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October 31, 2024

VIA EZFile

Brent Hassell  
Assistant Vice President  
The Federal Reserve Bank of Richmond  
P.O. Box 27622  
Richmond, VA 23261

Re: Additional Information Request Regarding Application by Capital One Financial Corporation to Acquire Discover Financial Services (the "Additional Information Request")

We are submitting this letter and the related confidential exhibit volume in response to your request for additional information, dated October 16, 2024, regarding the application seeking the prior approval of the Board of Governors of the Federal Reserve System (the "Federal Reserve") for Capital One Financial Corporation ("Capital One"), the parent of Capital One, National Association, to acquire Discover Financial Services ("Discover") and thereby acquire control of its subsidiary bank, Discover Bank (the "Application"). For ease of reference, your questions are included in bold with the responses immediately following. Capitalized terms used herein and not otherwise defined shall have the meaning ascribed to them in the Application.

\* \* \*

Brent Hassell  
The Federal Reserve Bank of Richmond  
October 31, 2024  
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Confidential treatment is being requested under the federal Freedom of Information Act, 5 U.S.C. § 552 (the “FOIA”), and the implementing regulations of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), for the information contained in the Confidential Exhibits Volume to this letter (the “Confidential Materials”). The Confidential Materials include, for example, information regarding the business strategies and plans of (1) Capital One Financial Corporation (“COFC”), Vega Merger Sub, Inc. (“Merger Sub”) and Capital One, National Association (“CONA”) and (2) Discover Financial Services (“Discover”) and Discover Bank, and other information regarding additional matters of a similar nature, which is commercial or financial information that is both customarily and actually treated as private by COFC, Merger Sub, CONA, Discover and Discover Bank and provided to the government under an assurance of privacy. Certain information in the Confidential Materials also includes confidential supervisory information, which is protected from disclosure. None of this information is the type of information that would otherwise be made available to the public under any circumstances. All such information, if made public, could result in substantial and irreparable harm to COFC, Merger Sub, CONA, Discover and Discover Bank. Other exemptions from disclosure under the FOIA may also apply. In addition, investors and potential investors could be influenced or misled by such information, which is not reported in any documents filed or to be filed in accordance with the disclosure requirements of applicable securities laws, as a result of which COFC, Merger Sub, CONA, Discover and Discover Bank could be exposed to potential inadvertent violations of law or exposure to legal claims. Accordingly, confidential treatment is respectfully requested for the Confidential Materials under the FOIA and the Federal Reserve’s implementing regulations.

Please contact the undersigned (212-403-1354), Matthew T. Carpenter (212-403-1031) or Ledina Gocaj (212-403-1022) before any public release of any of this information pursuant to a request under the FOIA or a request or demand for disclosure by any governmental agency, congressional office or committee, court or grand jury. Such prior notice is necessary so that COFC, Merger Sub, CONA, Discover and Discover Bank may take appropriate steps to protect such information from disclosure.

If you have any questions about this submission or confidential treatment request, please do not hesitate to contact me.

Very truly yours,



Richard K. Kim

Brent Hassell  
The Federal Reserve Bank of Richmond  
October 31, 2024  
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Enclosure

cc (by email):

Jason Almonte, Office of the Comptroller of the Currency  
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Matthew T. Carpenter, Wachtell, Lipton, Rosen & Katz  
Ledina Gocaj, Wachtell, Lipton, Rosen & Katz

**Capital One Financial Corporation Public Responses to Additional Information Request  
from the Federal Reserve Bank of Richmond, dated October 16, 2024**

**1. Question 1(b) of the Letter from the Federal Reserve Bank of Richmond dated April 1, 2024, requested information regarding the permissibility of certain Discover Bank subsidiaries during the period beginning with the consummation of the merger of Vega Merger Sub, Inc. with and into Discover and ending with the consummation of the merger of Discover Bank with and into CONA (the “Intermediate Period”). In light of this, provide responses to the following items:**

**a. Discuss whether Capital One could retain the shares of GTC Insurance Agency, Inc. (“GTC Insurance Agency”), New Castle, Delaware, a subsidiary of Discover and of Discover Bank, permissibly during the Intermediate Period in reliance on section 225.22(e)(2)(ii) of the Board’s Regulation Y.3 In your response, discuss (i) whether Capital One would own all the securities (except for directors’ qualifying shares) of GTC Insurance Agency during the Intermediate Period and (ii) whether the activities of GTC Insurance Agency would be permissible for Discover Bank to conduct directly under Delaware law (including section 761(a)(14), title 5, Delaware Code), subject to the limitations applicable as if Discover Bank were engaging in the activity directly and in the locations where GTC Insurance Agency engages in its activities.**

