Keith S. Sherin
Vice Chairman, General Electric Company
Chairman & CEO, GE Capital

901 Main Avenue
Suite 800
Norwalk, CT 06851
USA

T +1 203 840 6513
F +1 203 840 6494
keith.sherin@ge.com

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

Docket No. R – 1503

Dear Secretary Frierson:

General Electric Capital Corporation ("GECC") is writing to supplement its comment letter dated February 2, 2015 (the "February Comment Letter") on the Board of Governors of the Federal Reserve System's ("Federal Reserve") proposed application to GECC of enhanced prudential standards and reporting requirements (the "Proposed Order") under Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").[1] This supplementary comment letter addresses the implications for the Proposed Order of General Electric Company's ("GE's") announcement on April 10, 2015 (subsequent to the closure of the comment period) that GECC is selling all of its businesses except for several "verticals" that operate in GE's core industrial sectors.

I. Introduction

At the end of 2008, GECC had total consolidated assets of approximately $661 billion. By the end of 2014, GECC had progressively reduced its total consolidated assets to $501 billion through a combination of actions, including over 40 divestitures involving such assets as real estate holdings and mortgage loan exposures. In 2014, GECC completed the initial public offering of approximately 15 percent of Synchrony Financial ("Synchrony"), the holding company for Synchrony Bank, GECC's federal savings bank, as the first step in the divestiture of Synchrony. As of GECC's February Comment Letter, GECC was on track to further reduce its total assets by approximately $94 billion through the completion of the split-off of Synchrony, the

[1] *Application of Enhanced Prudential Standards and Reporting Requirements to General Electric Capital Corporation*, FEDERAL RESERVE SYSTEM, 79 Fed. Reg. 71768 (Dec. 3, 2014). References to the Proposed Order include Supplementary Information to the Proposed Order unless indicated otherwise.

sale of GECC's Australian consumer finance business and various other transactions largely involving GECC's international consumer businesses.[2]

On April 10, 2015, GE announced a new and enterprise-changing plan (the "Exit Plan") to sell most of GECC's assets and focus on GE's businesses.[3] As a significant initial step in the Exit Plan, GECC announced the sale of approximately $26 billion of GECC's commercial real estate assets to the Blackstone Group, Wells Fargo & Company and other buyers. Coupled with previously announced divestitures, the Exit Plan will reduce GECC's total consolidated assets from $501 billion as of December 31, 2014 to approximately $95 billion (excluding cash and certain legacy assets)[4] by the end of 2017 or earlier (depending on the pace of asset dispositions), of which only approximately $45 billion will be in the United States. GECC plans to divest most of its commercial lending and leasing businesses and all of its consumer lending businesses, including the entirety of its U.S. banking operations. The "new GE Capital" will comprise "verticals" aligned with GE's core operations in aviation, energy and healthcare.

Stated differently, GECC has embarked on a transformation that will reduce its overall size and systemic interconnectedness to levels well below those as of December 31, 2012 that formed the basis of the Financial Stability Oversight Council's (the "FSOC's") designation of GECC as a systemically important financial institution to be supervised by the Federal Reserve (a "nonbank SIFI"). As a result:

- GECC will no longer own or control any U.S. insured depository institutions ("IDIs") and will no longer be a savings and loan holding company ("SLHC");
- GECC will have reduced the number of its U.S. consumer lending accounts from approximately 57 million to zero;
- GECC will no longer be a significant middle-market lender;

[2] *See, e.g., GE CEO Jeff Immelt Makes Statement Regarding Synchrony Financial IPO*, GE Press Release (Apr. 10, 2015), *available at* http://www.genewsroom.com/Press-Releases/ge-ceo-jeff-immelt-makes-statement-regarding-synchrony-financial-ipo.

[3] *GE To Create Simpler, More Valuable Industrial Company by Selling Most GE Capital Assets*, GE Press Release (Apr. 10, 2015), *available at* http://www.ge.com/sites/default/files/ge_webcast_press_release_04102015_1.pdf.

[4] Throughout this letter, GECC will use the term "Steady-State Assets" to refer to GECC's total consolidated assets **excluding** cash and certain legacy assets (such as GECC's insurance portfolio) that are not expected to be sold under the Exit Plan, but that GECC plans to allow to run off as related contracts and obligations mature. The legacy insurance assets relate primarily to life and health insurance and structured settlement products. No material new policies have been underwritten since 2006. As of December 31, 2014, the total amount of these legacy assets was approximately $38 billion. GECC believes that excluding the legacy assets and cash more accurately reflects its systemic footprint because (i) GECC's cash balances are very low risk; (ii) GECC's legacy assets are in run-off status and therefore do not contribute to its steady-state systemic footprint; and (iii) GECC's insurance portfolio is subject to prudential regulation by U.S. state insurance regulators and non-U.S. regulatory authorities, as applicable, and could readily be resolved through state or foreign insurance insolvency proceedings.

- GECC's total long-term unsecured debt will have decreased from $225 billion to approximately $115 billion, all of which will be guaranteed by GE, with no additional issuances anticipated for at least five years;
- GECC's reliance on commercial paper funding will have decreased by $43 billion to approximately $5 billion outstanding; and
- With negligible exceptions in its Working Capital Solutions segment, GECC will no longer use the securitization of financial assets as a source of funding, reducing non-recourse asset-backed securities and collateral borrowings from $30 billion to essentially zero.

GECC anticipates making sufficient progress on its Exit Plan to seek rescission of its designation as a nonbank SIFI in 2016.

GECC and GE remain committed to supporting a robust regulatory framework for financial institutions and to operating GECC in a safe and sound manner. GECC also fully appreciates the breadth and importance of the Federal Reserve's authority to ensure the safety and stability of the U.S. financial system. Yet GECC also believes that GE's public commitments to shrink the size and interconnectedness of GECC and to implement the Exit Plan represent a sea change in GECC's situation and its potential impact on and interconnectedness with the U.S. financial system. The Proposed Order was developed to address a larger, more complicated and more interconnected GECC. GECC believes that it would not be appropriate to apply the Proposed Order in its current form in light of the divestitures GECC has already made since its publication and will continue to make under the Exit Plan. It would be even less appropriate for the Proposed Order to apply to GECC upon completion of the Exit Plan, when GECC will be a fraction of the size and interconnectedness that supported its designation as a nonbank SIFI and will have completely exited the banking business in the United States.

GECC also believes that attempting to calibrate the requirements of the Proposed Order to GECC's rapidly changing balance sheet, risk profile and interconnectedness as it executes the Exit Plan would be very challenging as a practical matter. The pace of divestitures is likely to make even a revised order unsuited to GECC's shrinking systemic footprint within a short period of time.

