Meeting Between Governor Waller and Staff of the Federal Reserve Board and Representatives of American Express
November 27, 2023

Participants: Governor Christopher J. Waller and Robert Sarama (Federal Reserve Board)

Steve Squeri, Jeff Campbell, and Brett Loper (American Express)

Summary: Governor Waller and staff of the Federal Reserve Board met with representatives of American Express to discuss the firm's business operations and the agencies' Basel III endgame notice of proposed rulemaking (Basel III endgame proposal). The American Express representatives shared a presentation containing their views on the likely effects of the Basel III endgame proposal and ways to change the proposal.

Attachment

Basel III Endgame Proposal Discussion

November 27, 2023

Executive Summary

- American Express is a payments company that offers credit and charge card products to consumers and businesses around the world. We have a simple business model. Our products generate interest and non-interest revenues while facilitating payments for our customers.
- As written, the US Basel III Endgame Proposal ("Proposal") would have a disproportionate impact on AXP's capital requirements that is not consistent with the underlying risks. Today we will focus on two areas that present the most significant and distinct impact, largely driven by our fee-focused business model and our distinct charge card offering.
  - *Operational Risk*. The Proposal would require us to hold capital that is more than ten times our stress operational risk losses under CCAR. The operational risk framework broadly attributes higher capital requirements to all fee revenues. This approach misaligns the risk of products that generate both interest income and fee revenues that are underpinned by the same operational elements. The resulting capital requirement bears no relationship to our actual historical losses or stress testing experience both of which more accurately reflect the underlying operational risks of offering our card products.
  - *Charge Card Off-Balance Sheet (OBS) Exposure.* The Proposal would require us to hold capital for the OBS exposure of charge cards that is double the corresponding requirement for credit cards. Imposing any capital requirement on OBS exposure of charge card, where there is no contractual commitment to extend credit, represents a departure from Basel Standards. The Proposal prescribes a methodology to generate proxy OBS exposure that significantly overstates the risk of our charge card products and produces a capital requirement that is misaligned with the actual loss experience.
- We recommend the following modifications in the US Final Rules:
  - *Operational Risk*. Align operational risk capital requirement for credit and charge cards that generate interest income and fee revenues underpinned by the same operational elements and processes.
  - *Charge Card OBS Exposure.* Align with Basel Standards and eliminate the proposed proxy methodology for OBS exposure on charge card products to reflect their actual risk.

AXP Business Model

We have a Differentiated Business Model

Premium Customer Base

End-to-End, Integrated Payments Platform

Revenue Mix

Global Footprint

Operating Leverage

World Class Brand & Service

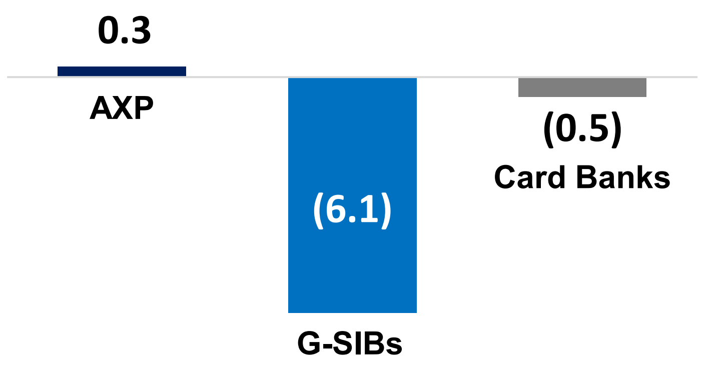
Our Business Has a Proven Record of Stress Resilience

AXP has a resilient business model that has remained profitable through periods of actual stress including the Great Financial Crisis and COVID. We are also consistently the most profitable bank across all CCAR participants based on Fed's modeling[1].

Pretax Income, $B

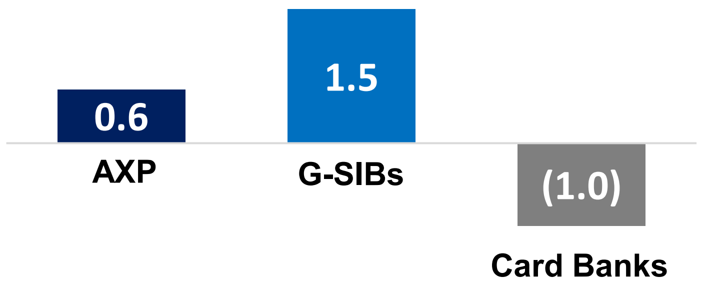
Actual Stress Events[2]

Great Financial Crisis (Q4 2008)



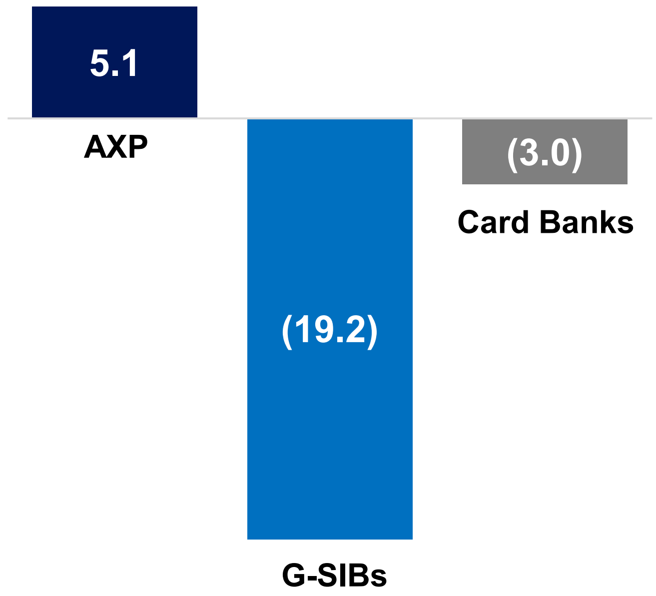
Maintained Dividend	Cut Dividend
AXP, GS	BAC, BK, C, COF, DFS, JPM, MS, STT, WFC

COVID Pandemic (Q2 2020)



Maintained Dividend	Cut Dividend
AXP, BAC, BK, C, DFS, GS, JPM, MS, STT	COF, WFC

Federal Reserve CCAR Results[3]

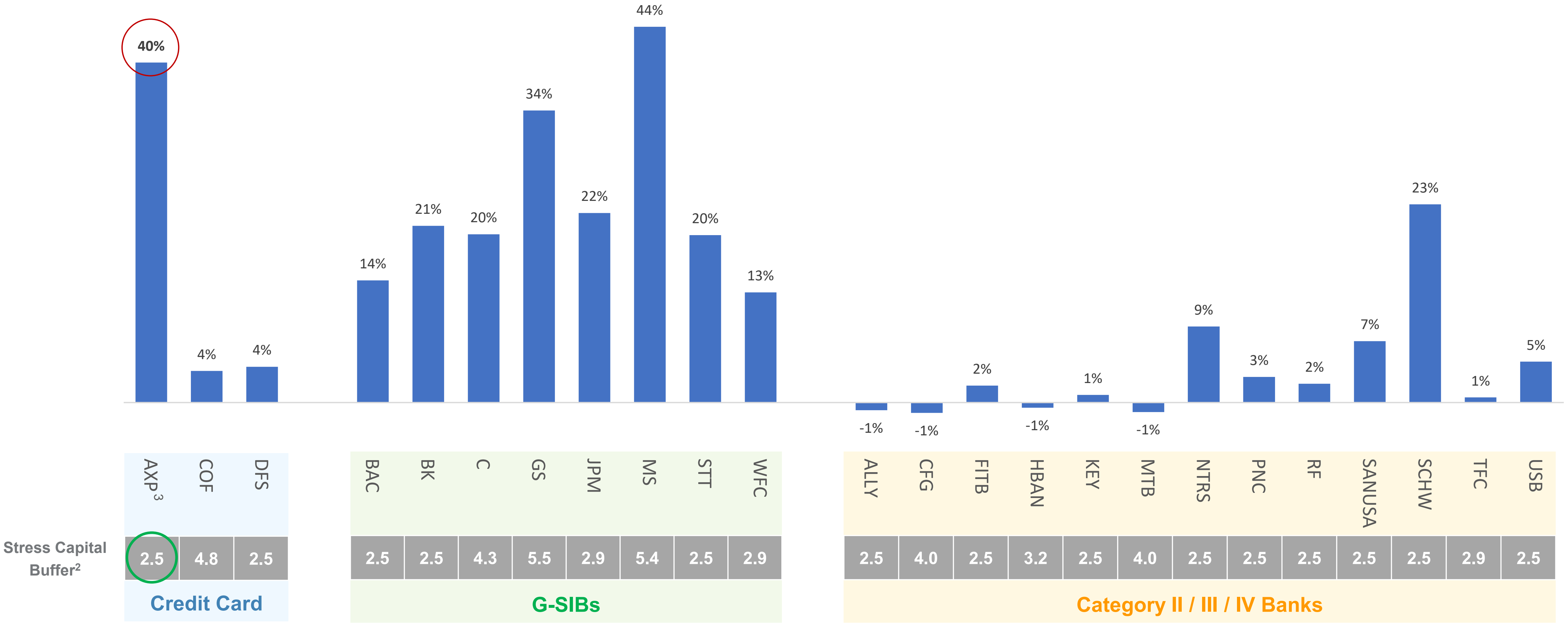


Notes:

1. *Based on CCAR results from 2014 – 2022. Profitability is measured based on Net Income before Taxes (% of 9 qtr. average assets) under the Severely Adverse Scenario for all CCAR participating banks.*
2. *Actual results of AXP and averages of G-SIBs (BAC, BK, C, GS, JPM, MS, STT, WFC) and Card Banks (COF, DFS).*
3. *CCAR 2022 results under the Severely Adverse Scenario for AXP and averages for US G-SIBs (BAC, BK, C, GS, JPM, MS, STT, WFC) and Card Banks (COF, DFS).*

Analysts' Estimated RWA Impact of Proposal

The disproportionate increase in capital requirements for American Express under the Proposal is not consistent with our simple business model and resilient capital profile.



Notes:
1. *All impacts except Goldman Sachs ("GS") and Morgan Stanley ("MS") are sourced from Barclays. GS and MS impacts are sourced from Citi.*
2. *Sourced from the Federal Reserve large bank capital requirements. Effective October 1, 2023.*
3. *Actual SCB would be ~1.7% without the mandated floor of 2.5%.*

Operational Risk

Anatomy of Card Business

Card businesses are supported by similar processes, face similar operational risks, and generate similar types of revenues. Although the types of revenues are largely similar, the composition of revenue could differ significantly across different card products.

Card Authorization | **Cardmember Servicing** | **Credit Administration**

Operational Processes

Revenues

Discount Revenue / Interchange + Card Fees + Interest Income

Note:
1. The trademarks, logos and service marks used on this slide and throughout this presentation are the property of their respective owners.

American Express Revenues and Expenses

We generate multiple streams of revenues and incur different expenses through the offering of our credit and charge card products.

Revenues

Services

Discount Revenue
$31B

Card and Card-Related Fees[1] $12B

Interest

Net Interest Income
$10B

Expenses

Rewards, Business Development & Cardmember Services
$22B

Marketing
$5B

Provision ($2B)

Salary and Other[2]
$14B

Notes:
1. Card and card-related fees predominantly include card membership fees, service fees, foreign currency-related revenue, delinquency fees, travel commissions and fees, processed revenue and other.
2. Other reflects operating expenses such as data processing and equipment, professional services, and other.
3. Data as of 2022.

Different Outcomes for Same Underlying Operational Risks

The differentiated treatment of interest and non-interest revenue earned through the same product would result in significantly different capital requirements for comparable products with similar underlying operational risks.

