**Meeting Between Staff of the Federal Reserve Board and Representatives of American Express Company**
**August 14, 2025**

**Participants:** Norah Barger, David Lynch, Juan Climent, Francisco Covas, Andrew Willis, Marco Migueis, Ben Ranish, Cecily Boggs, Christopher Appel, Matthew McQueeney, and Mark Buresh (Federal Reserve Board)

Kerri Bernstein, Lee Anderson, and Amy Weiss (American Express)

**Summary:** Staff of the Federal Reserve Board met with representatives of American Express regarding several topics, including the agencies' Basel III endgame notice of proposed rulemaking. The American Express representatives discussed the potential impact of the proposal on American Express and expressed views regarding specific potential changes, as reflected in the attached materials provided by American Express.

Attachment

# Regulatory Reform Discussion

August 14, 2025

# The previous proposal had a disproportionate impact on AXP's capital requirements

**Areas of Most Significant Impact**

## Operational Risk

Broadly attributes higher capital requirements for fee revenues (including credit card and payment fees).

## Credit Risk

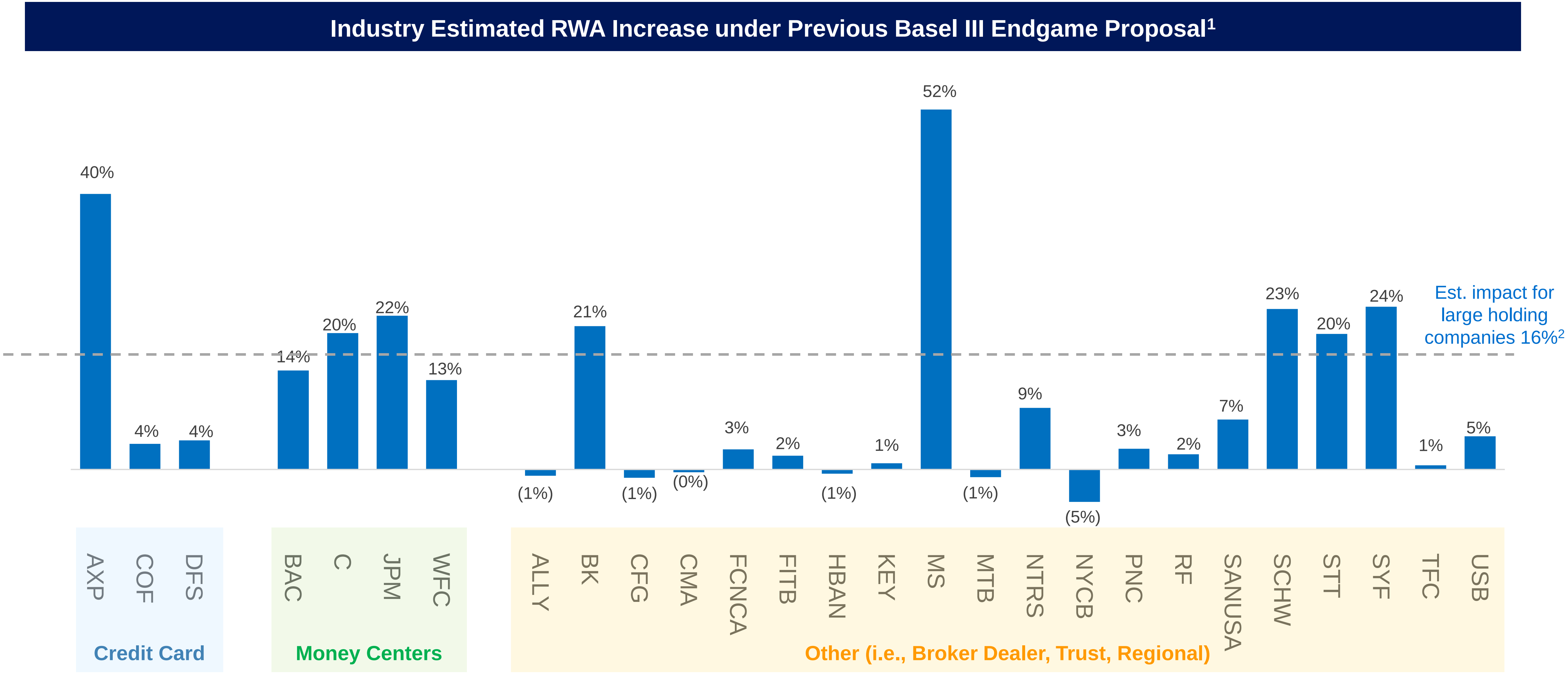
Prescribes a methodology that significantly overstates the risk of charge cards, also requiring higher capital.