A. *Primary Proposal: Defer Finalizing the Proposed Order*

Accordingly, GECC respectfully requests that the Federal Reserve defer finalizing the Proposed Order until January 1, 2018. Such a deferral would enable the Federal Reserve to consider whether GECC has been successful in implementing its Exit Plan and obtaining rescission of its nonbank SIFI designation. It would also enable GECC to focus on executing the Exit Plan and reducing its systemic footprint in a safe and sound manner consistent with the ultimate policy objectives of the Dodd Frank Act. GECC does not believe that the Dodd-Frank Act should be interpreted to require GECC to devote the next 12 to 24 months to prepare for compliance with the Proposed Order as if GECC were still going to be a $508 billion asset institution with the same systemic footprint as when the Proposed Order was published.[5] If the FSOC agrees that GECC is no longer systemically important, such a determination would eliminate the fundamental need—and statutory authority—for the Proposed Order. If, on the other hand, GECC is unsuccessful in executing its Exit Plan and obtaining rescission of its nonbank SIFI designation, the Federal Reserve would retain the authority to implement an order at that time (or earlier, if the Federal Reserve believes that GECC is not making sufficient progress on the Exit Plan) and in a form appropriate to GECC's then-existing asset size and systemic footprint.

B. *Alternative Approach: Modifications to the Proposed Order*

At the very least, if the Federal Reserve determines that it is necessary to finalize the Proposed Order prior to January 1, 2018, GECC submits that it should be tailored to GECC's near-term future risk profile, focusing on the businesses and assets to be retained under the Exit Plan. To this end, as an alternative to a deferral in finalizing the Proposed Order, GECC requests that the Proposed Order be modified as follows:

- **Capital Planning Requirements**. GECC should be permitted to defer the submission of its first, limited-scope capital plan to April 2018, and the submission of its second, full-scope capital plan to April 2019. This modification would permit GECC to focus its capital planning efforts on the businesses and assets to be retained, since the start of the nine-quarter planning horizon in the 2018 capital planning cycle coincides with the latest date (December 31, 2017) by which GECC expects to complete the Exit Plan. Subjecting GECC to the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") process when its balance sheet is rapidly shrinking would also be inconsistent with the CCAR principles of comparability across institutions and a relatively stable balance sheet over the planning horizon. To be clear, GECC's request relates to a deferral of its formal CCAR submission, ***not*** a deferral of its robust capital planning. GECC would continue to submit comprehensive capital plans throughout the deferral period, based on conservative capital targets and stress testing, under continued and unabated Federal Reserve supervision.

- **Liquidity Requirements.** GECC should be permitted to calculate its Basel III Liquidity Coverage Ratio ("LCR") requirements on a monthly basis. This modification would permit GECC to align the frequency of its liquidity monitoring and measurement capabilities with that applicable to standardized approach banks.[6] GECC is fully prepared to meet the quantitative liquidity requirements of the full LCR applicable to

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[5] The Proposed Order cited GECC financial data as of September 30, 2014. As of September 30, 2014, GECC had total consolidated assets of approximately $508 billion.

[6] A "standardized approach bank" is a banking organization that has less than $250 billion in total consolidated assets and less than $10 billion in on-balance sheet foreign exposures. Subject to some exceptions, standardized approach banks with more than $50 billion in total consolidated assets are generally subject to the so-called "modified LCR," which differs from the "full LCR" in that (i) it sets a quantitative liquidity requirement at a level that is 70% of the full LCR, (ii) it does not reflect a peak-day maturity mismatch add-on, and (iii) it is subject to a monthly (rather than daily) calculation frequency.

advanced approaches banks,[7] but GECC believes that a monthly calculation frequency is more appropriate in view of the composition of GECC's assets and its expected size, simplicity and funding profile as it executes the Exit Plan.

- **Risk Management and Risk Committee Requirements.** GECC should be permitted to maintain its current corporate governance of enterprise-wide risk management instead of being required to recruit and appoint new "independent-independent" directors. In addition to the points already made in GECC's February Comment Letter, the importance of implementing the Exit Plan as expeditiously, safely and soundly as possible makes it important for GE and GECC to be able to continue to rely on the experience and expertise of the GE Risk Committee's independent directors and, especially, their familiarity with GECC's businesses and assets to provide effective, independent oversight of GECC's risk management framework and any changes to GECC's risk profile during the transition. The GE Risk Committee has already assumed a primary oversight role in the Exit Plan, including making adjustments to its meeting schedule to accommodate frequent reviews of progress and risks, discussing its risk reporting expectations and metrics with management and overseeing the establishment of the operating and governance mechanisms that are being used to implement the Exit Plan and monitor changes to GECC's risk profile throughout the transition. Having to recruit and educate entirely new directors during this transformational period would unnecessarily divert the focus of senior management and the GE Board from the safe and sound execution and oversight of the Exit Plan.

- **Reporting and Daily Posting Requirements.** For those subsidiaries that would be sold or unwound as part of the Exit Plan, GECC should be permitted to defer the quarterly and annual reporting to the Federal Reserve of detailed, stand-alone financial statements until the first quarter of 2018. In addition, GECC should be permitted to defer the application of certain daily or intraday monitoring and reporting requirements, applying instead a monthly or month-end monitoring and reporting standard, until January 1, 2018. Both of these modifications would permit GECC to focus its preparations for regulatory reporting and monitoring on the businesses and assets it intends to retain instead of the businesses and assets to be divested.

Overall, GECC respectfully submits that these modifications to the Proposed Order would appropriately reflect both (i) the progress GECC has already made in reducing its asset size since the end of 2012, and (ii) the planned divestitures under the Exit Plan. Upon completing the Exit Plan, GECC will be far smaller than any of the U.S. global systemically important banks ("U.S. G-SIBs")[8] and will also be smaller than many U.S. regional banks and any number of

[7] An "advanced approaches bank" is a banking organization with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposures. Subject to some exceptions, advanced approaches banks are generally subject to the full LCR.

[8] *See Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions*, FEDERAL RESERVE SYSTEM, 79 Fed. Reg. 24528, 24531 (May 1, 2014) (defining "covered BHC" for the purpose of the U.S. enhanced supplementary leverage ratio as a U.S. top-tier bank holding company that has more than $700 billion in total consolidated assets or more than $10 trillion in assets under custody, and noting that "the list of covered
(....continued)

nonbank financial institutions. Any final version of the Proposed Order should reflect this new reality.

Part II of this letter describes the Exit Plan and summarizes its expected benefits to the stability of the U.S. financial system. Part III of this letter details GECC's proposed modifications to the Proposed Order to tailor its requirements to GECC's new strategic direction.

II. The Transition to a Smaller, Less Interconnected GECC

A. *Summary of the Exit Plan*

As described below, in addition to the asset reductions announced previously, GECC will further substantially reduce its size by divesting assets and businesses unrelated to GE's core industrial operations and significantly change its funding profile and level of interconnectedness with the rest of the U.S. financial system.

