

May 23, 2024

Richard Kim, Esq.
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Dear Mr. Kim:

The following additional information request relates to (1) the 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 (2) the 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; and Diners Club International Ltd., Riverwoods, Illinois, 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 the information requested below is not yet available, provide a date by which the requested information is expected to be made available to the Board of Governors of the Federal Reserve System (“Board”).

Section 4 of the BHC Act

1. Exhibit 1 of Capital One’s Additional Information Response dated April 11, 2024 (“April 11 Response”), notes that DFS Services LLC engages in “borrowings” *inter alia*. Explain the activity of “borrowings” in greater detail.
2. Regarding Diners Club International Ltd.:
 - a. Describe Diners Club International Ltd.’s activities in greater detail. In your description, identify the countries in which Diners Club International Ltd. operates, and describe in detail the operations of Diners Club International Ltd. in each identified country.

¹ 12 U.S.C. § 1842.

² 12 U.S.C. § 1843(c)(8) and (j).

- b. Exhibit 1 of the April 11 Response notes that Diners Club International Ltd. engages in “operat[ing] a global payments network of licensees.” Provide further detail regarding this activity. In addition, describe whether Diners Club International Ltd. is operating this global payments network as principal, licensing intellectual property related to the network, or both.
3. Exhibit 1 of the April 11 Response states that the activities of Diners Club Services Private Ltd., Mumbai, India, include, among other things, “business consulting and advisory services.” Provide a list of the entities for which Diners Club Services Private Ltd. provides business consulting and advisory services. Confirm, if such is the case, that Diners Club Services Private Ltd. does not provide business consulting and advisory services to any unaffiliated third parties.
4. Confirm, if such is the case, that Diners Club Taiwan Ltd., Taipei, Taiwan, does not conduct any transactions with or offer services to unaffiliated third parties regardless of whether the third parties are charged and regardless of whether any income is generated.
5. Describe in detail all activities that Diners Club Taiwan Ltd., Taipei, Taiwan, conducts “as incidental to its servicing of affiliates,” to the extent not already described in the April 11 Response.
6. Provide a list of the partners that Discover Global Employment Company Private Limited assists or supports. Discuss whether Discover Global Employment Company Private Limited conducts any transactions with or offer services to unaffiliated third parties.
7. Confirm, if such is the case, that all of Discover Ventures, Inc.’s minority interest investments conform fully to the requirements of section 4(c)(6) of the BHC Act.³
8. Question 1(b) of the Letter from the Federal Reserve Bank of Richmond dated April 1, 2024 (“April 1 Letter”), requested information regarding the permissibility of certain Discover Bank subsidiaries during the period beginning with the consummation of the merger of Vega Merger Sub, Inc. with and into Discover and ending with the consummation of the merger of Discover Bank with and into CONA (the “Intermediate Period”).

Federal Reserve staff note that additional limitations apply to investments by bank holding companies made indirectly through state-chartered bank subsidiaries. *See* 12 CFR 225.22(e)(2)(i) (permitting a bank holding company, through its state-chartered bank subsidiary, “to acquire or retain securities . . . of the kinds and amounts *explicitly eligible by federal statute* for investment by a national bank” (emphasis added)); 12 CFR 225.22(e)(2)(ii) (permitting a bank holding company, through its state-chartered bank subsidiary, “to acquire or retain all (but, except for directors’

³ 12 U.S.C. § 1843(c)(6).

qualifying shares, not less than all) of the securities of a company” engaged in certain activities permissible for the bank to conduct directly.

In light of the above, please respond to the following items:

- a. For each nonbank company listed in Exhibit 1 of the April 11 Response that is a subsidiary of Discover Bank, identify with specificity the authorities under section 4 of the BHC Act and the Board’s Regulation Y that Capital One intends to use to hold the voting shares of the company during the Intermediate Period. Provide citations to relevant authorities.
 - b. For all of Discover Bank’s public welfare funds and investments, discuss how these investments would be permissible for Capital One to hold during the Intermediate Period. Provide citations to relevant authorities.
9. Question 1(a) of the April 1 Letter requested Capital One describe in detail the activities of each nonbank company in the Discover organization, including subsidiaries of Discover and subsidiaries of Discover through Discover Bank, that Capital One proposes to acquire. Exhibit 1 of the April 11 Response provides a high-level summary of the business model and certain activities of these nonbank companies. To the extent not already described in response to the questions above, for each nonbank company in the Discover organization that Capital One proposes to acquire, provide a complete list of all activities conducted by that entity, including any *de minimis* activities or activities which do not necessarily generate revenue. Describe in granular detail the nature of each activity conducted by each nonbank company in the Discover organization, including a detailed description of each product or service offered to affiliates or unaffiliated third parties.

Competition

10. Identify and estimate the market share of the 10 largest competitors of Capital One for credit card issuance (i) overall and (ii) by borrower risk profile, including relevant categories such as deep subprime, subprime, near-prime, prime, super-prime and similar categories.
11. Provide copies of any studies or reports (including by third parties) that discuss competition dynamics or market shares in the relevant markets.
12. Identify and quantify any procompetitive efficiencies or synergies the transaction is expected to produce; and for each identified efficiency or synergy, identify the population or entities expected to benefit.
13. Provide Capital One’s median annual percent rate and annual fee for credit card holders for each of the last 10 years both (i) overall and (ii) by borrower risk profile, including across relevant categories such as deep subprime, subprime, near-prime, prime, super-prime, and similar categories.

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, where it will be readily accessible to the commenters and to other interested parties.⁴ Please also send a copy of your response to the Office of the Comptroller of the Currency Senior Licensing Analyst Justin Holder at Justin.Holder@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
Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation
Delaware Office of the State Bank Commissioner

⁴ See <https://www.federalreserve.gov/foia/capital-one-discover-application-materials.htm>.