

**Basis for the Financial Stability Oversight Council’s
Rescission of Its Determination
Regarding GE Capital Global Holdings, LLC**

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1. INTRODUCTION

1.1 Council Rescission of Determination

On July 8, 2013, the Financial Stability Oversight Council (Council) made a final determination, pursuant to section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), that material financial distress at General Electric Capital Corporation (GECC), the predecessor of GE Capital Global Holdings, LLC (GE Capital),¹ could pose a threat to U.S. financial stability and that GE Capital shall be subject to supervision by the Board of Governors of the Federal Reserve System (Board of Governors) and enhanced prudential standards. The Council released a public explanation of the basis for its final determination (Basis for Final Determination).²

At the time of the Council's final determination, GE Capital, a wholly owned subsidiary of General Electric Corporation (GE), was one of the largest financial services companies in the United States, ranked by assets. GE Capital was also a significant source of credit to the U.S. economy, providing financing to more than 243,000 commercial customers, 201,000 small businesses through retail programs, and 57 million consumers in the United States.³

Since the Council's final determination, GE Capital has fundamentally changed its business. Through a series of divestitures, a transformation of its funding model, and a corporate reorganization, the company has become a much less significant participant in financial markets and the economy. GE Capital has decreased its total assets by over 50 percent, shifted away from short-term funding, and reduced its interconnectedness with large financial institutions. Further, the company no longer owns any U.S. depository institutions and does not provide financing to consumers or small business customers in the United States.

For these reasons and those discussed below, the Council voted on June 28, 2016, to rescind its final determination that material financial distress at GE Capital could pose a threat to U.S. financial stability and that GE Capital shall be subject to supervision by the Board of Governors and enhanced prudential standards.

In its annual reevaluation, the Council considered a broad range of information available through public and regulatory sources, as well as information provided by GE Capital and its regulators. The Council's decision to rescind its final determination was based on extensive quantitative and qualitative analyses regarding GE Capital.

¹ As part of a corporate reorganization completed in December 2015, discussed further below, GECC merged into its parent company, General Electric Company, and all of the assets and businesses of GECC were transferred to a newly created wholly owned subsidiary of GE, GE Capital. GE Capital succeeded to and became subject to the Council's final determination regarding GECC. References to GE Capital include GECC unless otherwise noted.

² Basis of the Financial Stability Oversight Council's Final Determination Regarding General Electric Capital Corporation (July 8, 2013), available at <https://www.treasury.gov/initiatives/fsoc/designations/Documents/Basis%20of%20Final%20Determination%20Regarding%20General%20Electric%20Capital%20Corporation.%20Inc.pdf>.

³ Basis for Final Determination, p. 2.

1.2 Engagement with GE Capital and Its Regulators

Beginning in early 2015, GE Capital began meeting periodically with staff of Council members and member agencies regarding strategic actions the company intended to take and the effect those actions could have in reducing the potential risks GE Capital could pose to financial stability. On March 18, 2016, the Council notified GE Capital that the Council was conducting its third annual reevaluation of its final determination regarding the company. The Council invited the company to meet with staff and to submit materials for consideration by the Council. On March 31, 2016, GE Capital made a written submission to the Council, requesting that the Council rescind its final determination, and in April 2016, staff of Council members and member agencies met with the company. Staff of Council members and member agencies also consulted with several of the company's regulators: the Board of Governors, the Federal Deposit Insurance Corporation (FDIC), and the U.K. Prudential Regulation Authority (PRA). In addition, in response to questions from staff of Council members and member agencies, GE Capital submitted supplemental information to the Council in May and June 2016.

On June 28, 2016, the Council voted to rescind its final determination regarding GE Capital and provided the company with a detailed statement of the basis for the Council's decision. The statement of the basis for the rescission of the final determination that the Council provided to GE Capital relies on nonpublic information that GE Capital submitted to the Council. The Council is subject to statutory and regulatory requirements to maintain the confidentiality of certain information submitted to it in connection with the review of a nonbank financial company.⁴ As a result, this public explanation of the basis for the Council's rescission of its final determination excludes confidential nonpublic information but addresses the key factors that the Council considered in its reevaluation of GE Capital and the primary reasons for the Council's rescission of its final determination. This explanation of the basis is intended to provide the public with an understanding of the Council's analysis while protecting sensitive, confidential information submitted by GE Capital and its regulators to the Council.

