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April 12, 2024

Rosemary Spaziani, Esq.
Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Sent via EZFile

Dear Ms. Spaziani:

The following additional information request relates to the application (“Application”) filed by Capital One Financial Corporation (“Capital One”), the parent of Capital One, National Association (“CONA”), both of McLean, Virginia, to acquire 100 percent of Discover Financial Services (“Discover”), Riverwoods, Illinois, and thereby indirectly acquire Discover Bank, Greenwood, Delaware, pursuant to section 3 of the Bank Holding Company Act of 1956¹ (“BHC Act”), and the notice (“Notice”) filed by Capital One to indirectly acquire DFS Services LLC, Riverwoods, Illinois; Discover Financial Services (Canada), Inc., Vancouver, British Columbia, Canada; PULSE Network LLC, Houston, Texas; Diners Club International Ltd., Riverwoods, Illinois; Diners Club Services Private Limited, Mumbai, India; and Diners Club Services Taiwan Ltd., Taipei, Taiwan, pursuant to sections 4(c)(8) and 4(j) of the BHC Act.²

Please provide responses to each of the following questions, including the questions in the Confidential Annex. Supporting documentation should be provided, as appropriate. To the extent information requested is not yet available, provide a date by which it is expected to be made available to the Board of Governors of the Federal Reserve System (“Board”).

1. Page 16 of the Introductory Statement of the Application, Capital One states that Capital One will add three directors to its board.
 - a. Identify the additional directors that would be added to Capital One’s board.
 - b. Clarify whether any management official (as defined in 12 CFR 212.2) of Capital One, CONA, Discover, Discover Bank, or any affiliate of Capital One, CONA, Discover, or Discover Bank, is or would be a management official of an unaffiliated depository institution, depository institution holding company, or any affiliate thereof. If so, discuss the permissibility of that management official’s simultaneous service under the Depository Institution Management Interlocks Act, 12 U.S.C. § 3201 et seq., and the Board’s Regulation L, 12 CFR part 212.

¹ 12 U.S.C. § 1842.

² 12 U.S.C. § 1843(c)(8) and (j).

2. Provide terms of the Capital One preferred stock that holders of the currently outstanding shares of Discover preferred stock would have the right to receive after consummation of the proposal. Provide copies of any amendments to the constitutive documents of Capital One in connection with issuance of preferred stock.
3. Provide the Discover Disclosure Schedule and Capital One Disclosure Schedule to the Agreement and Plan of Merger dated February 19, 2024 (as defined in Articles III and IV of the Agreement and Plan of Merger, respectively).
4. On March 26, 2024, the United States District Court for the Southern District of New York issued a decision and determined that Walmart Inc. could terminate its exclusive credit card partnership with CONA early. See Walmart Inc. v. Capital One NA, No. 23-02942 (S.D.N.Y. March 26, 2024). With respect to this decision, provide the following additional information:
 - a. Describe the impact of this ruling on Capital One and CONA.
 - b. Describe whether the potential termination of this exclusive partnership, if it were to occur, could affect Capital One and CONA. Include in your response an estimate of financial losses (if any).
 - c. Discuss preparations, if any, that Capital One has made in advance of the potential termination.
 - d. Describe the remaining claims and counterclaims at issue in this legal action, including how and when those claims and counterclaims are expected to be resolved.
5. Page 11 of the Preliminary Statement to the Application states “CONA has a location in Delaware, which is an operational facility and accepts deposits via the CONA website from customers nationwide,” although “this CONA location is not a branch.” Provide an analysis of whether the location meets the definition of “branch” under the BHC Act. As part of your discussion, indicate whether checks are paid and/or money is lent at CONA’s Delaware location.
6. The confidential exhibits to the Application did not include unredacted versions of Public Exhibit 5 (the “Current Organizational Chart of Discover”), nor Public Exhibit 6 (the “Current Organizational Chart of COFC”). Provide unredacted versions of these two exhibits.
7. Provide the Affidavits of Publication for The News Journal publication.
8. In response to question 18 on Form FR Y-3 and page 50 of the Preliminary Statement to the Application, with respect to the Convenience and Needs of the Communities section, Capital One acknowledges that some Discover Bank products and services may be discontinued following the proposed transaction.
 - a. Provide a list of Discover Bank products and services that are being considered for elimination.
 - b. Provide a timeline for when a decision is expected to be made on whether to eliminate any Discover Bank products and services.