1. Off-Balance Sheet Exposure Proxy for Charge – there is no 'Open To Buy' line on charge cards
2. Credit Conversion Factor – does not reflect actual credit card balances under stress

## Risk-Weighted Assets Increase

↑ **>2X Industry**

# Basel final rules should not disproportionately impact AXP




*Note:*
*1. All impacts except for Morgan Stanley ("MS") from Barclays estimates. MS impact based on Goldman Sachs estimates.*
*2. Sourced from "Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity" published September 18, 2023.*

# Basel III Endgame – Operational Risk

# 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.*

# A Comparison of Card Business Models

Even within similar card products, dissimilar accounting approaches and revenue mixes would drive different capital requirements under the proposed rules attributable to providing credit and charge cards. Properly designed risk-based capital rules should assign similar capital charges to similar products with similar risk profiles regardless of the types of revenue the products generate or permissible accounting determinations.

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Discount Revenue

+ Card & Card-Related Fees

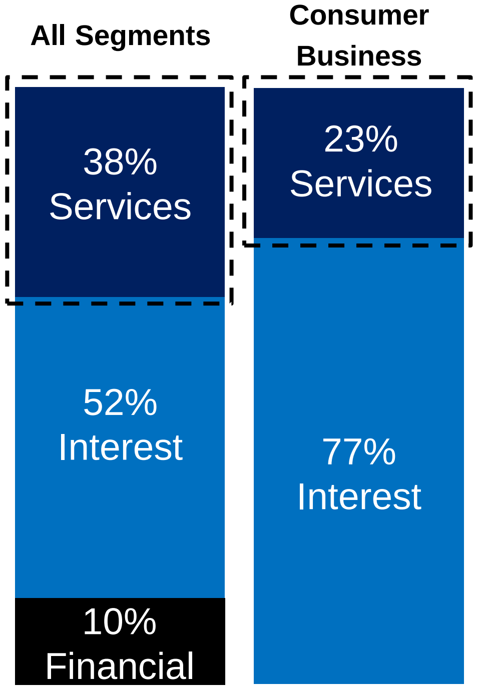
= Services Component Fee Revenue

*No capping of Service Fee Revenue*

*Capped at 2.25% of interest earning assets*

*Revenue Mix*

J.P.Morgan




Issuer Revenue

+ Card & Card-Related Fees

- Rewards Costs

- Partner Payments

= Services Component Fee Revenue

*Capped at 2.25% of interest earning assets*

*Revenue Mix*

*Note:*
*1. Sourced from AXP and JPM's 2024 10-Ks and JPM's 2024 FR Y-9C.*

# Different outcomes for same underlying operational risks

AXP’s GAAP accounting reflects gross card revenues, which results in a meaningfully higher service fee revenue stream versus peers whose GAAP accounting nets card expenses from its service fee revenues. The differentiated treatment of 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