1. *Significant Reduction in Size Through Divestitures of Businesses Not Relating to GE's Core Industrial Businesses*

Pursuant to the Exit Plan and previously announced divestitures, GECC will substantially reduce its size from $501 billion in total assets as of December 31, 2014 to approximately $95 billion in Steady-State Assets by completing the Synchrony split-off, closing recently-announced sales (such as the sale of GECC's consumer business in Australia-New Zealand) and divesting approximately $225 billion of assets not aligned with GE's industrial sectors.[9] GECC will divest its consumer platforms (including its two IDIs) and most of its commercial lending and leasing businesses ("CLL"). In addition, GECC will exit the commercial real estate business, including through the announced sale of most (approximately $26 billion) of its commercial real estate assets to the Blackstone Group, Wells Fargo & Company and other buyers.[10] The businesses that will be retained are financing businesses that relate to GE's core industrial sectors: GECC Aviation Services ("GECAS"), Energy Financial Services ("EFS"), Healthcare Equipment Leasing and Working Capital Solutions ("WCS").

GECC's Exit Plan is highly credible, as supported by its track record of past divestitures, its extensive, ongoing preparations for and execution of the Exit Plan, and favorable market conditions. GECC has demonstrated significant expertise in divesting assets over the past five

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(continued....)

BHCs identified by these thresholds is consistent with the list of banking organizations that meet the [Basel Committee on Banking Supervision's] definition of a global systemically important bank."). *See also* Figure 3 *infra*.

[9] *GE To Create Simpler, More Valuable Industrial Company by Selling Most GE Capital Assets*, GE Press Release (Apr. 10, 2015), *available at* http://www.ge.com/sites/default/files/ge_webcast_press_release_04102015_1.pdf.

[10] *Id.*

years, with more than $100 billion in completed transactions. GECC has mobilized its business development team and a group of professional advisors from JPMorgan and other firms to execute these transactions as expeditiously as possible. GECC's announcement attracted extraordinary interest from a broad range of well-qualified buyers, including North American and international banks, private equity firms, specialty finance companies, insurance companies, sovereign wealth funds and state-owned pension plans, with over 450 inquiries received to date.

The Exit Plan will radically diminish the size of GECC's balance sheet, systemic footprint and risk profile, and will substantially change the composition of its holdings. By December 31, 2017, GECC expects to have sold all but approximately $95 billion in Steady-State Assets—a level approximating the total assets of the 30th largest bank holding company ("BHC") in the United States as of December 31, 2014.[11] Moreover, only $45 billion of these Steady-State Assets will be in the United States. Whereas BHCs pose increased systemic risks due to their ownership of IDIs, GECC will not control any IDIs and will no longer be an SLHC. Prior to the Exit Plan, GECC had already begun its disposition of its insured federal savings bank, Synchrony Bank, through the partial IPO of Synchrony.[12] In addition, as part of the Exit Plan, GECC will divest or otherwise exit from GE Capital Bank, an insured Utah industrial bank. At the conclusion of the Exit Plan, GECC will have no remaining banking operations in the United States.

Figure 1 groups GECC's assets and businesses as of December 31, 2014 into three categories: asset sales that were already underway ($94 billion), assets that GECC plans to divest as part of the Exit Plan by no later than the end of 2017 ($264 billion) and the assets and businesses that GECC plans to retain ($95 billion in Steady-State Assets).

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[11] *See Holding Companies with Assets Greater Than $10 Billion*, NATIONAL INFORMATION CENTER, *available at* https://www.ffiec.gov/nicpubweb/nicweb/top50form.aspx (last accessed Apr. 23, 2015).

[12] *GE CEO Jeff Immelt Makes Statement Regarding Synchrony Financial IPO*, GE Press Release (Apr. 10, 2015), *available at* http://www.genewsroom.com/Press-Releases/ge-ceo-jeff-immelt-makes-statement-regarding-synchrony-financial-ipo.

Figure 1: Asset Disposition and Retention

($ in billions as of December 31, 2014)

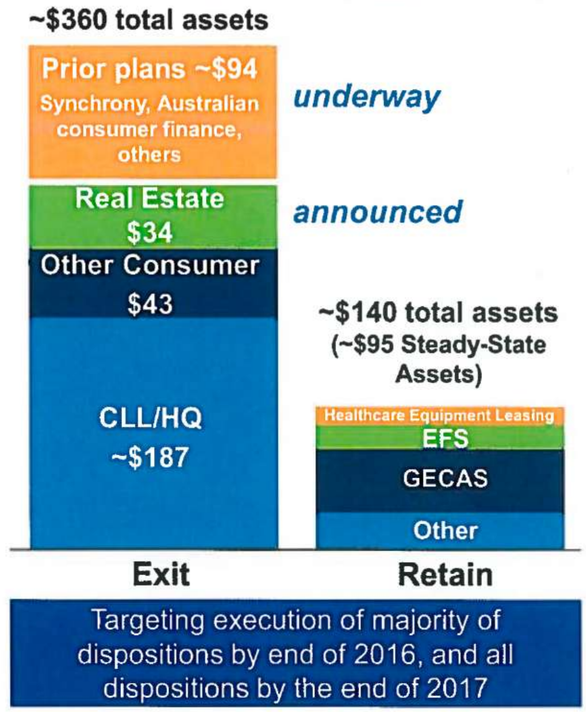
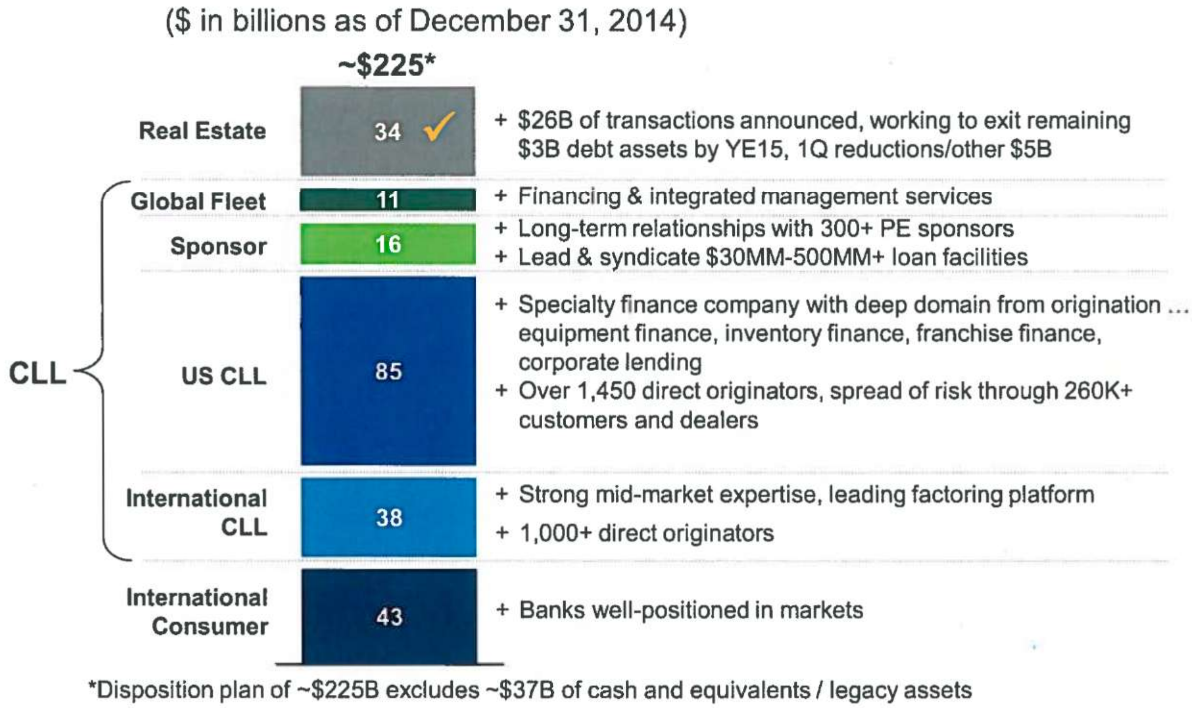


Figure 2 shows in more detail the assets and businesses that GECC plans to divest as part of the Exit Plan by no later than the end of 2017.