Materially Different Capital Outcome from Different Mix of $100 Revenue

Proposal CET1 Requirement[1]

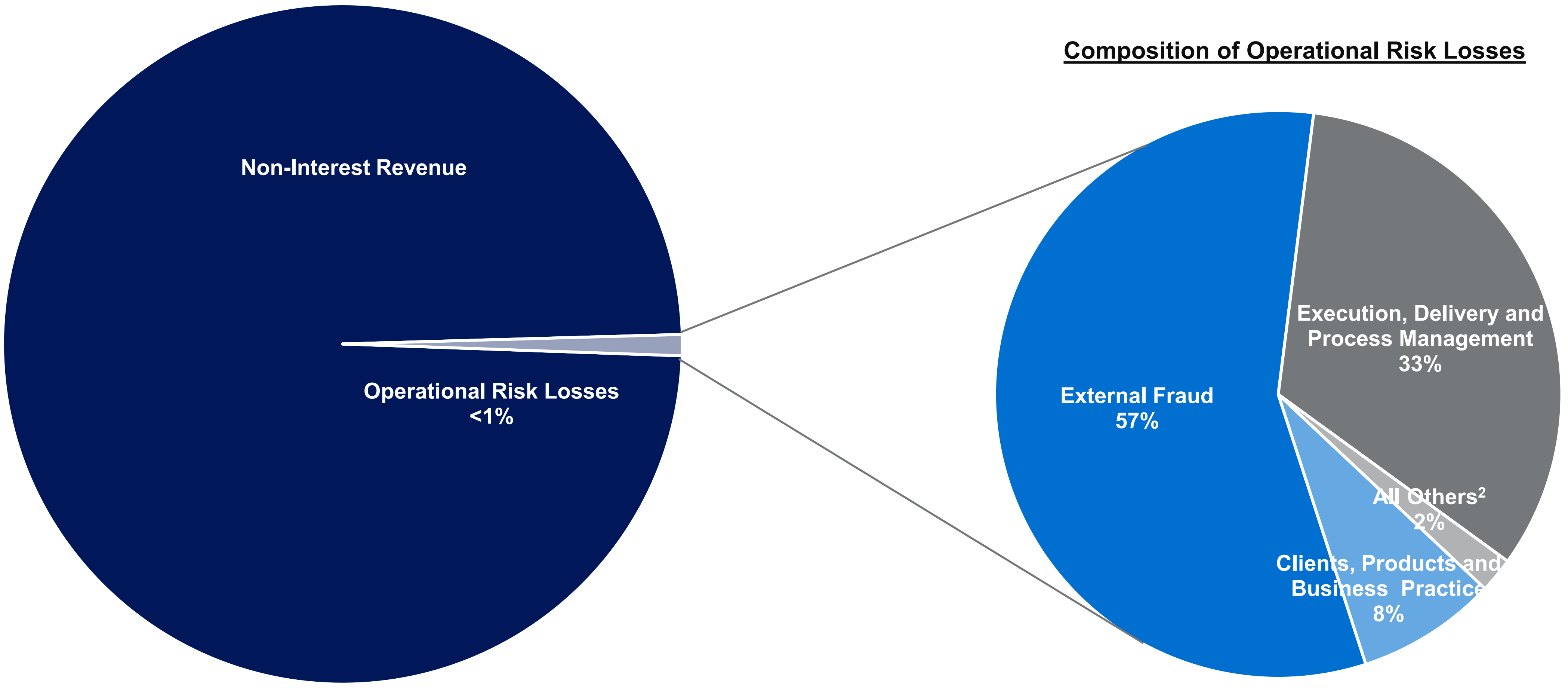
Notes:

1. Capital estimates are illustrative and represent the CET1 requirement for each firm, assuming:
- *i. Net Interest Yield of 10%*
- *ii. 15% Business Indicator Component (BIC)*
- *iii. 1.0 Internal Loss Multiplier (ILM)*
- *iv. CET1 target of 8% for both firms*

2. Sourced from AXP's and JPM's 2022 FR Y-9C

AXP Operational Risk Losses

Our operational risk losses have historically been extremely small compared to our overall revenue. External fraud has accounted for over 50% of these losses, which are driven by the offering of our card products and are not linked to specific revenue streams.



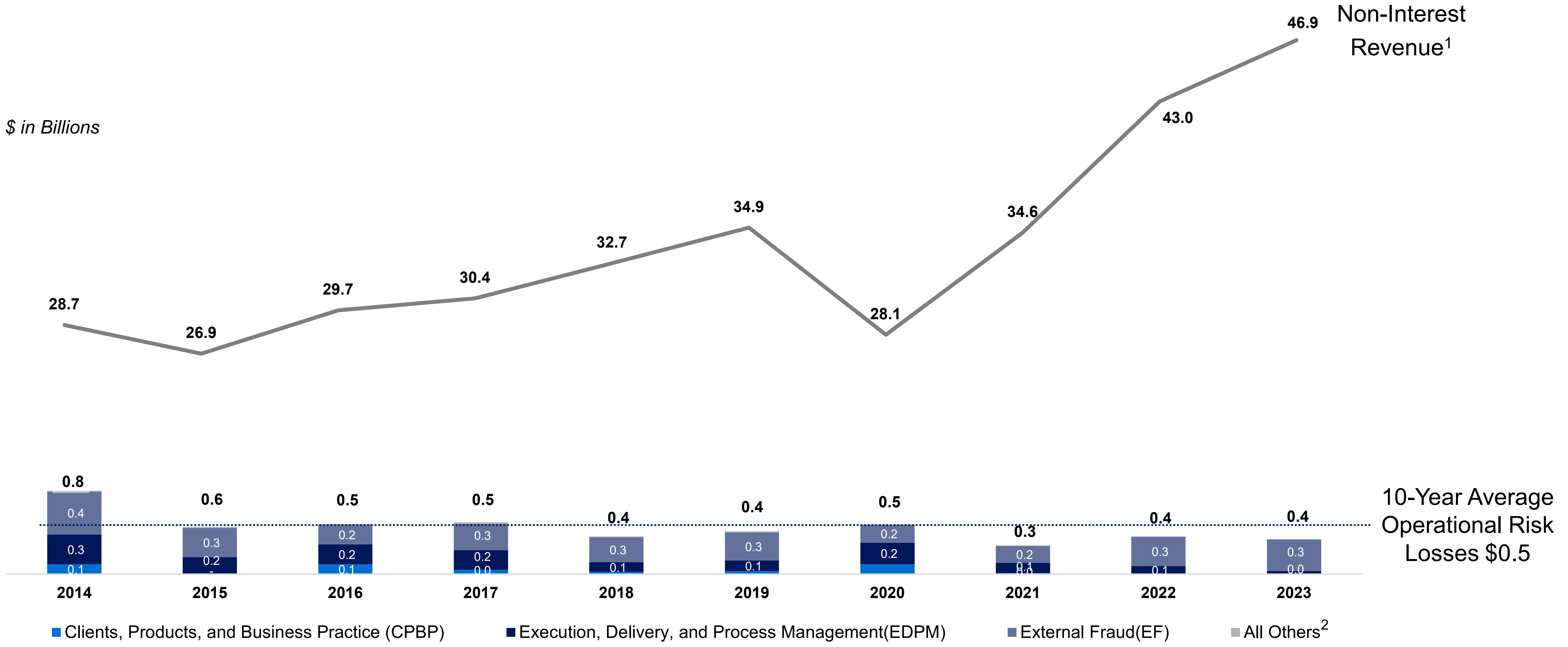
Notes:

1. Based on AXP's historical operational risk loss experience from 2014 - 2023. 2023 annualized based on 9-month data as of Q3 2023.

2. All Others include Business Disruption and Systems Failures, Damage to Physical Assets, Employment Practices and Workplace Safety, and Internal Fraud.

Non-Interest Revenue vs. Operational Risk Loss: No Correlation

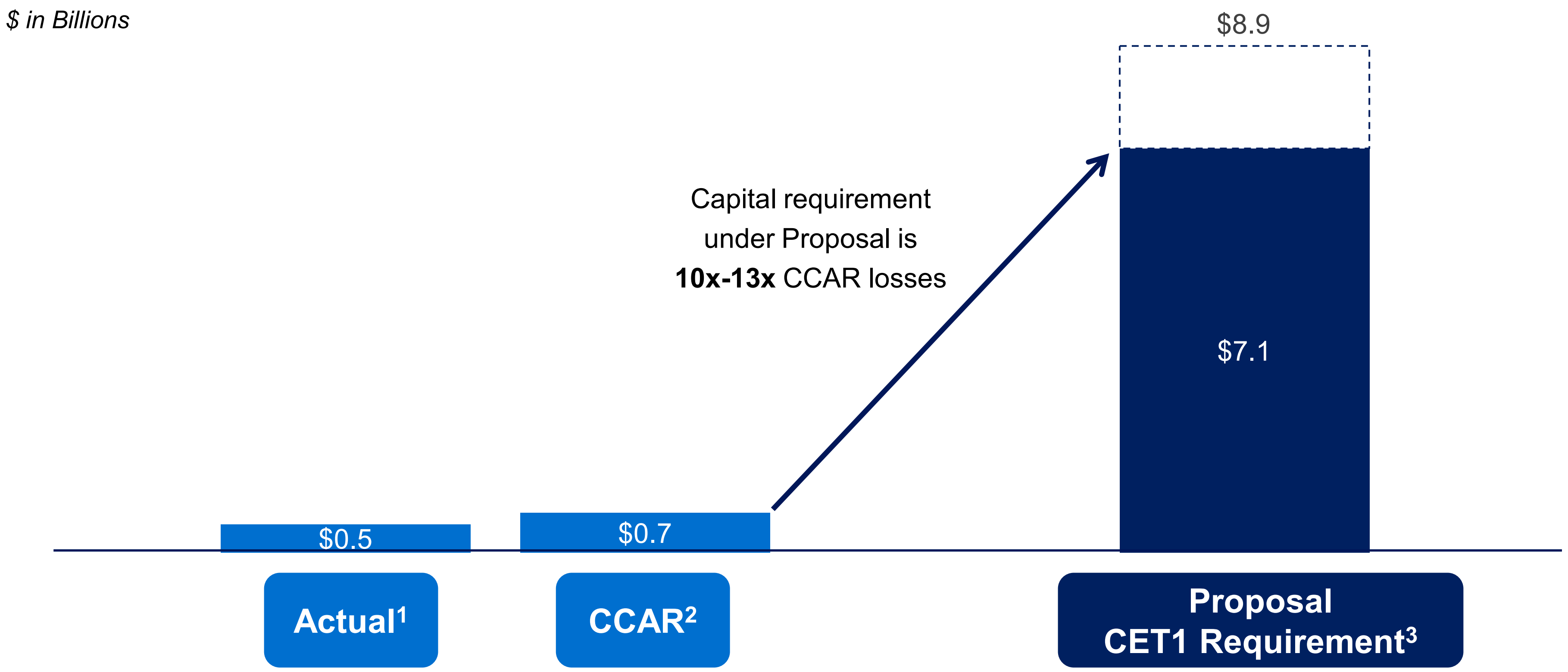
Our non-interest revenue grew substantially over the past 10 years excluding the COVID period, while our average operational risk losses have remained at ~$0.5B. There is no correlation between non-interest revenue and operational risk losses.



Notes:
1. 2023 annualized based on 9-month Non-Interest Revenue of $35.2B and Operational Risk Losses of $0.3B.
2. All Others include Business Disruption and Systems Failures, Damage to Physical Assets, Employment Practices and Workplace Safety, and Internal Fraud.

Proposal Requirement vs. Stress Testing

The Proposal requires significantly higher operational risk capital than our actual and CCAR experience, where we aim to accurately capture the underlying operational risks of our business profile under stress.