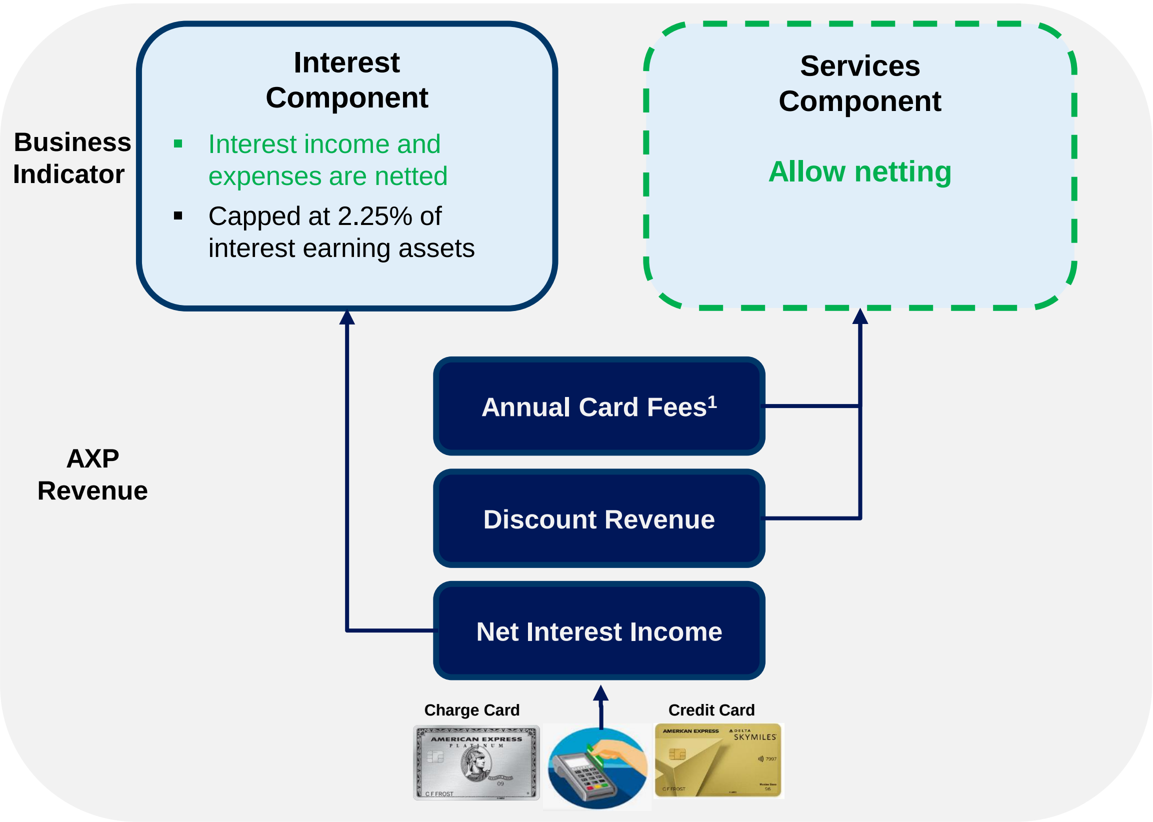

**Proposal CET1 Capital Requirement[1]**

Note:
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 2024 FR Y-9C.

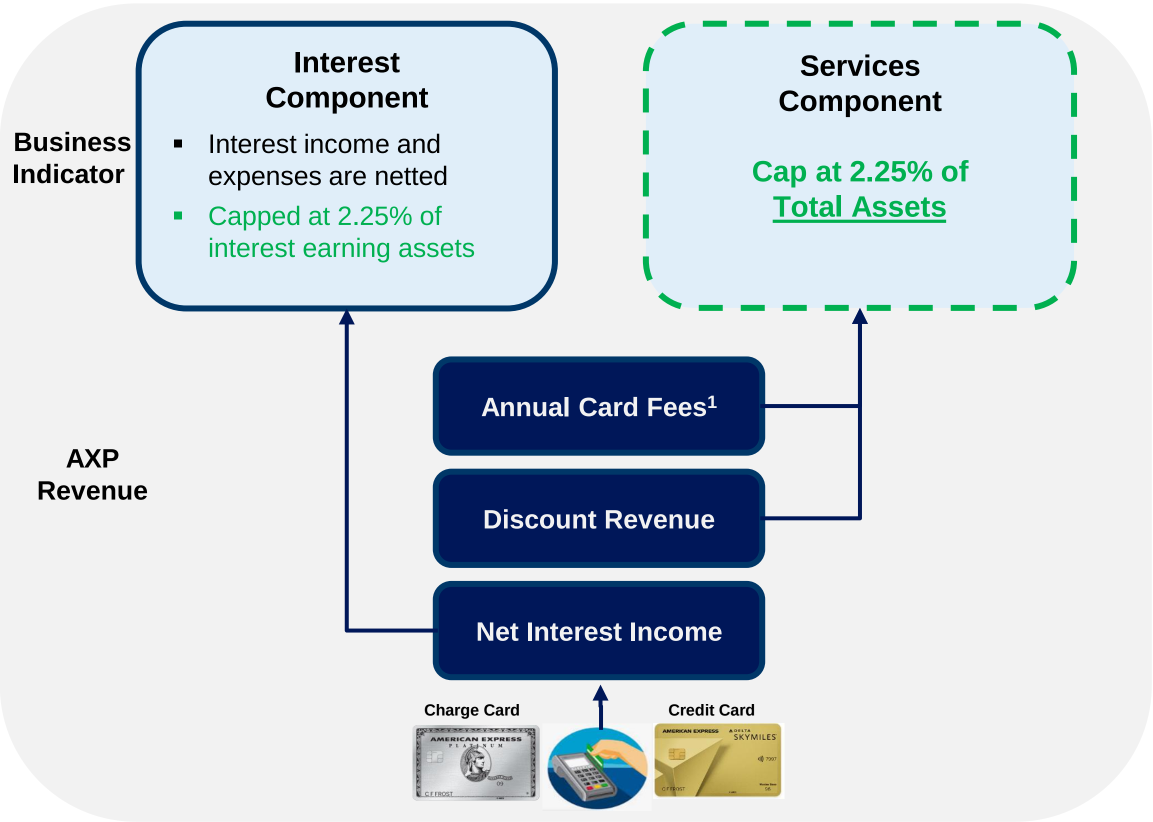
# Operational Risk: Proposed Solutions

We recommend the Agencies to consider aligning the treatment of Interest and Services components with respect to the netting of revenues and expenses and/or subjecting the Services Component to a cap to mitigate the disproportionate impact.

