
Assets		
Cash and cash equivalents	$8,138	$ 9,874
Restricted cash—U.S. litigation escrow (Note 2)	883	1,031
Investment securities (Note 3):		
Trading	106	82
Available-for-sale	3,307	3,482
Settlement receivable	1,618	1,422
Accounts receivable	1,281	1,132
Customer collateral (Note 5)	1,155	1,106
Current portion of client incentives	295	344
Prepaid expenses and other current assets	504	550
Total current assets	17,287	19,023
Investment securities, available-for-sale (Note 3)	2,674	1,926
Client incentives	557	591
Property, equipment and technology, net	2,238	2,253
Other assets	1,127	1,226
Intangible assets, net	28,109	27,848
Goodwill	15,162	15,110
Total assets	$67,154	$ 67,977
Liabilities		
Accounts payable	$108	$ 179
Settlement payable	2,302	2,003
Customer collateral (Note 5)	1,155	1,106
Accrued compensation and benefits	389	757
Client incentives	2,355	2,089
Accrued liabilities	1,224	1,129
Current maturities of long-term debt (Note 4)	—	1,749
Accrued litigation (Note 11)	830	982
Total current liabilities	8,363	9,994
Long-term debt (Note 4)	16,621	16,618
Deferred tax liabilities	5,107	5,980
Deferred purchase consideration	1,330	1,304
Other liabilities	2,332	1,321
Total liabilities	33,753	35,217
Equity		
Preferred stock, $0.0001 par value, 25 shares authorized and 5 shares issued and outstanding as follows:		
Series A convertible participating preferred stock, none issued (Note 7)	—	—
Series B convertible participating preferred stock, 2 shares issued and outstanding at December 31, 2017 and September 30, 2017 (the "UK&I preferred stock") (Note 7)	2,295	2,326

Series C convertible participating preferred stock, 3 shares issued and outstanding at December 31, 2017 and September 30, 2017 (the “Europe preferred stock”) (Note 7)	3,181	3,200
Class A common stock, $0.0001 par value, 2,001,622 shares authorized, 1,805 and 1,818 shares issued and outstanding at December 31, 2017 and September 30, 2017, respectively (Note 7)	—	—
Class B common stock, $0.0001 par value, 622 shares authorized, 245 shares issued and outstanding at December 31, 2017 and September 30, 2017 (Note 7)	—	—
Class C common stock, $0.0001 par value, 1,097 shares authorized, 12 and 13 shares issued and outstanding at December 31, 2017 and September 30, 2017, respectively (Note 7)	—	—
Right to recover for covered losses (Note 2)	(5)	(52)
Additional paid-in capital	16,761	16,900
Accumulated income	9,966	9,508
Accumulated other comprehensive income (loss), net:		
Investment securities, available-for-sale	61	73
Defined benefit pension and other postretirement plans	(76)	(76)
Derivative instruments classified as cash flow hedges	(33)	(36)
Foreign currency translation adjustments	1,251	917
Total accumulated other comprehensive income, net	1,203	878
Total equity	33,401	32,760
Total liabilities and equity	$67,154	$ 67,977

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended December 31,	
	2017	2016
	(in millions, except per share data)	
Operating Revenues		
Service revenues	$2,146	$1,918
Data processing revenues	2,147	1,892
International transaction revenues	1,666	1,489
Other revenues	229	203
Client incentives	(1,326)	(1,041)
Net operating revenues	4,862	4,461
Operating Expenses		
Personnel	679	571
Marketing	223	218
Network and processing	160	145
Professional fees	92	80
Depreciation and amortization	145	146
General and administrative	236	186
Litigation provision (Note 11)	—	15
Total operating expenses	1,535	1,361
Operating income	3,327	3,100
Non-operating Income (Expense)		
Interest expense	(154)	(140)
Other	66	19
Total non-operating expense	(88)	(121)
Income before income taxes	3,239	2,979
Income tax provision (Note 10)	717	909
Net income	$2,522	$2,070
Basic earnings per share (Note 8)		
Class A common stock	$1.07	$0.86
Class B common stock	$1.77	$1.41
Class C common stock	$4.30	$3.43
Basic weighted-average shares outstanding (Note 8)		
Class A common stock	1,811	1,860
Class B common stock	245	245
Class C common stock	13	17
Diluted earnings per share (Note 8)		

