GE Capital

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VIA ELECTRONIC SUBMISSION

Secretariat of the Financial Stability Board
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

Re: *Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions*

Ladies and Gentlemen:

General Electric Capital Corporation ("*GE Capital*")[1] appreciates the opportunity to comment on the Consultative Document published by the Financial Stability Board (the "*FSB*") with respect to a methodology for identifying non-bank non-insurer global systemically important financial institutions ("*NBNI G-SIFIs*").

We are submitting this comment letter to outline briefly a few principles that we believe should be key in establishing any NBNI G-SIFI framework. These principles are important both for determining which institutions should be designated as NBNI G-SIFIs and for determining which policy measures should be proposed to apply to them.[2]

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1 GE Capital is a wholly-owned subsidiary of the General Electric Company ("*GE*"), a diversified holding company. GE's businesses include energy, aviation, healthcare, transportation and financial services. GE Capital provides a broad range of financial services for consumers and businesses of all sizes, with a focus on providing commercial loans and leases to the middle market and to businesses operating in the same industries as GE's industrial businesses.

2 We appreciate that the Consultative Document relates only to the methodology for identifying NBNI G-SIFIs and does not propose any specific entities for designation or policy measures that would apply to designated entities, which are to be proposed at a later stage. We support this plan to proceed thoughtfully and deliberately in designing an NBNI G-SIFI framework. To that end, we also believe that it is important that any

Our focus is on considerations that are most relevant to institutions identified as "finance companies" under the Consultative Document's classification scheme. GE Capital may be considered to be a finance company because it provides financing and is not funded primarily by retail deposits. While finance companies in different countries engage in a wide range of activities and are subject to various levels of regulation, we have cited our own experience when we believe that doing so may provide an instructive example.

Our most important concerns relate to (1) appropriate parity between the NBNI G-SIFI framework and the FSB framework applicable to global systemically important banks ("*G-SIBs*"),[3] and (2) harmonization with other regulatory initiatives, specifically U.S. regulators' development of enhanced prudential standards for designated nonbank financial companies ("*U.S. SIFIs*").

The NBNI G-SIFI framework should reflect the greater size and complexity of G-SIBs relative to NBNI G-SIFIs.

The NBNI G-SIFI framework will, when finalized, accompany the previously finalized G-SIB framework as well as the FSB's and International Association of Insurance Supervisors' framework applicable to global systemically important insurers. Given that finance companies tend to be more like banks[4] than broker-dealers or investment funds (the two other proposed categories of NBNI G-SIFIs), we anticipate that the G-SIB framework may serve as a reference point for the NBNI G-SIFI framework as applied to finance companies.[5]

It is important to note, however, that G-SIB designation serves a fundamentally different purpose. G-SIB designation serves to impose *additional* regulation on banks

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subsequent consultative document that does propose specific policy measures be subject to a separate notice and comment period.

3 *See* Basel Committee on Banking Supervision (the "*BCBS*"), *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement* (July 2013).

4 In this letter, the term "bank" is used to include the bank's holding company and its other affiliates.

5 The G-SIB framework combines an additional loss absorbency requirement in the form of a capital buffer from one of five "buckets"; heightened supervisory expectations for risk management and related functions; and recovery and resolution planning. *See* FSB, *Update of group of global systemically important banks (G-SIBs)* 2 (Nov. 1, 2012). Based on FSB and U.S. precedent, at least some of these types of requirements may be present in an eventual NBNI G-SIFI framework.

that are deemed to be so large and so systemically significant that a (potentially already extensive) home-country regulatory regime is not sufficient. Most G-SIBs are significantly larger and more complex than even the largest finance companies. G-SIBs, for example, have on average more than $1.5 trillion in total consolidated assets.[6] Excluding the two U.S. G-SIBs whose systemic significance results from payment and custodial activities, no G-SIB has less than $650 billion in assets.[7] GE Capital, by contrast, has approximately $517 billion in total consolidated assets.[8] In other words, there is little if any overlap in size between the pool of G-SIBs and the pool of potential NBNI G-SIFIs.

We believe that this pattern is likely to hold true for other indicators of complexity and interconnectedness, such as derivatives activities. For example, as of December 31, 2013, the four largest U.S. commercial banks, all of which have been designated as G-SIBs, had an average of $43.24 trillion in notional value of over-the-counter derivatives (much of which is attributable to market making and other capital markets activities), compared to $293.1 billion for GE Capital (which is primarily an end-user of derivatives for hedging purposes).[9] While metrics such as these are only proxies for potential systemic risk, the comparison provides an accurate reflection of the fact that finance companies, by their nature, are unlikely to have the same complexity or associated risks of G-SIBs.

This line of analysis is not intended to minimize the importance of appropriate regulation of the risks at finance companies. But data points such as these counsel fundamental caution and conservatism in applying any new overlay of regulation to finance companies through the NBNI G-SIFI process. We believe that it is consistent with the goal of global financial stability to take into account the lesser overall riskiness of finance companies, both in deciding which to designate as NBNI G-SIFIs and in deciding what policy consequences to impose. In particular, regardless of where the materiality threshold is formally set for the "initial filter of the NBNI universe,"[10] we

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6 *See* Federal Deposit Insurance Corporation, *Global Capital Index: Capitalization Ratios for Global Systemically Important Banks (GSIBs)* (data as of the second quarter of 2013).

7 *Id.*

8 GE Capital, Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2013.

9 *See* Schedule HC-L, Items 11.b, d and e, of Federal Reserve Forms FR Y-9C submitted as of December 31, 2013 by Bank of America Corporation, Citigroup, Inc., JPMorgan Chase & Co., Wells Fargo & Company and GE Capital.