1.3 The Legal and Analytic Framework for a Rescission of a Final Determination

The Council was established in 2010 with three purposes: to identify risks to U.S. financial stability; to promote market discipline; and to respond to emerging threats to the stability of the United States financial system.⁵ To address potential risks to U.S. financial stability, the Dodd-Frank Act authorizes the Council to determine that certain nonbank financial companies shall be supervised by the Board of Governors and subject to enhanced prudential standards.⁶

The Council may make such a determination if the Council determines that (1) material financial distress at the nonbank financial company could pose a threat to the financial stability of the United States (the first determination standard) or (2) the nature, scope, size, scale,

⁴ Dodd-Frank Act section 112(d)(5), 12 U.S.C. § 5322(d)(5); 12 C.F.R. part 1310.20(e). The nonpublic statement of the basis of the Council's decision that the Council provided to GE Capital constitutes part of the Council's administrative record regarding GE Capital. That analysis includes information such as confidential information regarding GE Capital's investments and the counterparties to GE Capital's derivative positions.

⁵ Dodd-Frank Act section 111, 12 U.S.C. § 5321.

⁶ Dodd-Frank Act section 113(a), 12 U.S.C. § 5323(a).

concentration, interconnectedness, or mix of the activities of the nonbank financial company could pose a threat to the financial stability of the United States (the second determination standard).⁷ The Council may subject a nonbank financial company to supervision by the Board of Governors and enhanced prudential standards if either the first determination standard or second determination standard is met.⁸

In considering whether to make a determination that a nonbank financial company will be supervised by the Board of Governors and subject to enhanced prudential standards, the Council is required to consider ten statutory factors.⁹ The Council also adopted a rule and interpretive guidance (Rule and Interpretive Guidance) that describe the manner in which the Council applies the statutory standards and considerations, and the processes and procedures that the Council follows, in making determinations under section 113 of the Dodd-Frank Act.¹⁰ The Rule and Interpretive Guidance describe the factors that the Council intends to use when analyzing companies at various stages of the determination process, including sample metrics. The Council also adopted supplemental procedures relating to nonbank financial company determinations (Supplemental Procedures).¹¹ In conducting its reevaluation of its determination that material financial distress at GE Capital could pose a threat to U.S. financial stability, the Council considered each of the statutory considerations in section 113 of the Dodd-Frank Act and all of the facts of record.

The Interpretive Guidance also defines statutory terms relevant to the determinations process. The Interpretive Guidance states that the Council will consider a “threat to the financial stability of the United States” to exist “if there would be an impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict significant damage on the

⁷ Dodd-Frank Act section 113(a), 12 U.S.C. § 5323(a).

⁸ See Dodd-Frank Act section 113(a), 12 U.S.C. § 5323(a). The Council made its final determination with respect to GE Capital under the first determination standard. In evaluating GE Capital under the first determination standard, the Council considered each of the statutory considerations in section 113 of the Dodd-Frank Act, including the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of GE Capital. The Council would consider these same statutory considerations under the second determination standard. During the reevaluation of the Council’s final determination regarding GE Capital, no factors were identified that would indicate that the company would meet the second determination standard.

⁹ The ten statutory factors are: (1) the extent of the leverage of the company; (2) the extent and nature of the off-balance-sheet exposures of the company; (3) the extent and nature of the transactions and relationships of the company with other significant nonbank financial companies and significant bank holding companies; (4) the importance of the company as a source of credit for households, businesses, and State and local governments and as a source of liquidity for the United States financial system; (5) the importance of the company as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities; (6) the extent to which assets are managed rather than owned by the company, and the extent to which ownership of assets under management is diffuse; (7) the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company; (8) the degree to which the company is already regulated by 1 or more primary financial regulatory agencies; (9) the amount and nature of the financial assets of the company; and (10) the amount and types of the liabilities of the company, including the degree of reliance on short-term funding. The Council may also consider any other risk-related factors that it deems appropriate. Dodd-Frank Act section 113(a)(2), 12 U.S.C. § 5323(a)(2).

¹⁰ 12 C.F.R. part 1310.