Class A common stock	$1.07	$0.86
Class B common stock	$1.77	$1.41
Class C common stock	$4.29	$3.42
Diluted weighted-average shares outstanding (Note 8)		
Class A common stock	2,353	2,421
Class B common stock	245	245
Class C common stock	13	17

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended December 31,	
	2017	2016
	(in millions)	
Net income	$2,522	$2,070
Other comprehensive income (loss), net of tax:		
Investment securities, available-for-sale:		
Net unrealized gain (loss)	9	(3)
Income tax effect	(3)	(1)
Reclassification adjustment for net gain realized in net income	(28)	—
Income tax effect	10	—
Defined benefit pension and other postretirement plans:		
Amortization of actuarial loss and prior service credit realized in net income	—	6
Income tax effect	—	(2)
Derivative instruments classified as cash flow hedges:		
Net unrealized (loss) gain	(1)	74
Income tax effect	(5)	(7)
Reclassification adjustment for net loss realized in net income	11	12
Income tax effect	(2)	(2)
Foreign currency translation adjustments	334	(988)
Other comprehensive income (loss), net of tax	325	(911)
Comprehensive income	$2,847	$1,159

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended December 31,	
	2017	2016
	(in millions)	
Operating Activities		
Net income	$2,522	$2,070
Adjustments to reconcile net income to net cash provided by operating activities:		
Client incentives	1,326	1,041
Share-based compensation (Note 9)	68	45
Depreciation and amortization of property, equipment, technology and intangible assets	145	146
Deferred income taxes	(919)	77
Right to recover for covered losses recorded in equity (Note 2)	(3)	(94)
Other	(23)	13
Change in operating assets and liabilities:		
Settlement receivable	(180)	56
Accounts receivable	(146)	(89)
Client incentives	(986)	(1,129)
Other assets	92	66
Accounts payable	(51)	(102)
Settlement payable	275	79
Accrued and other liabilities	794	316
Accrued litigation (Note 11)	(152)	13
Net cash provided by operating activities	2,762	2,508
Investing Activities		
Purchases of property, equipment, technology and intangible assets	(141)	(171)
Investment securities, available-for-sale:		
Purchases	(1,636)	(1,032)
Proceeds from maturities and sales	1,076	788
Purchases of / contributions to other investments	(6)	(2)
Net cash used in investing activities	(707)	(417)
Financing Activities		
Repurchase of class A common stock (Note 7)	(1,778)	(1,893)
Repayments of long-term debt (Note 4)	(1,750)	—
Dividends paid (Note 7)	(458)	(399)
Proceeds from issuance of commercial paper	—	566
Payments from litigation escrow account—U.S. retrospective responsibility plan (Note 2 and Note 11)	150	—
Cash proceeds from issuance of common stock under employee equity plans	53	56
Restricted stock and performance-based shares settled in cash for taxes	(88)	(60)
Net cash used in financing activities	(3,871)	(1,730)
Effect of exchange rate changes on cash and cash equivalents	80	(156)
(Decrease) increase in cash and cash equivalents	(1,736)	205
Cash and cash equivalents at beginning of period	9,874	5,619
Cash and cash equivalents at end of period	$8,138	$5,824
Supplemental Disclosure		
Income taxes paid, net of refunds	$183	$96

Interest payments on debt (Note 4)	$241	$244
Accruals related to purchases of property, equipment, technology and intangible assets	$26	$69

See accompanying notes, which are an integral part of these unaudited consolidated financial statements.

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VISA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017
(UNAUDITED)

Note 1—Summary of Significant Accounting Policies

Organization. Visa Inc. ("Visa" or the "Company") is a global payments technology company that enables fast, secure and reliable electronic payments across more than 200 countries and territories. Visa and its wholly-owned consolidated subsidiaries, including Visa U.S.A. Inc. ("Visa U.S.A."), Visa International Service Association ("Visa International"), Visa Worldwide Pte. Limited, Visa Europe Limited ("Visa Europe"), Visa Canada Corporation, Visa Technology & Operations LLC and CyberSource Corporation, operate one of the world's largest retail electronic payments networks — VisaNet — which facilitates authorization, clearing and settlement of payment transactions and enables the Company to provide its financial institution and merchant clients a wide range of products, platforms and value-added services. VisaNet also offers fraud protection for account holders and assured payment for merchants. Visa is not a bank and does not issue cards, extend credit or set rates and fees for account holders on Visa products. In most cases, account holder and merchant relationships belong to, and are managed by, Visa's financial institution clients.