## *Option 1: Net Card Revenues and Expenses*




## *Option 2: Cap[2] Service Component*




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

# Basel III Endgame – Credit Risk

# Charge authorization fundamentally differs from credit card

Any concern regarding a sudden ramp-up in spending on charge cards is substantially mitigated – if not eliminated – by the dynamic authorization process for charge cards. Rather than assigning a credit limit and generally permitting spend up to that limit provided the account is otherwise in good standing, each transaction by a charge card is evaluated and can be declined based on multiple factors, including out-of-pattern spending.

***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 |
| **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 |
| **Approve/Decline Rationale:** | Within Contractual Limit |

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

# Charge card does not have off-balance sheet (“OBS”) commitment under Basel

Under the Basel Standards, capital is required for OBS exposure where there is a contractual commitment to extend credit. Charge cards do not provide an equivalent to a committed line of credit because charge card transactions are dynamically authorized, and each transaction is individually underwritten. The card member is not entitled to spend any additional amount beyond their current spend, and we can disrupt and decline any problematic or out-of-pattern spending.

**<u>*Basel Standards on Off-Balance Sheet Exposure*</u>**[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<br>▪ No commitment to extend credit<br>▪ Point of sale authorization | ✗ |
| *Credit Card* | ▪ Contractual arrangement to extend credit up to a committed, communicated line | ✓ |

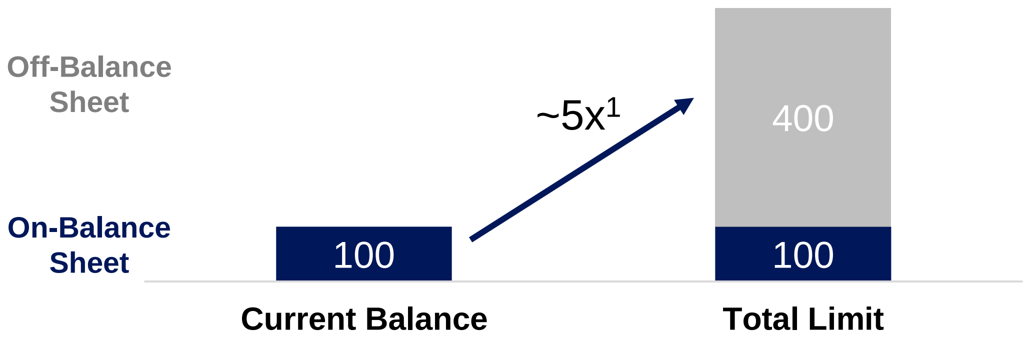
Note:
1. “Basel Committee on Banking Supervision Basel III: Finalizing Post-Crisis Reforms”. December 2017, page 25.

# The 10X proxy “Total Limit” for charge card is significantly higher than credit card industry average and is not based on data …

## Credit Card

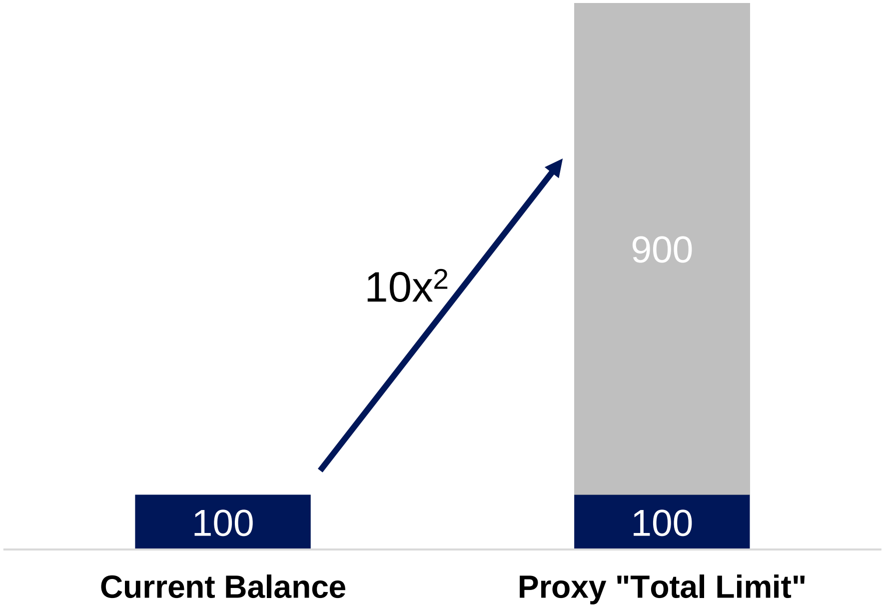
### Historical Industry Average[1]

