American Express Company
200 Vesey Street
New York, NY 10285

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Via Electronic Delivery

Office of the Comptroller of the Currency
400 7th E Street, S.W., Suite 3E-218
Mail Stop 9W-11
Washington, DC 20219

Federal Deposit Insurance Corporation
550 17th Street, NW.
Washington, DC 20429

Board of Governors of the Federal Reserve System
20th Street & Constitution Ave., NW.
Washington, DC 20551

Re: Net Stable Funding Ratio

Ladies and Gentlemen:

American Express Company ("American Express") appreciates the opportunity to provide comments to the Office of the Comptroller of the Currency (the "OCC"), the Board of Governors of the Federal Reserve System (the "Federal Reserve") and the Federal Deposit Insurance Corporation (the "FDIC") (together, the "Agencies") in response to the proposed rule that would apply a net stable funding ratio ("NSFR" or "Proposed Rule") to U.S. banking organizations with $250 billion or more in consolidated assets or $10 billion or more in foreign exposures ("Covered Companies") and a modified version of the NSFR to banking organizations that have $50 billion or more, but less than $250 billion, in total consolidated assets and less than $10 billion in total on-balance sheet foreign exposure ("Modified Covered Companies").[1]

In this letter, we focus our comments on (i) the proposed use of the thresholds of $250 billion or more in consolidated assets or $10 billion or more in foreign exposures to

1 *Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements*, 81 Fed. Reg. 35124 (June 1, 2016).

subject Covered Companies to the full NSFR (the "Thresholds"); (ii) the treatment of certain retail consumer liabilities for purposes of calculating an organization's Available Stable Funding ("ASF") under the Proposed Rule; and (iii) the risk factors applied to certain asset categories in calculating an organization's Required Stable Funding ("RSF") under the Proposed Rule.

As described in greater detail below, American Express believes that the Thresholds are not an appropriate standard to identify the set of firms subject to the full NSFR. The Thresholds do not appropriately reflect the complexity, business models, international activity or actual risk profiles of banking organizations. Accordingly, we respectfully request that the Agencies re-evaluate the use of these Thresholds. American Express believes that the use of an alternative measure, such as the systemic indicator approach used to identify global systemically important banks ("G-SIBs"), would ensure that the scope of application is and remains properly calibrated to achieve its purpose.

In addition, we recommend several modifications to the treatment of certain liabilities under the ASF, including application of an ASF factor for prepaid products that better aligns with such products' historical performance and treatment under the Liquidity Coverage Ratio ("LCR"), together with an ASF factor for customer rewards program liabilities that better aligns with their historical rate of redemption.

We also propose adjustments to the RSF for U.S. Treasuries in order to provide an RSF factor that is consistent with the highly liquid nature of such securities and aligned with the LCR's treatment of Level 1 high-quality liquid assets ("HQLA"). Additionally, we recommend modifications to the RSF factor for credit card loans, in order to reflect the important distinction between those customers who are "transactors" and those who are "revolvers."

I. Scope of Application

American Express respectfully requests that the Agencies re-evaluate the use of the Thresholds to identify Covered Companies. The Thresholds are unique to the United States and were originally introduced by the Agencies in 2003 to identify those banking organizations to which the Advanced Approaches capital rules under the Basel Committee's Basel II framework, would apply on a mandatory basis. The Thresholds were not developed for application of the NSFR and, more importantly, are outdated, static, and not risk sensitive, imposing unnecessary regulatory requirements on institutions solely because they have crossed one or both of the arbitrary thresholds. This results in incongruent groupings of banking organizations that are not aligned with business models or actual risks. We believe an appropriate alternative approach would be to replace the Thresholds with a more sophisticated, dynamic measure that would ensure that the scope of the rule remains properly calibrated to capture the largest and most complex global banking organizations, such as the systemic indicator approach used to identify G-SIBs. Such an approach would ensure more appropriate calibration of regulatory requirements based on banking organizations' business models and actual risk profile.

