American Express Company
200 Vesey Street
New York, NY 10285

March 11, 2016

Via Electronic Delivery

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

Re: Credit Risk – Revisions to the Standardised Approach

Ladies and Gentlemen:

American Express Company ("American Express" or the "Company") appreciates the opportunity to provide our comments to the Basel Committee on Banking Supervision (the "BCBS" or "Committee") on its second consultative document (the "Consultation") that proposes revisions to the standardised approach to the calculation of credit risk capital requirements for banking organizations.[1] The Committee issued an initial consultative document on December 22, 2014 to which American Express respectfully submitted comments on March 27, 2015. While the Consultation addresses various provisions of the standardised approach, American Express' comments focus on the proposed credit conversion factor ("CCF") for unused credit card exposures.

American Express supports the Committee's efforts to apply a risk weight appropriate for "regulatory retail" exposures to credit cards. However, the Company also believes that the Consultation inappropriately increases the CCF for unused and unconditionally cancellable off-balance sheet exposures of banks that issue credit cards. If implemented as proposed, the changes would not only lead to misalignment with underlying risk but incent credit card issuers to reduce customers' spending capacity, which may generate negative impacts to the economy. Therefore, American Express recommends that the Committee not adopt the proposed CCF. If the Committee ultimately elects to adopt a CCF, American Express proposes several modifications which, when combined with the appropriate risk weight for credit card lending, would better capture the risk of those exposures.

---

[1] BCBS, Second Consultative Document: Revisions to the Standardised Approach for credit risk (Dec. 2015), *available at* http://www.bis.org/bcbs/publ/d347.pdf

The Consultation's proposed CCF adjustments would result in increased capital requirements that are not commensurate with the risks posed by credit card exposures. As described in further detail in this letter, American Express urges the BCBS not to apply a CCF for unconditionally cancellable commitments. If the BCBS elects to apply CCF, American Express encourages the BCBS to do so in an appropriately risk-sensitive manner that would result in an appropriate all-in risk weighting for the on- and off-balance sheet exposures of the same asset class.[2] If implemented as proposed, the overall capital charge for credit card used and unused lines of credit would far exceed underlying risk.

American Express strongly supports the BCBS conducting an additional quantitative impact study ("QIS"), reviewing any additional data provided in addition to the Committee's QIS, and thoroughly assessing the potential impact of the proposal before finalizing any changes, including the proposed retail CCF adjustments. American Express also urges the BCBS to consider the impact of the Consultation in combination with other anticipated revisions to the standardised approach, to ensure that the cumulative impact to regulatory capital charges for banks with significant credit card lending portfolios is consistent with underlying risk.

I. Background

Under the standardised approach, off-balance sheet exposures are assigned a CCF, based on the type of exposure. The notional amount of such exposure is then multiplied by the applicable CCF and this amount is then assigned a corresponding risk weight – again, based on the nature of the exposure. The Consultation proposes to apply a CCF for off-balance sheet exposures that a bank may cancel unconditionally and at any time, without prior notice ("Unconditionally Cancellable Commitments" or "UCCs") of 10-20%, while employing a flat 75% risk weight for retail exposures, such as credit cards. The combined effect of this formulation would result in a significantly higher capital charge for banks that issue credit cards. In jurisdictions that use a 100% risk weight for retail exposures (including the U.S., currently), the impact would be even more significant.

The Consultation explains that "[i]ncreasing overall capital requirements under the standardised approach for credit risk is not an objective of the Committee; rather, capital requirements should be commensurate with underlying risk."[3] American Express

[2] These comments are also supported by the comments submitted to the BCBS by The Clearing House and The American Bankers Association in response to the Consultation, as they pertain to the application of CCFs to credit cards.

