Meeting Between Staff of the Federal Reserve Board and American Express Company
March 11, 2019

Participants: Constance Horsley, Elizabeth MacDonald, Harriet Clubb, Brian Chernoff, Matthew McQueeney, Asad Kudiya, David Alexander, and Mary Watkins (Federal Reserve Board)
Brett Loper, David Yowan, Juliana O’Reilly, and Anderson Lee (American Express Company)

Summary: Staff of the Federal Reserve Board met with representatives of American Express Company (American Express) to discuss the proposals issued by the Federal Reserve Board that would establish a revised framework for applying prudential standards to large U.S. banking organizations. American Express expressed support for the proposals but had specific comments regarding the proposed measure of cross-jurisdictional activity. American Express summarized its business model as compared to its competitors and how the proposed measure of cross-jurisdictional activity would apply to certain of America Express’s liabilities. Additionally, American Express discussed potential approaches to adjust the proposed measure of cross-jurisdictional activity.

Attachment
American Express Comments on Tailoring Proposals

March 11, 2019
Executive Summary

• American Express strongly supports the ongoing efforts of the Agencies to simplify and tailor the application of U.S. prudential regulatory requirements and capital and liquidity rules to reflect a firm’s size, complexity, and systemic footprint.

• In January, we submitted a letter that provided our comments on the tailoring proposals in a number of areas:
  • Dollar-Based Thresholds
  • Cross-Jurisdictional Activity Calculation
  • Form 2052a Filing Requirements for Category IV Firms
  • LCR Requirements for Category III Firms
  • Definition of Weighted Short-Term Wholesale Funding

• Today, we focus on our recommended refinements to the calculation of Cross-Jurisdictional Activity that are necessary to avoid competitively inequitable outcomes.
We have a differentiated business model.

- Diverse Customer Base
- Global Footprint
- End-to-End, Integrated Payments Platform
- Revenue Mix
- Operating Leverage
- World Class Brand & Service
We compete with different sets of companies across different parts of our payments platform.
Our balance sheet is simple, predominantly comprised of charge and credit card assets. Our revenue is >80% fee-based.

Total Assets: $188.6B  
Total Network Billings: $1,184B  
Revenue: $40.3B

Charge Card Receivables
Credit Card Loans
Cash & Other Assets
Charge Card Billings
Partner Bank Billings
Credit Card Billings
Discount Revenue 61%
Card & Other Fees 20%
Net Interest Income 19%

Note: Based on Full Year 2018 billings and revenue and Q4 2018 balance sheet.
Two-thirds of our Billings are generated in the US.

Customers

% of Billings, FY’18

- Consumer: 44%
- Corporate & Small Business: 41%
- Partner Banks: 15%

Geographies

% of Billings, FY’18

- U.S.: 66%
- International: 34%
The Proposed Rules focused on five criteria...

- Total Assets
- Cross-Jurisdictional Activity
- Weighted Short-Term Wholesale Funding
- Non-Bank Assets
- Off Balance Sheet Exposure
Our reported Cross-Jurisdictional Activity currently totals $48B, primarily as a result of routine card transactions in international businesses.

$ in Billions

<table>
<thead>
<tr>
<th>Cross-Jurisdictional Assets</th>
<th>+</th>
<th>Cross-Jurisdictional Liabilities</th>
<th>=</th>
<th>Cross-Jurisdictional Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cross-Jurisdictional Assets</td>
<td>33</td>
<td>Total Cross-Jurisdictional Liabilities</td>
<td>15</td>
<td>48</td>
</tr>
<tr>
<td>Card Member Receivables</td>
<td>26</td>
<td>Merchants Payable</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>All Other Cross-Jurisdictional Assets</td>
<td>7</td>
<td>All Other Cross-Jurisdictional Liabilities</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

Note: FR Y-15 data as of Q3 2018.
Card transactions at international merchants create Cross-Jurisdictional Liabilities for American Express as we serve as card issuer, network, and merchant acquirer within our integrated payment platform.
In the other payment systems, the same card transactions do not create Cross-Jurisdictional Liabilities for the issuers, as the network and merchant acquirers are both outside of the banking system.