Figure 2: Asset Dispositions Under the Exit Plan



2. *New Corporate Structure, Debt Guarantee, and Funding Structure*

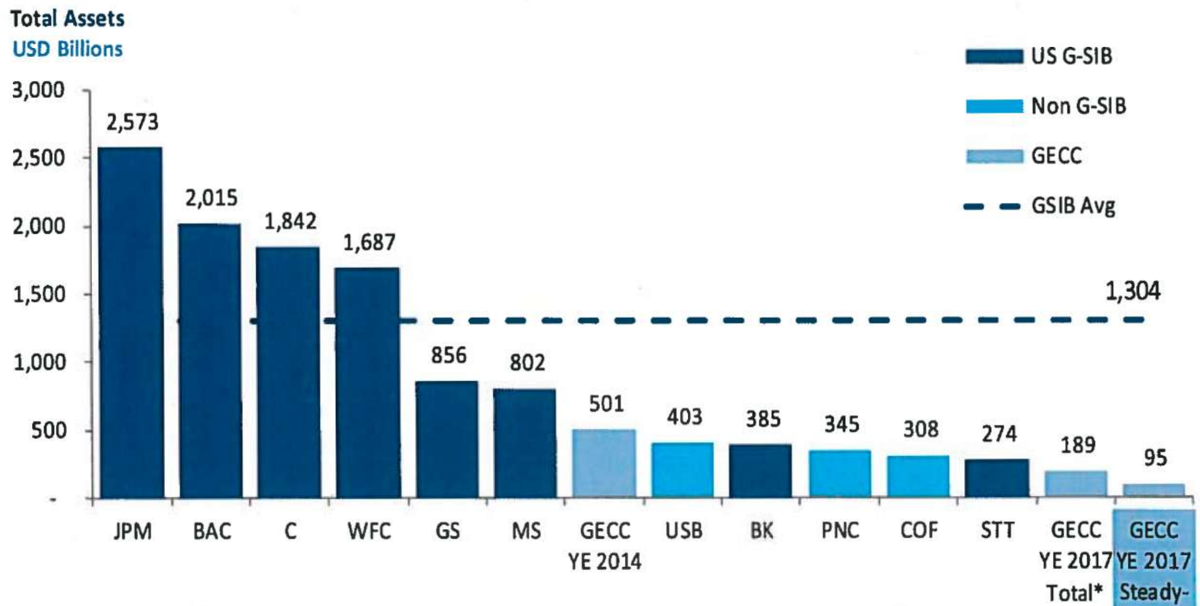
GECC will be reorganized such that, upon completion of the Exit Plan, it will have two primary subsidiaries—a U.S. holding company that will consolidate its U.S. operations and a UK holding company, based in London, England, that will consolidate its non-U.S. operations. Of the approximately $95 billion of Steady-State Assets that GECC will retain, $45 billion will be located in the United States. GE has also guaranteed the entirety of GECC's outstanding debt.

By selling assets, GECC will generate substantial liquidity in advance of debt maturities in the form of cash balances. As GECC shrinks its risk-weighted assets, it will also generate substantial excess capital.

Under the Exit Plan, GECC will sharply reduce its reliance on short-term funding and will change the funding structure for its few remaining financial services portfolios. In the United States, GECC will divest or otherwise exit from GE Capital Bank. GECC will reduce its commercial paper outstanding to $5 billion by the end of 2015.

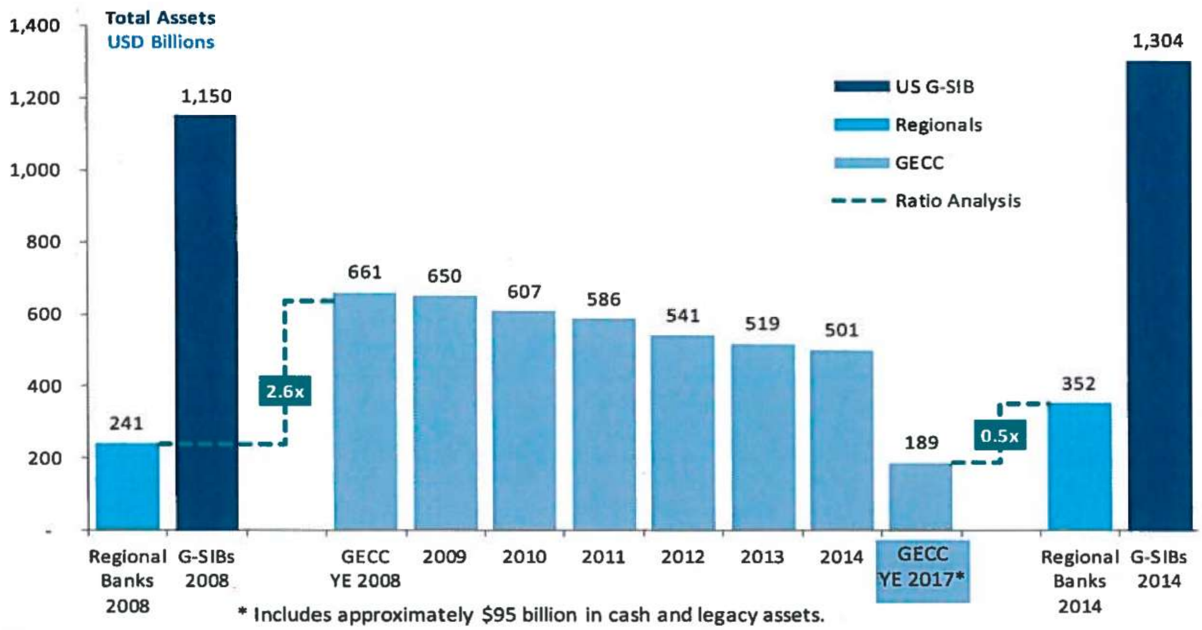
Following the completion of the Exit Plan, GECC will be much smaller than any of the eight U.S. G-SIBs and will also be smaller than many of the U.S. regional banks, as shown in Figures 3 and 4 below:

Figure 3: Total Assets of GECC versus U.S. G-SIBs and Regional Banks (as of 12/31/2014)



*Includes approximately $95 billion in cash and legacy assets.