[3] Consultation at 3.

believes that the proposed 10-20% CCF and resulting capital charge for unused lines of credit is disproportionate to their underlying risk, unsupported by U.S. historical data, inconsistent with the actual risk management capabilities of credit card lending institutions and, therefore, inappropriate. In this letter, we focus our comments on (i) the potential negative impacts to consumers, businesses and the economy, (ii) the willingness and ability of credit card issuers to promptly and prudently cancel or reduce credit card lines, (iii) demonstrating, through historical data and experience, that credit card exposures generally decrease during a financial crisis, (iv) alternatives to the proposed CCF adjustments, (v) potential competitive imbalance that could result across, and within, jurisdictions based on the method of implementation, (vi) the need for additional data collection and (vii) the need to consider the overall impact resulting from the Consultation together with other anticipated changes to the standardised approach.

II. <u>Overview of American Express</u>

American Express is a global services company whose principal products and services include credit payment card products and services for consumers and businesses around the world. 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 to finance the purchase of goods or services. Unlike other types of credit lines, credit cards are not designed to provide borrowers with access to cash or liquidity; instead, they are used primarily to facilitate commerce. Nor do credit card customers generally borrow up to the specified limit established and communicated to the customer by American Express. Rather, the overwhelming majority of American Express' credit card customers have not fully drawn on the credit card lines available to them (generally utilizing less than 20% of available credit).

In fact, a significant portion of our customers are "transactors," who pay either in full or a large portion of the balance each month, and are therefore not "revolvers" who routinely carry a balance on their account. The credit line assigned to transactors reflects their need for potential spending flexibility in order to make purchases and is not a target revolving balance limit. Transactors have demonstrated lower credit risk than revolvers, over time. American Express (like other credit card issuers) generally offers higher credit lines to lower risk borrowers such as transactors and, as a result, credit line size is inversely related to risk. Therefore, assigning a universal CCF between 10%-20% to all unused credit card lines is not appropriately risk sensitive and does not align with the underlying risk.

In order to prudently manage such risk, generated through issuance of credit to its credit card customers, American Express maintains robust risk management capabilities that enable real time risk assessment leading to an immediate reduction or cancelation of high risk credit lines, as appropriate. Consistent with applicable law, American Express may reduce or cancel unused portions of credit lines extended to credit card customers. As a result, such credit lines can be classified as Unconditionally Cancellable Commitments.

III. Impact to Consumers and Economy

A stated principle of the Consultation is that "[c]apital charges from the standardised approach should reflect to a reasonable extent the risk of the exposures and provide the correct incentives for banks, considering the overall policy objectives..."[4] However, because of the disproportionate impact on credit card issuing banks, increasing the CCF for UCCs to 10-20% would create incentives for such banks to take actions to change their business models or strategies. In order to mitigate the impact of the resulting capital charge, credit card issuing banks would be incented to reduce credit card lines, even in periods of financial growth. This reduction of available credit would remove an important source of consumers' and small businesses' purchasing power. With diminished purchasing power, consumers and small businesses would likely reduce spending or turn to more expensive sources of credit which, in both cases, would negatively impact several economic metrics and potentially slow economic growth. Moreover, consumers seeking additional sources of credit may turn to less-regulated non-bank providers resulting in higher costs.

IV. Ability to Cancel Credit Card Commitments

The Consultation indicates that "supervisors note that consumer protection laws, risk management capabilities, reputational risk or other factors appear to constrain banks' ability to cancel such commitments in practice. Many of the commitments assigned to this category may only be cancelled subject to certain contractual conditions (therefore, they are not really unconditionally cancellable)…The Committee proposes to narrow the scope of this category to commitments that are unconditionally cancellable in practice. Specifically, the Committee proposes to apply a reduced CCF between 10% and 20% only to retail commitments (eg credit cards)."[5] Although the Consultation acknowledges that credit cards are unconditionally cancellable in practice (unlike other commitments), it nonetheless, proposes to apply a CCF of 10-20%. Furthermore, the proposed increase is even higher than the CCF set forth in the Committee's December 2014 consultative document. However, the factors described in the Consultation do not prevent American Express or other U.S. credit card issuers from canceling such commitments. In fact, American Express maintains the authority to, and does in practice, cancel and reduce

---

[4] Consultation at 5.

[5] Consultation at 15.

lines, as appropriate. Therefore, American Express believes that the proposed CCF would be inappropriate for unused credit card exposures.