- c. Explain the criteria that will be used in determining whether to discontinue any Discover Bank products and services and the anticipated effects of the changes on low- and moderate-income (“LMI”) and minority communities.
 - d. Explain how CONA would mitigate the effects of such changes on the communities to be served, including LMI and majority minority communities.
9. Describe any significant changes in current CONA products and services that will result from consummation of the proposed transaction.
10. Provide a list of activities and products in which Capital One either plans to initiate new operations or expand existing operations, after closing of the proposed transaction.
11. Provide estimates of the benefits that the proposed transaction would have on either credit or debit payment networks in terms of prices, quantities, or investments.
 - a. Supply any analyses produced by Capital One during the due diligence process that corroborate these estimates.
12. Identify any lines of business in which Capital One and Discover both operate. For each line of business:
 - a. Identify whether the geographic scope of this competition is primarily at the global, national, state, county, zip code level, or other geographic unit. If other, please explain.
 - b. Provide a measure of Capital One’s and Discover’s (i) volume and (ii) market share in 2022 and 2023 for those geographies identified in 13.a., where Capital One and Discover both operate.
 - c. For those geographies identified in 13.a., identify competitors and provide these competitors’ volume and market share in 2022 and 2023.
13. Separately for both Capital One and Discover, provide the breakdown of aggregate deposits as of June 30, 2023, by whether the depositor account is an individual, corporate, government, or other (none of the above) account. These account types are defined as follows:
 - a. individual: deposits related to the personal, household, or family activities of both farm and nonfarm individuals and to the business activities of sole proprietorships.
 - b. corporate: deposits of corporations and organizations (other than depository institutions), regardless of whether they are operated for profit.
 - c. government: deposits of either U.S. Government or any State government agencies.
 - d. other: deposits from accounts that are neither individual, corporate or government.
14. Separately for both Capital One and Discover, provide the breakdown of aggregate deposits as of June 30, 2023, by the location of depositors (zip code), i.e., the aggregate deposit amount of account holders who reside in each five-digit zip code.
 - a. In a separate file, include the county and state that correspond to each five-digit zip code. If there is more than one county within the zip code, include an additional row for that county and zip code pair.

15. The following financial data are requested as of December 31, 2023, unless otherwise indicated:
- a. For Capital One and Discover, separately, provide the five (or ten, where noted) largest counterparties rolled up to the parent company and their corresponding amounts for each of the following FR Y-15 items listed below:
 - i. Total exposure (Y832)
 - ii. Total intra-financial system assets (M362) – provide top ten
 - iii. Total intra-financial system liabilities (M370) – provide top ten
 - iv. Total securities outstanding (M376)
 - v. Payments activity (M390)
 - vi. Assets held as a custodian on behalf of customers (M405)
 - vii. Total underwriting activity (M408)
 - viii. Trading volume – fixed income (MV93)
 - ix. Trading volume – equities and other securities (MV95)
 - x. OTC derivative contracts settled bilaterally (M410)
 - xi. Total notional amount of OTC derivatives (M411)
 - xii. Total adjusted trading and AFS securities (N255)
 - xiii. Assets valued using Level 3 measurement inputs (G506)
 - xiv. Foreign claims on an ultimate-risk basis (M422)
 - xv. Total cross-jurisdictional liabilities (M426)
 - xvi. Total short-term wholesale funding, by maturity (Y890, Y891, Y892, Y893)
 - xvii. Total short-term wholesale funding (Y894)