Consolidation and basis of presentation. The accompanying unaudited consolidated financial statements include the accounts of Visa and its consolidated entities and are presented in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Company consolidates its majority-owned and controlled entities, including variable interest entities ("VIEs") for which the Company is the primary beneficiary. The Company's investments in VIEs have not been material to its consolidated financial statements as of and for the periods presented. All significant intercompany accounts and transactions are eliminated in consolidation.

The accompanying unaudited consolidated financial statements are presented in accordance with the U.S. Securities and Exchange Commission (SEC) requirements for Quarterly Reports on Form 10-Q and, consequently, do not include all of the annual disclosures required by U.S. GAAP. Reference should be made to the Visa Annual Report on Form 10-K for the year ended September 30, 2017 for additional disclosures, including a summary of the Company's significant accounting policies.

In the opinion of management, the accompanying unaudited consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim periods presented.

Recently Issued and Adopted Accounting Pronouncements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of goods or services to customers. The ASU will replace existing revenue recognition guidance in U.S. GAAP when it becomes effective. Subsequently, the FASB also issued a series of amendments to the new revenue standard. The Company will adopt the standard effective October 1, 2018, and expects to adopt the standard using the modified retrospective transition method. The Company expects that the new standard will primarily impact recognition timing for certain fixed incentives and price discounts provided to clients, and the classification of certain client incentives between contra revenues and operating expenses. The Company is still in the process of quantifying the full effect that ASU 2014-09 and all of its related subsequent updates will have on its consolidated financial statements and related disclosures. The impact of the new standard to future financial results is unknowable as it is not possible to estimate the impact to the recognition of new customer contracts which may be executed in future periods. The Company has completed an assessment of its existing customer contracts through December 31, 2017. Application of the new standard to consolidated financial statements for the first quarter of fiscal 2018 would not have resulted in a material impact. The Company will continue to assess the impact of the new standard as new customer contracts are executed going forward.

In March 2016, the FASB issued ASU 2016-05, which clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815, Derivatives and Hedging, does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The Company adopted the standard effective October 1, 2017. The adoption did not have a material impact on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, which clarifies the requirements for assessing whether contingent call/put options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment is required to assess the embedded call/put options solely in accordance with a four-step decision sequence. The Company adopted the standard effective October 1, 2017. The adoption did not have a material impact on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, which eliminates the requirement that an entity retroactively adopt the equity method of accounting if an investment qualifies for use of the equity method as a result of an increase in the level of ownership or degree of influence. The equity method investor is required to add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The Company adopted the standard effective October 1, 2017. The adoption did not have a material impact on the consolidated financial statements.

Note 2—U.S. and Europe Retrospective Responsibility Plans

U.S. Retrospective Responsibility Plan

Under the terms of the U.S. retrospective responsibility plan, the Company maintains an escrow account from which settlements of, or judgments in, certain litigation referred to as the "U.S. covered litigation" are paid. The escrow funds are held in money market investments along with interest income earned, less applicable taxes, and are classified as restricted cash on the consolidated balance sheets. The balance of the escrow account was $0.9 billion at December 31, 2017 and $1.0 billion at September 30, 2017. The Company paid $150 million from the litigation escrow account during the three months ended December 31, 2017. See Note 11—Legal Matters.

The accrual related to the U.S. covered litigation could be either higher or lower than the litigation escrow account balance. The Company did not record an additional accrual for the U.S. covered litigation during the three months ended December 31, 2017. See Note 11—Legal Matters.