*Illustrative only*




## Charge Card

### Proxy “Total Limit” under previous proposal[2]

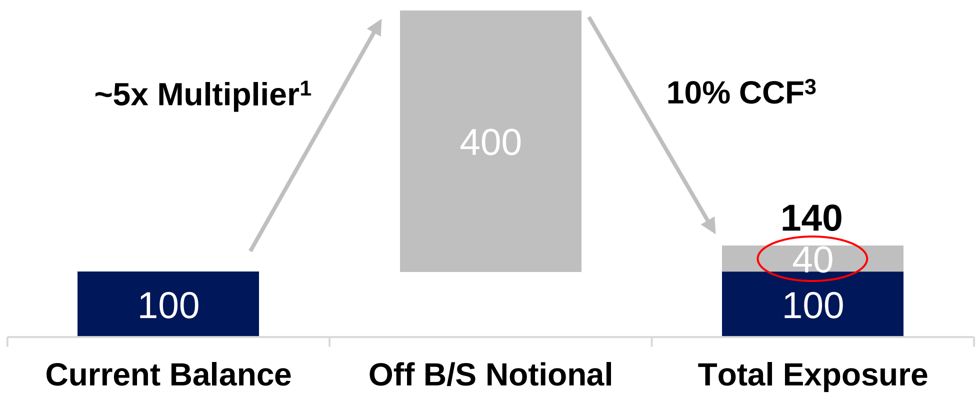



Note:
1. Source: Federal Reserve Board of New York Household Debt Data 2019–Q2’25.
2. Based on methodology prescribed under Proposal – Avg Balance over prior 8 quarters x 10 less current outstanding.

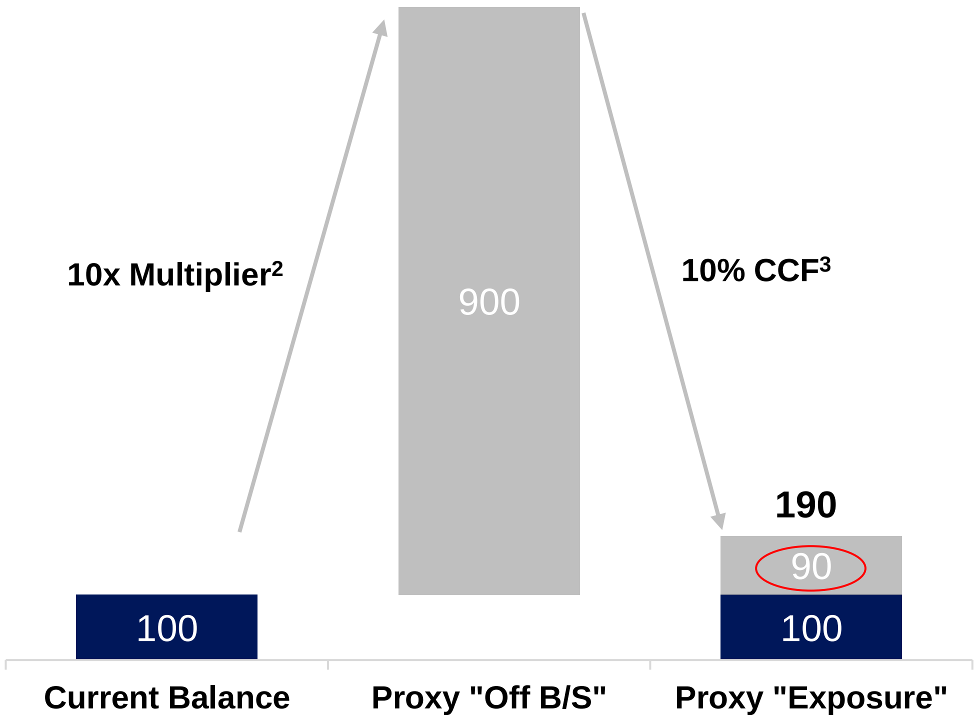
# … and produces an OBS exposure and corresponding capital requirements that are 2X those of credit cards

## Credit Card

*Illustrative only*




## Charge Card




Note:
1. ~5x Multiplier based on historical industry average. Source: Federal Reserve Board of New York Household Debt Data 2019–Q2'25.
2. Based on methodology prescribed under Proposal – Avg Balance over prior 8 quarters x 10 less current outstanding.
3. 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: Finalizing Post-Crisis Reforms. December 2017, page 25.