Notes:

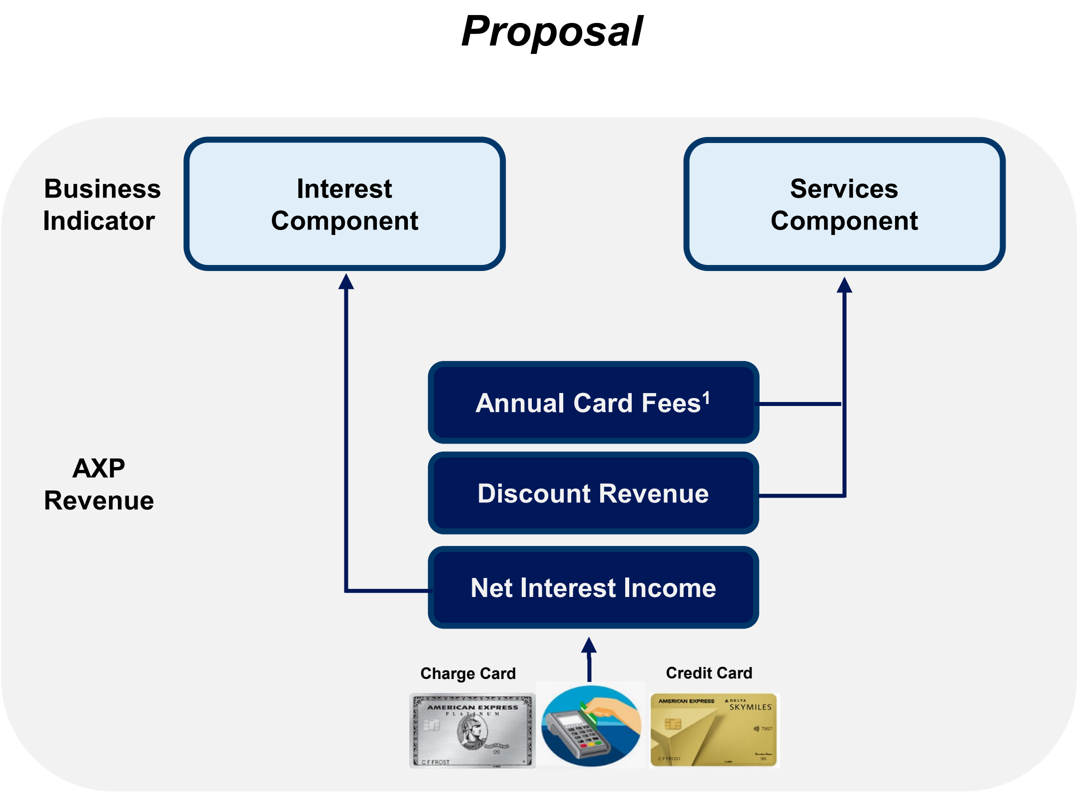
1. Represents historical 10-year average operational risk losses from 2014 - 2023. 2023 annualized based on 9-month data as of Q3 2023.

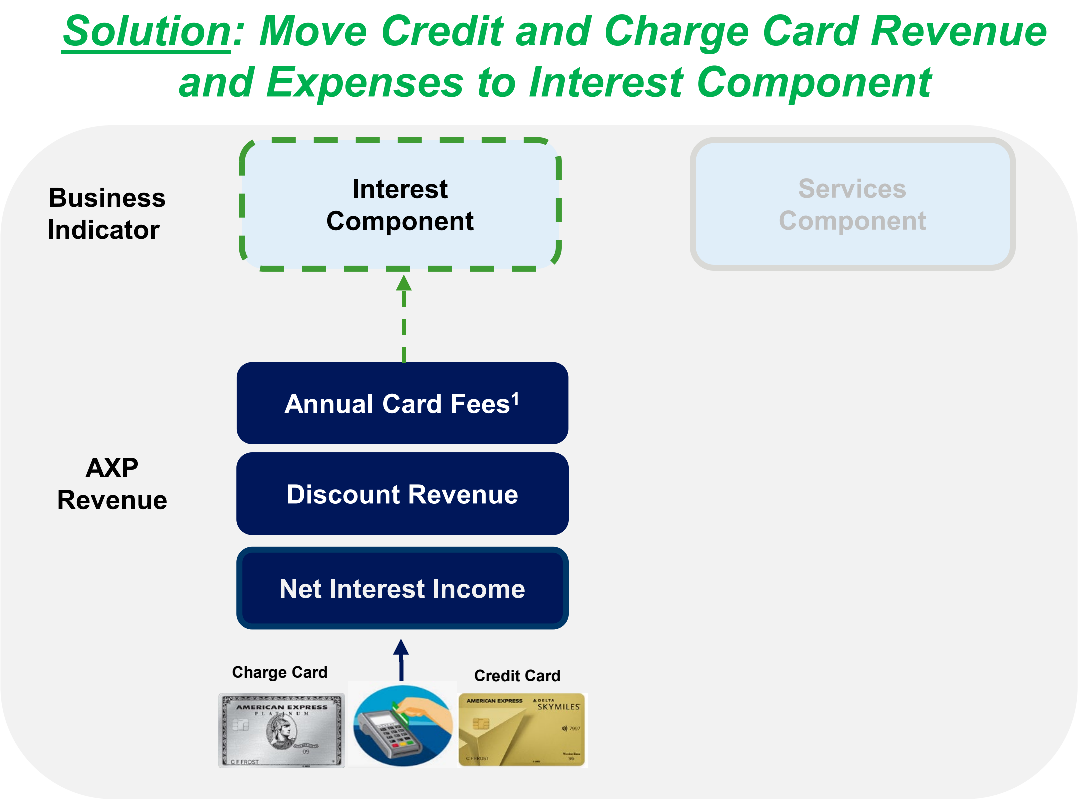
2. Represents maximum annualized data under Severely Adverse Scenario between CCAR 2020–2023.

3. Based on 2022 reported financial data. Capital requirements of $7.1B and $8.9B assume CET1 targets of 8% and 10%, respectively.

Operational Risk: Proposed Solution

Including all credit and charge card revenues and expenses within the Interest Component would fully align with the underlying operational processes where multiple revenue streams are generated by the same card products.



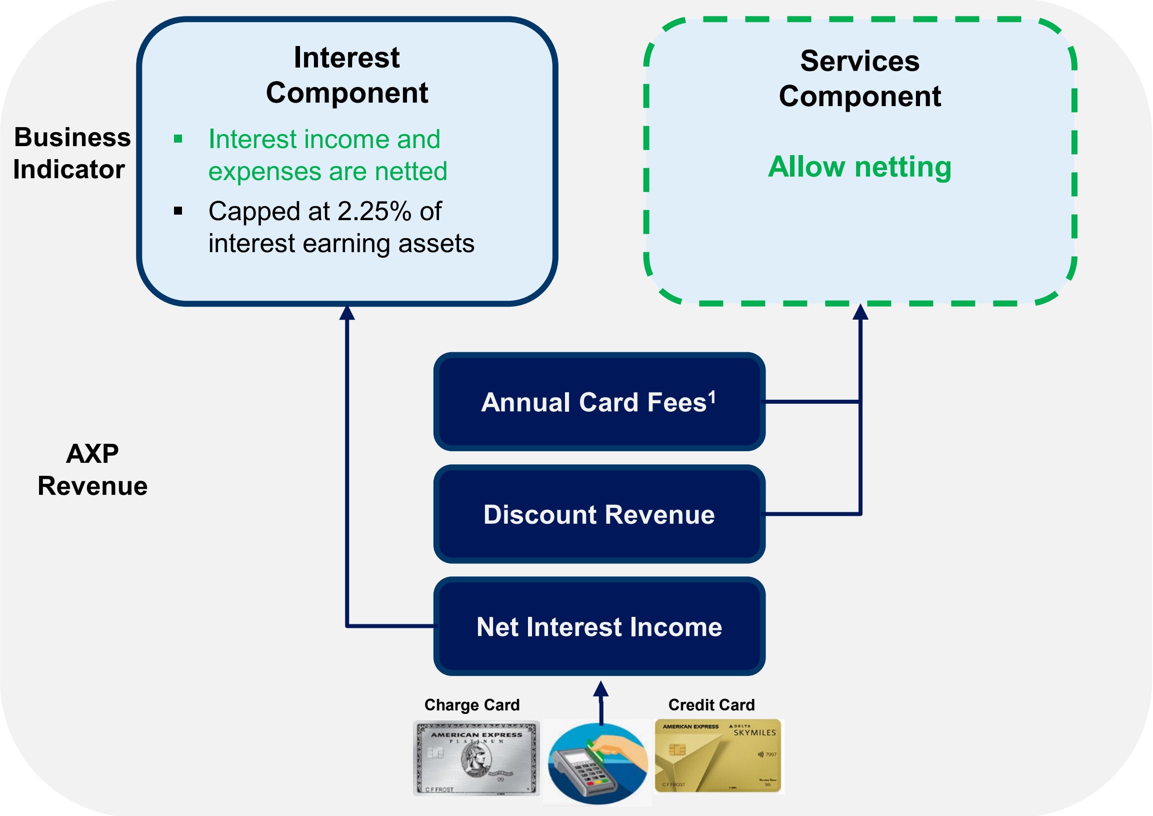


Notes:
1. Card and Card-Related Fee Revenue.
2. Financial Component Indicator is not listed as it is immaterial for AXP.

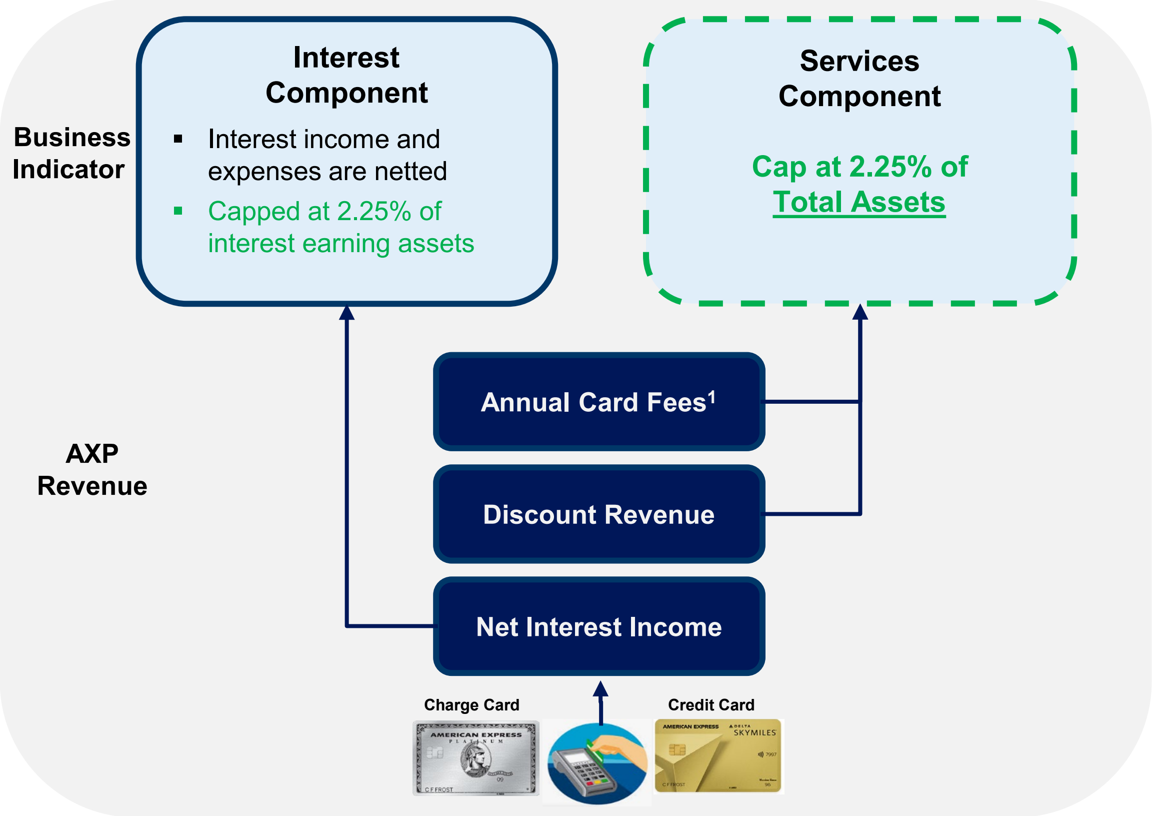
Operational Risk: Alternative Approaches

Alternatively, the Final Rules should consider aligning the treatment of Interest and Services Components with respect to the netting of revenues and expenses and subjecting the Services Component to a cap to mitigate the disproportionate impact.

Alternative 1 : Net Card Revenues and Expenses



Alternative 2: Cap[3] Service Component



Notes:
1. Card and Card Related-Fee Revenue.
2. Financial Component Indicator is not listed as it is immaterial for AXP.
3. This concept was included in "Basel Committee on Banking Supervision, Consultative Document: Standardised Measurement Approach for Operational Risk". June 2016, paragraph 20.

Charge Card
Off-Balance Sheet Exposure

Our Charge Card Products

Introduced in 1958

No preset spending limit. Charge Cards[1] are intended primarily for transaction convenience and cardmember protection by providing an alternative to cash at point of sale.

Worldwide Charge Network Volume[2] **~$1T**

~$390B

Consumer Charge[2]

Offer **additional customer benefits**, such as protection in case of non-delivery or inadequate quality of goods or services provided by merchants.

~$350B

Small Business Charge[2]

Enable working capital flexibility for **Small Businesses** by allowing them to meet short-term cash flow needs in excess of typical pre-approved lines of credit.

~$180B

Corporate Charge[2]

Leading issuer for consumer, small business and corporate cards. Serving approximately ***70%*** of Fortune 500 companies.

