

# ABELIAN VIEW



## Highlight of the Week

### Capital One and Discover – A Rocky Regulatory Road?

- On February 19th, Capital One (COF) announced a \$35.3B all-stock transaction to acquire Discover Financial Services (DFS), creating the sixth-largest bank in the United States.
- At over \$625 billion in total assets, the combined bank represents more than four times the total bank merger activity for 2022 and 2023 combined (to include non-distressed, announced, & non-terminated transactions).
- While the deal announcement may indicate a new wave of M&A activity in the financial sector, many are skeptical about potential regulatory criticism and approval. Specifically, recent regulatory announcements indicating the level of approval rigor that such a mega-deal could face include:
  - July 2021: President Biden signed an executive order that called for more scrutiny of bank related deals.
  - June 2023: The DOJ announced plans to widen the criteria used to evaluate bank mergers .
  - January 2024: The OCC released proposed changes to the Bank Merger Act which will eliminate expedited review of bank M&A.
- Considering the size of the transaction and current attitudes toward bank consolidation, the deal will face a rocky approval at best. However, if the merger is approved, Capital One would expect to close the transaction in late 2024 or early 2025, creating the largest credit card issuer in the United States by volume.

## Rate Curves