# Charge cards present approximately half the risk of credit cards but under the previous proposal would be assigned a capital charge approximately twice as high

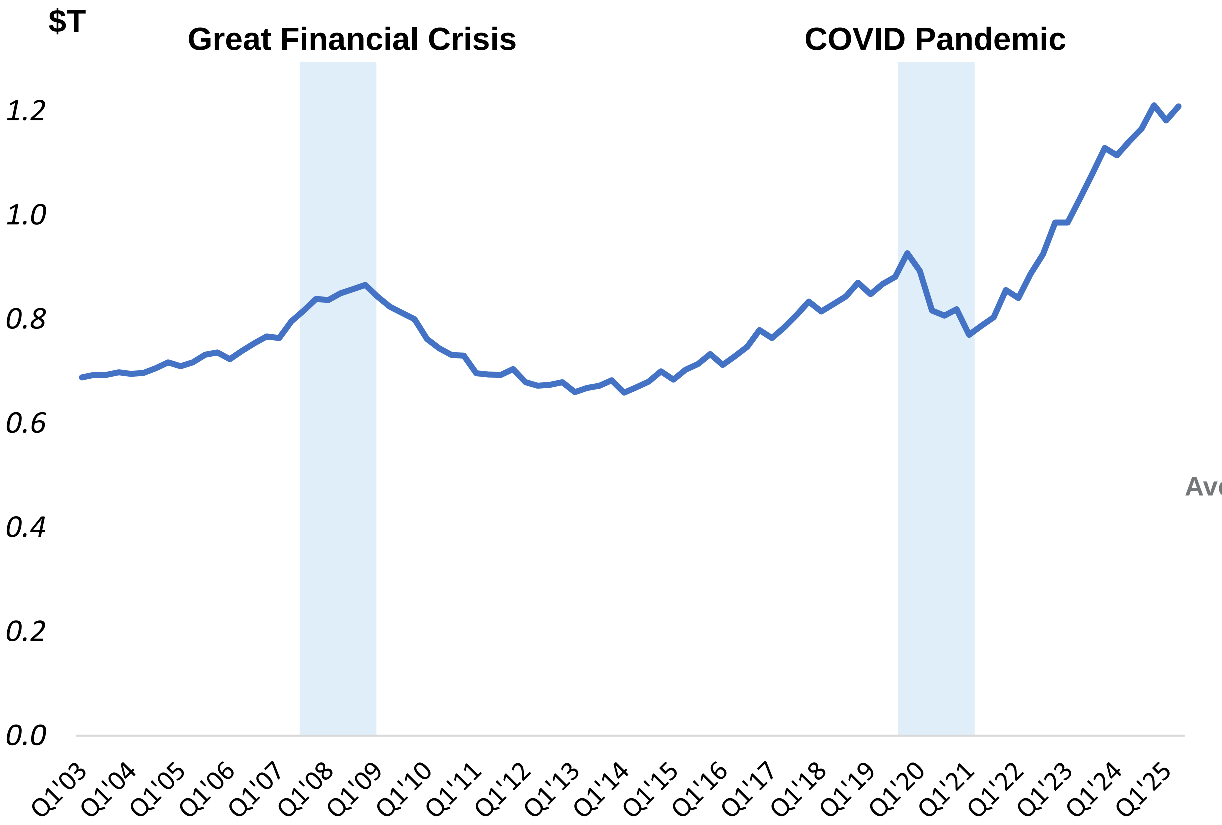
| *Illustrative only* | Credit Card | Charge Card |
|---|---|---|
| On-Balance Sheet | $100 | $100 |
| Limit | ~5x based on Industry Average | 10x based on Proxy "Total Limit" |
| Total "Limit" | $500 ($100 x 5) | $1,000 ($100 x 10) |
| Off-Balance Sheet Notional Amount | $400 ($500 - $100) | $900 ($1000 - $100) |
| | | |
| Credit Conversion Factor Prescribed in Proposal ("CCF") | 10% | 10% |
| Off-Balance Sheet Exposure | $40 ($400 x 10%CCF) | $90 ($900 x 10%CCF) |
| Risk Weight[1] | 55% | 55% |
| **Off-Balance Sheet Risk Weighted Asset ("RWA")** | **$22** ($40 x 55%) | **$50** ($90 x 55%) |
| **Ratio of Off-Balance Sheet RWA** | **2.3x** | |
| | | |
| **Historical Write-off Rate[2]** | | |
| Peak | 12.9% | 5.4% |
| Average | 4.0% | 1.8% |