 - b. For Capital One and Discover, separately, provide the ten largest counterparties rolled up to the parent company and the corresponding amounts of each component of intra-financial system assets and liabilities (as defined by the FR Y-15 codes listed below).
 - i. For intra-financial system assets:
 - A. Funds deposited with or lent to other financial institution (M351)
 - B. Unused portion of committed lines extended to other financial institution (J458)
 - C. Holdings of securities issued by other financial institution (M352 + M353 + M354 + M345 + M356 - M357)
 - D. Net positive current exposure of securities financing transactions (SFTs) with other financial institution (M358)
 - E. Over-the-counter (OTC) derivative contracts with other financial institutions that have a net positive fair value (M359 + M360)
 - ii. For intra-financial system liabilities:
 - A. Deposits due to other financial institutions (M363 + M364)
 - B. Borrowings obtained from other financial institutions (Y833)
 - C. Unused portion of committed lines obtained from other financial institutions (M365)
 - D. Net negative current exposure of SFTs with other financial institution (M366)

- E. OTC derivative contracts with other financial institutions that have a net negative fair value (M367 + M368)
- c. Describe the nature of the balances reported by Capital One in funds deposited with or lent to other financial institutions (M531), how they arise during operations, why they are necessary, and whether they would be expected to increase as a result of the proposed transaction.
 - d. Provide the dollar amounts for the five largest categories of Trading Securities and AFS Securities for Capital One and Discover, separately.
 - e. Provide the dollar amounts for the five largest categories of held-to-maturity securities for Capital One and Discover, separately.
 - f. Provide the current market exposure - gross, and net of collateral and other risk mitigants - for the five largest counterparties rolled up to the parent company of OTC derivatives of Capital One and Discover, separately, as measured by:
 - i. Positive current exposure after netting arrangements.
 - ii. Negative current exposure after netting arrangements.
 - g. To the extent not already provided in the Application and the Notice, identify whether Capital One and Discover are involved in each of the following activities, discuss the nature of this involvement, and provide a brief listing of other firms that engage in the same activity in the United States. For both Capital One and Discover, separately, provide measures of the scale of each activity specified, for both the most recent quarter and the most recently completed year. Measures should be stated both in U.S. dollars and as a share of overall U.S. activity; derivatives should be stated as notional dollar amounts. Responses may be confined to information maintained in the regular course of business.
 - i. Short-term lending
 - A. Reverse bilateral repurchase agreements (volume)
 - B. Reverse tri-party repurchase agreements (volume)
 - C. Fed funds (volume)
 - D. Tri-party repo dealing (volume)
 - ii. Commercial lending
 - A. Syndicated lending (volume)
 - B. Syndicated pipeline commitments (volume)
 - C. Lending to small and medium-sized enterprises (volume)
 - D. Unfunded commitments (volume)
 - iii. Underwriting services
 - A. Issuance of new equities (volume)
 - B. Corporate bonds (volume)
 - C. Commercial paper (volume)
 - D. Asset backed securities (volume)
 - E. Other debt securities (volume)
 - iv. Total provisions of services in the following sectors.

- A. Prime brokerage (number of funds and fund sponsors, and total assets under management)
 - B. Securities lending (report value of securities lent as a custodian and securities lent from trading book)
 - C. Corporate trust
 - D. Correspondent banking
 - E. Wealth management (total assets under management)
 - F. Insurance (by segment, including reinsurance)
 - G. Provide the volume of total deposits, core deposits, brokered deposits, and uninsured deposits for Capital One and Discover, separately.
- h. Describe how, if at all, the proposed acquisition would promote financial stability of the United States banking or financial system.
16. The Preliminary Statement to the Application states that “while the Proposed Transaction would result in adjustments to Capital One’s overall resolution planning, it would not complicate any resolution process in the event of serious financial distress.” Please summarize the expected adjustments to Capital One’s resolution plan and describe the reason(s) why Capital One does not believe the proposed transaction would complicate resolution planning in the event of serious distress.
17. Provide a list and description of any Material Entities and Core Business Lines that the proposed merger would generate that do not appear on Capital One’s 165(d) Resolution Plan, dated December 2021.
18. To better understand the significance for Capital One in acquiring payments networks, indicate what percentage of the approximate \$35 billion purchase price for the proposed transaction would be attributable to the Discover Global Network (as defined in the Application) and its related nonbank/payments operations.
19. Broadly discuss if the Discover Global Network acquisition would be considered a lift-out type of transaction (acquiring key team with valuable operational knowledge/business relationships) or if the acquisition would be considered more of a foundational build (largely restaffing).
20. Discuss how the Discover Global Network as a new business unit for Capital One would be managed and staffed. Your response should identify key individuals from Capital One, Discover, and/or newly hired professionals (understood to be in process), and their respective roles and responsibilities.
21. Discuss what changes or enhancements would be made to the operational risk management, including the technology and cybersecurity risk subsets, of Capital One with respect to the proposed transaction. Your response should specifically address changes for the integration period and for the post-merger organization, and address changes for Discover’s digital banking business and the Discover Global Network. In addition, your response should

