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Mr. Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20th St. and Constitution Avenue, NW
Washington, DC 20551

Re: **Application of Enhanced Prudential Standards and Reporting
Requirements to General Electric Capital Corporation (Docket No. R-
1503)**

Dear Mr. deV. Frierson:

Capital Research and Management Company serves as investment adviser to the American Funds, one of the oldest mutual fund families in the nation. A number of our mutual funds are substantial investors in General Electric Company ("GE") and we would like to provide our comments on the Federal Reserve Board's proposed order to apply enhanced prudential standards to GE's wholly-owned subsidiary, General Electric Capital Corporation ("GECC"). We have a substantial interest in the effectiveness of corporate governance of the portfolio companies in which our mutual funds invest as it directly relates to enhancing shareholder value.

As part of the enhanced prudential standards proposed to be applied to GECC, the Board would require that new directors be added to the GECC board who are independent of GE and GECC management and are not members of the GE board. The Board asserts that this requirement is being proposed to ensure that the GECC Board includes directors "who are independent of GE so that their attention is focused on the business operations and safety and soundness of GECC itself, apart from the needs of its parent GE." We respectfully submit that such an unprecedented governance requirement is unworkable, inconsistent with applicable law and governance standards, and will not provide the enhanced independent oversight sought.

First, the proposed requirement does not recognize that as a matter of corporate law, the directors of a wholly-owned subsidiary generally owe fiduciary duties only to the parent and sole shareholder. There are no divided loyalties even when a director sits on the

Boards of both the parent and wholly-owned subsidiary, as each director owes fiduciary duties to the parent and its shareholders, whether or not they are actually also sitting on the parent's board. See, e.g., Richardson v. Reliance National Indemnity Company, 2000 WL 284211, at 12 (N.d. CAL.) (March 14, 2000). Accordingly, the assertion by the Board that subsidiary directors should focus on the business operations and safety and soundness of a subsidiary, apart from the needs of its parent is contrary to corporate law.

The approach proposed by the Board raises serious questions as to whom the subsidiary directors are accountable. In our view, this would weaken the governance structure of GE. The GECC board is accountable to the parent company and the parent company board is accountable to shareholders which we believe provides a more than adequate governance structure for the enterprise. The Board's proposed structure would create a class of directors not accountable to GE shareholders and creates a construct that would be contrary to shareholder interests.

As an investment adviser whose clients hold GE securities, we regularly engage with GE on corporate governance matters. Our understanding is that the issues of concern to the Board are addressed through an independent GE board level risk committee who has express responsibilities for the oversight of GECC's risk management. Oversight of a subsidiary by engaged independent parent company directors or an independent committee of a parent company board, has historically been regarded as a more than adequate form of independent oversight. Indeed, we submit that the Board's proposed order is inconsistent with the position taken in the context of large insured banks. In promulgating standards that require certain large insured banks to appoint independent directors to their boards, the Office of the Comptroller of the Currency recognized that independent directors who also serve on the board of the bank's parent company would be able to provide effective and independent oversight of bank management. See Office of the Comptroller of the Currency Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations and Insured Federal Branches: Integration of Regulations (September 11, 2014).

Imposing on the GECC board this independence requirement is particularly puzzling in that a large part of the rationale for imposing bank-like prudential standards on GECC is that 80% of its activities are similar to those of large banks. As noted above, bank regulators have recognized that it is not necessary to impose director independence requirements at a bank subsidiary level.

For the reasons indicated above, we respectfully submit that the Board should not impose any director independence requirements at the GECC board level. We appreciate the opportunity to comment on the proposed order.

Please contact the undersigned if you have questions regarding these comments.

Sincerely,

Paul F. Roye, Senior Vice President
Capital Research & Management
Company