DODGE & COX

Investment Managers

February 2, 2014

Mr. Robert deV. Frierson, Secretary
Board of Governors of the Federal Reserve System
20^{th} St. and Constitution Ave. 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:

Founded in 1930, Dodge & Cox is a San Francisco based investment management firm with approximately $270 billion in assets under management. As a major investor in General Electric Company ("GE"), we welcome the opportunity to comment on the Federal Reserve's proposed order to apply enhanced prudential standards to GE's wholly owned subsidiary, General Electric Capital Corporation ("GECC").[1] We regularly engage with GE on corporate governance matters, and we are specifically commenting with respect to the proposed order's requirement that GECC appoint directors to its board who are independent both of GE and GECC management and of the GE board (the "independent/independent director requirement").

We believe that the proposed order will already codify important responsibilities and safeguards by establishing minimum levels of capital and liquidity that GECC must hold, bringing GECC within the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") process and limit intercompany transactions between GECC and its parent GE. But in requiring the GECC Board to have independent/independent directors whose attention is "focused on the business operations and safety and soundness of GECC itself, apart from the needs of its parent GE,"[2] we believe that the proposal goes beyond what is appropriate. It is unclear to us how directors of a wholly owned subsidiary could be expected to carry out their responsibilities without taking parent company-level considerations into account. After all, the parent company as shareholder would have the power to elect and remove subsidiary directors at any time. If subsidiary directors are not meant to be accountable to the parent company—and, ultimately, to the parent company's board of directors and shareholders—to whom are they meant to be accountable?

We believe that the proposed independent/independent director requirement blurs the lines of accountability that are central to strong, effective corporate governance. It would create a novel class of directors that answers to neither the company nor its shareholders. As a result, the requirement risks

[1] Board of Governors of the Federal Reserve System, Application of Enhanced Prudential Standards and Reporting Requirements to General Electric Capital Corporation, 79 Fed. Reg. 71,768 (Dec. 3, 2014).

[2] *Id.* at 71,778.

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weakening the structures for independent oversight that the proposed order says it is seeking to enhance.

Absent a governance failure that merits special treatment, we do not see any benefit from requiring governance arrangements such as the independent/independent director requirement that are atypical and untested. To the contrary, GE's actions during and since the financial crisis have demonstrated the significant benefits that GECC receives from its status as a subsidiary of its industrial parent. In our opinion, management and the board of directors of GE have taken actions that demonstrate their commitment to the safety, soundness and financial stability that are inherent in GECC's SIFI designation.

For example:

- During the height of the financial crisis in 2008, GE suspended a three-year share repurchase program it had initiated in 2007 and raised $15.2 billion in cash through common and preferred stock offerings. With the proceeds from those offerings, as well as free cash flow from GE's industrial operations, GE contributed $5.5 billion to GE Capital in 2008, followed by another contribution of $9.5 billion to GE Capital in 2009. This infusion allowed GECC to absorb credit losses while continuing to lend to businesses throughout the downturn.

- Beginning in the first quarter of 2009, GE Capital suspended its normal dividend to GE. In prior years, the amount of these dividends had been as high as $9.8 billion (in 2006), and dividend payments to GE did not resume until 2012.

- In 2009, GE strengthened its income maintenance agreement with GECC to ensure that GECC could maintain a fixed charge coverage ratio of 1.1x. [4]

- The credit rating agencies assign significant weight to GE's ownership in rating GECC. They regularly cite GE's willingness and financial resources to provide extraordinary capital and liquidity to GECC if needed, as well as GE's strong economic incentive to support GECC if needed because GECC contributes substantially to GE's earnings and dividend capacity, and to the diversity of GE's portfolio of businesses.

- GECC has been actively reducing its size, which it acknowledges may reduce the overall level of its future net earnings that would be available for dividends to GE. The reduction in the size of GECC's investable assets improves the ability of GE to support GECC.

- GE and GECC have publicly prioritized the goals of improving long-term GECC performance with a larger concentration of assets in core businesses where they are typically a senior secured lender, reducing liquidity risk by diversify GECC's sources of funding and reducing capital requirements while also strengthening capital ratios.

These actions demonstrate to us that GE is effectively managing inherent conflicts of interest and is looking out for GECC in a manner consistent with maintaining its safety and soundness.

Moreover, the issue of independent directors on subsidiary boards is not a new one in the financial services context. The Office of the Comptroller of the Currency ("OCC"), recognizing the benefits of independent risk oversight that directors can provide, recently established standards that require certain large insured banks to appoint independent directors to their boards. But the standards expressly recognized that an independent director who also serves on the board of the bank's parent company would be able to provide the desired "effective, independent oversight of bank management."[3] The proposed order is at odds with this recent confirmation from another financial regulator that a director's dual service on bank and bank holding company boards (analogous to an independent GE director's dual service on the GECC and GE boards) presents no irreconcilable conflicts of interest.

To the extent that the Federal Reserve determines that greater GECC Board independence from management is needed, we believe that a preferable approach to the proposed independent/independent director requirement would be for the final order to establish an independence standard for GECC directors that could be satisfied by an independent director of the GE board serving in both the GE and GECC director roles. This approach would better preserve the ultimate accountability of directors to the shareowners and the benefits to long-term value and stability that such alignment of interests provides.

We appreciate the Federal Reserve providing an opportunity for public comment on the proposed order. Please do not hesitate to contact the undersigned if you have questions or require additional information.

Sincerely,

John N. Iannuccillo, Vice President

Dodge & Cox

[3] Office of the Comptroller of the Currency, OCC Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches; Integration of Regulations, 79 Fed. Reg. 54,518, 54,538 (Sept. 11, 2014).

[4] https://www.ge.com/sites/default/files/ge_Funding3Q13.pdf