10 Consultative Document 8.

believe that the FSB should generally designate finance companies only when, in addition to the other criteria, there is evidence that their activities lack significant prudential regulation.

Furthermore, for those institutions that are designated, there should be a recognition of the differences in absolute size and scale across the G-SIB and NBNI universes. Ensuring consistent treatment among institutions that ultimately perform many similar functions—such as serving as important sources of credit to the real economy—is a necessary step in developing a rational and appropriately tailored regime for NBNI G-SIFI regulation. Most notably, placing NBNI G-SIFIs into the same capital buffer "buckets" as G-SIBs based on size or complexity relative to other NBNI G-SIFIs, rather than on absolute measures or measures relative to G-SIBs, would not be a proportionate policy response.

Finally, the fact that banks and finance companies serve many of the same functions should mitigate concerns about substitutability as applied to finance companies. While finance companies may indeed bring "specialist expertise" to bear in certain lending markets,[11] banks can and do participate in those markets (such as secured lending against high-quality assets and consumer credit cards) as well. Given their relative size and lending capacity, G-SIBs and other large banks could readily substitute for a finance company, although the reverse is not necessarily true.

The NBNI G-SIFI framework must harmonize not only with existing regulatory regimes to which finance companies are subject, but also with regulatory reform initiatives that are already underway, specifically U.S. regulators' development of enhanced prudential standards for U.S. SIFIs.

We have stated above that a particular institution's existing regulatory scrutiny should be a primary criterion in evaluating whether that institution should be designated by the FSB as an NBNI G-SIFI. In evaluating designations, and subsequently in designing substantive policy measures, the FSB should also give consideration to already-pending regulatory requirements, such as those for U.S. SIFIs, that will become effective over the next several years.

GE Capital, for example, is a savings and loan holding company ("*SLHC*") subject to consolidated prudential regulation and supervision by the Board of Governors of the Federal Reserve System (the "*Federal Reserve*") and is also a U.S. SIFI designated by the U.S. Financial Stability Oversight Council (the "*FSOC*") for supervision by the Federal Reserve under Section 113 of the U.S. Dodd-Frank Wall Street Reform and

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[11] *Id.* at 15.

Consumer Protection Act (the "*Dodd-Frank Act*").[12] As a result, GE Capital is or will be subject to comprehensive capital, liquidity and other bank regulatory requirements at the holding company level, including, among other things, enhanced risk management, resolution planning and the "Volcker Rule."[13]

Not every finance company's circumstances may mirror GE Capital's, but other finance companies may also be or become subject to bank-like prudential supervision. Applying an overly expansive NBNI G-SIFI regime to institutions that are already regulated is unlikely to produce any marginal increase in global systemic stability, but it raises the prospect of new requirements that would be duplicative of existing regulation or otherwise unduly burdensome.

We have no doubt that the members of the FSB are keenly aware of this issue, but we believe that it bears emphasis because of the number of simultaneous regulatory initiatives that are currently competing for many financial institutions' compliance, information technology, legal and other resources. For example, as a consequence of Federal Reserve supervision, GE Capital has initiated dozens of highly critical projects that require substantial information technology and other resources, ranging from ongoing information collection activities for Federal Reserve reports to the preparation of capital, recovery and resolution plans. Ongoing, potentially multiyear compliance and information collection efforts are also likely to be necessary to comply with the LCR and with the Volcker Rule, among other things. Adding substantially new and different NBNI G-SIFI rules into this mix would compound the difficulty of compliance without, we believe, commensurate benefit to safety and soundness or systemic stability.

Moreover, the United States has already taken significant steps to implement a system for NBNI SIFI regulation, but it has not yet completed that process. The FSOC

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[12] GE Capital has recently announced a plan to divest ownership of its federal savings association subsidiary and thereafter to deregister as an SLHC. GE Capital will, however, continue to be a U.S. SIFI.

[13] Some of these initiatives target the potential risks arising from wholesale funding, which the Consultative Document identifies as one of the distinguishing features of finance companies. As one notable example, the Basel III liquidity coverage ratio (the "*LCR*"), which U.S. regulators have proposed to apply to certain SLHCs and which may also apply to U.S. SIFIs, applies very conservative runoff assumptions to various forms of wholesale funding. *See* BCBS, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools* (Jan. 2013); Federal Reserve, Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation, *Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring; Proposed Rule*, 78 F.R. 71818 (Nov. 29, 2013).

has finalized a rule on the process for identifying and designating U.S. SIFIs,[14] has made a number of initial designations and may make further designations. In addition, the Federal Reserve has adopted specific enhanced prudential standards for large U.S. banks under Section 165 of the Dodd-Frank Act, although it has not yet done so for U.S. SIFIs. We recognize, of course, that the NBNI G-SIFI framework will apply beyond the United States, but we believe that the FSB should take advantage of the experience that will be gained in the United States by the FSOC and the Federal Reserve in considering what standards to apply globally through the NBNI G-SIFI framework. Consequently, we recommend that the FSB make affirmative efforts to coordinate with corresponding U.S. SIFI regulation as it continues to emerge, including through judicious establishment of effective dates and transition periods where appropriate.

If, nonetheless, the FSB determines that it is necessary to move forward without fully taking stock of how the new regulatory system in the United States develops and is implemented, we believe that the FSB should not propose NBNI G-SIFI designation standards or policy standards that go beyond what has been adopted in the United States. The criteria for designation and follow-on consequences in the Dodd-Frank Act are broad, and to sweep more broadly would likely lead to regulation surpassing what is needed to protect financial stability.

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We appreciate the opportunity to provide our comments and hope that you will find them constructive.

Sincerely,

Alex Dimitrief

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14 *See* FSOC, *Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies*, 77 F.R. 21637 (April 11, 2012).