American Express Company
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April 16, 2010

Via E-Mail

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

Re: *Strengthening the resilience of the banking sector*

Ladies and Gentlemen:

American Express Company ("*American Express*") is pleased to have the opportunity to comment on the consultative document issued by the Basel Committee on Banking Supervision (the "*Committee*") entitled *Strengthening the resilience of the banking sector* (the "*Capital Proposal*").[1]

American Express has a long history as a financial institution; however, it has only recently become a bank holding company under U.S. law in September 2008. Unlike many other traditional bank holding companies, American Express is primarily engaged in the business of issuing credit and charge cards and prepaid products to a diverse group of retail consumers, small businesses and corporate clients and operating a

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1 American Express will submit a separate comment letter addressing the Committee's proposals on liquidity, the consultative document entitled *International framework for liquidity risk measurement, standards and monitoring.*

network to process transactions made by these customers using American Express products. We are a global company, operating in over 130 countries, with over 87 million cards in force and with a network of merchants that accept American Express cards world-wide.

We support the Committee's efforts to strengthen the international banking sector in light of the recent global financial crisis. We are concerned, however, that in some respects the Capital Proposal will not address the unique nature of many bank operations. In our case, although we are a bank holding company, our core business is card issuing and card transactions processing, which makes our business model unique among major financial institutions. For American Express, as well as other financial institutions that do not have a traditional banking business model and that are affected by the Capital Proposal, we are concerned that such a "broad brush" approach may result in unintended consequences for both banks and consumers.

While we have a number of concerns related to the Capital Proposal, we expect that many of those concerns will be addressed by the banking industry, as they apply broadly and are shared by others. In general, these concerns arise from the deductions from the definition of common equity, the breadth of the denominator in the leverage ratio, and the proposal to adopt international capital buffers. In this letter, we will focus on facets of the Capital Proposal that would have a significant impact on our business, in particular, the treatment of certain types of off-balance sheet ("*OBS*") exposures in calculating the leverage ratio. We also address the Committee's proposal to review the treatment of excess provisions over expected losses under the Basel II capital framework.

Leverage Ratio

We believe that if the capital framework includes a leverage ratio, it should be constructed in a way that will make it a useful regulatory tool. As proposed, however, the failure of the ratio to recognize legally enforceable netting and the breadth of the treatment of OBS obligations would make the denominator so large that the usefulness of the ratio as a regulatory or management tool would be substantially diminished. Under the Capital Proposal, nearly all OBS items would be included in the measure of total exposure using a 100% Credit Conversion Factor ("*CCF*"). Although this provides uniformity, we believe it is an excessively blunt approach. We appreciate that the Committee believes it may be prudent for banks to reduce their ability to incur excessive OBS leverage positions, but we question whether all OBS positions would realistically create such substantial exposure for banks, even during times of crisis, that a blanket 100% CCF would be justified. A more nuanced view of OBS exposures should be explored, and we, therefore, support the Committee's proposal to assess the impact of applying the Basel II CCFs in the Committee's impact assessment (Paragraph 234). Although the Basel II CCFs themselves have been the subject of criticism for being overly broad, we believe that they do recognize that the complexity of banking operations often requires more granular distinctions in order to accurately assess a bank's leverage posture.

A. Unconditionally Cancelable Commitments

The treatment of unconditionally cancelable commitments provides an example where the Capital Proposal's goal of simplifying standards may be misaligned with economic realities. The Capital Proposal would, as with other OBS items, assign a 100% CCF to unconditionally cancelable commitments in calculating total exposure. In our view, unconditionally cancelable commitments should receive a 0% CCF, as is currently the case under the CCFs set forth in Basel II. This approach is sensible because

unconditionally cancelable commitments, by definition, expose a bank to limited exposure risks as the potential exposure or commitment can be extinguished at any time.

We support the Committee's determination to separately assess the treatment of unconditionally cancelable commitments as part of the impact assessment and to collect a detailed assessment of different OBS items (Paragraph 235). In particular, as mentioned in the Capital Proposal, we encourage the Committee to apply the current Basel II standardized CCFs to these items.

B. Application to American Express

As a credit card issuer, American Express's business would be affected in a very specific way by the proposed changes in the Capital Proposal. At any given time, American Express's credit card customers have not fully drawn on the credit lines available to them on their cards. Under the Capital Proposal, the aggregate amount of undrawn credit lines on these cards would be included in total exposure at a CCF of 100%.