Europe Retrospective Responsibility Plan

The Company, Visa Europe or their affiliates are parties to certain existing and potential litigation relating to the setting of multilateral interchange fee rates in the Visa Europe territory (the "VE territory covered litigation"). Under the terms of the Europe retrospective responsibility plan, the Company is entitled to recover certain losses resulting from VE territory covered litigation (the "VE territory covered losses") through a periodic adjustment to the class A common stock conversion rates applicable to the UK&I and Europe preferred stock. VE territory covered losses are recorded in "right to recover for covered losses" within equity before the corresponding adjustment to the applicable conversion rate is effected. Adjustments to the conversion rate may be executed once in any six-month period unless a single, individual loss greater than €20 million is incurred, in which case, the six-month limitation does not apply. When the adjustment to the conversion rate is made, the amount previously recorded in "right to recover for covered losses" as contra-equity is then recorded against the book value of the preferred stock within stockholders' equity. During the three months ended December 31, 2017, the Company recovered $50 million of VE territory covered losses through adjustments to the class A common stock conversion rates applicable to the UK&I and Europe preferred stock, from 13.077 and 13.948, respectively, at September 30, 2017 to 12.966 and 13.893, respectively, at December 31, 2017.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth the activities related to VE territory covered losses in preferred stock and "right to recover for covered losses" within equity during the three months ended December 31, 2017. VE territory covered losses incurred reflect settlements with merchants and additional legal costs. See Note 11—Legal Matters.

	Preferred Stock		Right to Recover for Covered Losses
	UK&I	Europe	
	(in millions)		
Balance as of September 30, 2017	$2,326	$3,200	$ (52)
VE territory covered losses incurred	—	—	(3)
Recovery through conversion rate adjustment	(31)	(19)	50
Balance as of December 31, 2017	$2,295	$3,181	$ (5)

The following table sets forth the as-converted value of the preferred stock available to recover VE territory covered losses compared to the book value of preferred shares recorded in stockholders' equity within the Company's unaudited consolidated balance sheet as of December 31, 2017 and September 30, 2017.[1]

	December 31, 2017		September 30, 2017	
	As-Converted Value of Preferred Stock[2]	Book Value of Preferred Stock	As-Converted Value of Preferred Stock[3]	Book Value of Preferred Stock
	(in millions)			
UK&I preferred stock	$3,667	$ 2,295	$3,414	$ 2,326
Europe preferred stock	5,001	3,181	4,634	3,200
Total	8,668	5,476	8,048	5,526
Less: right to recover for covered losses	(5)	(5)	(52)	(52)
Total recovery for covered losses available	$8,663	$ 5,471	$7,996	$ 5,474

(1) Figures in the table may not recalculate exactly due to rounding. As-converted and book values are based on unrounded numbers.

(2) The as-converted value of preferred stock is calculated as the product of: (a) 2 million and 3 million shares of the UK&I and Europe preferred stock outstanding, respectively, as of December 31, 2017; (b)12.966 and 13.893, the class A common stock conversion rate applicable to the UK&I and Europe preferred stock as of December 31, 2017, respectively; and (c) $114.02, Visa's class A common stock closing stock price as of December 31, 2017.

(3) The as-converted value of preferred stock is calculated as the product of: (a) 2 million and 3 million shares of the UK&I and Europe preferred stock outstanding, respectively, as of September 30, 2017; (b)13.077 and 13.948, the class A common stock conversion rate applicable to the UK&I and Europe preferred stock as of September 30, 2017, respectively; and (c) $105.24, Visa's class A common stock closing stock price as of September 30, 2017.

Note 3—Fair Value Measurements and Investments

Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Fair Value Measurements Using Inputs Considered as			
	Level 1		Level 2	
	December 31, 2017	September 30, 2017	December 31, 2017	September 30, 2017
	(in millions)			
Assets				
Cash equivalents and restricted cash:				
Money market funds	$5,918	$ 5,935		
U.S. government-sponsored debt securities			$567	$ 2,870
Investment securities, trading:				
Equity securities	106	82		
Investment securities, available-for-sale:				
U.S. government-sponsored debt securities			3,530	3,663
U.S. Treasury securities	2,337	1,621		
Equity securities	114	124		
Prepaid and other current assets:				
Foreign exchange derivative instruments			26	18
Total	$8,475	$ 7,762	$4,123	$ 6,551
Liabilities				
Accrued liabilities:				
Foreign exchange derivative instruments			$65	$ 98
Total	$—	$ —	$65	$ 98

There were no transfers between Level 1 and Level 2 assets during the three months ended December 31, 2017.

Level 1 assets measured at fair value on a recurring basis. Money market funds, publicly-traded equity securities and U.S. Treasury securities are classified as Level 1 within the fair value hierarchy, as fair value is based on quoted prices in active markets.