Notes:

1. A Charge Card is an open-end payment card product that (i) is unsecured and unconditionally cancelable by the institution to the fullest extent permitted by law; (ii) does not communicate a pre-set spending limit; and (iii) generally requires a borrower to pay the balance in full each month, except that the product may provide the borrower the option to elect to revolve eligible transactions from month to month.

2. Based on 2022 internal data, representing worldwide billed business for charge products.

Charge vs. Credit Cards: Authorization Process

Unlike credit cards which have unconditionally cancelable contractual limits to extend credit, charge cards do not have actual or proxy limits. Charges are underwritten transaction-by-transaction based on real-time credit decisions.

Authorization Decision Criteria

Charge Card

- **No Pre-Set Spending Limit**

Credit Card

- Primarily based on **Contractual Limit**

Ensure cardmember is in good standing
(e.g., past due, returned payments, suspicious activity)

Key Factors of Authorization Decision

Each transaction is individually underwritten

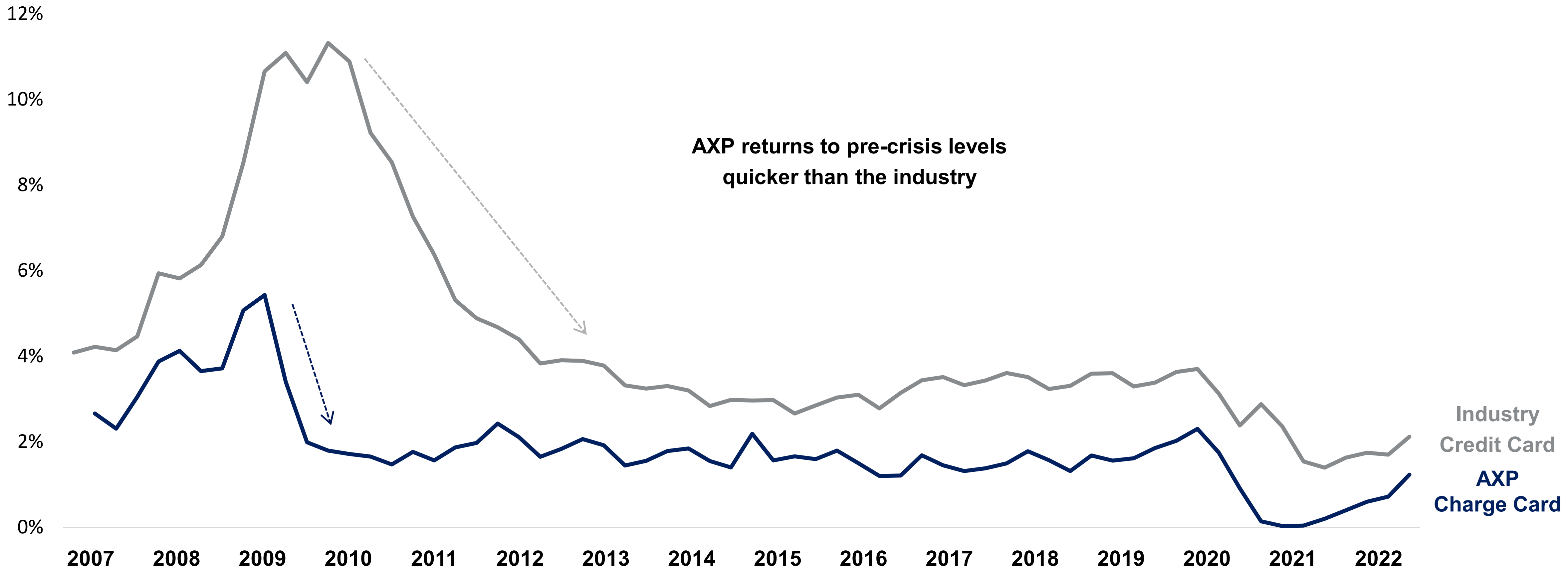
- Internal Credit Model
- Account Balance
- Out-of-Pattern Spending

Unused Credit Limit

Charge Card Credit Profile

The inherent product design – pay-in-full and dynamic, transaction-level authorization – of charge cards has resulted in a lower credit risk profile relative to credit cards and an ability to more quickly respond to market changes and manage risk.

AXP Charge Card & Industry Credit Card Historical Net Credit Write-off Rates[1]



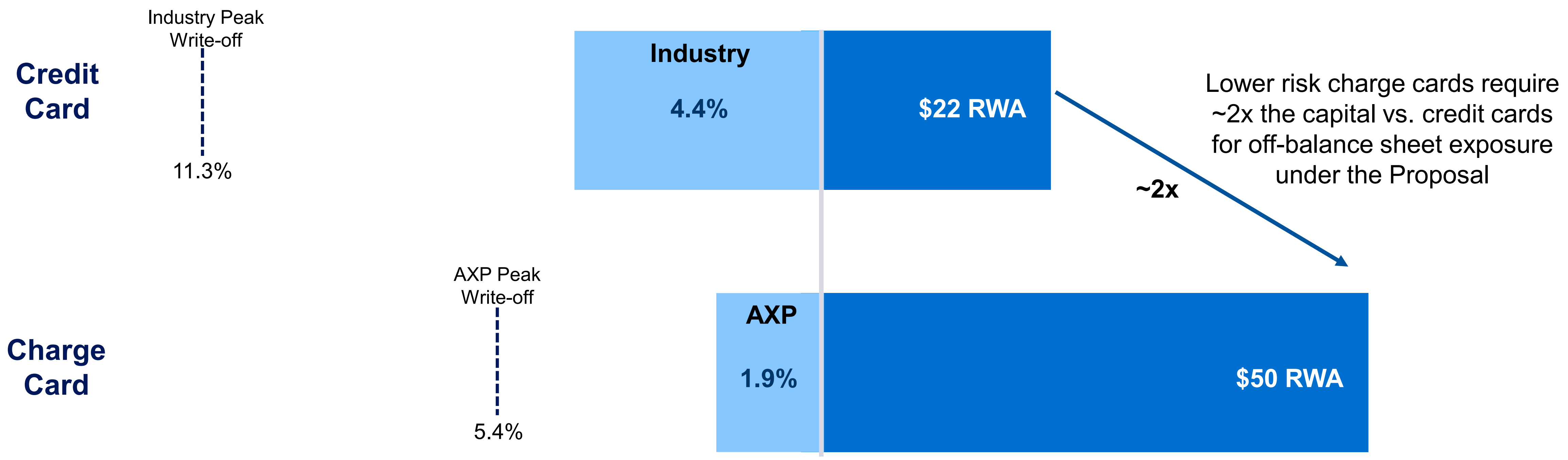
Note:
1. AXP data represents US Consumer and Small Business Net Write-off Rates for Principal-only on Charge Cards. Industry data sourced from quarterly earnings of issuers: JPMorgan, Citi, Bank of America, Capital One and Discover, represents principal-only card Net Write-off rates.

Capital Outcome of the Proposal

The higher "total limit" multiplier for charge cards would result in doubling of the capital requirement for "off-balance sheet exposure" vs. credit cards. This is not reflective of the underlying risk of charge cards.

Historical Average Write-Off Rate[1]

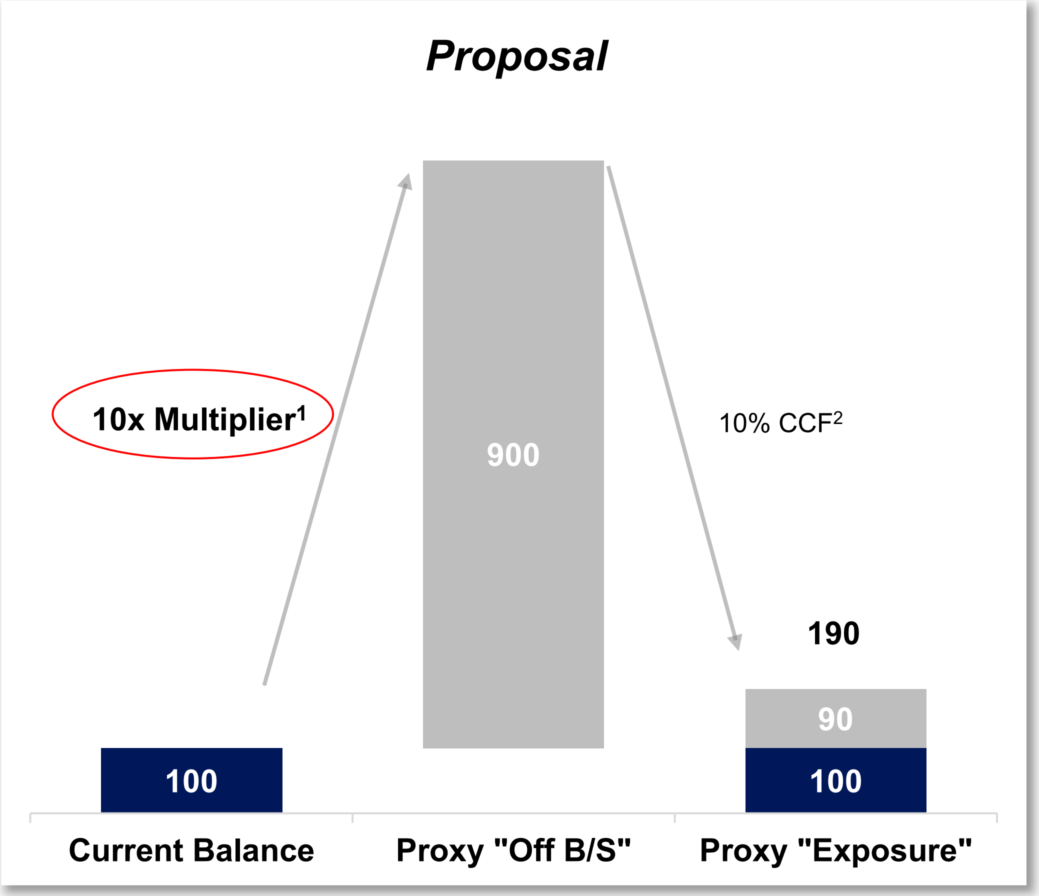
Capital Charge for Off-Balance Sheet Exposure Based on $100 of A/R (*Illustrative Example*)[2]

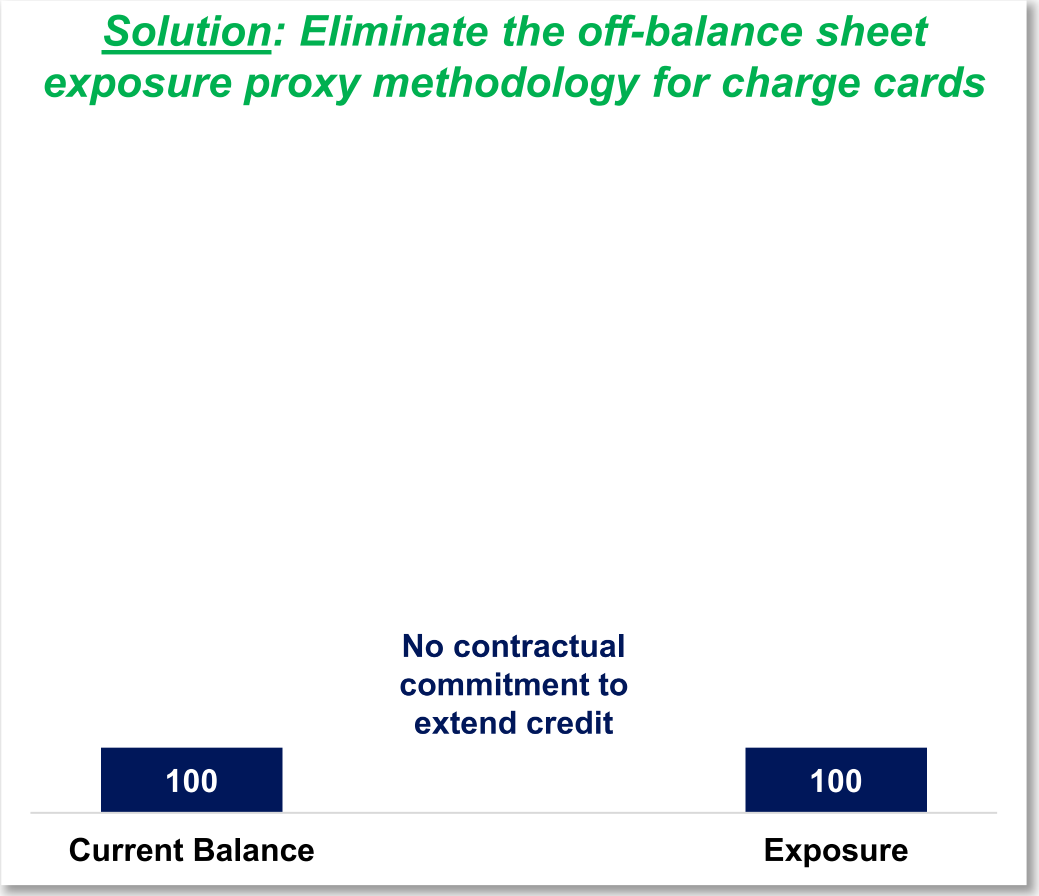


Notes:
1. Highest quarterly AXP write-off rate from 2007–2022 for US Consumer and Small Business. Competitor data sourced from quarterly earnings of issuers: JPMorgan, Citi, Bank of America, Capital One and Discover.
2. Assumes Credit Card is 'Transactor' for RWA calculation. If Credit Card is a 'Revolver' the RWA is estimated at $34 and estimated capital required ~1.5x.