A. U.S. Law

The Consultation suggests that certain jurisdictions may classify exposures that are not fully cancelable in practice, as UCCs. "In certain countries, retail commitments are considered unconditionally cancellable if the terms permit the bank to cancel them to the full extent allowable under consumer protection and related legislation."[6] However, American Express' credit cards are fully cancellable in practice; our ability and willingness to do this is not theoretical – we have demonstrated both during the recent financial crisis by closing accounts and reducing lines.

Importantly, applicable U.S. law does not prohibit a credit card issuer from reducing or canceling a customer's credit line without prior notice. In the event that a creditor takes an adverse action on an existing account, such as reducing or, in some cases canceling a credit line, the Equal Credit Opportunity Act ("ECOA") and implementing regulation (commonly referred to as "Regulation B"), merely requires that the creditor send written notice of the action to the applicant within 30 days after taking such action. The ECOA and Regulation B do not prohibit prudent risk management by a lender through reduction or cancellation of open credit card lines.[7]

Following the 2008 financial crisis, new law governing consumer credit was enacted in the United States.[8] This law and implementing regulation set forth various requirements for credit card issuers, such as limits on fees and interest charges, along with certain disclosure requirements. Importantly, these post-crisis consumer law developments have no impact on credit card issuers' ability to manage risk through line reduction and cancellation.

Ultimately, applicable U.S. consumer protection laws do not impair a credit card issuer's ability to prudently reduce or cancel open credit card lines, consistent with American Express' actions during the recent financial crisis. Therefore, applicable

6 Consultation at 39.

7 According to the Consumer Financial Protection Bureau's Ask CFPB Website, "[c]ard issuers generally can increase or decrease credit limits without giving you notice, including reducing your credit limit so that you no longer have any available credit." *Available at* http://www.consumerfinance.gov/askcfpb/74/i-just-discovered-that-the-card-issuer-has-reduced-my-credit-limit-and-i-no-longer-can-charge-anything-can-they-do-that.html.

8 *See e.g.* Credit Card Accountability, Responsibility and Disclosure Act of 2009, Pub. Law 111-24, May 22, 2009.

consumer protection laws do not provide an appropriate rationale for increasing the CCF applicable to credit card exposures.

B. Risk management capabilities

Consistent with its authority under U.S. law, American Express has reduced lines or restricted spending, when appropriate. Such responsible lending actions are supported by American Express' robust credit risk management policies and economic logic, which inform key decisions throughout the customer life cycle - including line management and account closure. Importantly, during the recent financial crisis, American Express took such actions to appropriately manage risk. From 2008-2009, American Express reduced credit lines for approximately 6.7 million U.S. consumers and small businesses, and cancelled inactive accounts in various business segments. These actions helped to reduce total unused credit lines by approximately $43 billion, or 16%, from 2007-2009. American Express' historical data also indicates that line reductions effectively mitigated exposure by limiting the additional borrowing capacity as risk for certain accounts increased. For example, accounts that defaulted within 12 months of a line reduction in late 2008 only marginally increased balances (approximately 2-3%) prior to default.

Other credit card issuers reported lowering credit card limits during the financial crisis, as well. The Board of Governors of the Federal Reserve System's Senior Loan Officer Opinion Surveys on Bank Lending Practices during 2008 and 2009 ("FRB Surveys") consistently show that banks lowered limits for credit card accounts.[9] A 2013 report published by the Consumer Financial Protection Bureau ("CFPB") explained that, during the financial crisis "in an attempt to protect against further deterioration in credit performance, credit card issuers sought to reduce their exposure by closing accounts, decreasing unused credit lines, and tightening the criteria for granting new credit or for increasing lines on existing accounts."[10] This further evidences the cancelable nature of credit cards in the U.S.