*Note:*
*1. Assumes Credit Card & Charge Card are both Transactors for RWA comparison purpose.*
*2. Quarterly AXP write-off rate from 2008–2024 for US Consumer and Small Business. Competitor data sourced from quarterly earnings of issuers: JPMorgan, Citi (NA Branded), Bank of America, Capital One (Domestic), Discover, U.S. Bancorp, Wells Fargo, and Synchrony.*

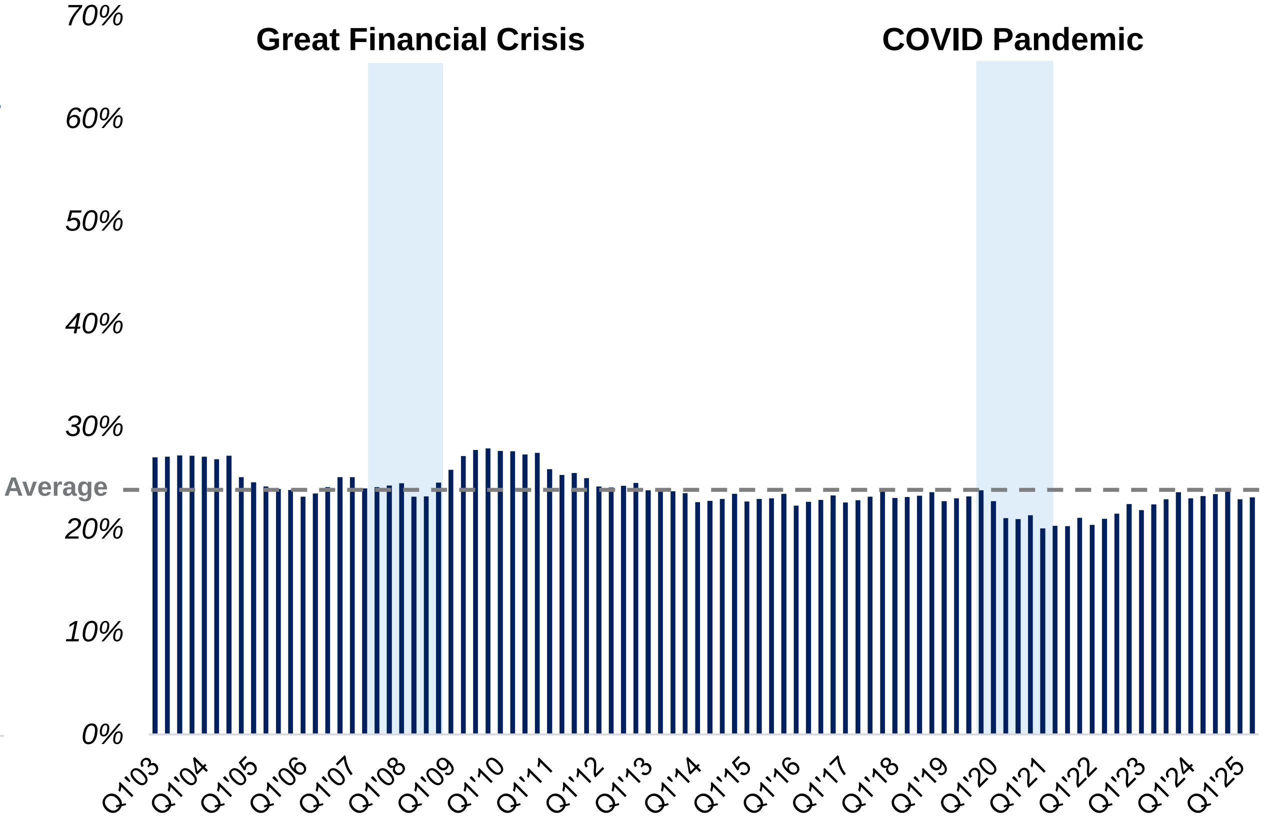
# Credit conversion factor ("CCF") for unused credit line should be adjusted based on historical data

If the Agencies decide to retain a proxy for the charge "OBS Exposure", historical data suggests the current 10% CCF is over-calibrated for lower-risk charge card products and should be at most low single digits.