Off-Balance Sheet Exposure Rule: Proposed Solution

As defined by the Basel Standards, charge cards do not include contractual commitments to extend credit. Therefore, we propose eliminating the off-balance sheet exposure proxy methodology for charge cards.

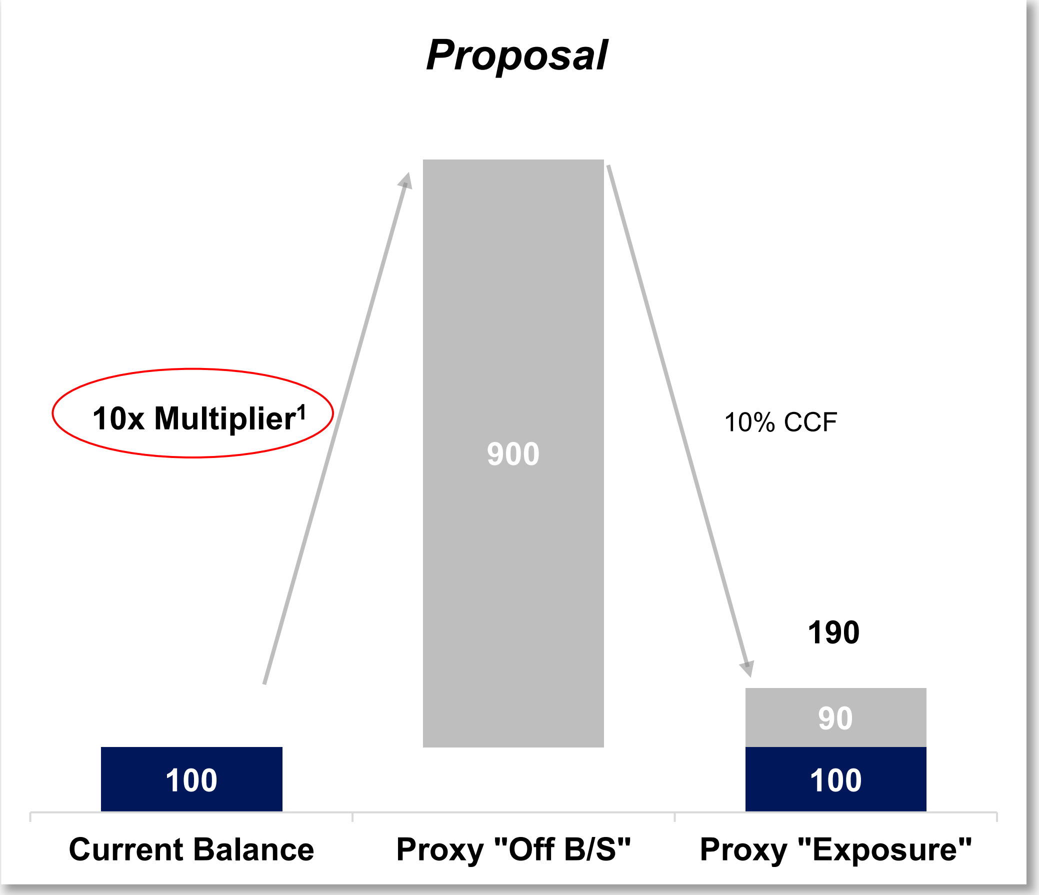


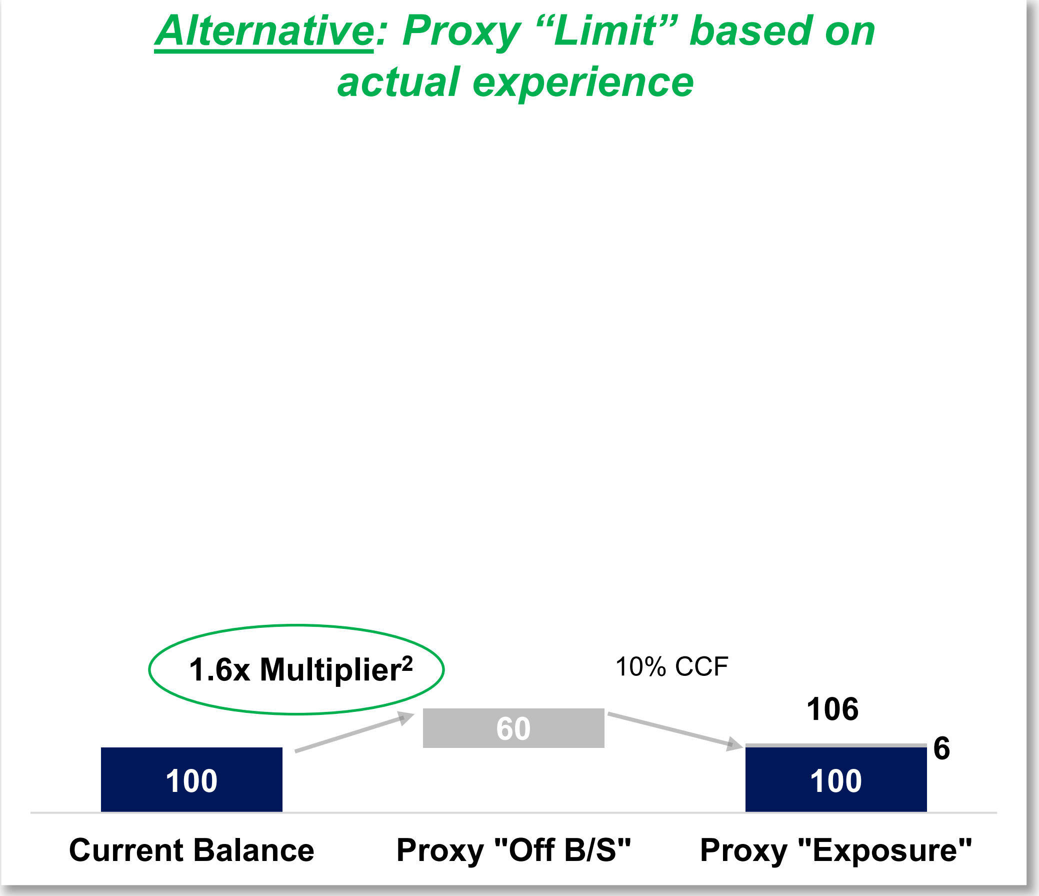


Notes:
1. Based on methodology prescribed under Proposal – Avg Balance over prior 8 quarters x 10 less current outstanding.
2. Off-balance sheet items will be converted into credit exposure equivalents through the use of credit conversion factors (CCF); Source: Basel Committee on Banking Supervision Basel III: Finalising Post-Crisis Reforms. December 2017, page 25

Off-Balance Sheet Exposure Rule: Alternative Approach

If the agencies decide to retain a proxy "limit" for charge cards, we propose that the methodology more accurately reflects historical experience. Our data shows that the incremental exposure from charge cards is minimal and dramatically lower than what the Proposal prescribes.





Notes:

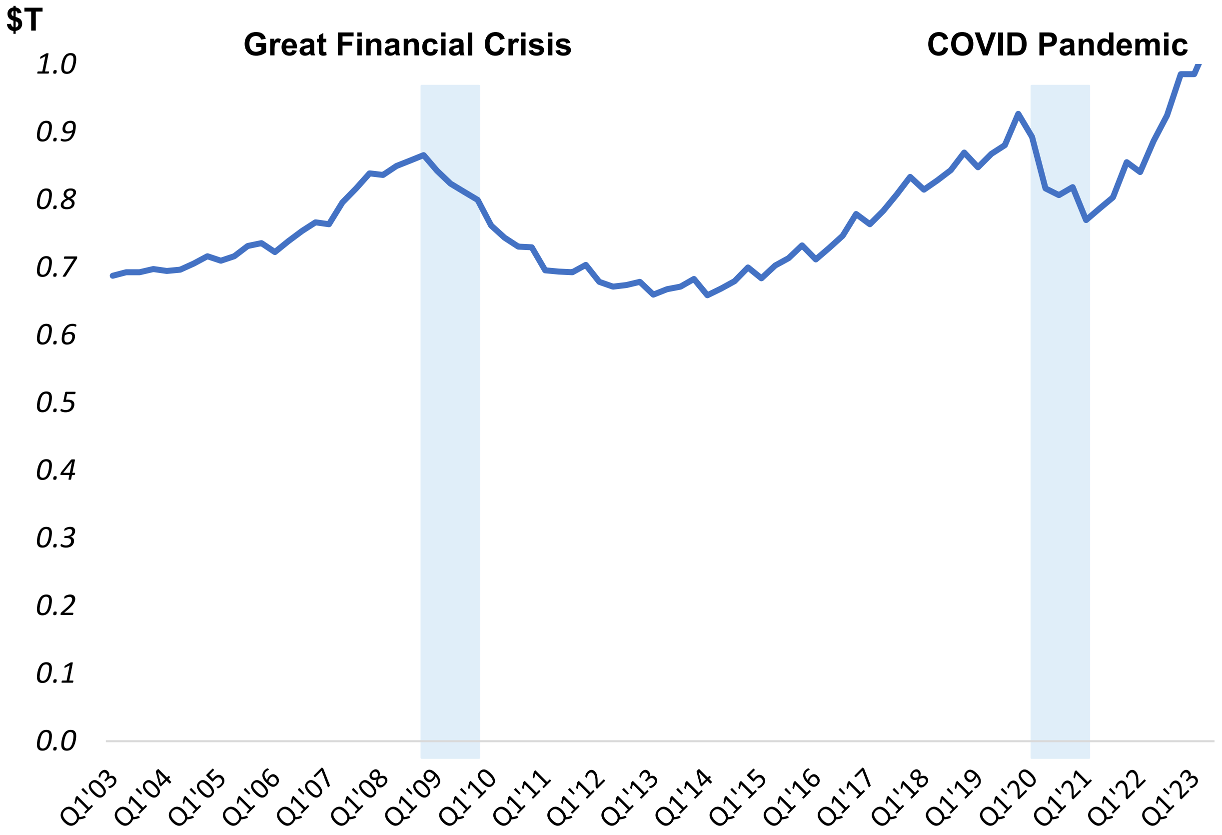
1. Based on methodology prescribed under Proposal – Avg Balance over prior 8 quarters x 10 less current outstanding.