Finally, the Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit ("FRBNY Debt Report") shows aggregate credit card limits in the

[9] *See e.g.* Board of Governors of the Federal Reserve System, The October 2008 Senior Loan Officer Opinion Survey on Bank Lending Practices, Table 1, Question 21, *available at*: http://www.federalreserve.gov/BoardDocs/snloansurvey/200811/table1.htm and Board of Governors of the Federal Reserve System, The January 2009 Senior Loan Officer Opinion Survey on Bank Lending Practices, Table 1, Question 21, *available at*: http://www.federalreserve.gov/BoardDocs/snloansurvey/200902/table1.htm.

[10] CARD Act Report, Consumer Financial Protection Bureau (Oct. 1, 2013) p 53, *available at* *http://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf* at 16.

United States decreasing ten consecutive quarters from a peak in the third quarter of 2008 to the first quarter of 2011.[11] The credit card lending industry reduced aggregate credit card limits by over $1 trillion during this period of time.[12] A recent study issued by the Federal Reserve Bank of Boston ("FRB Boston Report") indicates that credit card limits were reduced in the U.S. by approximately 40% during the recent financial crisis.[13] These reductions in credit card lines of credit demonstrate the capability of issuers to identify risks and take appropriate action to mitigate them. Therefore, risk management capabilities do not provide an appropriate rationale for applying the proposed CCF to credit card exposures.

C. Reputational risk considerations

The Consultation posits that reputational risk considerations may constrain an issuer's ability to cancel credit cards lines. However, appropriately reducing available credit card lines is responsible lending practice common to credit card issuers. As the FRB Surveys, CFPB report, and FRBNY Debt Report indicate, many credit card issuers reduced credit card lines during the 2008 financial crisis.[14] Furthermore, American Express reduced lines and closed accounts during the crisis and in the years that followed. Notwithstanding such actions, American Express was ranked #1 in credit card customer satisfaction by J.D. Power and Associates throughout the crisis and annually through 2014.[15] Consequently, American Express does not believe that reputational risks impeded its ability to prudently manage risk and cancel lines during the recent financial crisis, nor did such actions result in significant impairment to its reputation. As reputational risk to an individual card issuer may not serve as an impediment to appropriately reducing or cancelling credit card lines, it does not provide an appropriate rationale for applying the proposed CCF to credit card exposures.

---

[11] Quarterly Report on Household Debt and Credit, Federal Reserve Bank of New York (November 2015) at 10; available at https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2015Q3.pdf.

[12] *Id.*

[13] *See* Federal Reserve Bank of Boston Working Papers No. 15-17 *Consumer Revolving Credit and Debt over the Life Cycle and Business Cycle*, Scott L. Fulford and Scott Schuh (Oct. 2015) at 42.

[14] *See e.g.* FRB Surveys and FRBNY Debt Report at 7.

[15] *See, e.g.* http://businesscenter.jdpower.com/news/pressrelease.aspx?ID=2008141 and http://www.jdpower.com/press-releases/2014-us-credit-card-satisfaction-study.

V. Draw-Down Rates for Credit Cards

In addition to their fully cancelable nature, the Consultation fails to recognize other important characteristics of credit cards. Unlike other credit products, credit card borrowers do not typically draw on their cards in times of stress and are not used as source of liquidity for borrowers. In fact, utilization rates remain generally stable, or decrease, throughout economic cycles.

As credit card accounts generally utilize approximately 20% of available lines,[16] the inclusion of 10% of unused credit capacity is unsupported by historical data and would imply an 8% increase[17] in utilization. This would bring the utilization of the entire portfolio to approximately 28%, which exceeds industry experience even in the recent financial crisis. An increase from 20% to 28% also implies a 40% increase in balances across the entire portfolio and such an increase would be contrary to both issuer and customer behavior during the recent financial crisis. At the high end of the proposed range, using a 20% CCF, these figures double, generating even more distorted outcomes when compared with underlying risk.

Economic and industry data demonstrates that in recent periods of financial stress, consumers and small business borrowers have attempted to reduce spending and utilization of available credit. Unlike other forms of credit, credit cards are not designed to provide liquidity and instead are primarily used to make purchases. To the extent customers reduce their overall purchasing, credit card usage also generally decreases. According to the U.S. Financial Crisis Inquiry Commission,[18] "during the financial crisis consumer spending in the United States fell at an annual rate of 3.5% in the second half of 2008."[19] As consumer spending as a whole decreased during the financial crisis, credit card balances also fell. The FRBNY Debt Report shows that there were $2.7 trillion of unused credit card lines[20] in the fourth quarter of 2008, the beginning of the crisis period.