¹¹ Supplemental Procedures Relating to Nonbank Financial Company Determinations (Feb. 4, 2015) available at <https://www.treasury.gov/initiatives/fsoc/designations/Documents/Supplemental%20Procedures%20Related%20to%20Nonbank%20Financial%20Company%20Determinations%20-%20February%202015.pdf>.

broader economy.”¹² The Interpretive Guidance also reflects the belief of the Council that “material financial distress” exists when a nonbank financial company “is in imminent danger of insolvency or defaulting on its financial obligations.”¹³

The Council is required to review each final determination under section 113 of the Dodd-Frank Act not less frequently than annually and rescind the determination if the Council, by a vote of not fewer than two-thirds of the voting members then serving, including an affirmative vote by the Chairperson of the Council, determines that the nonbank financial company no longer meets the statutory standards for a determination.¹⁴ This reevaluation was conducted in accordance with the Dodd-Frank Act, the Rule and Interpretive Guidance, and the Supplemental Procedures.

In light of the Council’s extensive and detailed findings at the time of a final determination, and the frequency of the annual reevaluations, it is appropriate for annual reevaluations to focus on changes, whether at the company, the markets in which it operates, or otherwise, that could affect the Council’s conclusion that material financial distress at the company could pose a threat to U.S. financial stability.¹⁵

Current financial information referred to herein is generally presented on the basis of the company’s reporting to the Board of Governors, as of December 31, 2015, as adjusted to reflect sales and other material actions completed by the company between January 1, 2016, and March 31, 2016, and the assumption of GE Capital Bank’s remaining deposits by Goldman Sachs Bank USA, which closed on April 18, 2016.¹⁶ These adjusted figures are referred to as “2015 Adjusted.”

1.4 Summary of 2013 Basis for Final Determination Regarding GE Capital

In evaluating GE Capital before making a final determination in 2013, the Council assessed how the company’s material financial distress could be transmitted to other firms or markets, thereby causing a broader impairment of financial intermediation or of financial market functioning. An impairment of financial intermediation and financial market functioning can occur through several channels. In the Interpretive Guidance, the Council identified the following channels as most likely to facilitate the transmission of the negative effects of a nonbank financial company’s material financial distress to other financial firms and markets:¹⁷

- *Exposure.* Through this transmission channel, the Council evaluates whether a nonbank financial company’s creditors, counterparties, investors, or other market participants have exposure to the company that is significant enough to materially impair those creditors,

¹² 12 C.F.R. part 1310, app. A, II.a.

¹³ 12 C.F.R. part 1310, app. A, II.b.

¹⁴ Dodd-Frank Act section 113(d), 12 U.S.C. § 5323(d).

¹⁵ See 77 Fed. Reg. 21,637, 21,650 (April 11, 2012).

¹⁶ See GE, Press Release, *GE Completes Sale of Online Deposit Platform and Transfer of Remaining U.S. Deposits to Goldman Sachs Bank USA* (April 18, 2016), available at <http://www.businesswire.com/news/home/20160418005842/en/GE-Completes-Sale-Online-Deposit-Platform-Transfer>.

¹⁷ 12 C.F.R. part 1310, app. A, II.a.

counterparties, investors, or other market participants and thereby pose a threat to U.S. financial stability.

- *Asset liquidation.* The Council assesses whether a nonbank financial company holds assets that, if liquidated quickly, could 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 in its evaluation of this transmission channel.
- *Critical function or service.* The evaluation of this transmission channel considers the potential effects if a nonbank financial company is no longer able or willing to provide a critical function or service that is relied upon by market participants and for which there are no ready substitutes.

In addition to these three transmission channels, the Interpretive Guidance notes that the threat a nonbank financial company may pose to U.S. financial stability may be exacerbated if the company is sufficiently complex, opaque, or difficult to resolve in bankruptcy such that its resolution in bankruptcy would disrupt key markets or have a material adverse impact on other financial firms or markets.¹⁸ A company's resolvability may mitigate or aggravate the potential for the company to pose a threat to U.S. financial stability.¹⁹

At the time of its final determination, the Council concluded that the threat to U.S. financial stability posed by GE Capital's material financial distress arose primarily from the exposure and asset liquidation transmission channels, although the Council also concluded that the critical function channel may exacerbate the extent to which the company's material financial distress could be transmitted to the financial system and broader economy.