The Agencies appear to have attempted to provide some recognition of the variation in business models and risk profiles of various types of banking organizations in setting standards for Modified Covered Companies. However, in so doing the Agencies have simply proposed an additional set of arbitrary static thresholds that are similarly not aligned with banking organizations' business models or actual risks. Accordingly, we believe that the application of Thresholds in the context of the NSFR is not appropriate and should be replaced with a measure that ensures appropriate calibration of regulatory requirements based on banking organizations' business models and actual risk profile, such as the systemic indicator approach used to identify G-SIBs. The systemic indicator approach takes into account not only size, but also interconnectedness, substitutability, complexity, and cross-jurisdictional activity. Moreover, the systemic indicator approach is far more sensitive than a thresholds-based approach because the comprehensive set of attributes that the systemic indicator approach takes into consideration, and the denominators that are used to evaluate those attributes, are updated periodically.[2]

[2] The Federal Reserve's FR Y-15 Banking Organization Systemic Risk Report, which collects data comprising the five components underlying the systemic indicator approach (size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity), is submitted by bank holding companies with total consolidated assets of $50 billion or more on a quarterly basis. The aggregate systemic indicators used as the denominators to calculate a banking organization's systemic indicator score are updated on an annual basis.

II. Available Stable Funding

A. Prepaid Products Should be Assigned an ASF Factor Closer to Retail Deposits

American Express issues a variety of prepaid products in the United States, including Travelers Cheques and general purpose reloadable ("GPR") prepaid cards.[3] The Proposed Rule "would assign a zero percent ASF factor to retail funding that is not in the form of a deposit. Given that nondeposit retail liabilities are not regular sources of funding or commonly utilized funding arrangements, the proposed rule would not treat any portion of them as stable funding."[4] As a result, under the Proposed Rule prepaid liabilities would generally be assigned a 0% ASF factor – indicating that the Agencies view such products as having "the least stable funding characteristics." American Express urges the Agencies to apply an ASF factor that better aligns with the historical performance of these products and, at a minimum, the Agencies' treatment under the LCR.

American Express prepaid products demonstrate stability characteristics that support the view that these products should receive an ASF factor similar to that of "stable retail deposits." For example, the Proposed Rule notes that the availability of federal deposit insurance can be a stabilizing factor preventing the outflow of retail deposits during times of stress.[5] Certain American Express prepaid products provide customers with the protection of FDIC pass-through insurance, which likewise reduces the probability that customers will remove prepaid product funds during a time of stress.[6]

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3 Travelers Cheques allow customers to carry a secure payment instrument backed by American Express, particularly when traveling abroad. GPR prepaid cards may be used at any merchant that accepts American Express, and can be reloaded with additional funds by the cardholder. American Express issues several different GPR prepaid cards, including Bluebird by American Express and American Express Serve.

4 *See* Proposed Rule at 35139.

5 *See, e.g.*, Proposed Rule at 35136 ("The proposed rule would assign a lower ASF factor to deposits that are not entirely covered by deposit insurance relative to that assigned to stable retail deposits because of the elevated risk of depositors withdrawing funds if they become concerned about the condition of the bank, in part, because the depositor will have no guarantee that uninsured funds will promptly be made available through established and timely intervention and resolution protocols").

6 Bluebird by American Express and American Express Serve products provide pass-through FDIC insurance to customers.

Similarly, a number of state laws require that money transmitters hold funds equal to the money transmitter's outstanding prepaid liabilities and invest these funds in high-grade, low-risk assets, providing an added measure of protection and confidence to customers that funds will be available during periods of stress.

In addition, the redemption rate of American Express' prepaid products has been generally consistent through economic cycles, including the recent financial crisis. Accordingly, we recommend that the Agencies apply an ASF factor to prepaid liabilities that more appropriately reflects their demonstrated lack of volatility as a source of funding.