---

[16] Based on Q3 2015 QRE results for American Express, JP Morgan & Co., Citigroup Inc., Wells Fargo & Company and US Bancorp.

[17] 10% x (total credit line at 100% - 20% utilized)

[18] The U.S. Financial Crisis Inquiry Commission was established as part of the Fraud Enforcement and Recovery Act of 2009 and composed of a 10-member panel of private citizens with experience in areas such as housing, economics, finance, market regulation, banking, and consumer protection.

[19] Financial Crisis Inquiry Report. Financial Crisis Inquiry Commission (Feb. 2011) p 393-394, *available at* http://www.gpo.gov/fdsys/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf.

[20] The FRBNY Debt Report indicates that, also in the fourth quarter of 2008, such accounts maintained a utilization rate of only 25%.

Instead of increasing, as the Consultation would suggest, the FRBNY Debt Report indicates that balances actually declined through the crisis. In fact, credit card balances decreased by approximately 8% from the fourth quarter of 2008 to the fourth quarter of 2009.[21] The Federal Reserve Consumer Credit Statistical Release ("G19 Report") indicates that consumer revolving credit outstanding balances in the U.S. declined on a seasonally-adjusted basis for 11 consecutive quarters between Q3 2008 and Q1 2011, at a quarterly rate of -1.8% on average.[22] American Express' total outstanding credit card balance decreased by approximately 20% from Q4 2007 to Q4 2009. Additionally, during the brief 2001 recession, which followed appreciable consumer credit expansion, the growth rate in these balances decreased significantly, from 2.7% in the four quarters prior to the recession (i.e., Q3 2000 through Q2 2001), to only 0.7% between Q3 2001 through Q2 2002.

The FRBNY Debt Report and G19 Report reflect decreases in both credit lines and balances, through the recent financial crisis. The FRB Boston Report provides that "[c]redit and debt vary together in ways that produce extremely stable utilization that has no obvious relationship with the overall business cycle. Such a relationship is not just mechanical: when credit was cut in 2009, families had the choice whether to maintain or increase their debt, and the cut in credit could have translated directly into an increase in utilization rather than a decrease in debt. The fact that utilization did not change much suggests the importance of credit constraints and a strong behavioral response to changes in credit limits."[23] Furthermore, the CFPB report suggests that overall credit card utilization rates in the U.S. were actually *lower* during the recent crisis than in the years that followed, as conditions improved.[24] In fact, utilization by American Express' credit card customers, declined between 2007-2009.

As consumers reduced purchases during the financial crisis, credit card usage decreased. Since credit card spending does not generally increase during period of market stress, borrowers are unlikely to draw further on their available credit. As a

[21] FRBNY Debt Report at 10.

[22] Federal Reserve G.19 Statistical Release available at http://www.federalreserve.gov/releases/g19/current/

[23] FRB Boston Report at 10.

[24] CFPB CARD Act Report, at 53, explaining that "[f]rom Q2 2008 to Q4 2012, total unused line[s] fell by 35.0% yet at the end of 2012 consumers with accounts represented in [the bureau's database] still enjoyed $1.9 trillion in available credit on their credit cards. This implies that 20.5% of the extended credit line has actually been utilized by consumers, up from 17.4% in Q2 2008." According to the CFPB Report, the database contains information on the full consumer and small business credit card portfolios, representing between 85% and 90% of credit card industry balances.

result, any assumption of an increased probability that credit card UCCs would be drawn on during a period of market stress is unsupported by historical data. In fact, balances generally *decrease* during market stress. Therefore, it is difficult to justify the conceptual soundness of applying a 10-20% CCF for such exposures.