2. Based on 2013-2022 average principal-only incremental balance between the last month where an account is current and the month when the same account is in default (excluding recoveries) of US Consumer and Small Business charge products. Multiplier = [(Incremental Balance / CCF) + Current Balance] / Current Balance

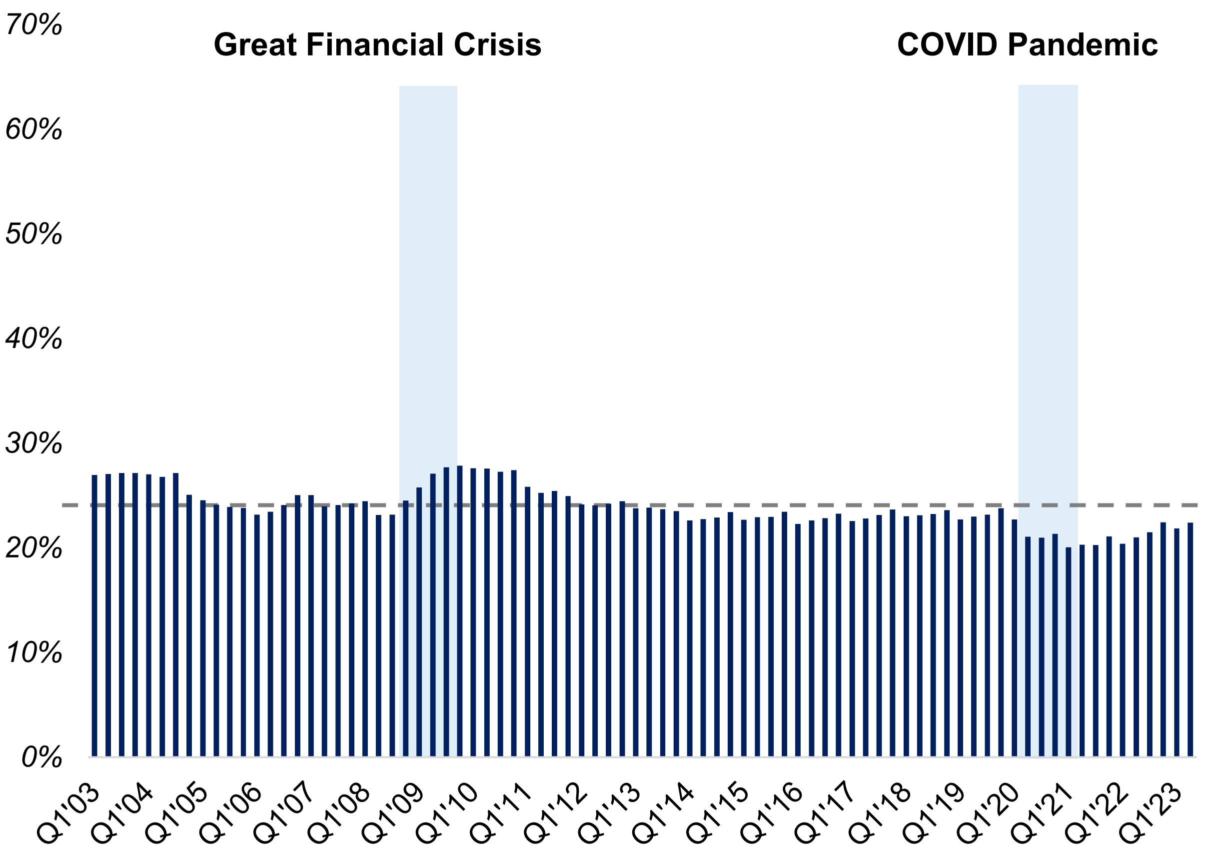
Appendix

Historical Industry Credit Card Balance and Utilization

Historical Industry Credit Card Balances



Historical Industry Credit Card Utilization Rate

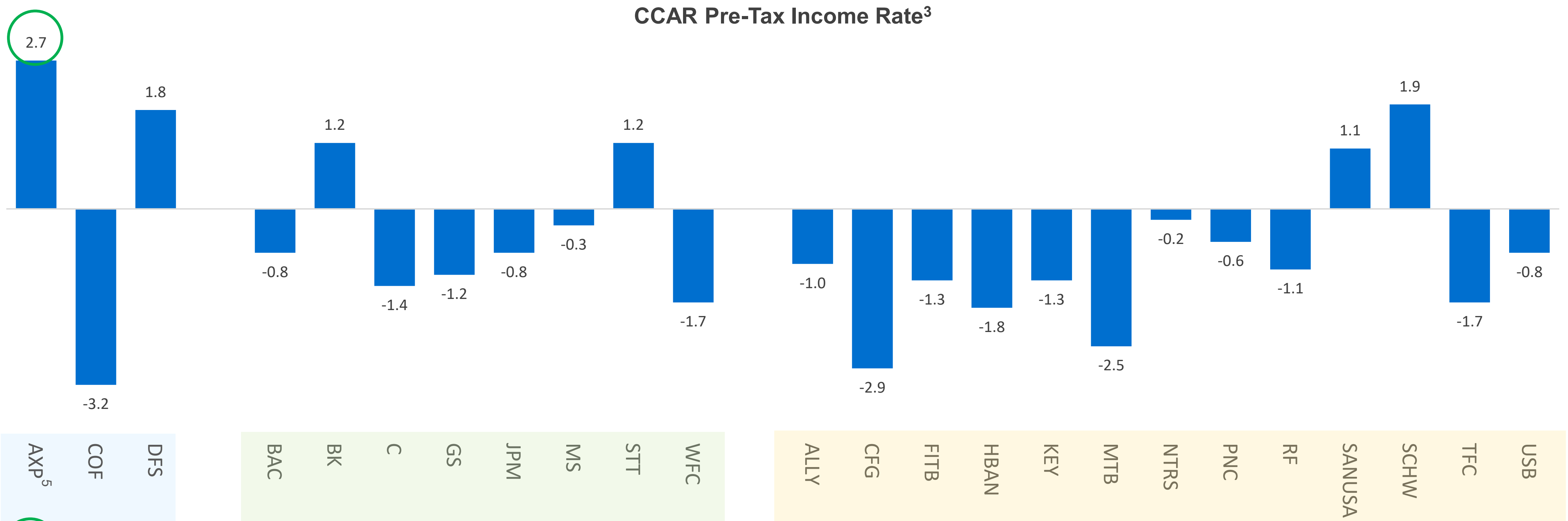


Note:

1. Source: Federal Reserve Board of New York Household Debt Data

Our Capital Profile Based on CCAR Supervisory Modeling

We have participated in supervisory stress testing since the introduction of the SCAP[1] in 2009. Our CCAR results consistently point to a resilient capital profile with the highest profitability under stress across all Fed-modeled banks[2] and the lowest stress capital buffer permissible under the rules.



	AXP[5]	COF	DFS	BAC	BK	C	GS	JPM	MS	STT	WFC	ALLY	CFG	FITB	HBAN	KEY	MTB	NTRS	PNC	RF	SANUSA	SCHW	TFC	USB
Stress Capital Buffer[4]	2.5	4.8	2.5	2.5	2.5	4.3	5.5	2.9	5.4	2.5	2.9	2.5	4.0	2.5	3.2	2.5	4.0	2.5	2.5	2.5	2.5	2.5	2.9	2.5
	Credit Card			G-SIBs								Category II / III / IV Banks												

Notes:

1. Supervisory Capital Assessment Program.

2. AXP has the highest Pre-Tax Income rate among CCAR participants between 2014 and 2022.

3. Net Income before Taxes (% of 9 qtr. average assets) under Severely Adverse Scenario; Sourced from latest CCAR Results for each bank.

4. Sourced from the Federal Reserve large bank capital requirements. Effective October 1, 2023.

5. Actual SCB would be ~1.7% without the mandated floor of 2.5%.

Supporting Data: Fed Modeled CCAR Results: AXP vs. Peers

AXP has consistently ranked as the most profitable firm under the Fed-modeled CCAR Severely Adverse Scenario each year since 2014 and has been subject to the minimum Stress Capital Buffer of 2.5% since its inception.

Year	AXP Pre-tax Income Rate[1]	AXP Profitability Rank vs. Other CCAR Participants	Industry Average Pre-tax Income Rate[1]	AXP Stress Capital Buffer
2022	2.7%	1 of 33	-0.9%	2.5%
2021	Off-Cycle	N/A	-0.7%	2.5%
2020 (Resub.)	3.3%	1 of 33	-0.9%	2.5%
2020	2.2%	1 of 33	-1.1%	2.5%
2019	Off-Cycle	N/A	-0.8%	2.5%
2018	2.8%	1 of 35	-0.8%	N/A
2017	2.9%	1 of 34	-0.7%	N/A
2016	3.7%	1 of 33	-1.3%	N/A
2015	6.3%	1 of 31	-1.5%	N/A
2014	3.9%	1 of 30	-1.6%	N/A
2013	0.6%	4 of 18	-1.7%	N/A

Note:
1. Net Income before Taxes (% of 9 qtr. average assets) under Severely Adverse Scenario.

The Proposal Has a Disproportionate Impact on AXP

- ***Autonomous*** [1]
  - *"The key thing to note is banks ops risk associated with net interest income is capped at 2.25% of earning assets but the ops risk associated with fees has no cap.* ***For Amex this could have a disproportionate impact given the high fee revenues****… It just seems strange to have an explicit cap in the net interest income portion of ops risk, but then no cap on the fee-based portion.* ***And it only really effects one US firm in a big way, which is Amex."***
- ***J.P. Morgan*** [2]
  - *"While the proposed rule is not yet final,* ***we see AXP as the most impacted card issuer in our coverage universe from Basel 3, because of the operational risk component.****"*
- ***Morgan Stanley*** [3]
  - *"****Why such a large impact*** *[to AXP]****?*** *Within the existing proposal,* ***operational risk weights include a services component that would appear to hit non-interest revenues (~80% of AXP's revenue base)*** *to a larger degree than interest income. Because* ***the services component*** *is 1) uncapped and 2) would not allow for offsets from operating expenses (such as card rewards)."*
- ***UBS*** [4]
  - *"This would be* ***most impactful for AXP****..."*
- ***Wolfe Research*** [5]
  - *"We suspect the discussions revolve around substance over form and the fact that the elevated level of operational risk implied by* ***AXP's large fee income mix is not truly reflective of the kind of economic risk*** *against which it should be forced to hold material amounts of incremental capital."*

Notes:
1. Autonomous Analyst Report – 7/27/2023
2. J.P. Morgan Analyst Report – 10/23/2023 (post-Q3 earnings)
3. Morgan Stanley Analyst Report – 10/23/2023 (post-Q3 earnings)
4. UBS Analyst Report – 7/28/2023
5. Wolfe Research Analyst Report – 10/20/2023 (post-Q3 earnings)

Proposal's Request for Comments: Operational Risk

We would like to share our perspectives on the following questions on Operational Risk that are included in the Proposal:

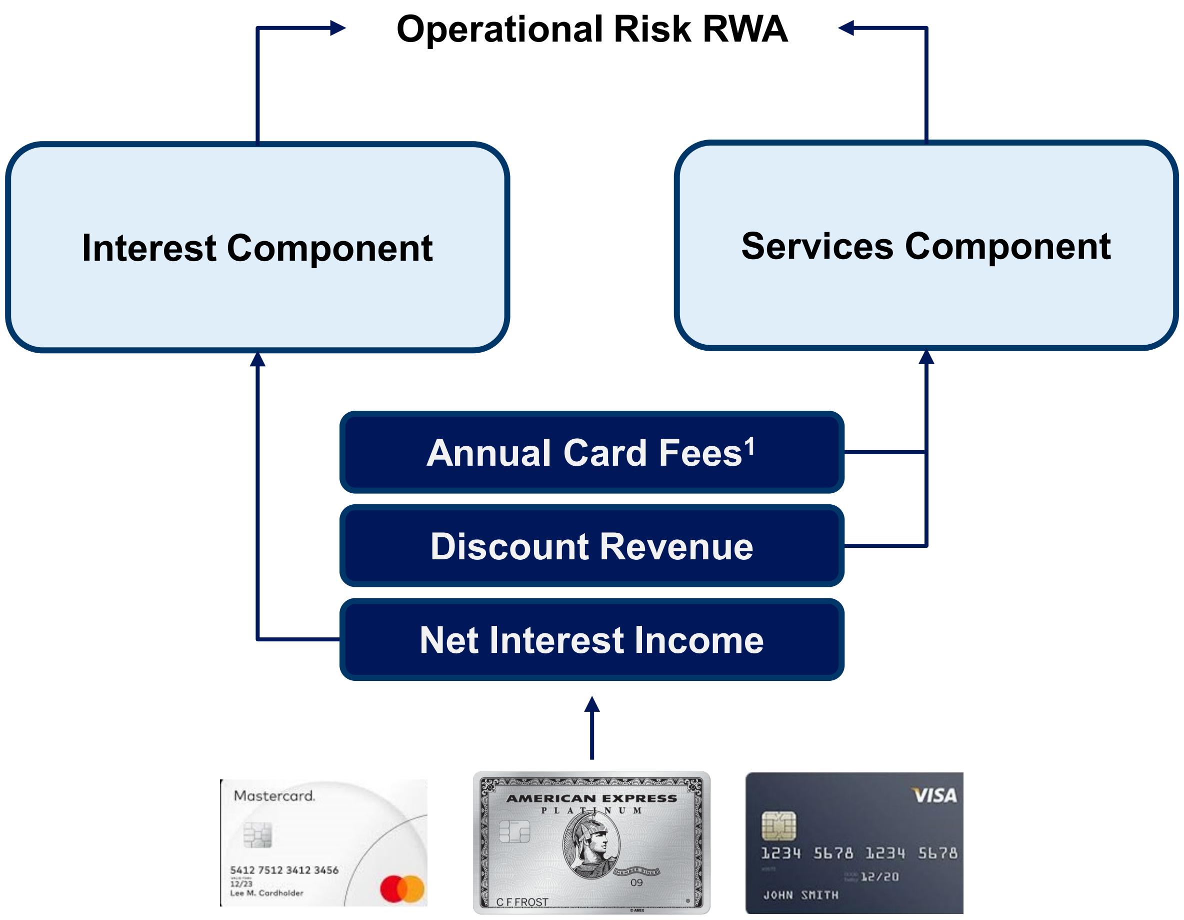
- **Services Component**
  - *"…should the agencies consider any adjustments or limits related to specific business lines, such as underwriting, wealth management, or custody, or to specific fee types, such as interchange fees, and if so what adjustment or limits should they consider? For example, should the agencies consider* ***adjusting or limiting how the services component contributes to the business indicator*** *and, if so, how?…"*

- **Fee Income and Expenses**
  - *"…under the proposal, fee income and expenses of charge cards are included under the services component. Would it be more appropriate for* ***fee income and expenses of charge cards to be included in net interest income of the interest, lease, and dividend component*** *(and excluded from the services component) and for charge card exposures to be included in interest earning assets of the interest, lease, and dividend component and why?..."*

Note:
1. Question 74 in the "Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. 64084-85".