Regarding the exposure transmission channel, in 2013, the Council analyzed GE Capital's significant reliance on short-term wholesale funding, particularly its issuance of commercial paper (CP). The Council found that GE Capital was the largest participant in the U.S. CP market, with \$43 billion in outstanding CP and a market share of 3.3 percent. The Council determined that the generally risk-averse investors in this market could quickly withdraw their investments if GE Capital failed to meet its obligations. In addition, the majority of the investors in GE Capital's CP were large, interconnected financial institutions, including money market mutual funds (MMFs), and the transmission of GE Capital's distress to these counterparties could significantly impair functioning of the CP market. For example, MMFs held significant amounts of GE Capital's CP, and the Council found that GE Capital's material financial distress could lead a number of MMFs to "break the buck," which could lead to a run on MMFs and a broader withdrawal of investments from the CP market and other short-term funding markets.²⁰ Moreover, because large, global banks fund themselves in part through short-term funding

¹⁸ 12 C.F.R. part 1310, app. A, II.a.

¹⁹ 12 C.F.R. part 1310, app. A, III.c.

²⁰ An MMF has "broken the buck" (i.e., re-priced its securities below \$1.00 per share) if it is unable to maintain a stable net asset value per share based on pricing of its portfolio holdings. On July 23, 2014, the Securities and Exchange Commission (SEC) adopted MMF reforms that include a floating net asset value (NAV) requirement for institutional prime MMFs. See 79 Fed. Reg. 47,736 (Aug. 14, 2014). The MMF reforms do not require a floating NAV for certain funds, including retail MMFs. The reforms, however, generally take effect in October 2016.

markets, the Council determined that a withdrawal of funding from those markets could impair those firms' ability to serve as financial intermediaries, thereby transmitting financial distress to other firms and financial markets more broadly. The Council also identified GE Capital's long-term debt, securitization debt, derivatives activities, and maintenance of credit lines as increasing the aggregate exposures of other large financial institutions to GE Capital.²¹

Regarding the asset liquidation transmission channel, the Council noted that GE Capital held a large portfolio of assets comparable to those of the largest financial institutions. Given the size and composition of GE Capital's asset portfolio, the Council found that a rapid sale of assets by GE Capital in the event of its material financial distress could depress the value of similar assets held by other significant market participants, leading to broader fire sales. The Council found that the resulting sales could reduce credit availability and impair key markets. Furthermore, the Council concluded that GE Capital's significant reliance on wholesale funding could force GE Capital, in the event of its distress, to reduce the credit it provided to commercial institutions and consumers or to sell assets in order to meet its obligations if the company were unable to access wholesale funding markets.²²

Regarding the critical function or service transmission channel, the Council found that GE Capital was one of the largest lenders in the areas of middle market commercial lending and leasing, consumer revolving credit, and aviation. As of year-end 2012, GE Capital provided financing to more than 243,000 commercial customers, 201,000 small businesses through retail programs, and 57 million consumers in the United States. The Council concluded that material financial distress at GE Capital that limited its ability to continue to provide credit in these markets, particularly during a period of overall stress in the financial services industry and in a weak economic environment, could adversely affect borrowers in those markets.²³

The Council also considered the degree to which GE Capital was already regulated by one or more primary financial regulatory agencies. The Council noted that GE Capital was subject to consolidated supervision by the Board of Governors as a savings and loan holding company (SLHC) but that the Council and Board of Governors would have additional authorities with respect to GE Capital if the Council made a final determination regarding the company under section 113 of the Dodd-Frank Act.²⁴

The Council also concluded that GE Capital's complexity, intra-firm connections, and potential difficulty to resolve aggravated the risk that the company's material financial distress could materially impair financial intermediation and financial market functioning.²⁵

1.5 Summary of Annual Reevaluation

Since the Council's final determination, GE Capital has fundamentally changed its business. Through a series of divestitures—including the complete exit of its U.S. banking and consumer

²¹ Basis for Final Determination, pp. 6-7.

²² Basis for Final Determination, pp. 7-8.

²³ Basis for Final Determination, pp. 8-9.

²⁴ Basis for Final Determination, pp. 9-10.