- include the benefits to be utilized from Capital One's eleven-year technology transformation, as applicable.
22. Discuss any preliminary estimates of how many employees from Discover that Capital One would extend employment offers following the proposed transaction.
 23. Discuss how Capital One's customer base would change following the proposed transaction over a three-year period.
 24. In terms of Discover's digital banking business, discuss whether Discover Bank, which operates as a direct bank on a national basis with one retail location, presents any unique integration challenges and/or additional operational considerations post-merger compared to a more traditional banking operation.
 - a. Indicate the approximate number of customer accounts that Capital One would acquire and integrate into its systems.
 25. While it is recognized that Capital One is in the early stages of integration planning, discuss whether any workstreams have been established. If so, provide a summary of the workstreams, including specific objectives, resource demand, end dates, etc.
 26. With respect to the due diligence, provide a more detailed summary of any significant or material findings for each functional and/or critical area, which includes but is not limited to, the Discover Global Network, credit/losses, compliance/regulatory, and human resources. In addition, discuss any ongoing due diligence that has been conducted since the application was filed.
 27. Discuss whether any of the Discover cards would remain under the Discover brand, and if so, the rationale including the pros and cons for maintaining the Discover brand.
 28. Page 44 of the Application states that, Capital One "had total payments activity of \$1.3 trillion, and on pro forma basis, this would increase to \$1.8 trillion as a result of the proposed transaction." Explain how the \$500 billion increase is derived and how that number factors into the tables shown in Confidential Annex 7 to Confidential Exhibit J of the Application.
 29. Describe how the credit card portfolio of CONA would change following the proposed transaction. This analysis should include descriptive analytics (total issuance, total outstanding, borrower type, vintage, FICO buckets, etc.) and performance metrics (delinquencies, charge-offs, etc.) for each credit card cohort (defined as to how the bank generally conducts such analysis) on a pre- and post-merger basis.
 - a. Discuss any changes contemplated to enhance management of asset concentration risk following the proposed transaction.

30. Indicate whether Capital One would assume any significant off-balance sheet exposure in relation to credit cards and other consumer loans of Discover Bank.
31. Discuss whether Capital One is proactively planning to meet Category II enhanced prudential standards under the Board's Regulation YY and whether any initial assessments have been made by the firm in preparations for the new threshold.
32. Discuss any agreement that Capital One has entered into with the new Discover Chief Executive Officer, Michael Shepherd with respect to retention of his employment upon consummation of the proposed transaction.

Provide your response via EZ-File #111944 within eight business days. Any information for which confidential treatment is desired should be so labeled and separately bound in accordance with section 261.17 of the Board's Rules Regarding Availability of Information. The public portion of any response should be so designated. The Board will make the public portion of this request and the public portion of any response available on the Board's website, so that it is readily accessible to the commenters and to other interested parties.³ Please also send a copy of your response to the Office of the Comptroller of the Currency Senior Licensing Analyst Patricia Roberts at patricia.roberts@occ.treas.gov, the Federal Deposit Insurance Corporation Senior Case Manager Jeffrey Ralston at jralston@fdic.gov, and the Delaware Office of the State Bank Commissioner Senior Deputy Commissioner Lisa Collison at lisa.collison@delaware.gov.

If you have any questions, please contact Katherine Eike of this Reserve Bank, via email at kathy.eike@rich.frb.org.

Sincerely,

 Brent Hassell
 Assistant Vice President

cc: Board of Governors of the Federal Reserve System
 Office of the Comptroller of the Currency
 Federal Deposit Insurance Corporation
 Delaware Office of the State Bank Commissioner

³ See <https://www.federalreserve.gov/foia/capital-one-discover-application-materials.htm>.