Operational Risk Rule for Card Products

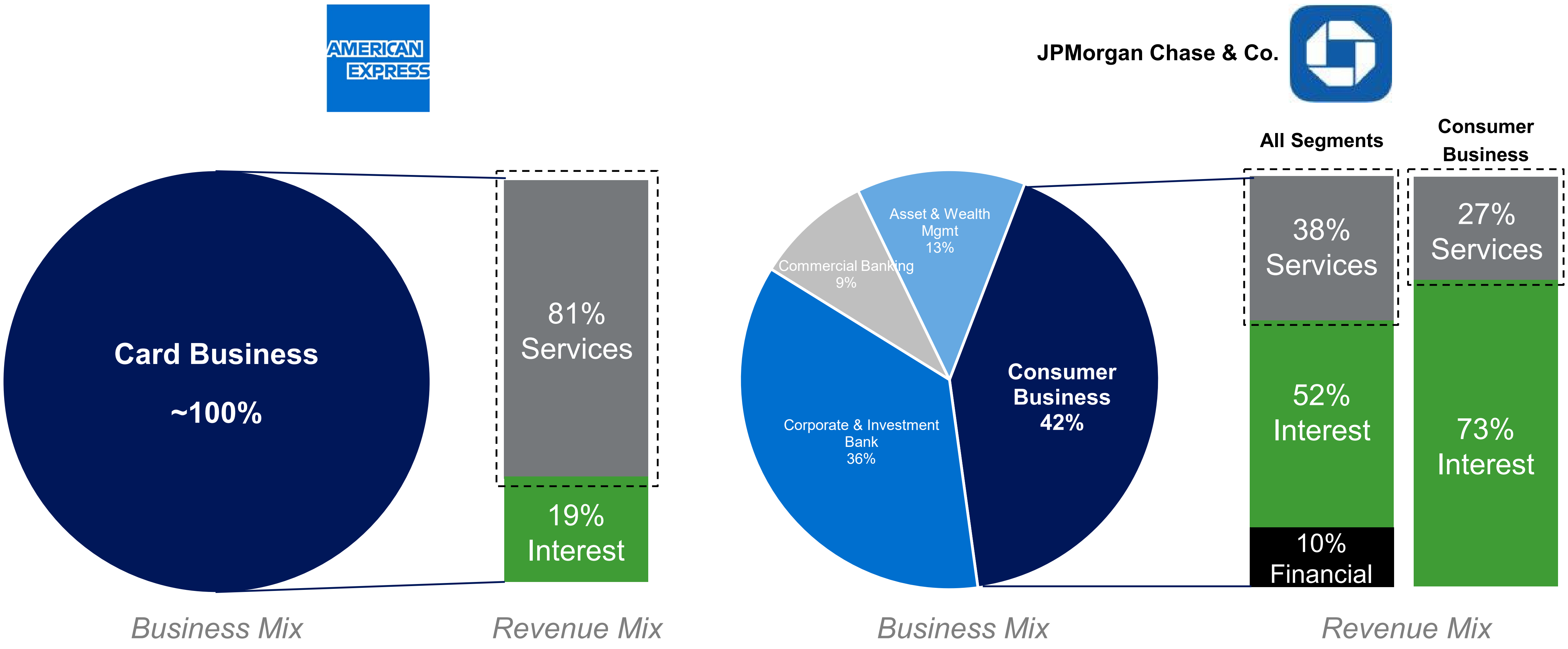
Card revenues from similar underlying processes are, however, split into different categories under the Proposal, and receive different treatments for the purpose of operational risk capital.



Notes:
1. Card and Card-Related Fee Revenue.
2. Financial Component Indicator is not listed as it is immaterial for AXP.

A Comparison of Card Business Models

Even within similar card products, dissimilar revenue mixes would drive different capital requirements under the proposed rules attributable to providing credit and charge cards.



Note:
1. Sourced from AXP and JPM's 2022 10-Ks and JPM's 2022 FR Y-9C.

Different Outcomes for Same Underlying Operational Risks

The differentiated treatment of interest and non-interest revenue earned through the same product would result in significantly different capital requirements for comparable products with similar underlying operational risks.

Materially Different Capital Outcome from Different Mix of $100 Revenue

Capital One

Proposal CET1 Requirement[1]

Notes:

1. Capital estimates are illustrative and represent the CET1 requirement for each firm, assuming:
- *i. Net Interest Yield of 10%*
- *ii. 15% Business Indicator Component (BIC)*
- *iii. 1.0 Internal Loss Multiplier (ILM)*
- *iv. CET1 target of 8% for both firms*

2. Sourced from AXP and COF's 2022 FR Y-9C

Different Outcomes for Same Underlying Operational Risks

The differentiated treatment of interest and non-interest revenue earned through the same product would result in significantly different capital requirements for comparable products with similar underlying operational risks.

Materially Different Capital Outcome from Different Mix of $100 Revenue

Proposal CET1 Requirement[1]

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1. Capital estimates are illustrative and represent the CET1 requirement for each firm, assuming:
- *i. Net Interest Yield of 10%*
- *ii. 15% Business Indicator Component (BIC)*
- *iii. 1.0 Internal Loss Multiplier (ILM)*
- *iv. CET1 target of 8% for both firms*

2. Sourced from AXP and DFS's 2022 FR Y-9C

Reference Pages: 10, 31, 32

Illustrative Example: AXP, JPM, DFS and COF Required Capital

	AMERICAN EXPRESS	JPM	COF	DISCOVER
Interest	$19	$73	$79	$85
Services	$81	$27	$21	$15
Total Revenue:	**$100**	**$100**	**$100**	**$100**
Interest Earning Assets (IEA): Assumes Net Interest Yield 10%	$19/10%= $190	$73/10%= $730	$79/10%= $790	$85/10%= $850
Net Interest capped at 2.25% of IEA	$190 x 2.25%= $4	$730 x 2.25%= $16	$790 x 2.25%= $18	$850 x 2.25%= $19
Business Indicator:				
Interest	$4	$16	$18	$19
Services	$81	$27	$21	$15
Total	$85	$43	$39	$34
Total x 15% Business Indicator Component	$85 x 15% = **$13**	$43 x 15% = **$7**	$39 x 15% = **$6**	$34 x 15% = **$5**
x 1.0 Internal Loss Multiplier	**$13** x 1.0 = **$13**	**$7** x 1.0 = **$7**	**$6** x 1.0 = **$6**	**$5** x 1.0 = **$5**
Basel III Endgame Proposal CET1 Requirement	**$13**	**$7**	**$6**	**$5**

Notes:

1. Capital estimates are illustrative and represent the CET1 requirement for each firm, assuming:

i. Net Interest Yield of 10%

ii. 15% Business Indicator Component (BIC)

iii. 1.0 Internal Loss Multiplier (ILM)

iv. CET1 target of 8% for both firms

Illustrative Example: Off-Balance Sheet Exposure Required Capital

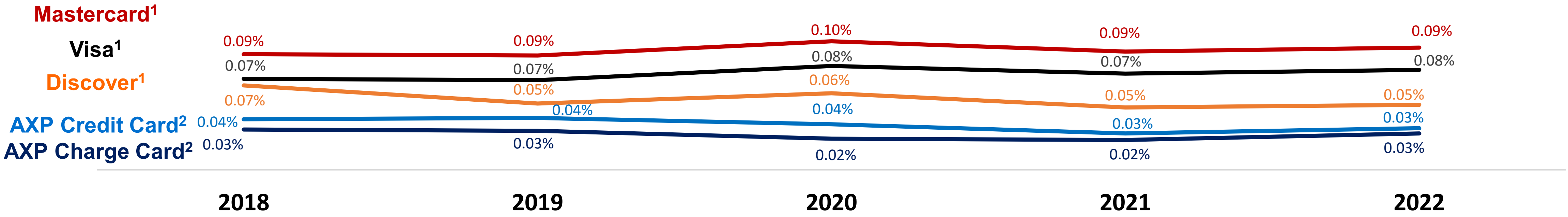
	Credit Card	**Charge Card**
On-Balance Sheet	$100	$100
Limit	5x based on Industry Average	10x based on Proxy "Total Limit"
Total Exposure:	**$500** ($100 x 5)	**$1000** ($100 x 10)
Off-Balance Sheet Exposure	$400 ($500 - $100)	$900 ($1000 - $100)
Risk Weight[1]	55%	55%
Off-Balance Sheet RWA	**$22** ($400 x 10%CCF x 55%)	**$50** ($900 x 10%CCF x 55%)
Ratio of Off-Balance Sheet RWA		**2.3** ($50/$22)

Note:
1. Assumes Credit Card is 'Transactor' for RWA comparison purpose.

Operational Risk Losses: Credit and Charge Cards

Not only do card revenues share similar underlying processes and face similar operational risks, there are also no significant differences in the fraud risk loss history between credit and charge cards.

Net Fraud Loss Rates for General Purpose Credit Cards in the US



Notes:
1. Sourced from Nilson Reports – Total Net Fraud Losses $ reported by Visa, Mastercard, American Express and Discover on general purpose credit cards issued in US.
2. Based on AXP consumer products data.

Operational Risk: Summary of AXP's Recommendation

- **Solution: Permit the inclusion of Fee Revenue and Expenses attributable to card products in the Interest Component.**
  - Annual membership fees and discount revenue and related expenses (marketing, rewards and servicing) relate to the same integrated products (credit and charge cards) and do not present or reflect higher operational risk than interest income on credit card balances.

- **Alternatives:** If the agencies decide not to include card-related Fee Revenue and Expenses in the Interest Component, we recommend the agencies:

1. **Permit Netting of Card-Related Expenses**
   - Fee Expenses such as marketing, rewards and servicing are key to earning Fee Revenue and as such netting should be allowed.
2. **Cap the Services Component of the Business Indicator**
   - Similar to the Interest Component, cap the Services Component to align the Operational Risk impact generated from Interest vs. Services.

Proposal's Request for Comments: Off-Balance Sheet Exposures

We would like to share our perspective on the following question on off-balance sheet exposures that is included in the Proposal:

- **Off-Balance Sheet Multiplier**
  - *"What adjustments, if any, should the agencies make to the proposed multiplier of 10 for calculating the total off-balance sheet notional amount of the obligor under the proposed methodology and why?"*

Note:
1. Question 45 in the "Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, 88 Fed. Reg. 64056".

Charge vs. Credit Cards: Authorization Example

A transaction by a charge card can be declined based on multiple factors, including out-of-pattern spending. The same transaction would generally be approved for a credit card if the total account exposure stay within the contractual limit.