²⁵ Basis for Final Determination, pp. 10-11.

operations—a transformation of its funding model, and a corporate reorganization, the company has become a much less significant participant in financial markets and the economy. Since 2012, GE Capital has decreased its total assets by over 50 percent, substantially reduced its reliance on short-term funding, and limited its interconnectedness with large financial institutions.²⁶

With respect to the exposure transmission channel, GE Capital has significantly reduced its use of short-term wholesale funding and the exposures of large financial institutions to the company. Since the end of 2012, GE Capital's outstanding CP has decreased by 88 percent, and its share of the U.S. CP market has decreased significantly, from 3.3 percent (when it was the largest issuer of U.S. CP) to less than 0.1 percent.

In addition, on-balance sheet exposures of large financial institutions, including global systemically important banks (G-SIBs), to GE Capital have declined since 2012, as GE Capital has reduced its outstanding CP, long-term debt, and securitization debt. GE Capital has also replaced its previous direct lines of credit with 54 financial institutions with one line of credit with GE. GE, in turn, has lines of credit with 44 financial institutions, and large financial institutions are indirectly exposed to GE Capital as a result of GE Capital's ability to draw on its line of credit with GE. The assumption and guarantee of GE Capital's outstanding long-term debt and CP by GE further mitigate market participants' direct exposures to GE Capital. Finally, GE Capital's smaller size, the company's limited scale of activities in key funding markets, the decreased direct and indirect exposures to the company, and GE's assumption and guarantee substantially reduce the risk that GE Capital's material financial distress could spread contagion in U.S. financial markets.

With respect to the asset liquidation transmission channel, the company has reduced its reliance on short-term funding²⁷ sources by 86 percent, significantly reducing the potential for GE Capital's material financial distress to necessitate large-scale asset liquidations. In addition, the composition of GE Capital's asset portfolio has diverged from those of the largest U.S. bank holding companies (BHCs), reducing the potential for asset sales by GE Capital to impair large financial market intermediaries. For example, the company's portfolio of financing receivables has decreased by 74 percent since 2012. Further, since 2012, GE Capital has significantly reduced the size of its balance sheet and increased its available highly liquid assets, thus substantially reducing the amount of assets that GE Capital could be forced to sell to satisfy its obligations in the event of its material financial distress.

²⁶ On March 31, 2016, GE released a public summary of its more detailed written submission to the Council. GE, Summary of GE Capital's SIFI Rescission Request (March 31, 2016), available at <https://www.genewsroom.com/sites/default/files/media/201603/GE%20Capital%20Summary%20Public%20Rescission%20Submission%20Final.pdf> (GE Rescission Request Summary). This explanation of the basis excludes confidential information submitted to the Council by the company and instead relies in part on information in the GE Rescission Request Summary.

²⁷ Short-term funding referred to herein includes CP, GE "Interest Plus" obligations, federal funds purchased, securities sold under agreements to repurchase, and deposits. GE Interest Plus obligations were senior unsecured debt generally issued to retail investors by GE Capital; GE Capital closed the program as of August 31, 2015. See GE Capital, Prospectus Supplement (July 3, 2012); GE Capital, GE Capital Invest Direct, available at <http://www.gecapitalinvestdirect.com/>.

With respect to the critical function or service transmission channel, GE Capital has greatly reduced its role in the economy through its divestitures of financing receivables and by eliminating its lending to small businesses and consumers in the United States. The company continues to be a leader in the aviation leasing market, but, in the aggregate, the potential risks arising through the critical function channel have substantially declined.

As to regulatory scrutiny, because the Council has rescinded its final determination with respect to GE Capital, the company is no longer subject to consolidated supervision in the United States. The company's non-U.S. entities are subject to the consolidated supervision of the U.K. PRA as long as it maintains U.K. banking assets or the consolidated supervision of a European Union (EU) host country for as long as the company retains credit institutions in the EU.

Finally, GE Capital has taken steps to become a simpler organization since the Council's final determination. Among other things, the company has substantially reduced the number of its legal entities and established two direct subsidiaries, a domestic holding company to hold the company's U.S. assets and conduct its U.S. operations, and a European holding company to hold the company's non-U.S. assets and conduct its non-U.S. operations. Except with respect to intercompany services and certain intercompany debt, GE Capital has largely separated its U.S. and non-U.S. assets and operations from each other through this recent reorganization. Nonetheless, GE Capital remains a complex financial company with entities operating in many countries, and its interconnections and complexities could pose potential challenges to a rapid and orderly resolution in bankruptcy.

