March 24, 2017

Mr. David W. Nelms
Chairman and Chief Executive Officer
Discover Financial Services
2500 Lake Cook Road
Riverwoods, Ilinois 60015

Dear Mr. Nelms:

The Board of Governors of the Federal Reserve System (the Board) and the Federal Deposit Insurance Corporation (the FDIC) (together, the Agencies) have reviewed the annual resolution plan submission (2015 Plan) that Discover Financial Services (Discover) submitted in December 2015, as required by section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. § 5365(d), and the jointly issued implementing regulation, 12 CFR Part 243 (Board) and 12 CFR Part 381 (FDIC) (the Resolution Plan Rule).

The Agencies are jointly issuing this letter to clarify expectations for the resolution plan required to be submitted on or before December 31, 2017 (2017 Plan). Discover should comply with the requirements for its 2017 Plan by submitting information that is responsive to and consistent with this letter by December 31, 2017. Previously provided guidance continues to be applicable except to the extent that it is superseded or supplemented by the provisions of this letter.

Pursuant to paragraph __.4(k) of the Resolution Plan Rule, the Agencies have determined that the executive summary and strategic analysis[1] of the 2017 Plan may be limited to any content that has changed from that of the 2015 Plan as a result of feedback provided in this letter. The 2017 Plan should incorporate by reference elements of the 2015 Plan that do not require any change or clarification as outlined in section __.4(j) of the Resolution Plan Rule, with reference to relevant chapter and page(s) of the 2015 Plan. The 2017 Plan should also discuss material changes to Discover's resolution plan from the 2015 Plan; any actions taken by Discover since the filing of the 2015 Plan to improve the effectiveness of the resolution plan or remedy or otherwise mitigate any material weaknesses or impediments to effective and timely execution of the resolution plan; and Discover's strategy for ensuring that any insured depository institution subsidiary will be adequately protected from risks arising from the activities of any nonbank subsidiaries (other than those that are subsidiaries of the insured depository institution).[2]

Stress Scenario: The 2017 Plan should assume the Dodd-Frank Act Stress Test (DFAST) severely adverse scenario for the first quarter of 2017 is the domestic and international economic environment at the time of Discover's failure and throughout the resolution process.[3] The 2017 Plan should also discuss any changes to the resolution strategy under the adverse and baseline scenarios to the extent that these scenarios reflect obstacles to a rapid and orderly resolution that are not captured under the severely adverse scenario.

Shared and Outsourced Services: The 2017 Plan should provide an update on Discover's progress in addressing the risk that services provided to material entities by affiliates or third parties may be interrupted after Discover files for bankruptcy. The 2017 Plan also

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[1] *See* Resolution Plan Rule subsections __.4(b) and __.4(c).
[2] *Id.*
[3] https://www.federalreserve.gov/newsevents/press/bcreg/bcreg20170203a5.pdf

should provide an update on Discover's progress in addressing the risk that key employees may depart during its resolution.

Financial Statements and Projections: The 2017 Plan should include pro forma balance sheets for each material entity at key junctures in the execution of the resolution strategy, beginning at December 31, 2016. Key junctures should include the beginning and end of the runway period. The pro forma financial statements should clearly evidence the losses or other stress event(s) leading to the bankruptcy filing and any other key assumptions underlying the plan. If Discover's strategy includes a reorganization, the pro forma financial statements should reflect any recapitalization or reorganization actions to implement the strategy.

Public Section: The 2017 Plan must be divided into a confidential section and a public section. The public section should be submitted as a separate document and should contain an executive summary of the resolution plan that describes the business of Discover and includes, to the extent material to an understanding of Discover, the eleven informational elements required by subsection __.8(c) of the Resolution Plan Rule. Additionally, either the public section or the confidential section must detail compliance with subsection __.3(e) of the Resolution Plan Rule.

If you have any questions about the information communicated in this letter, please contact Alfonso Ventoso, Manager, Federal Reserve Board, at 202-475-6366 or alfonso.r.ventoso@frb.gov or Robert Connors, Associate Director, FDIC, at 202-898-3834 or rconnors@fdic.gov.

Sincerely,

Michael Gibson (Signed)

Michael Gibson
Director
Division of Supervision & Regulation
Board of Governors
of the Federal Reserve System

Sincerely,

Doreen Eberley (Signed)

Doreen Eberley
Director
Division of Risk Management Supervision
Federal Deposit Insurance Corporation