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February 2, 2015

Mr. Robert deV. Frierson  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street & Constitution Avenue, N.W.  
Washington, DC 20551

**Re: Docket No. R-1503, Application of Enhanced Prudential Standards and Reporting Requirements to General Electric Capital Corporation, 79 Fed. Reg. 71,768 (Dec. 3, 2014).**

Members of the Board:

We, the sixteen independent directors who serve on the Board of Directors of General Electric Company, are submitting this letter in response to the request for comment by the Board of Governors on the Federal Reserve's proposed order implementing Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act with respect to GE's wholly-owned subsidiary, General Electric Capital Corporation.

We write to express our concern regarding one of the standards in the Proposed Order – the proposed requirement that GE Capital's Board of Directors be reconstituted to include two new outside directors who are independent not only of GE and GE Capital management in the traditional sense (a requirement with which we have no disagreement), but also of GE's Board of Directors. Based on our collective years of experience in serving on GE's Board and other boards, we believe that this unprecedented requirement for "independent/independent" directors would actually undermine our independent oversight of GE Capital's enterprise risks by disrupting the cohesive decision-making that is necessary for the effective governance of a complex wholly-owned subsidiary like GE Capital.

**I. The GE Board is Committed to Satisfying GE Capital's Heightened Obligations as a Designated Non-Bank Systemically Important Financial Institution ("SIFI").**

At the outset, we wish to emphasize that, as independent directors, we appreciate that GE Capital must comply with heightened obligations as a SIFI and that enterprise risk management is appropriately a supervisory priority for the Federal Reserve. Indeed, the Board established the Risk Committee in 2011 shortly after the enactment of the Dodd-Frank Act precisely to foster best-in-class enterprise risk management and corporate governance practices for GE Capital.

The Risk Committee presently comprises four independent directors with extensive experience in financial services and risk management: Geoffrey Beattie (CEO, Generation Capital; Director & Chairman of the Risk Committee, Royal Bank of Canada); John Brennan (Lead Director; Chairman Emeritus & Senior Advisor, The Vanguard Group, Inc.; Lead Director, FINRA); James Rohr (Former Chairman and CEO, PNC Financial Services Group); and Mary Schapiro (Vice Chair, Advisory Board of Promontory Financial Group; former Chairman, U.S. Securities & Exchange Commission and U.S. Commodity Futures Trading Commission). As a committee comprised exclusively of outside directors, the GE Risk Committee is stronger from an independence standpoint than is required for risk committees of systemically important bank holding companies under Regulation YY (which requires only that the chair of a risk committee be independent from management).

In 2014, the members of the GE Risk Committee held 20 formal meetings focused on GE Capital – nearly twice as many meetings as any other GE Board committee – and also met informally or spoke on dozens of occasions with GE Capital management and among themselves. Risk Committee meetings include sessions at which members of GE Capital’s senior management are present and site visits to GE Capital business locations and other sessions that GE and GE Capital senior management do not attend. Consistent with the risk governance requirements applicable to bank holding companies under Regulation YY, the GE Risk Committee receives regular reporting from GE Capital’s Chief Risk Officer, whose functional reporting line runs to the Chairman of the GE Risk Committee. The GE Risk Committee also reviews and approves GE Capital’s enterprise risk appetite statement, risk management policies and other significant items such as GE Capital’s capital, resolution and recovery plans. In short, the members of the Risk Committee have devoted many hundreds of hours over the past three years to providing precisely the type of independent oversight contemplated by the Dodd-Frank Act.

It also bears emphasis that, as the outside directors of GE, we view the regulatory obligations of GE Capital as obligations of GE as the 100 percent owner of GE Capital. As a matter of practice, we make no distinction and see no conflict between GE and GE Capital when it comes to honoring the regulatory obligations of GE’s wholly-owned subsidiary as a SIFI.

**II. Requiring “Independent/Independent” Directors Would Fragment GE Capital’s Board and Hinder the Management of GE Capital’s Enterprise Risks.**

The Proposed Order cannot be squared with two fundamental principles of corporate governance: (1) the fiduciary duties of all directors of a wholly-owned subsidiary like GE Capital are necessarily owed to the parent company as the sole stockholder, and

(2) a parent company like GE is entitled to the fiduciary duties of all of the directors of a wholly-owned subsidiary. Contrary to these basic tenets, the Preamble to the Proposed Order unequivocally states the Federal Reserve's belief that "it is necessary to ensure that [GE Capital's] board of directors includes members who are independent of GE so that their attention is focused on the business operations and safety and soundness of [GE Capital] itself, *apart from the needs of its parent GE.*" 79 Federal Register at 71,778 (December 3, 2014) (emphasis added).

In a separate letter dated February 2, 2015, GE Capital details why the Dodd-Frank Act does not empower the Federal Reserve to supplant longstanding legal principles of corporate governance by requiring the appointment of independent/independent directors to GE Capital's Board. We defer to GE Capital to make that case. But we are compelled to note in our capacity as the independent directors of GE that such a novel requirement would undermine a cardinal principle of good corporate governance that has held true over our collective years of service on GE's Board and other boards – namely, the practical reality that, for a Board or Risk Committee to oversee a company like GE Capital effectively, its members must be bound together by shared fiduciary duties and a common mission of ensuring the safety and soundness of the enterprise.

In our experience as directors in diverse settings – publicly-traded companies, government agencies and non-profits – boards always work best when they are collaborative, challenging management as appropriate with the full benefit of the directors' different views and perspectives but also working together with the same common objectives. We have all also seen the converse, when boards are fragmented by divergent agendas, conflicting loyalties and limited knowledge. This is when boards risk falling short.