VI. CCF and Risk Weights

The Consultation aims "to balance simplicity and risk sensitivity, to promote comparability by reducing variability in risk-weighted assets across banks and jurisdictions, and to ensure that the standardised approach (SA) constitutes a suitable alternative and complement to the Internal Ratings-Based (IRB) approach."[25] In order to further each of those stated goals, American Express urges the Committee not to adopt the proposed CCF changes or, if the Committee elects to adjust the CCF, to do so appropriately and in concert with adjustments to the overall risk weighting for credit card exposures.

A. No increase to CCF

One of the stated objectives of the Consultation is to "ensure the SA is appropriately calibrated to reflect to a reasonable extent the riskiness of exposures."[26] American Express believes that the current 0% CCF, together with the "regulatory retail" risk weight of 75% would be more than sufficient to capture risks from both outstanding balance and unused credit lines. Therefore, American Express recommends that the proposed 10-20% CCF not be adopted. One method to support this is to consider available data on Qualifying Revolving Exposures ("QRE") reported by U.S. firms subject to the Advanced Approaches which indicates that the 75% risk weight (with the current 0% CCF) adequately captures risks from *both* outstanding balance and unused credit line of credit card loans.[27] An add-on factor from unused credit lines would therefore overstate the overall riskiness of credit card loans. For American Express, the standardised framework (without any add-on factor) already *overstates* such risks for credit cards, based on our Advanced Approaches modeling results for QRE as well as our internal economic capital assessment, and the proposed CCF would extend this even further. This would be exacerbated if implemented using the current U.S. risk weighting of 100%.

[25] Consultation at 1.

[26] Consultation at 21.

[27] While our view is that the QRE methodology for the Advanced Approaches does not entirely align with underlying risk for credit cards, it is a reasonable benchmark to consider alternative approaches against.

American Express fully supports the Consultation's stated goal that "[i]ncreasing overall capital requirements under the standardised approach for credit risk is not an objective of the Committee; rather, capital requirements should be commensurate with underlying risk."[28] However, the proposed adjustments to the CCF would generate outcomes that are contrary to this objective because the CCF is not structured to apply an appropriate measure of risk sensitivity and the resulting capital requirements for credit card lending would far outweigh the risk of this activity.

As implemented in the U.S., the vast majority of consumer credit exposures receive a 100% risk weight, applied to such outstanding balances. If the proposed 20% CCF (and 100% risk weight) is assessed on unused credit lines, major credit card issuers would effectively be faced with an approximately 200% risk weight on average on their credit card balances.[29] This is significantly higher than even the highest risk weight under the current standardised approach, which provides a risk weight of 150% for exposures that are at least 90 days past due or on nonaccrual. Contrasting this against the Advanced Approach, the industry average risk weight for credit cards was only approximately 75-80%.[30] For American Express, the proposed changes would increase the total standardised approach RWA by approximately 44% and lower the CET1 ratio by approximately 30%.[31] If American Express were to maintain its current capital ratio, it would need to raise its CET1 capital from $17 billion to $25 billion, an increase of $8 billion. As a result of such capital raising activities, American Express' leverage[32] would drop dramatically, from 9x to just over 6x, well below the credit card industry average of approximately 11x and, further, leverage on American Express' credit card loans in isolation would drop below 4x to maintain our current CET1 ratio of approximately 13%. This is a remarkably low figure, particularly for a firm such as American Express, which has not experienced a quarterly net loss in over 20 years. The adjustments proposed in the Consultation would create a framework where capital requirements materially exceed the risks presented by unused credit card lines. American Express believes that this magnitude of change is inappropriate given the underlying risk presented by credit card lending, which has been demonstrated to be less risky than many other types of lending

[28] Consultation at 3.

[29] Effective Risk Weight = (outstanding balance + unused credit line x CCF)/outstanding balance

[30] Risk Weight = Total Advanced Approach RWA/total outstanding balance; based on weighted average Q3 2015 QRE results for American Express, JP Morgan & Co., Citigroup Inc., Wells Fargo & Company and US Bancorp.

[31] The referenced impacts are based on Q3 2015 data.