Figure 4: GECC's Total Assets versus U.S. G-SIBs and Regional Banks



Finally, Figure 5 contrasts key metrics forming the basis of the FSOC's designation of GECC as a nonbank SIFI (measured as of December 31, 2012)[13] with the expected levels of these metrics upon completion of the Exit Plan.[14]

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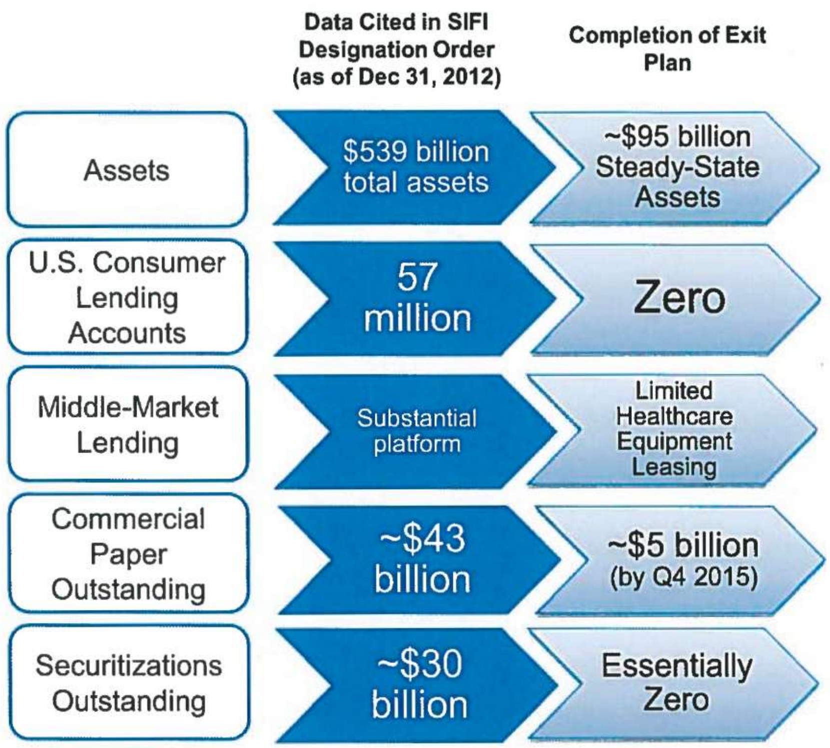
[13] *Basis of the FSOC's Final Determination Regarding General Electric Capital Corporation, Inc.* (Jul. 8, 2013), *available at* http://www.treasury.gov/initiatives/fsoc/designations/Documents/Basis%20of%20Final%20Determination%20Regarding%20General%20Electric%20Capital%20Corporation,%20Inc.pdf.

[14] *General Electric Co to sell most GE Capital Assets,* Thomson Reuters Transcript of GE Conference Call (Apr. 10, 2015) (statements by GE Senior Vice President and General Counsel Bracket Denniston).

Figure 5: Key Statistics



3. *Safety and Soundness During Transition*

GECC will maintain safe and sound operations throughout its execution of the Exit Plan, including through the following specific steps:

- GECC will maintain surplus capital and liquidity at levels well above the quantitative minimums that would be required under the Proposed Order. GECC proposes to maintain a conservative CET1 ratio (calculated in accordance with applicable transition provisions under the U.S. Basel III rules) through a robust capital planning process that, among other things, fully accounts for GECC's exposure to potential liabilities (*e.g.*, breaches of representations and warranties, indemnification obligations) that trail the businesses that GECC has sold. GECC will exceed Basel III LCR requirements and continue to maintain maturity coverage of greater than 24 months.

- GECC has instituted a well-funded retention plan to retain key business personnel, including key risk and control function personnel in GECC's second and third lines of defense.

- GECC will maintain appropriate governance and oversight through the GE Board's Risk Committee and GECC's Enterprise Risk Management Committee, including new processes for the oversight of GECC's execution of the Exit Plan.

- GECC will continue to enhance the risk processes and capabilities of the businesses to be retained in areas such as enterprise risk management (with an emphasis on operational risk management), cyber-security and compliance.

- GECC will continue to be supervised by the Federal Reserve until GECC qualifies for de-designation as a nonbank SIFI and will remain committed to regularly providing the Federal Reserve with thorough and transparent updates on the status of the Exit Plan, including GECC's progress in executing the contemplated dispositions.

B. *Expected Benefits to the Financial System of the Exit Plan*

1. Reducing GECC's Size and Systemic Footprint

The effect of the Exit Plan and previously announced and completed divestitures will be to effectively break up a $501 billion nonbank SIFI (as of December 31, 2014) into a number of much smaller parts that will be dispersed throughout the global financial system among numerous unaffiliated buyers and, in the process, largely retire the concentration of unsecured debt that funds GECC's operations in favor of deposits and other pools of capital that will fund the buyers of GECC's assets. GECC's funding profile will also be substantially reduced and simplified. GECC intends to reduce its reliance on commercial paper to $5 billion outstanding by the end of 2015. GECC expects to fund itself with existing long-term debt plus the proceeds from dispositions and does not anticipate being required to issue any additional amount of long-term debt for at least five years. Nor will GECC any longer fund itself through securitizations (except for negligible programs at WCS) or insured U.S. bank deposits. GECC will be smaller and less interconnected, with a substantially reduced systemic footprint through either the exposure or asset liquidation transmission channels under which any material financial distress could be transmitted to other financial institutions and markets.

Upon completion of the Exit Plan, GECC will focus on addressing markets aligned with GE's industrial businesses. GECAS will continue to be a stand-alone aircraft leasing and secured lending business, with an emphasis on equipment powered by GE and CFM engines to benefit from the risk mitigation arising from domain- and equipment-specific knowledge. GECAS is not systemically significant to aviation finance as its assets represent a very small percentage of the aviation financing sector, and its relative position in the global installed base of aircraft continues to diminish. This is especially true in the United States, where carriers increasingly have access to capital markets through equipment trust certificates and other alternatives. Similarly, EFS will continue to invest in and manage energy assets and projects on a worldwide basis, with a non-exclusive emphasis on projects which incorporate GE technology. EFS's assets represent a very small percentage of any sector or of any geographic region within the overall energy domain. Healthcare Equipment Leasing will provide financing more directly supportive of certain portions of GE Healthcare, while WCS will continue to factor receivables of GE's industrial businesses.

The timing, structure and prevailing macro-economic environment of the asset dispositions in the Exit Plan will preserve continuity of services and credit availability to current customers and markets, thereby minimizing the risk of a broader systemic impact resulting from GECC's exit from the businesses and assets to be divested. The previously announced disposition of GECC's North American retail banking business through the partial IPO and the subsequent split-off of Synchrony will ensure a seamless provision of credit to revolving credit customers in the United States. Other planned dispositions will seek to ensure similar continuity in the provision of credit to GECC's customers. Once GECC has completed the split-off of Synchrony, GECC's funding sources will no longer include a reliance on securitizations which, in conjunction with its smaller footprint in commercial paper, will reduce GECC's interconnectedness and any systemic risk associated with such exposures.