Against this backdrop, we believe that requiring the appointment of a subset of independent/independent directors to GE Capital's Board with distinct and divergent fiduciary duties would be a recipe for weak corporate governance, particularly in times of stress when collaborative leadership by a steady Board of Directors is especially important. The Federal Reserve's untested requirement would create a novel subset of directors with unclear and inchoate obligations and blur the lines of accountability and collaboration that are central to effective corporate governance.

Our own history is a case in point on the importance of a shared sense of accountability among all members of a board as they attempt to navigate adverse and challenging scenarios. To be sure, like GE and GE Capital, the GE Board had its share of important lessons to learn from the financial crisis. But as the challenges mounted for GE Capital in the early stages of the crisis, it was a unified sense of purpose that enabled the GE Board to act decisively in authorizing GE to raise \$15 billion of equity in the secondary market, dedicating all of these funds to GE Capital,

reducing GE's dividend by two-thirds and suspending GE Capital's dividends to GE. It has also been a unity of mission that has enabled the Risk Committee to help drive the overhaul of GE Capital since its designation as a SIFI, including the significant shrinking of its balance sheet, the disposition of its retail finance businesses, the simplification of its funding mechanisms, its shift away from commercial paper, the build-out of its Risk function and the deepening of its risk management capabilities.

Moreover, other provisions in the Proposed 165 Order to which GE Capital and the independent directors of GE do not object – most notably, subjecting GE Capital to the Comprehensive Capital Analysis and Review process and the arms-length requirements of Section 23B of the Federal Reserve Act for transactions between GE Capital and GE and its affiliates – reinforce our belief that the proposed requirement for independent/independent directors is unnecessary. GE's Risk Committee is determined to act on the issues that the Federal Reserve has raised about the financial services industry; GE Capital will continue to dominate its agenda. The Risk Committee's record in helping to improve the management of GE Capital's enterprise risks demonstrates that there is no basis to question the Committee's oversight of GE Capital.

### **III. An Alternative Approach to Address the Federal Reserve's Objectives.**

If the Federal Reserve nevertheless determines that special governance requirements are necessary for GE Capital as a wholly-owned SIFI, we urge the Board of Governors to impose requirements that are consistent with the principles of collaboration, constructive challenge and shared accountability that are so important to us as members of GE's Board.

To this end, we suggest that the Federal Reserve require that a majority of GE Capital's Board of Directors be independent from management under the conventional standards of independence and that the GE Capital Board be chaired by an independent director. This would enable the members of the GE Risk Committee to join the GE Capital Board in satisfaction of these heightened governance requirements. This arrangement would be fully consistent with the risk committee structure contemplated by Section 165(h) of the Dodd-Frank Act. Indeed, GE Capital's Board would have more independent directors (four) than are required of systemically important national banks (two) and bank holding company risk committees (one).

In our view, this alternative path would be a better, more constructive and more tailored way to safeguard GE Capital's stand-alone safety and soundness. Our proposal would address the Federal Reserve's objectives without introducing the complexity, uncertainty and potential divisiveness of a new and separate category of independent/independent outside directors. This approach would also allow GE Capital to continue to benefit from the many hundreds of hours that the Risk

Committee has already dedicated over the past three years to helping GE Capital meet its heightened supervisory obligations – a foundation of accumulated knowledge and experience that we believe singularly qualifies the members of the Risk Committee to provide the best and most effective enterprise-wide oversight of the risks posed by GE Capital. We also submit that, when coupled with the advent of CCAR and Section 23B restrictions on transactions between GE and GE Capital, our proposed alternative definitively addresses all of the issues raised by representatives of the Federal Reserve during recent meetings with members of the GE Risk Committee to discuss the Proposed Order.

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We are grateful to be afforded this opportunity to comment on an issue of such importance to GE Capital, GE and the GE Board of Directors. We are aware that it is out of the ordinary course for outside directors to participate personally in such proceedings, but we believe it is important to communicate our concerns directly to ensure that the Federal Reserve understands that these are our concerns as directors of GE and members of the GE Risk Committee and not those of GE or GE Capital management.

Very truly yours,

The Independent Directors of General Electric Company



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**W. Geoffrey Beattie**

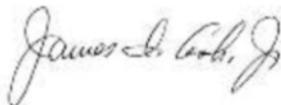
Chair, GE Risk Committee



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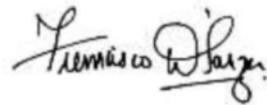
**John J. Brennan**

GE Lead Director  
Chair, GE Management Development &  
Compensation Committee



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**James I. Cash, Jr.**



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**Francisco D'Souza**



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**Marijn E. Dekkers**



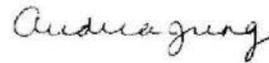
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**Ann M. Fudge**



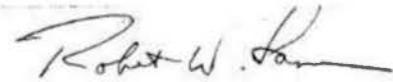
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**Dr. Susan J. Hockfield**  
Chair, GE Science & Technology Committee



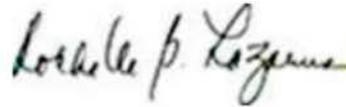
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**Andrea Jung**



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**Robert W. Lane**



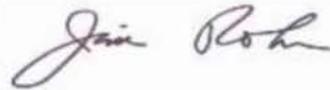
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**Rochelle B. Lazarus**  
Chair, GE Governance & Public Affairs  
Committee



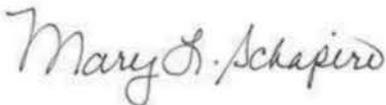
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**James J. Mulva**



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**James E. Rohr**



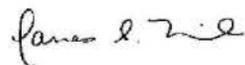
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**Mary L. Schapiro**



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**Robert J. Swieringa**



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**James S. Tisch**



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**Douglas A. Warner III**  
Chair, GE Audit Committee