Authorization Decision Criteria

Charge Card

Credit Card

Each transaction is individually underwritten

Example: *$5,000 transaction* - DECLINED[1]

Product:	**Platinum Charge Card**
Transaction Amount:	$5,000
Current Account Balance:	$1,000
Credit Limit:	No Pre-Set Spending Limit
FICO:	725
Internally Modeled Credit Risk:	High
Approve/Decline Rationale:	Out-of-Pattern Spending

Example: *$5,000 transaction* - APPROVED

Product:	**Blue Cash Everyday**
Transaction Amount:	$5,000
Current Account Balance:	$1,000
Credit Limit:	$10,000
FICO:	725
Internally Modeled Credit Risk:	High
Approve/Decline Rationale:	Within Contractual Limit

Note:
1. For illustrative purposes only. Credit underwriting decisions are made on a transaction-by-transaction basis.

Charge vs. Credit Cards: Off-Balance Sheet Exposure

Under the Basel Standards, capital is required for off-balance sheet exposure only where there is a contractual commitment to extend credit. As clearly indicated by the Proposal's search for a proxy methodology, charge cards generally do not provide an equivalent to a committed line of credit.

Basel Standards on Off-Balance Sheet Exposure[1]

Off-balance sheet items will be converted into credit exposure equivalents through the use of credit conversion factors (CCF). In the case of commitments, the committed but undrawn amount of the exposure would be multiplied by the CCF. ***For these purposes, commitment means any contractual arrangement that has been offered by the bank and accepted by the client to extend credit,*** *purchase assets or issue credit substitutes.*

Product	Key Terms and Conditions	Off-Balance Sheet Commitment
Charge Card	▪ No pre-set spending limit ▪ No commitment to extend credit ▪ Point of sale authorization	✗
Credit Card	▪ Contractual arrangement to extend credit up to a committed, communicated line	✓

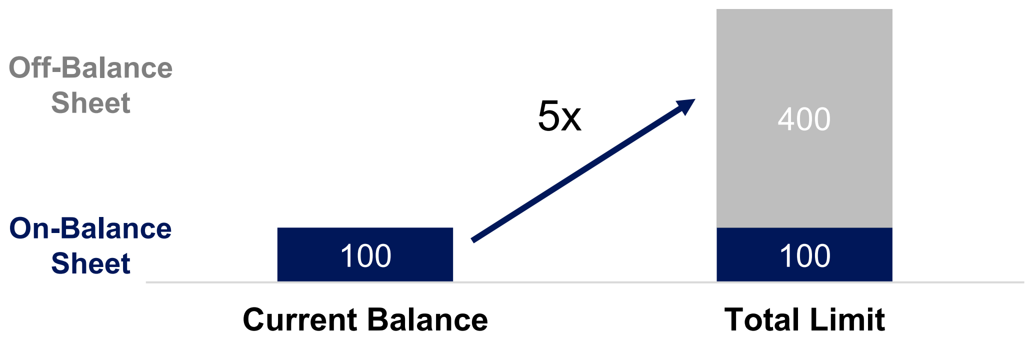
Note:
1. *"Basel Committee on Banking Supervision Basel III: Finalising Post-Crisis Reforms". December 2017,* page 25.

Industry Data on Off-Balance Sheet Exposure

In the US card industry, the average total credit limit (on-balance sheet exposure plus “off-balance sheet exposure”) is approximately 5x the card balance. The proposed 10x multiplier as a proxy for charge card “total limit” is dramatically higher.

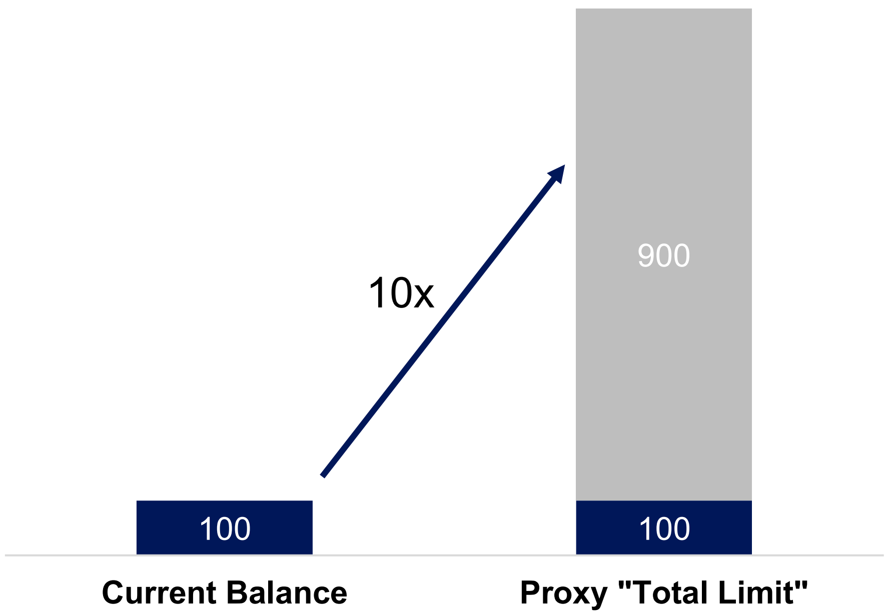
Credit Card

Historical Industry Average[1]



Charge Card

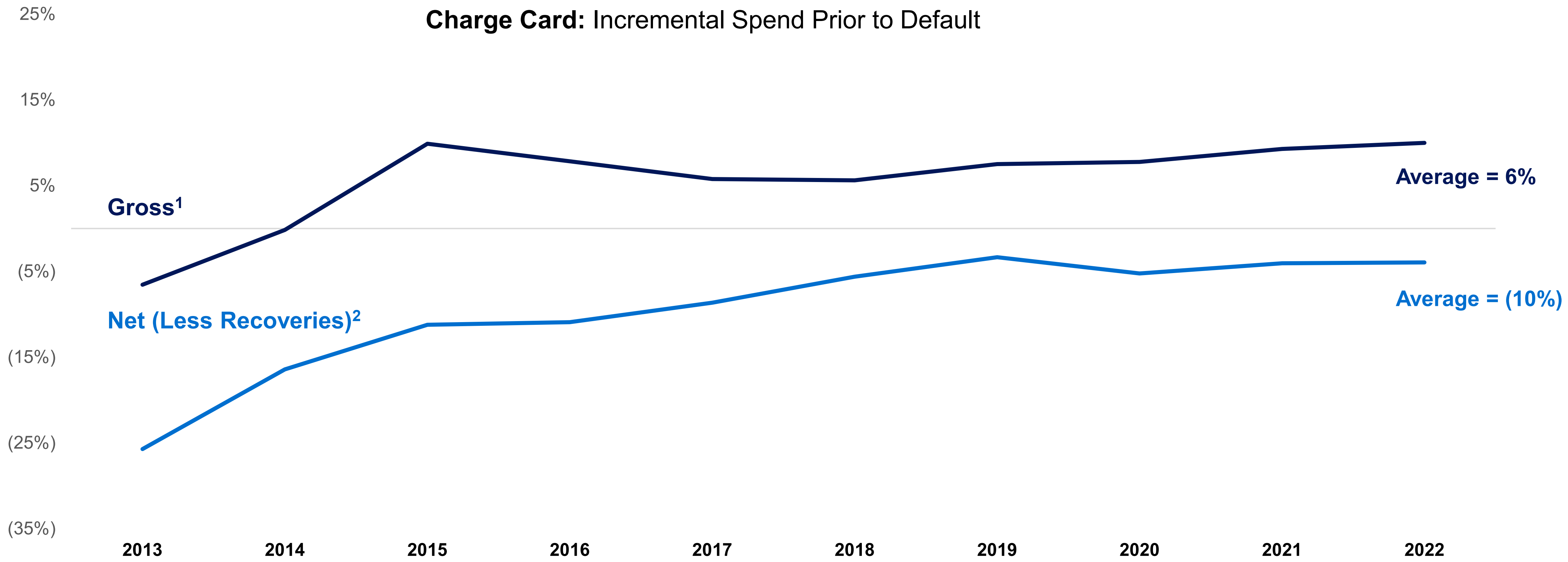
Proxy “Total Limit” Under Proposal



Note:
1. Source: Federal Reserve Board of New York Household Debt Data 2019–2022

Historical Incremental Exposure of Charge Card

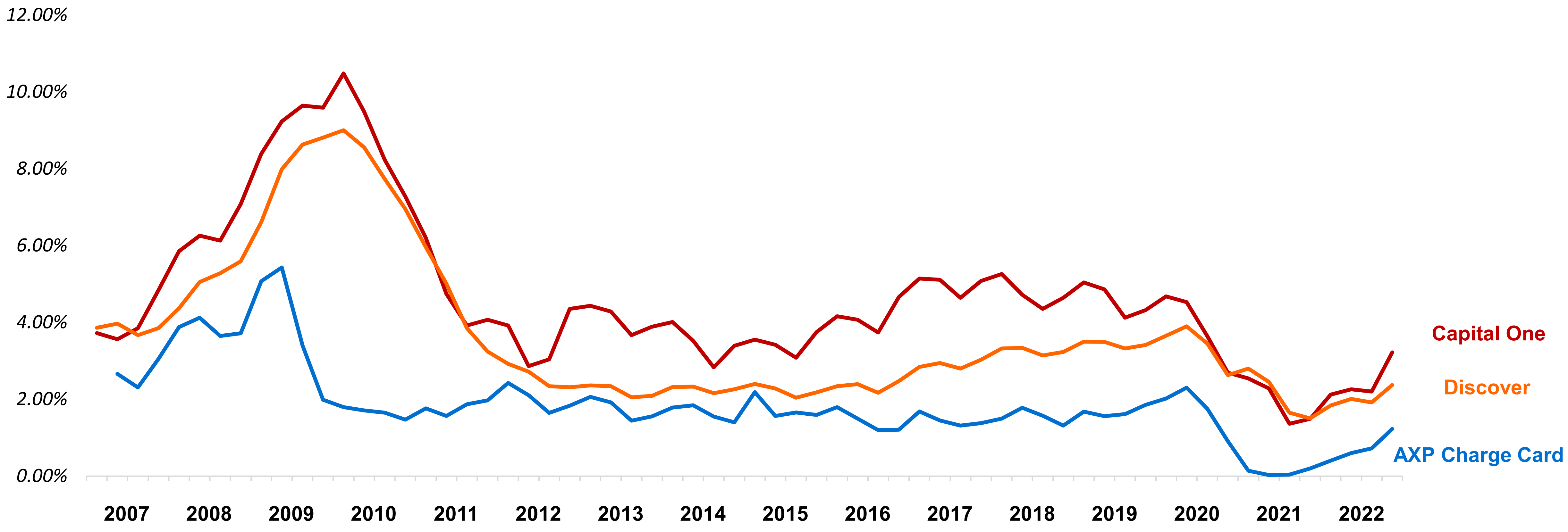
History has shown the incremental spending prior to default to be consistently minimal. In the past 10 years, the average gross incremental exposure was only 6%, and when recoveries are considered, this exposure declines to 10% *below* the initial balance.



Notes:
1. Incremental balance between the last month where an account is current and the month when the same account is in default, excluding recoveries.
2. Incremental balance between the last month where an account is current and the month when the same account is in default, including recoveries.

Historical Net Write-Off Rates Comparison

AXP Charge Card & Peers Credit Card Historical Net Credit Write-off Rates[1]



Note:
1. AXP data represents US Consumer and Small Business Net Write-off Rates (principal-only) of Charge Cards. Capital One and Discover data is sourced from quarterly earnings, represents Net Write-off Rates (principal-only) of U.S. credit cards.

Charge Card Off-Balance Sheet Exposure: Summary of AXP's Recommendation

- **<u>Solution</u>: Eliminate the off-balance sheet exposure proxy methodology for charge cards.**
  - Charge card products demonstrate low risk from a credit perspective, do not provide a committed credit line, and can be actively managed to avoid incremental spend. As such, the credit risk associated with charge card products should continue to be addressed through prudent risk management and should not be assigned a proxy off-balance sheet exposure amount.

- **<u>Alternative</u>:** If the agencies decide not to eliminate the off-balance sheet exposure proxy methodology for charge cards, we recommend the agencies **revise the methodology on any retained off-balance sheet exposure for charge cards to reflect historical data.**
  - Based upon our internal data and experience offering charge card products, we believe a multiplier of 1.0x - 1.6x prior 8 quarters average spend minus current spend would better represent the "exposure" intended to be captured through the proxy methodology.

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