By shrinking the size of GECC's balance sheet and by diminishing its reliance on short-term wholesale funding, the Exit Plan will reduce the systemic risk posed by any material financial distress through the exposure transmission channel. Under FSOC guidance describing the exposure transmission channel, "a nonbank financial company's creditors, counterparties, investors, or other market participants [can] have exposure to the nonbank financial company that is significant enough to materially impair those creditors, counterparties, investors, or other market participants" in the event of the nonbank SIFI's material financial distress.[15] Upon completion of the Exit Plan, GECC will have approximately $158 billion in total liabilities, reduced from $411 billion at December 31, 2014. GECC's much smaller size and much smaller gross exposure will greatly reduce its interconnections with the broader financial market and the systemic risk that GECC could conceivably pose through the exposure transmission channel.

The composition of GECC's retained assets will also reduce GECC's systemic importance through the asset liquidation transmission channel. Under this channel, a nonbank SIFI poses systemic risks by virtue of "hold[ing] assets that, if liquidated quickly, would cause a fall in asset prices and thereby significantly disrupt trading or funding in key markets or cause significant losses or funding problems for other firms with similar holdings." As a result of GE's guarantee of GECC's long-term debt and the sharp reduction in the amount of GECC's commercial paper and long-term debt outstanding, GECC will not be subject to any material risk that the market would force it to sell its assets at fire sale prices. The composition of GECC's assets would be differentiated from and not as correlated with those likely to be held by other financial institutions in the United States. Consequently, in the event that GECC experienced material financial distress, it is unlikely that any liquidation of its assets could materially and adversely affect the value of other financial institutions' assets and thus cause market contagion in the form of fire sales and runs.

2. Divestiture of IDIs and Loss of Grandfathered Unitary SLHC Status

As already noted above, GECC is well advanced in the process of splitting off its federal savings bank, Synchrony Bank. Under the Exit Plan, GECC will also divest GE Capital Bank, its industrial loan company ("ILC"). ILCs represent an exception to the general policy of separating banking and commerce. Official moratoria on the *de novo* formation of an ILC or transfer of an ILC charter to a commercial firm were in place from 2006 to 2008 and 2010 to 2013.[16] From 2006 to 2012, the number of ILCs decreased from 58 to 34 and the assets of ILCs decreased

[15] 12 C.F.R. 1310, app. A.

[16] *See* Moratorium on Certain Industrial Loan Company Applications and Notices, FDIC (July 2006), *available at* https://www.fdic.gov/news/news/press/2006/pr06073a.html; Moratorium on Certain Industrial Bank Applications and Notices, FDIC, 72 Fed. Reg. 5290 (Jan. 31, 2007); 12 U.S.C. § 1815.

from $213 billion to $102 billion.[17] The Exit Plan will further reduce the assets falling within the scope of the ILC exception by $23 billion.

As a result of these divestitures, GECC will no longer control an IDI and will not be an SLHC. Thus, the Exit Plan will effectively insulate the Deposit Insurance Fund from the risk of GECC's material financial distress and reduce the regulatory complexity inherent in the ownership of an IDI by an industrial company.

In addition, a rescission of GECC's designation as a nonbank SIFI will benefit the U.S. financial system by eliminating the only U.S. nonbank SIFI that is funded by unsecured wholesale debt. In short, the Exit Plan promises to effect the voluntary, market-driven divestiture of the only industrial nonbank SIFI in the United States and thus contribute to the stability of the U.S. financial system.

3. A Leaner, More Focused GECC Will Be More Resolvable

GECC will not only be more stable and less likely to experience material financial distress through execution of the Exit Plan; in the event of such distress, GECC will also be more easily resolvable. The scope and scale of GECC's continuing operations will be consistent with a variety of operationally feasible resolution strategies.

III. Deferral or Modification of Proposed Order

In view of the Exit Plan and its potential systemic benefits, GECC believes that it would not be appropriate for the Federal Reserve to finalize the Proposed Order in its current form. The Proposed Order was developed to address GECC's systemic footprint as it existed at the time of its designation as a nonbank SIFI. Through execution of the Exit Plan, GECC will have divested its IDIs and will have reduced its size and interconnectedness to fractions of the levels that supported its 2013 designation. Assuming GECC is successful in obtaining rescission of its designation as a nonbank SIFI, GECC will no longer be subject to the regulation of the Federal Reserve or any U.S. banking regulator because GECC will be neither an SLHC nor a nonbank SIFI. At that point, any final version of the Proposed Order would be not just unnecessary, but would also cease to apply to GECC because there would no longer be any statutory basis for GECC to be regulated by the Federal Reserve.

Accordingly, GECC respectfully submits that:

- The Federal Reserve should defer finalizing the Proposed Order until January 1, 2018, as discussed in Part III.A below; and
- In the alternative, if the Federal Reserve deems it necessary to finalize the Proposed Order, the Federal Reserve should tailor the Proposed Order to the businesses, assets

[17] Characteristics and Regulation of Exempt Institutions and the Implications of Removing the Exemptions, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, page 15 (Jan. 2012).

and risk profile GECC intends to retain upon completion of the Exit Plan, as discussed in Part III.B below.

A. *Deferral in Finalizing Proposed Order*

GECC believes that it would be well within the Federal Reserve's authority and discretion to defer finalizing the Proposed Order for a period of time sufficient to evaluate whether GECC has been successful in executing its Exit Plan and obtaining rescission of its nonbank SIFI designation. Deferring any finalization of the Proposed Order until January 1, 2018 would provide GECC with a reasonable opportunity to execute the Exit Plan while continuing to focus its compliance efforts on the businesses and assets that GECC intends to retain. As noted in Part I above, such a deferral would also avoid the inherent problem of trying to tailor any final order to make it appropriate to GECC's size, systemic footprint and risk profile in the face of a rapid and ongoing reduction of each of these elements as GECC executes the Exit Plan. It is surely consistent with the policy objectives of the Dodd-Frank Act to afford a nonbank SIFI a reasonable opportunity to take rational and responsible steps under the close supervision of the Federal Reserve to become less systemically important.

GECC acknowledges, of course, that the decision to rescind its nonbank SIFI designation ultimately rests with the FSOC. Still, in light of the Exit Plan and the steps GECC has already taken to implement it, GECC respectfully submits that it would be inappropriate for GECC to be required to pursue over the next 12 to 24 months a parallel process of preparing to comply with a form of the Proposed Order that was designed for the systemic footprint that GECC had at the time of its 2013 nonbank SIFI designation. Just as the Federal Reserve has appropriately deferred implementing such proposed enhanced prudential standards as single counterparty credit exposure limits and such proposed rules as the early remediation framework while it considers how best to recalibrate them,[18] GECC respectfully submits that it would be equally appropriate for the Federal Reserve to defer finalizing the Proposed Order pending GECC's execution of the Exit Plan and the outcome of the process of applying for rescission of GECC's nonbank SIFI designation. The Federal Reserve will always have the ability, if GECC fails to make sufficient progress in achieving either objective by the end of 2017, to finalize the Proposed Order and apply it to GECC with effect from January 1, 2018.