[32] Leverage ratio = total assets/CET1 capital

during period of financial stress, due to both borrower behavior and the ability of the lender to manage and mitigate risks. As a result, American Express urges the Committee not to adopt the proposed changes to the CCF for UCCs.

B. Risk-sensitive CCF

If the BCBS ultimately elects to apply a CCF to credit card exposures, we encourage the BCBS to do so in an appropriately risk-sensitive manner, taking into account the all-in risk weight appropriate for the asset class. The Consultation explains that "[o]ne of the key weaknesses of the current SA is the lack of granularity and risk sensitivity in a number of exposure classes. Taking into account the characteristics of each exposure class, the Committee proposes to increase the risk sensitivity of the SA in areas where revisions in the risk-weighting methodologies would not result in unwarranted increased complexity and comparability issues."[33]

The Consultation, however, proposes changes that do not reflect the variability in risk for unused credit card lines. Generally, the least risky credit card accounts, such as transactors, have higher exposure (drawn or undrawn) while riskier accounts, such as revolvers, have lower exposure. In an effort to prudently manage credit risk, credit card issuers generally offer lower credit lines to riskier borrowers (and reduce or cancel lines as risk increases). Therefore, credit line size is inversely related to risk. Further, riskier accounts typically utilize a larger portion of their line resulting in relatively lower undrawn exposure compared to lower risk accounts. Consequently, if the Committee applies the CCF to retail UCCs, it should take into account the characteristics of unused credit card exposures and develop an appropriately risk-sensitive methodology.

It is our view that the data to better calibrate a CCF, which considers the relationship between risk (probability of default) and undrawn exposure for different customer segments, largely exists within the Advanced Approaches modeling performed today. The Committee should leverage this data to develop an industry average risk sensitive CCF in lieu of the proposed 10-20% CCF (alternatively, a more tailored risk factor to apply to proposed the 10-20% CCF could be calculated). This method, if appropriately calibrated, would produce a capital outcome more aligned with the underlying risk than the proposed CCF changes. American Express welcomes the opportunity to discuss these approaches in greater detail with the Committee.

[33] Consultation at 22.

C. Risk weight

In addition to the CCF, American Express believes that the proposed 75% risk weight for unused credit card lines overstates the risk presented by such exposures. As described above, American Express' historical experience indicates that the 75% risk weight, with the current 0% CCF, would be more than sufficient to capture risks from both outstanding balance and unused credit lines. Therefore, we encourage the BCBS to apply any CCF only where the 75% (or lower) risk weight for "regulatory retail" exposures is adopted.

VII. Global Competitive Impacts

The Consultation explains that one of the aims of the Committee is to "allay level-playing-field concerns and ensure equal risks attract similar capital requirements."[34] American Express fully supports this goal and urges the BCBS and national regulators to ensure that capital requirements for credit cards are consistent both across and within jurisdictions.

A. Variation of risk weight across jurisdictions

The current standardised approach provides for a 75% risk weighting for retail exposures that satisfy certain criteria and, as a result, many non-U.S. banking organizations are subject to this risk weighting for their credit card exposures. However, current U.S. capital rules apply a flat 100% risk weighting for retail exposures and do not provide for such exposures to qualify for the more favorable 75% risk weighting. This results in a capital framework for credit card exposures that is misaligned with underlying risk and places U.S. firms at a significant competitive disadvantage to non-U.S. credit card issuers, on a consolidated basis. The negative impacts of the risk weighting are magnified when combined with the proposed increased CCF applicable to credit card exposures, resulting in capital requirements applicable to credit card lending that are grossly exaggerated relative the underlying risk. In the U.S., adding any CCF for unused credit lines to the already overstated 100% risk weight would exacerbate the currently uneven playing field with non-U.S. firms that are subject to the lower risk weighting of 75%. Therefore, any adoption of the CCF for unused credit lines should be explicitly tied to, and only contingent upon, the adoption of the 75% or lower risk weight for regulatory retail exposures.

[34] Consultation at 22.