Level 2 assets and liabilities measured at fair value on a recurring basis. The fair value of U.S. government-sponsored debt securities, as provided by third-party pricing vendors, is based on quoted prices in active markets for similar, not identical, assets. The pricing data obtained from outside sources is reviewed internally for reasonableness, compared against benchmark quotes from independent pricing sources, then confirmed or revised accordingly. Foreign exchange derivative instruments are valued using inputs that are observable in the market or can be derived principally from or corroborated by observable market data. There were no substantive changes to the valuation techniques and related inputs used to measure fair value during the three months ended December 31, 2017.

Assets Measured at Fair Value on a Non-recurring Basis

Non-marketable equity investments and investments accounted for under the equity method. These investments are classified as Level 3 due to the absence of quoted market prices, the inherent lack of liquidity, and the fact that inputs used to measure fair value are unobservable and require management's judgment. When certain events or circumstances indicate that impairment may exist, the Company revalues the investments using various assumptions, including the financial metrics and ratios of comparable public companies. There were no significant impairments during the three months ended December 31, 2017 or 2016. These investments totaled $99 million and $94 million at December 31, 2017 and September 30, 2017, respectively, and are classified in other assets on the consolidated balance sheets.

Non-financial assets and liabilities. Long-lived assets such as goodwill, indefinite-lived intangible assets, finite-lived intangible assets, and property, equipment and technology are considered non-financial assets. The Company does not have any non-financial liabilities measured at fair value on a non-recurring basis. Finite-lived intangible assets primarily consist of customer relationships, trade names and reseller relationships, all of which were obtained through acquisitions.

If the Company were required to perform a quantitative assessment for impairment testing of goodwill and indefinite-lived intangible assets, the fair values would generally be estimated using an income approach. As the assumptions employed to measure these assets on a non-recurring basis are based on management's judgment using internal and external data, these fair value determinations are classified as Level 3 in the fair value hierarchy. The Company completed its annual impairment review of its indefinite-lived intangible assets and goodwill as of February 1, 2017, and concluded that there was no impairment. No recent events or changes in circumstances indicate that impairment existed at December 31, 2017.

Other Fair Value Disclosures

Long-term debt. Debt instruments are measured at amortized cost on the Company's unaudited consolidated balance sheet at December 31, 2017. The fair value of the debt instruments, as provided by third-party pricing vendors, is based on quoted prices in active markets for similar, not identical, assets. The pricing data obtained from outside sources is reviewed internally for reasonableness, compared against benchmark quotes from independent pricing sources, then confirmed or revised accordingly. If measured at fair value in the financial statements, these instruments would be classified as Level 2 in the fair value hierarchy.

The following table presents the carrying amount and estimated fair value of the Company’s debt in order of maturity:

	December 31, 2017		September 30, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
1.20% Senior Notes due December 2017	$—	$ —	$ 1,749	$ 1,751
2.20% Senior Notes due December 2020	2,991	2,998	2,990	3,031
2.15% Senior Notes due September 2022	993	986	993	997
2.80% Senior Notes due December 2022	2,240	2,283	2,240	2,301
3.15% Senior Notes due December 2025	3,969	4,089	3,967	4,098
2.75% Senior Notes due September 2027	740	740	740	737
4.15% Senior Notes due December 2035	1,486	1,665	1,485	1,637
4.30% Senior Notes due December 2045	3,462	3,983	3,463	3,873
3.65% Senior Notes due September 2047	740	770	740	746
Total	$ 16,621	$ 17,514	$ 18,367	$ 19,171

Other financial instruments not measured at fair value. The following financial instruments are not measured at fair value on the Company's unaudited consolidated balance sheet at December 31, 2017, but disclosure of their fair values is required: time deposits recorded in prepaid expenses and other current assets, settlement receivable and payable, commercial paper and customer collateral. The estimated fair value of such instruments at December 31, 2017 approximates their carrying value due to their generally short maturities. If measured at fair value in the financial statements, these financial instruments would be classified as Level 2 in the fair value hierarchy.

Investments

Available-for-sale investment securities. The Company had $110 million in gross unrealized gains and $12 million in gross unrealized losses at December 31, 2017. There were $120 million gross unrealized gains and $4 million gross unrealized losses at September 30, 2017. A majority of the Company's available-for-sale investment securities with stated maturities are due within one to two years.