Although GTC Insurance Agency will ultimately be a subsidiary of CONA after closing of the Proposed Transaction, there are two intermediate steps that occur nearly instantaneously before the Proposed Transaction is completed. Initially, Discover Financial Services, as a separate bank holding company, owns its direct subsidiary Discover Bank, which in turn directly owns GTC Insurance Agency. At step 1 (the merger of Merger Sub with and into Discover Financial Services), COFC would directly own Discover Financial Services and its direct subsidiary Discover Bank, which in turn directly owns GTC Insurance Agency. At step 2, Discover Financial Services is merged with and into COFC and therefore COFC directly owns Discover Bank, which in turn directly owns GTC Insurance Agency. We will refer to steps 1 and 2, as the “Intermediate Period.” At step 3, Discover Bank merges with and into CONA, such that CONA directly owns GTC Insurance Agency.

During the Intermediate Period, at step 1 and at step 2, COFC would be permitted to hold GTC Insurance Agency under 12 C.F.R. § 225.22(e)(2)(ii). Whether during the Intermediate Period or after closing of the Proposed Transaction, Discover Bank or CONA, depending upon the step of the transaction above, will own all the securities of GTC Insurance Agency.

The activities of GTC Insurance Agency are permissible for Discover Bank to conduct directly under Chapter 5 of the Delaware Code, at § 761(a)(14) and 12 C.F.R. § 362.4(b)(3)(ii). GTC Insurance Agency conducts these activities pursuant to the same limitations that would be applicable to Discover Bank if it engaged in the activity directly and in the locations where GTC Insurance Agency engages in its activities.

**b. Discuss whether Capital One could retain the shares of The Student Loan Corporation (“SLC”), Riverwoods, Illinois, a subsidiary of Discover and of Discover Bank, permissibly during the Intermediate Period in reliance on section 225.22(e)(2)(ii) of the Board’s Regulation Y. In your response, discuss (i) whether Capital One would own all the securities (except for directors’ qualifying shares) of SLC during the Intermediate Period and (ii) whether the activities of SLC would be permissible for Discover Bank to conduct directly under Delaware law, subject to the limitations applicable as if Discover Bank were engaging in the activity directly and in the locations where SLC engages in its activities.**

Although SLC will ultimately be a subsidiary of CONA after closing of the Proposed Transaction, there are two intermediate steps that occur nearly instantaneously before the Proposed Transaction is completed, as described immediately above for GTC Insurance Agency.

During the Intermediate Period, at step 1 and step 2, COFC would be permitted to hold SLC under 12 C.F.R. § 225.22(e)(2)(ii). Discover Bank would own all the securities of SLC during the Intermediate Period, and CONA would own all of the securities of SLC at step 3.

The activities of SLC would be permissible for Discover Bank to conduct directly under Delaware law and 12 C.F.R. § 362.4(b)(3)(ii), subject to the limitations applicable as if Discover Bank were engaging in the activity directly and in the locations where SLC engages in its activities. Chapter 5 of the Delaware Code, at § 761, sets forth the powers of a Delaware state bank and 5 Del. Admin. C. § 713-3.1.1 specifies that “[a]ny activity that is permissible for a national bank as principal” is an express incidental power of a banking corporation under 5 Del. C. § 761(a)(17). In turn, the OCC has stated that pursuant to 12 USC 24(Seventh) a “national bank and its operating subsidiaries may make, purchase, sell, service, or warehouse loans or other extensions of credit for its own or another’s account, including consumer loans, credit card loans, commercial loans, residential mortgage loans, commercial mortgage loans, and standby letters of credit.” OCC, Activities Permissible for National Banks and Federal Savings Associations, Cumulative, 2017 Edition 32 (citing to 12 U.S.C. 24(Seventh), 371; 12 CFR 5.34).

**2. For debit transactions on Capital One issued debit cards, provide the average fee per transaction and fee as a percent of average transaction value that the merchant (or its acquirer) was required to pay to Capital One in 2022 and 2023 across:**

- Any Mastercard debit card network;
- Any Visa debit card network;
- Any network.

Please see Confidential Annex A.

**3. For 2022 and 2023, provide the percentage (by dollar volume) of Capital One’s debit card transactions that were transmitted over:**

- Mastercard’s dual message debit network;
- Mastercard’s single message debit network;
- Visa’s dual message debit network; and

- **Visa's single message debit network.**

Please see Confidential Annex A.

**4. Post-merger, Capital One has represented that it intends to move all of its Mastercard and Visa debit card transactions to the Discover Networks. Indicate the average fee per transaction and fee as a percent of average transaction value that Capital One expects the merchant (or its acquirer) to pay Capital One post-transition.**

Please see Confidential Annex A.