B. Local implementation

In addition to consistent application between jurisdictions, the method of implementation by local regulators is of critical import. For example, U.S. regulators have already indicated that the proposal would likely be applied only to large, internationally active banking organizations.[35] This intent to not to apply the proposal broadly in the U.S. would inject variation in implementation approaches at the national level, and may put firms subject to the proposed requirements at a competitive disadvantage. It also remains to be seen how local regulators in other jurisdictions will implement such changes, creating the potential for additional competitive imbalances.

For a credit card issuing bank subject only to the current standardised approach, the proposed changes would have no impact. However, the proposal would increase the capital requirements for credit card exposures of Advanced Approaches banks by as much as100% (assuming a 20% credit line utilization rate and 100% risk weight).[36] In effect, the capital requirements of Advanced Approach banks in the U.S. would be double that of other banks that are significant credit card issuers but not subject to the Advanced Approaches. Consequently, profitability of such Advanced Approaches banks would be half that of issuers not subject to the Advanced Approaches. American Express urges the BCBS, as well as national regulators, to ensure that the application of the proposals in the Consultation apply to all institutions that operate credit card businesses, across jurisdictions.

VIII. Data Collection

The Consultation noted that "all calibrations in the consultative document are preliminary and will be subject to revisions post-consultation and based on evidence from the second QIS." American Express supports the BCBS' efforts to conduct an additional quantitative impact study and thoroughly review the potential impact of the proposal on banks with various business models. Specifically, we suggest that the BCBS study the impact of this Consultation on banks conducting credit card lending businesses, including the operation of a credit card payment network, in order to evaluate whether the impact to capital requirements is appropriate given the underlying level of risk of these activities.

---

[35] Banking Agencies' Statement Regarding The Basel Committee's Consultative Paper "Revisions to the Standardized Approach for Credit Risk" *available at* http://www.federalreserve.gov/newsevents/press/bcreg/20151210b.htm.

[36] The referenced impacts are based on Q3 2015 QRE results for American Express JP Morgan & Co., Citigroup Inc., Wells Fargo & Company and US Bancorp.

IX. Cumulative Impact with Other Recent BCBS Proposals

American Express urges the BCBS to consider the impact of the Consultation in combination with other recently proposed revisions to the standardised approach.[37] American Express has concerns that the cumulative impact of regulatory capital charges for banks with significant credit card lending portfolios would be unfairly punitive and incongruent with underlying risk. Although American Express' comments focus exclusively on the Consultation, we strongly urge the BCBS to consider the cumulative impact of all proposed changes in any QIS exercise and in the finalization of this Consultation, as well as others.

X. Conclusion

American Express believes that the Consultation's proposed CCF for unused credit card lines would result in a disproportionate capital charge to credit card assets for issuing banks subject to such requirements. The BCBS should carefully consider the potential negative impacts to consumers, businesses and overall economy that may result from application of the proposed 10-20% CCF to undrawn credit card lines. It is also important to recognize the ability of credit card issuers to prudently cancel or reduce credit card lines, thus obviating the need for the proposed increase in CCF applicable to credit card exposures. Competitive impacts should be limited by ensuring harmonized and consistent implementation of the proposal by national regulators. The Committee should also carefully consider the impact of the Consultation in combination with other anticipated revisions to the standardised approach, including those to operational risk capital requirements. In any case, the BCBS should refrain from finalizing the proposal until additional data has been collected and an impact study has been completed.

***

[37] American Express submitted comments to the BCBS regarding its consultative document "Operational risk – Revisions to the simpler approaches." The letter is available at: http://www.bis.org/publ/bcbs291/americanexpress.pdf.

Thank you for considering our comment letter. We appreciate the opportunity to share our views with the BCBS. If we may be of further assistance, please contact Richard Petrino at Richard.Petrino@aexp.com and +1-212-640-5516.

Sincerely,

Jeffrey Campbell
Executive Vice President &
Chief Financial Officer

cc: Andres Espinosa
Paul Fabara
Ashwini Gupta
Anderson Lee
Vernon Marshall
Juliana O'Reilly
Richard Petrino
Robert Phelan
Jonathan Polk
David Yowan
American Express Company