Based on its analysis, the Council has concluded that changes at GE Capital since the Council's final determination have significantly reduced the potential for the negative effects of material financial distress at GE Capital to be transmitted through each of the three transmission channels. As a result of these and other factors described below, the Council has rescinded its final determination that material financial distress at GE Capital could pose a threat to U.S. financial stability and that GE Capital shall be subject to supervision by the Board of Governors and enhanced prudential standards.

2. SUMMARY OF DEVELOPMENTS AT GE CAPITAL SINCE THE COUNCIL'S FINAL DETERMINATION

A number of material changes at GE Capital since the Council's final determination have fundamentally altered the company. On April 10, 2015, GE announced a plan to divest a majority of GE Capital's assets and focus on serving three primary business lines at GE.²⁸ These transactions have included three main components: (1) divestitures, (2) the transformation of GE Capital's funding model, and (3) a significant corporate reorganization.

GE Capital described four principal considerations underlying its decision to exit from certain businesses, including: the change in the market environment and business model for a large, wholesale-funded finance company; the initial public offering of Synchrony Financial (Synchrony) and other previous transactions that indicated that some of GE Capital's assets

²⁸ GE Capital, Quarterly Report on Form 10-Q for the period ended Sept. 30, 2015, p. 6.

would be more valuable under other ownership; favorable market conditions for the financial assets to be divested; and the potential financial benefits of aligning GE Capital's activities more closely with GE's industrial businesses.²⁹

2.1 Completed Divestitures

Since 2012, GE Capital has divested approximately \$272 billion of bank and nonbank assets.³⁰ GE Capital began divesting assets in 2013, and the majority of dispositions have occurred subsequent to the Council's previous annual reevaluation of its determination regarding GE Capital. The largest transaction involved the initial public offering and share exchange of Synchrony, representing \$87 billion in assets.³¹ In addition, GE Capital has sold \$14 billion in non-U.S. bank assets, \$24 billion of nonbank consumer financing businesses and assets, \$99 billion of global commercial lending and leasing businesses and assets, and \$50 billion of commercial real estate assets since 2012.³²

2.2 Transformed Funding Model

GE Capital has transformed its funding model. Among the most significant changes is its greatly reduced use of and reliance on short-term funding. GE Capital's use of short-term funding sources has fallen 86 percent, from \$98 billion as of year-end 2012 to \$14 billion as of 2015 Adjusted.³³ In particular, the company's outstanding CP has declined from \$43 billion as of year-end 2012 to \$5 billion as of 2015 Adjusted.³⁴ In addition, deposits and securitization debt have fallen by 80 percent and 90 percent, respectively, since December 31, 2012.³⁵

As a result, the company now relies more on long-term debt, which is equal to 57 percent of assets, up from 49 percent as of year-end 2012.³⁶ However, the outstanding amount of long-term debt has also declined substantially, from \$269 billion as of year-end 2012³⁷ to \$159 billion as of March 31, 2016.³⁸

In addition, in April 2015, GE guaranteed substantially all of GE Capital's long-term debt and CP.³⁹ Subsequently, GE assumed GE Capital's outstanding U.S. long-term debt and established a payable between GE Capital and GE under which GE Capital agreed to make payments to GE

²⁹ GE Capital, Investor Presentation, *GE Capital Strategy* (April 10, 2015), p. 5, available at http://www.ge.com/sites/default/files/ge_webcast_presentation_04102015_0.pdf.

³⁰ GE Rescission Request Summary, p. 5.

³¹ GE Rescission Request Summary, p. 5.

³² GE Rescission Request Summary, p. 5.

³³ GE Rescission Request Summary, p. 2.

³⁴ GE Rescission Request Summary, p. 6.

³⁵ GE Rescission Request Summary, p. 6.

³⁶ GE Capital, Annual Report on Form 10-K for the period ended Dec. 31, 2012, pp. 94, 134. GE, Quarterly Report on Form 10-Q for the period ended March 31, 2016, pp. 59, 77.

³⁷ GE Capital, Annual Report on Form 10-K for the period ended Dec. 31, 2012, pp. 94, 134.

³⁸ GE, Quarterly Report on Form 10-Q for the period ended March 31, 2016, pp. 59, 77. On April 15, 2016, \$16.4 billion of GE Capital's long-term debt matured. GE, Quarterly Report on Form 10-Q for the period ended March 31, 2016, p. 78.