*Visa and Mastercard networks are US-based entities and therefore no cross-jurisdictional liability is recorded.*
Comparative Illustration: International Card Member Making a $100 Purchase at an International Merchant

*Visa and Mastercard networks are US-based entities and therefore no cross-jurisdictional liability is recorded.*
We recommend remedying this unequal treatment by excluding merchants payable from Cross-Jurisdictional Liabilities.

$ in Billions

<table>
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<th>Cross-Jurisdictional Activity</th>
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<td>8</td>
</tr>
</tbody>
</table>

Proposed Remedy

Less: Merchants Payable
7

Cross-Jurisdictional Activity Less Merchants Payable
41

Note: FR Y-15 data as of Q3 2018.
Proposed Remedies

- Refine the reporting of Cross-Jurisdictional Liabilities in the “cross-jurisdictional activity” section of the Federal Reserve’s form FR Y-15 Schedule E.

  - Specifically, exclude all Merchants Payable from Cross-Jurisdictional Liabilities.
FR Y-15 Instructions: Schedule E

- Proposed Remedy Option 1: This option excludes Merchants Payable from Total Cross-Jurisdictional Liabilities.

- Proposed Remedy Option 2: This option separately identifies components of Cross-Jurisdictional Liabilities and excludes Merchants Payable from Total Cross-Jurisdictional Liabilities.
Proposed Remedy Option 1: This option excludes Merchants Payable from Total Cross-Jurisdictional Liabilities.

FR Y-15 Instructions: Schedule E – Cross Jurisdictional Liabilities

I. Proposed Revised Schedule E layout

Schedule E -- Cross-Jurisdictional Activity Indicators

<table>
<thead>
<tr>
<th>U.S. Dollar Amounts in Thousands</th>
<th>RISK</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-Jurisdictional Claims</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Foreign claims on an ultimate-risk basis</td>
<td>M422</td>
<td></td>
</tr>
<tr>
<td>Cross-Jurisdictional Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Foreign liabilities (excluding local liabilities in local currency)</td>
<td>M423</td>
<td></td>
</tr>
<tr>
<td>a. Any foreign liabilities to related offices included in item 2</td>
<td>M424</td>
<td></td>
</tr>
<tr>
<td>3. Local Liabilities in local currency</td>
<td>M425</td>
<td></td>
</tr>
<tr>
<td>4. Total cross-jurisdictional liabilities (sum of items 2 and 3, minus item 2.a)</td>
<td>M426</td>
<td></td>
</tr>
<tr>
<td>5. Cross-Jurisdictional Accounts Payable</td>
<td>XXXX</td>
<td></td>
</tr>
<tr>
<td>6. Adjusted Cross-Jurisdictional Liabilities (item 4 minus item 5)</td>
<td>XXXX</td>
<td></td>
</tr>
</tbody>
</table>

II. Proposed Revised FR Y-15 Instructions

Cross-Jurisdictional Claims

Line Item 1 Foreign claims on an ultimate-risk basis.

Report the value of all claims over all sectors that, on an ultimate-risk basis, are cross-border claims on non-local residents or foreign-office claims on local residents (see FFIEC 009, Schedule C, Part II, Columns 1 through 10, Total Foreign Countries). Do not include claims from positions in derivative contracts (see FFIEC 009, Schedule D). For definitions, refer to the instructions for preparation of the FFIEC 009.

Cross-Jurisdictional Liabilities

Line Item 2 Foreign liabilities (excluding local liabilities in local currency).

Report the sum of all foreign-office liabilities in non-local currency, all U.S. dollar liabilities to foreign residents, and all foreign currency liabilities to foreigners (see FFIEC 009, Schedule L, Column 1; TIC BL-1, Column 7; and, TIC BQ-2, Columns 1 and 2). Do not include liabilities from positions in derivative contracts. Include liabilities between a non-domestic office within the banking organization and a domestic counterparty not included in the banking organization. For definitions, refer to the instructions for preparation of the FFIEC 009 and the Treasury International Capital (TIC) B Reports.

Line Item 2(a) Any foreign liabilities to related offices included in item 2.