If the Agencies elect not to align treatment of prepaid products with stable retail deposits, American Express urges the Agencies, at a minimum, to align with treatment of such products under the Agencies' final LCR rule, which assigns a 40% outflow rate for such liabilities.[7] As originally proposed, the LCR would have set the outflow rate for prepaid products and other unsecured non-deposit retail funding at 100%.[8] However, in response to comments,[9] the Agencies reconsidered the treatment of this type of funding in the final rule, assigning a 40% outflow rate instead.[10] In doing so, the Agencies noted that they "believe these changes better reflect the liquidity risks of categories of unsecured retail funding that have liquidity characteristics that more closely align with certain types of third-party funding."[11] American Express urges the Agencies to also recognize these same characteristics for purposes of the NSFR and adopt an appropriate ASF for such products.

7 12 C.F.R. § 249.32(a)(5).

8 78 Fed. Reg. 71818, 71836 (Nov.29, 2013).

9 *See, e.g.*, 79 Fed. Reg. 61440, 61481 (noting a comment that "certain non-deposit, prepaid retail products covered by FDIC insurance that is deemed to "pass-through" the holder of the account to the owner of the funds should merit an outflow rate significantly less than 100 percent, as these products are similar to retail deposits and have exhibited stability throughout economic cycles, including during the recent financial crisis.").

10 79 Fed. Reg. at 61481.

11 *Id*.

B. Customer Rewards Programs Should be Assigned an ASF Factor Closer to Retail Deposits

American Express also maintains a customer rewards program under which customers earn and accumulate points which may later be redeemed. In American Express' experience, customer redemption of rewards points has not fluctuated significantly through economic cycles. In fact, the historical rate of redemption for these rewards has been predictable over time and has not been sensitive to stress events. We therefore submit that, based on the predictability of our rewards program depletion rates, if liabilities for these programs were included in the ASF, they should be assigned the same ASF factor as stable retail deposits or, alternatively, long term debt.

III. Required Stable Funding

A. U.S. Treasury Securities Should be Assigned a Zero Percent RSF

American Express does not believe that U.S. Treasuries should be subject to the proposed 5% RSF factor. Instead, we recommend that they be assigned a 0% RSF factor. Assigning U.S. Treasuries a 0% RSF would be consistent with the highly liquid nature of such securities and would also be consistent with the LCR's treatment of Level 1 HQLA.

As set forth in the Proposed Rule, RSF factors would be scaled from 0% to 100% based upon the liquidity characteristics of the asset over the one-year horizon. A zero percent RSF factor means that the asset would not be required to be supported by available stable funding, while a 100% RSF factor means that the asset would be required to be fully supported by available stable funding.[12] RSF factors that are greater than zero and less than 100 would reflect the Agencies' judgment regarding the liquidity characteristics of a particular asset class.

In applying a 5% RSF factor to U.S. Treasuries along with other types of Level 1 HQLA in the Proposed Rule, the Agencies noted that this approach "would recognize that there are modest transaction costs related to selling U.S. Treasury securities and other level 1 liquid assets but that, other than assets that a covered company can use directly to meet financial obligations (<u>or will be able to use within a matter of days</u>), level 1 liquid assets generally represent the most readily monetizable asset types for a covered

[12] Proposed Rule at 35141.

company."[13] This view inappropriately characterizes the liquidity of, and transaction costs associated with, U.S. Treasuries.[14]

U.S. Treasury securities are among the most liquid marketable securities that a banking organization may hold. As noted in the preamble to the final LCR rule, "these types of securities exhibited high levels of liquidity even in times of extreme stress to the financial system, and typically are the securities that experience the most flight to quality when investors adjust their holdings."[15] Indeed, unlike many other types of assets – including certain other types of assets treated as Level 1 HQLA for LCR purposes – U.S. Treasuries are readily monetizable even during times of significant market stress. Requiring banking organizations to hold funding against a portfolio of U.S. Treasury securities ignores the demonstrated stability and liquidity of such assets and thus does not provide a risk-mitigating effect.