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VISA INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Note 4—Debt
The Company had outstanding debt as follows:

	December 31, 2017			September 30, 2017			
	Principal Amount	Unamortized Discounts and Debt Issuance Costs	Carrying Amount	Principal Amount	Unamortized Discounts and Debt Issuance Costs	Carrying Amount	Effective Interest Rate
	(in millions, except percentages)						
1.20% Senior Notes due December 2017 (the "2017 Notes")	$—	$ —	$—	$1,750	$ (1)	$1,749	1.37 %
Total current maturities of long-term debt	—	—	—	1,750	(1)	1,749	
2.20% Senior Notes due December 2020	3,000	(9)	2,991	3,000	(10)	2,990	2.30 %
2.15% Senior Notes due September 2022	1,000	(7)	993	1,000	(7)	993	2.30 %
2.80% Senior Notes due December 2022	2,250	(10)	2,240	2,250	(10)	2,240	2.89 %
3.15% Senior Notes due December 2025	4,000	(31)	3,969	4,000	(33)	3,967	3.26 %
2.75% Senior Notes due September 2027	750	(10)	740	750	(10)	740	2.91 %
4.15% Senior Notes due December 2035	1,500	(14)	1,486	1,500	(15)	1,485	4.23 %
4.30% Senior Notes due December 2045	3,500	(38)	3,462	3,500	(37)	3,463	4.37 %
3.65% Senior Notes due September 2047	750	(10)	740	750	(10)	740	3.73 %
Total long-term debt	16,750	(129)	16,621	16,750	(132)	16,618	
Total debt	$16,750	$ (129)	$16,621	$18,500	$ (133)	$18,367	

Senior Notes
On October 11, 2017, the Company redeemed all of the $1.75 billion principal amount outstanding of the 2017 Notes. The redemption was funded with net proceeds from new fixed-rate senior notes issued by the Company in September 2017. As a result of this redemption, we recorded a $1 million loss on extinguishment of debt during the three months ended December 31, 2017.
The Company recognized interest expense for the senior notes of $138 million and $125 million for the three months ended December 31, 2017 and 2016, respectively, as non-operating expense.
Note 5—Settlement Guarantee Management
The Company indemnifies its clients for settlement losses suffered due to failure of any other clients to fund its settlement obligations in accordance with the Visa rules. This indemnification creates settlement risk for the Company due to the difference in timing between the date of a payment transaction and the date of subsequent settlement. The Company’s settlement exposure is limited to the amount of unsettled Visa payment transactions at any point in time. The Company requires certain clients that do not meet its credit standards to post collateral to offset potential loss from their estimated unsettled transactions. The Company’s estimated maximum settlement exposure was $71.3 billion during the three months ended December 31, 2017, compared to $67.7 billion during the three months ended September 30, 2017. Of these amounts, $4.5 billion and $2.8 billion were covered by collateral at December 31, 2017 and September 30, 2017, respectively. The total available collateral balances presented in the table below were greater than the settlement exposure covered by customer collateral held due to instances in which the available collateral exceeded the total settlement exposure for certain financial institutions at each date presented.

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VISA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company maintained collateral as follows:

	December 31, 2017	September 30, 2017
	(in millions)	
Cash equivalents[1]	$1,569	$ 1,490
Pledged securities at market value	169	167
Letters of credit	1,319	1,316
Guarantees	617	941
Total	$3,674	$ 3,914

(1) Cash collateral held by Visa Europe is not included on the Company's consolidated balance sheets as its clients retain beneficial ownership and the cash is only accessible to the Company in the event of default by the client on its settlement obligations.

The fair value of the settlement risk guarantee is estimated based on a proprietary probability-weighted model and was approximately $3 million at December 31, 2017 and September 30, 2017. These amounts are reflected in accrued liabilities on the Company's consolidated balance sheets.

Note 6—Pension and Other Postretirement Benefits

The Company sponsors various qualified and non-qualified defined benefit pension and other postretirement benefit plans that provide for retirement and medical benefits for all eligible employees residing in the United States. The Company also sponsors other pension benefit plans that provide benefits for internationally-based employees at certain non-U.S. locations. The components of net periodic benefit cost presented below include the U.S. pension and other postretirement benefit plans and the non-U.S. pension plans, comprising only the Visa Europe plans. Disclosures relating to other non-U.S. pension benefit plans are not included as they are immaterial, individually and in aggregate.

U.S. Plans Pension Benefits	Non-U.S. Plans