## Historical Industry Credit Card Balances




## Historical Industry Credit Card Utilization Rate

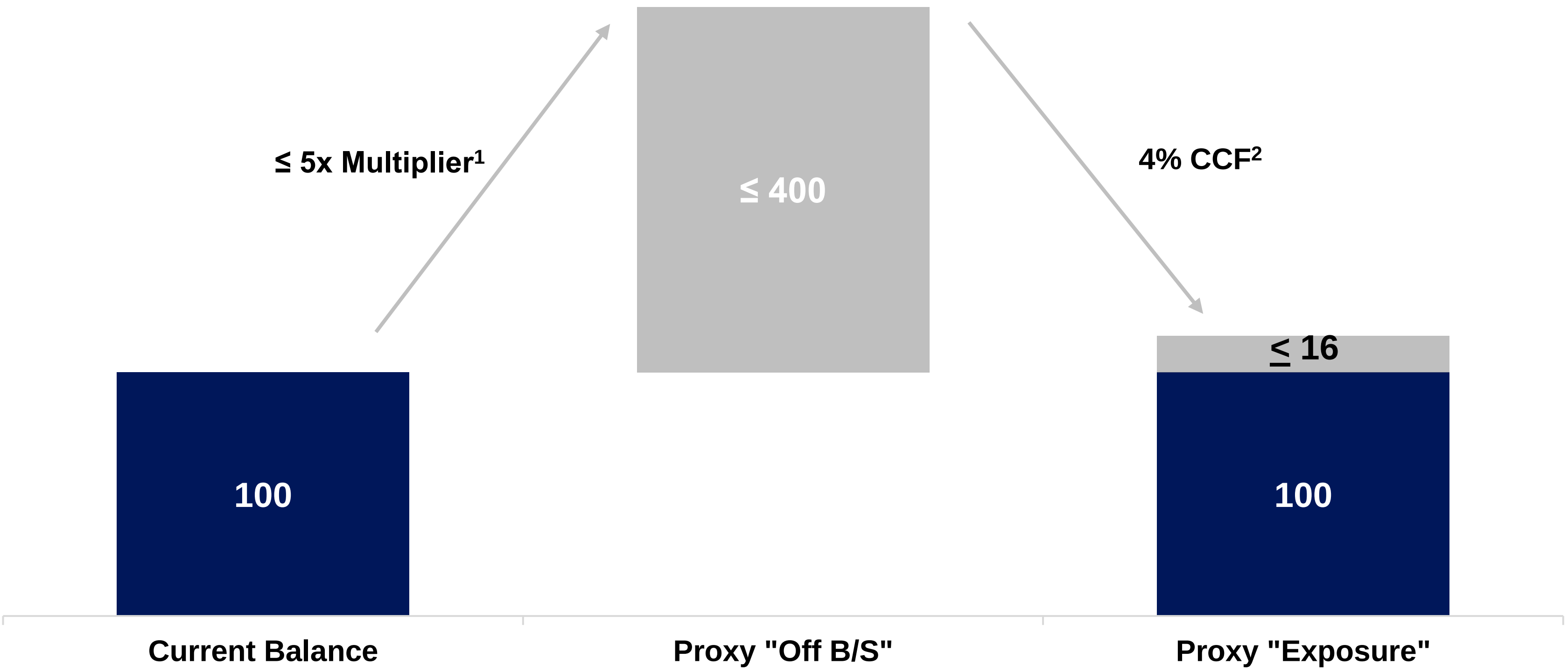



*Note:*
*1. Source: Federal Reserve Board of New York Household Debt and Credit Report.*

# Off-balance sheet ("OBS") Exposure Rule: Proposed Solutions

- We recommend aligning with Basel Standards and eliminate the proxy methodology for OBS exposures on charge cards to reflect their actual product design or use historical data to set the proxy.
- At minimum, we recommend to treat charge card no worse than credit card. This can be achieved by reducing the proxy multiplier and setting the credit conversion factor ("CCF") based on historical data.

*Lower proxy multiplier of charge card based on historical data and/or adjust CCF*




*Note:*
*1. ~5x represents multiplier of credit card.*
*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

# Requested Action: Basel III Endgame

- We remain committed to continued engagement and stand ready to provide additional data or otherwise support any supplementary analyses the Agencies may pursue.
- We applaud the Agencies' efforts to consider different business models as they rethink the prior Basel proposal. Given AXP's distinct business model, sustained results, and low risk profile, AXP should not experience a greater increase in requirements than the industry.

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