For the foregoing reasons, American Express urges the Agencies to assign a 0% RSF to U.S. Treasury securities.

B. The Agencies Should Adopt a More Refined Approach to Assigning an RSF Factor to Credit Card Exposures

Under the Proposed Rule, credit card loans (other than the minimum required monthly payment) would be assigned an 85% RSF factor. American Express believes that this broad approach is insufficient to properly take into account the variation among credit card customers. We urge the Agencies to adopt a more sensitive approach to assigning an RSF factor to credit card exposures in order to reflect the important distinction between those customers who are "transactors" and those who are "revolvers."

Credit cards are one of American Express' primary products and provide customers with the option to pay their bill in full each month or carry a monthly balance on their cards. For purposes of the NSFR, the Agencies should recognize the distinction between two particular types of credit card customers, consistent with recent issuances

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13 Proposed Rule at 35142 (emphasis added).

14 By way of comparison, even the Federal Reserve's Discount Window applies a lower haircut for borrowing against such instruments (1-3%).

15 79 Fed. Reg. at 61456.

from the Basel Committee on Banking Supervision:[16] (i) customers who may be labeled "transactors," who pay either in full or a large portion of the balance each month, and (ii) customers who may be labeled "revolvers," who routinely carry a balance on their account.

In general, transactors exhibit liquidity characteristics that are more consistent with instruments with short term maturities. Such customers pay either in full or a large portion of the balance by the end of each billing period. More importantly, as consumer spending decreases during times of economic stress, the outstanding balances of transactors decline accordingly, thereby significantly reducing funding needs. Under the Proposed Rule, the Agencies' proposed RSF adjustments would result in increased funding requirements that are not commensurate with the risks posed by credit card exposures to customers who qualify as transactors.

We believe that a more appropriately aligned RSF factor for credit card exposures to transactors would be the RSF factor applicable to instruments with maturities of 0-6 months (*i.e.*, 50%). This treatment would be consistent with the fact that these customers have a demonstrated pattern of paying at least a significant portion of their balance each month, thus providing lower risk of default and a steady near term stream of payments that meaningfully exceed the minimum required monthly payments.

We also support the Agencies' continued refinement of the LCR, as evidenced by the proposal to update certain definitions through the Proposed Rule. In order to ensure consistency between the LCR and NSFR and to better reflect the historical performance of these products, we urge the Agencies to align the LCR's treatment of credit card receivables with the proposal above – and, importantly, recognize the fundamental distinction between transactors and revolvers.

IV. Conclusion

American Express respectfully submits that, for the reasons described above, certain changes are merited to the Proposed Rule. First, the Agencies should forego use of the Thresholds in favor of relying upon the more tailored systemic indicator approach in identifying Covered Companies. Second, certain ASF factors should be better tailored to reflect the stability of, e.g., prepaid products, as an available source of funding. Third, the Agencies should revise the proposed RSF factors to assign a zero percent RSF to U.S.

[16] *See* Basel Committee on Banking Supervision Consultative Document: Reducing variation in credit risk-weighted assets – constraints on the use of internal model approaches (Mar. 2016).

Treasury securities and to distinguish between “transactors” and “revolvers” in assigning an RSF factor to credit card exposures. We believe that these changes would produce a NSFR that more appropriately captures the risk associated with covered organizations, asset classes, and liabilities, and is better aligned to its purposes.

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Thank you for considering our comment letter. We appreciate the opportunity to share our views with the Agencies and would be happy to discuss any of them further at your convenience. If we may be of further assistance, please contact me at 212-640-2396 or david.l.yowan@aexp.com.

Sincerely,

David L. Yowan
Executive Vice President &
Corporate Treasurer

cc:
Jeff Campbell
Paul Fabara
Anderson Lee
Juliana O'Reilly
Jonathan Polk
American Express Company