Report the value of any intercompany liabilities included in item 2 (i.e., liabilities that are to the banking organization’s own foreign offices) (see TIC BL-1, Column 8, and the liabilities to related
**Proposed Remedy Option 1:** This option excludes Merchants Payable from Total Cross-Jurisdictional Liabilities.

Offices reported as part of TIC BQ-2, Columns 1 and 2). For definitions, refer to the instructions for preparation of the TIC B Reports.

Line Item 3 Local liabilities in local currency.

Report the value of all foreign-office liabilities in local currency (see FFIEC 009, Schedule L, Column 2). Do not include liabilities from positions in derivative contracts. Do not include intercompany liabilities. For definitions, refer to the instructions for the preparation of the FFIEC 009.

Line Item 4 Total cross-jurisdictional liabilities.

The sum of items 2 and 3 minus item 2(a).

**Line Item 5 Cross-Jurisdictional Accounts Payable related to Credit Card Activities.**

Report the value of all foreign-office liabilities from items 2 and 3 that are accounts payable related to credit card activities. Accounts payable related to credit card activities include payments due from card issuers to merchant acquirers and payments due from merchant acquirers to merchants. Do not include intercompany liabilities. Any balances reported in this line should make up part of the balance reported in the FR Y-9C, Schedule HC, line item 20 Other liabilities.

**Line Item 6 Adjusted Cross-Jurisdictional Liabilities.**

Item 4 minus item 5.
Proposed Remedy Option 2: This option separately identifies components of Cross-Jurisdictional Liabilities and excludes Merchants Payable from Total Cross-Jurisdictional Liabilities.

FR Y-15 Instructions: Schedule E – Cross Jurisdictional Liabilities

I. Proposed Revised Schedule E layout

Schedule E – Cross-Jurisdictional Activity Indicators

<table>
<thead>
<tr>
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<th>RISK</th>
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<td></td>
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<td></td>
<td>M422</td>
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<td>Cross-Jurisdictional Liabilities</td>
<td></td>
<td></td>
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<tr>
<td>2. Foreign liabilities (excluding local liabilities in local currency)</td>
<td></td>
<td>M423</td>
</tr>
<tr>
<td>3. Local Liabilities in local currency</td>
<td></td>
<td>M424</td>
</tr>
<tr>
<td>4. Total cross-jurisdictional liabilities (sum of items 2 and 3, minus item 2.a)</td>
<td></td>
<td>M426</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>U.S. Dollar Amounts in Thousands</th>
<th>(Column A)</th>
<th>(Column B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Liabilities (Excluding local liabilities in local currency)</td>
<td>RISK</td>
<td>Amount</td>
</tr>
<tr>
<td>Deposits</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Trading Liabilities</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Borrowings</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>5.a. Accounts Payable related to Credit Card Activities</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>6. Total non Credit Card Liabilities (sum of 2, 3, 4 and 5 minus 5.a)</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>7. Any foreign liabilities to related offices included in item 6</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>8. Total cross-jurisdictional liabilities (sum of Column A, item 6 and Column B, item 6 minus Column A, item 7)</td>
<td>XXX</td>
<td>XXX</td>
</tr>
</tbody>
</table>

II. Proposed Revised FR Y-15 Instructions

Cross-Jurisdictional Claims

Line Item 1 Foreign claims on an ultimate-risk basis.

Report the value of all claims over all sectors that, on an ultimate-risk basis, are cross-border claims on non-local residents or foreign-office claims on local residents (see FFIEC 009, Schedule C, Part II, Columns 1 through 10, Total Foreign Countries). Do not include claims from positions in derivative contracts (see FFIEC 009, Schedule D). For definitions, refer to the instructions for preparation of the FFIEC 009.

Cross-Jurisdictional Liabilities

Line Item 2 Foreign liabilities (excluding local liabilities in local currency).