GECC has also committed to provide the Federal Reserve with regular updates about its execution of the Exit Plan. If the Federal Reserve decides at any time between now and January 2018 that GECC is not making sufficient progress, the Federal Reserve could accelerate finalizing the Proposed Order.

B. *Further Modifications to the Proposed Order*

If the Federal Reserve determines that it is necessary to finalize the Proposed Order and apply it to GECC prior to January 1, 2018, GECC believes that it should be further modified (in

[18] *See, e.g., Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations*, FEDERAL RESERVE SYSTEM, 79 Fed. Reg. 17240, 17243 (Mar. 27, 2014).

addition to the modifications GECC proposed in its February Comment Letter) to reflect GECC's expected risk profile during and after its execution of the Exit Plan.

1. Capital Planning and Stress Testing

Under the Proposed Order, GECC would be subject to a graduated capital planning requirement.[19] GECC's first capital plan, due in April 2016, would not be subject to the Federal Reserve's supervisory stress test estimates for purposes of the Federal Reserve's quantitative assessment.[20] Instead, GECC's 2016 capital plan would be subject to a more limited quantitative assessment, reflecting the company's own stress scenario and any scenarios provided by the Federal Reserve. In addition, the Federal Reserve's supervisory expectations for GECC's 2016 capital plan would be tailored for GECC "to account for any material differences between the company and large bank holding companies."[21] Under the Proposed Order, GECC would first become subject to the full scope of the capital planning and stress testing requirements, including CCAR, beginning with the 2017 capital planning cycle.[22]

In its February Comment Letter, GECC requested that this graduated approach be deferred by one year.[23] The grounds for this requested deferral were (i) to allow GECC an additional year to continue to build the internal systems and infrastructure necessary to comply with the capital planning process, the preparation for which would coincide with GECC's accelerated transition to the Basel III risk-based capital framework, and (ii) to facilitate planned divestitures that were then more modest in scope.[24]

In light of the Exit Plan, GECC requests a further one-year delay in the graduated implementation of the capital planning requirements. Under this new proposal, the first, limited-scope capital plan submission would occur in the 2018 capital planning cycle, and the second, full-scope submission would occur in the 2019 capital planning cycle. Similarly, GECC would comply with the supervisory and company-run stress testing requirements under 12 C.F.R. Part 252, subparts E and F, commencing with the 2018 stress testing cycle.

GECC submits that this proposed deferral is appropriate in light of the Exit Plan for four reasons:

First, subjecting GECC to the full-scope capital planning requirements for the 2017 and 2018 capital planning cycles would be very costly with limited prudential benefit. Preparing for such requirements would require that GECC devote significant resources in 2016 to developing and

[19] Proposed Order at 71,774.

[20] *Id.*

[21] *Id.* at 71,774–75.

[22] *Id.*

[23] Comment Letter at 48.

[24] *Id.*

implementing new infrastructure and systems for idiosyncratic asset classes and business lines from which GECC expects to be fully divested by no later than the end of 2017. The additional expense would be material because of the significant differences in scope, scale, and composition between GECC's existing business lines and the verticals to be retained under the Exit Plan. Conversely, the benefits of subjecting asset classes and business lines that will be divested to one year of full-scope capital planning (for the 2017 cycle) would be fleeting at best, particularly if these efforts unavoidably detract from GECC's execution of the Exit Plan.

Second, GECC's unique position over this potential deferral period—as a nonbank SIFI undergoing a strategic transformation—is inconsistent with two touchstones of the CCAR process: (i) *comparability across institutions*, which necessitates uniform, simplifying assumptions about capital actions and stress scenarios, and (ii) *stability over time*, which necessitates an assumption of a stable or growing balance sheet to support lending channels throughout the planning horizon. These features, which are hallmarks of the public, full-scope CCAR process, make CCAR a poor fit for GECC during its transition to a smaller, less interconnected financial institution. It would be exceedingly difficult (and perhaps impossible) for GECC to account for multiple divestitures under multiple scenarios in formal CCAR planning exercises.

Third, deferring CCAR would enable GECC to focus its continuing efforts to improve its capital planning processes on the asset classes and businesses GECC plans to retain. In the end, it will be GECC's post-Exit Plan risk profile (and not its current risk profile) that will determine GECC's capital requirements, capital resources and ability to generate new earnings and make capital distributions. Extending the period by which GECC would first become subject to the Federal Reserve's capital planning requirements would coincide with the latest date by which GECC expects to complete its divestitures and thus with GECC's more limited, steady-state footprint.

Fourth, GECC believes that there are better and more tailored ways to assess its capital adequacy during this potential deferral period based on the risk-based capital and leverage requirements under the U.S. Basel III rules and the Federal Reserve's supervision and review of GECC's internal capital planning processes. Throughout the implementation of the Exit Plan, GECC will remain well-capitalized and will commit to maintain an appropriately conservative CET1 ratio. GECC will also continue to conduct prudent capital planning throughout this period. GECC's capital plans will be based on (i) its Steady-State Assets and (ii) other on-balance sheet assets and off-balance sheet exposures, as affected by actual and planned divestitures over the nine-quarter planning horizon, rather than a constant asset base. GECC will also continue to conduct company-run stress tests and commit to meeting required minimum capital ratios in stressed conditions. GECC's capital actions will be subject to review by the Federal Reserve and, consequently, the Federal Reserve will continue to have full visibility over GECC's capital plans and capital planning processes even in the absence of GECC being formally subject to CCAR until the 2019 capital planning cycle.

2. *Liquidity Requirements*

The Proposed Order would require GECC to comply with the full LCR requirements applicable to non-G-SIB advanced approaches banks, notwithstanding that it would not require GECC to calculate its risk-weighted assets under the advanced approaches. Consistent with the full LCR requirements, GECC would be subject to transition provisions that would permit it to calculate its LCR on a monthly basis until July 1, 2016 and that would require GECC to maintain an LCR of 80% until December 31, 2015, an LCR of 90% from January 1 until December 31, 2016, and an LCR of 100% thereafter.

GECC respectfully requests that it be permitted to calculate its LCR requirements on a monthly basis (*i.e.*, on the last calendar day of each month) until January 1, 2018. This modification would permit GECC to align its liquidity monitoring and measurement capabilities during this period with those applicable to standardized approach banks. GECC believes that a calculation of its LCR requirements on a monthly basis—as is the case for standardized approach banks that are subject to the modified LCR—is more appropriate in view of the expected amount of GECC's high quality liquid assets and its expected asset size and funding profile upon execution of the Exit Plan.