We believe that a 100% CCF is inappropriate for credit card commitments. As noted, credit cards are unconditionally cancelable and, in response to the financial crisis, American Express, in fact, reduced credit lines in order to prudently manage our exposures. Between 2008 and 2009, we reduced credit lines by approximately 12%. Even in times of stress, credit card customers do not draw on cards at a rate of 100%. In fact, unlike other types of credit lines that are designed to provide a borrower with access to cash, credit cards generally are used to make purchases, and, therefore, draw rates may actually decrease in times of stress as customers may respond to adverse financial conditions by decreasing the amount of new purchases. Our recent experience during the financial crisis showed utilization rates on American Express credit cards remained relatively stable, declining approximately 2% between 2008 and 2009.

This supports the view that credit cardholders do not rapidly and suddenly draw on credit lines even during severe economic stress.

Assigning a 100% CCF to credit card commitments would have severe consequences for American Express's current business model. Under current U.S. capital standards, our Tier 1 leverage ratio is approximately 7%.[2] Under the Capital Proposal, however, the denominator in this leverage ratio would be expanded to include what currently amounts to approximately $220 billion in undrawn, unconditionally cancelable credit lines. Including these credit lines in the leverage ratio calculation would result in reducing our leverage ratio to approximately 2.7%. In light of the effect on the leverage ratio, American Express and other banks with a significant card issuing business would likely reduce their exposures (and thus their capital requirement) by decreasing unused credit lines, thereby reducing credit funding available to consumers and small businesses. Credit cards are an important source of funding for consumers and small businesses, particularly in the United States where, in the last 12 months, 59% of small businesses have used credit cards to meet capital needs. Reducing credit lines will have adverse impacts both on consumers and small businesses because it would remove a widely used, convenient source of available funding.

We urge the Committee to evaluate the treatment of unconditionally cancelable commitments, such as credit cards, in terms of the actual exposures faced by a bank making these commitments. Because a bank may cancel such exposures at any time, without recourse, these commitments warrant a 0% CCF. If, however, the Committee ultimately decides to apply a CCF above 0% to at least some types of unconditionally cancelable commitments, we urge the Committee to take into consideration the important differences between credit card commitments and other types

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[2] Pro-forma Tier 1 leverage ratio as of December 31, 2009, including the impact from FAS 166/167.

of unconditionally cancelable commitments. As noted, unlike many types of lines of credit, credit cards generally are used to make purchases of particular merchandise or services. The nature of these lines may be contrasted with other credit lines that may be drawn down immediately for any purpose. This inherent limitation on customer usage of the available credit supports applying a CCF of 0% to credit card lines.

Treatment of Provisions under Basel II

We support the Committee's proposal to review the treatment of excess loan loss reserves over expected losses (Paragraph 246), which currently are capped as a share of risk-weighted assets within Tier 2 capital. As currently structured, this capital penalty disproportionately affects institutions that hold assets with relatively higher loss rates compared to other loans. Institutions should not be penalized when establishing appropriate levels of loan loss reserves for different types of loans.

Other Matters

As noted above, we have a number of concerns related to the Capital Proposal we expect will be addressed by others in the banking industry. In particular, with respect to the definition of common equity, we support the increased focus on common equity as the predominant form of Tier 1 Capital, but we believe that some of the deductions from common equity – particularly the deduction of certain intangible assets that have demonstrable value (*e.g.*, purchased credit card relationships, deferred tax assets dependent upon future income, and certain unrealized gains and losses on the investment portfolio currently "filtered" out of regulatory capital) – are excessively conservative and, in some cases, substantively inappropriate.

We also believe that the adoption of an international, standardized capital buffer framework (Paragraphs 256–259) would create, in effect, a new minimum capital requirement, thereby reducing the utility of other measures that are designed to

strengthen bank capital, and may be incongruous with frameworks already in place in various jurisdictions, such as the United States. In our view, the imposition of any capital buffer would be better addressed in the supervisory process by national regulators, which could take into account the particular characteristics of an institution, including the institution's historic ability to generate capital even under stress conditions. If buffer requirements are nonetheless to be established, we believe that the buffers should be part of another round of comments on the Capital Proposal to allow for more research and development of meaningful ways to calibrate buffer levels.

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In closing, we would like to reiterate our support of the Committee's goal to achieve a more stable financial system and appreciate the efforts the Committee has made in that regard. We hope that the views we have outlined above are helpful to the Committee's considerations. If we may be of any assistance, please contact us at (212) 640-2000.

Sincerely yours,

Daniel T Henry

Daniel T. Henry
Executive Vice President, Chief Financial Officer
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cc: Norah M. Barger
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