Report the sum of all foreign-office liabilities in non-local currency, all U.S. dollar liabilities to foreign residents, and all foreign currency liabilities to foreigners (see FFIEC 009, Schedule L, Column 1; TIC BL-1, Column 7; and, TIC BQ-2, Columns 1 and 2). Do not include liabilities from positions in
Proposed Remedy Option 2: This option separately identifies components of Cross-Jurisdictional Liabilities and excludes Merchants Payable from Total Cross-Jurisdictional Liabilities.

derivative contracts. Include liabilities between a non-domestic office within the banking organization and a domestic counterparty not included in the banking organization. For definitions, refer to the instructions for preparation of the FFIEC 009 and the Treasury International Capital (TIC) B Reports.

Line Item 2(a) Any foreign liabilities to related offices included in item 2.

Report the value of any intercompany liabilities included in item 2 (i.e., liabilities that are to the banking organization's own foreign offices) (see TIC BL-1, Column 8, and the liabilities to related offices reported as part of TIC BQ-2, Columns 1 and 2). For definitions, refer to the instructions for preparation of the TIC B Reports.

Line Item 3 Local liabilities in local currency.

Report the value of all foreign-office liabilities in local currency (see FFIEC 009, Schedule L, Column 2). Do not include liabilities from positions in derivative contracts. Do not include intercompany liabilities. For definitions, refer to the instructions for preparation of the FFIEC 009.

Line Item 4 Total cross-jurisdictional liabilities.

The sum of items 2 and 3 minus item 2(a).

General Instructions

This section of Schedule E has two columns for information on cross-jurisdictional liabilities.

For Column A, report the sum of all foreign-office liabilities in non-local currency, all U.S. dollar liabilities to foreign residents, and all foreign currency liabilities to foreigners (see FFIEC 009, Schedule L, Column 1; TIC BL-1, Column 7; and, TIC BQ-2, Columns 1 and 2). Do not include liabilities from positions in derivative contracts. Include liabilities between a non-domestic office within the banking organization and a domestic counterparty not included in the banking organization. For definitions, refer to the instructions for preparation of the FFIEC 009 and the Treasury International Capital (TIC) B Reports.

For Column B, report the value of all foreign-office liabilities in local currency (see FFIEC 009, Schedule L, Column 2). Do not include liabilities from positions in derivative contracts. Do not include intercompany liabilities. For definitions, refer to the instructions for preparation of the FFIEC 009.
Proposed Remedy Option 2: This option separately identifies components of Cross-Jurisdictional Liabilities and excludes Merchants Payable from Total Cross-Jurisdictional Liabilities.

**Line Item 2 Deposits.**

Report in the appropriate columns the total of all deposits. Refer to the FR Y-9C instructions for additional information on deposits.

**Line Item 3 Trading Liabilities.**

Report in the appropriate columns the amount of liabilities from trading activities.

**Line Item 4 Borrowings.**

Report in the appropriate columns the amount of borrowed money. Include any securities sold under agreements to repurchase.

**Line Item 5 Other Liabilities.**

Report in the appropriate columns the amount of other liabilities that are not captured in items 2, 3, and 4. The reported liabilities for this line should be included in the value reported for the FR Y-9C, Schedule HC, line item 20 Other liabilities, with the exception of any foreign liabilities to related offices.

**Line Item 5.a Accounts Payable related to Credit Card Activities.**

Report in the amount of accounts payable related to credit card activities included in line item 5. Accounts payable related to credit card activities include payments due from card issuers to merchant acquirers and payments due from merchant acquirers to merchants.

**Line Item 6 Total non AP Liabilities.**

Report the sum of items 2, 3, 4 and 5 minus item 5.a.

**Line Item 7 Any foreign liabilities to related offices included in item 6.**

Report the value of any intercompany liabilities included in column A items 2, 3, 4 and 5 but not 5.a (i.e., liabilities that are to the banking organization's own foreign offices) (see TIC BL-1, Column 8, and the liabilities to related offices reported as part of TIC BQ-2, Columns 1 and 2). For definitions, refer to the instructions for preparation of the TIC B Reports.

**Line Item 8 Total cross-jurisdictional liabilities.**

Report the sum of Column A, item 7 and Column B, item 7 minus Column A, item 8. This total cross-jurisdictional liabilities figure excludes Accounts Payable.
AMERICAN EXPRESS