3. Risk Management and Risk Committee Requirements

The Proposed Order would require that GECC's board of directors add "independent/independent" members—individuals who would be independent not only of the management of GECC and GE, but also of the GE Board of Directors.[25] In its February Comment Letter, GECC submitted that this novel, heightened independence standard was not authorized by federal law and would impermissibly conflict with applicable state law. GECC also submitted that its status as a non-bank SIFI that is a subsidiary of a large, publicly traded industrial company should subject GECC at most to an alternative director independence requirement based on a traditional definition of independence.

In view of the Exit Plan, GECC believes that it is all the more imperative that GECC be permitted to maintain its current corporate governance of enterprise-wide risk management through oversight by GE's Risk Committee. By virtue of the significant time that they have dedicated to GECC's enterprise risks over the past several years, the independent members of GE's Risk Committee have gained a level of experience, expertise and familiarity with GECC's businesses and assets that would necessarily take any new independent-independent directors many months of "on the job" learning to match. Moreover, the GE Risk Committee has already assumed a primary oversight role in the Exit Plan, including by making adjustments to its meeting schedule to accommodate frequent and detailed reviews of GECC's progress and the risks posed by the Exit Plan. GECC believes that, at this critical juncture for both GECC and its parent company, the best way to ensure informed, focused and effective oversight of the execution of the Exit Plan is to allow GE's Risk Committee and its four independent members to continue to bring their experience and expertise to bear in overseeing and monitoring GECC's risk management framework. Moreover, appointing new directors at this critical time who would be unfamiliar with GECC would be a distraction from the risk oversight framework for the Exit Plan that has already been established. In addition, preserving the current governance approach would avoid the difficulty of recruiting qualified candidates meeting the "independent/independent" standard for what would be an abbreviated time and through a

[25] Proposed EPS Order at 71784.

period of intense and rapid change to implement strategic decisions in which the candidates would not have participated.

4. *Reporting and Daily Posting Requirements*

Under the Proposed Order, GECC would be required to file up to nine different categories of regulatory reports beginning July 1, 2015 (generally to the extent they are not duplicative with its regulatory reporting requirements as an SLHC), including the forms FR Y-11 and FR Y-11S (Financial Statements of U.S. Nonbank Subsidiaries of U.S. Holding Companies) and forms FR 2314 and FR 2314S (Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations).[26] GECC would also be subject to certain qualitative and quantitative requirements for which it must build out a books and records system capable of generating current reports of select balance sheet items on a daily basis. This "Daily Posting" capability would be necessary to comply with the qualitative intraday liquidity monitoring requirements that are part of the Proposed Order, the daily LCR calculation requirement that would be effective from July 1, 2016 under the Proposed Order, as well as certain reporting requirements such as FR 2052a to which GECC would be subject as a nonbank SIFI.[27]

In GECC's February Comment Letter, GECC requested a delay of certain of the reporting requirements and a deferral of the Daily Posting requirements. In light of the Exit Plan, GECC respectfully requests that certain other reporting requirements (as specified below) be further deferred for those subsidiaries that would be sold or unwound under the Exit Plan and therefore would not remain subsidiaries of GECC, and that the Daily Posting requirements also be further deferred.

a. Reporting Requirements

GECC requests that the quarterly and annual FR Y-11 and FR 2314 subsidiary-level reporting requirements be deferred until the first quarter of 2018 for those subsidiaries that would be sold or unwound as part of the Exit Plan and therefore would not remain subsidiaries of GECC. For entities that would remain subsidiaries of GECC under the Exit Plan, this proposed deferral would not apply. Specifically, GECC proposes that:

- For subsidiaries that would remain under GECC, beginning July 1, 2015, GECC would submit annual (and quarterly, as applicable) stand-alone financial statement reports for such subsidiaries, consistent with the Proposed Order.

- For subsidiaries that would not remain under GECC, GECC would submit quarterly financial reports prepared under local accounting principles (*e.g.*, IFRS) as a potential alternative source of the information, to the extent that they are otherwise prepared for local reporting or accounting purposes and available on a timely basis.

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[26] Proposed EPS Order at 71779–80.

[27] As discussed in the February Comment Letter, daily averaging would also be required to calculate the denominator of the Basel III Supplementary Leverage Ratio, including for purposes of the related disclosure requirements taking effect prior to the 2018 effective date.

GECC respectfully submits that this proposed limited additional deferral would be reasonable in light of the Exit Plan because:

- it would permit GECC to focus on the timely development and implementation of, and associated quality controls related to, its newly applicable reporting requirements for the post-Exit Plan legal entity footprint of GECC, including those for subsidiaries that would be part of GECC; and

- GECC would in any event continue to provide information on these subsidiaries to the extent they are reflected in GECC's consolidated quarterly financial statements reported on form FRY-9C, so that the financial impact of these subsidiaries on GECC's consolidated financial condition and results of operations would continue to be reflected.

b. <u>Daily Posting Requirements</u>

GECC requests the deferral of the Daily Posting requirements and the replacement of the daily frequency with a monthly frequency for all such purposes until January 1, 2018. GECC respectfully submits that this relief would be reasonable in light of the Exit Plan because it would apply a consistent basis of recordkeeping frequency to all relevant requirements during the period over which the Exit Plan is expected to be executed.

IV. Conclusion

The Exit Plan announced on April 10, 2015 will transform GECC into a substantially smaller and less systemic financial institution that will no longer be an SLHC or own any IDIs and will be far less interconnected with the U.S. financial system, with a simpler strategy and a substantially reduced risk profile. Pursuant to the Exit Plan and its previously announced divestitures, GECC will shrink its size and systemic footprint, substantially eliminate its reliance on commercial paper and other short-term wholesale funding, reduce its regulatory complexity by divesting its IDIs, and create a leaner, more focused GECC. GECC believes that execution of the Exit Plan will minimize the potential systemic risk to the U.S. financial system associated with any material financial distress at GECC and justify the future rescission of its non-bank SIFI designation.

In light of this new strategic direction, GECC respectfully submits that the Federal Reserve should defer implementation of the Proposed Order to afford GECC a reasonable opportunity to implement its Exit Plan and seek rescission of its nonbank SIFI designation. If the Federal Reserve determines that it should nonetheless finalize the Proposed Order before GECC can execute the Exit Plan, GECC respectfully submits that the Federal Reserve should extend the effective dates in the Proposed Order and modify it as outlined in this supplementary comment letter. GECC's proposed modifications would responsibly facilitate GECC's transformation, under the Federal Reserve's continuing oversight, to a smaller, specialized financial services company and promote the orderly divestiture of two IDIs and the termination of an SLHC and the single wholesale-funded, industrial-owned nonbank SIFI. GECC submits that reasonably and responsibly facilitating the voluntary elimination of a wholesale-funded nonbank SIFI could not be more consistent with the legislative policy and regulatory considerations underlying the Dodd-Frank Act.

Sincerely,

Keith S. Sherin

Keith S. Sherin
Vice Chairman, General Electric Company
Chairman & CEO, GE Capital