³⁹ GE Rescission Request Summary, p. 2; GE, Annual Report on Form 10-K for the period ended Dec. 31, 2015, p. 165.

to service the assumed debt.⁴⁰ The amount outstanding under the payable was \$74 billion as of March 31, 2016.⁴¹ At the time, GE also assumed GE Capital's outstanding CP, although that CP has since matured; new CP issued by GE Capital's subsidiaries is guaranteed by GE.⁴²

2.3 Corporate Reorganization

GE Capital now consists primarily of the following three business lines, which are aligned with certain of GE's industrial businesses:⁴³

- GE Capital Aviation Services, a global aircraft lessor and lender that provides financing solutions to the global airline industry.
- Energy Financial Services, an energy finance business that originates and invests in projects that generally involve GE's equipment or services.
- Industrial Finance, a new business line that serves GE's industrial businesses and their customers.

In addition, GE Capital substantially reorganized the company's legal entity structure. The reorganization involved the merger of GE Capital into GE and the transfer of all of GE Capital's assets and businesses to a new intermediate holding company, GE Capital. GE Capital has two direct subsidiaries, a U.S. holding company that owns its U.S. assets and conducts its U.S. operations, and a European holding company that owns its non-U.S. assets and conducts its non-U.S. operations.⁴⁴

3. ANALYSIS OF THE POTENTIAL EFFECTS OF MATERIAL FINANCIAL DISTRESS AT GE CAPITAL

3.1 Transmission Channel Analysis

The Council considered the effects of changes at GE Capital since the final determination on each of the three channels for the transmission of distress: (1) exposure, (2) asset liquidation, and (3) critical function or service. In evaluating whether material financial distress at GE Capital could be transmitted to other firms and markets through the transmission channels to a degree that could cause a broader impairment of financial intermediation or of financial market functioning, the Council considered the statutory factors set forth in section 113 of the Dodd-Frank Act.

⁴⁰ GE Rescission Request Summary, p. 2; GE, Annual Report on Form 10-K for the period ended Dec. 31, 2015, p. 165.

⁴¹ GE, Quarterly Report on Form 10-Q for the period ended March 31, 2016, p. 78.

⁴² GE Rescission Request Summary, p. 2; GE, Annual Report on Form 10-K for the period ended Dec. 31, 2015, pp. 79, 165.

⁴³ GE Rescission Request Summary, p. 2.

⁴⁴ GE Rescission Request Summary, p. 2.

3.1.1 Exposure Transmission Channel

At the time of its final determination regarding GE Capital, the Council found that other large financial institutions had significant exposures to GE Capital. A significant source of those exposures was GE Capital's reliance on short-term wholesale funding and its significant role in the short-term wholesale funding market, particularly in the CP market.

Since the Council's final determination, GE Capital has substantially reduced both its use of short-term wholesale funding and large financial institutions' direct and indirect exposures to GE Capital. GE has also assumed or guaranteed GE Capital's outstanding long-term debt and CP, mitigating market participants' direct exposures to GE Capital. Further, GE Capital has replaced its previous direct lines of credit with a large number of financial institutions with one line of credit with GE, although GE Capital's ability to use its line of credit with GE could still indirectly increase liquidity strains on the third-party lenders to GE. Finally, GE Capital's smaller size, the decreased direct and indirect financial exposures to the company, the company's limited activities in key funding markets, and GE's assumption and guarantee of GE Capital's debt substantially decrease the potential for GE Capital's material financial distress to spread contagion in financial markets. Taken together, as described below, these changes significantly reduce the potential negative effects that could arise through the exposure transmission channel as a result of GE Capital's material financial distress.

GE Support of GE Capital

In April 2015, GE guaranteed the vast majority of GE Capital's unsecured debt and CP.⁴⁵ In December 2015, GE assumed GE Capital's outstanding U.S. long-term debt and CP.⁴⁶ GE Capital agreed to make payments to GE to service the assumed debt. As a result, the vast majority of GE Capital's borrowings have been either assumed or guaranteed by GE.

GE's guarantee and assumption are substantial developments that significantly mitigate the risks arising from exposures to GE Capital's outstanding indebtedness in the event of GE Capital's material financial distress. External holders of GE Capital's long-term debt and CP are generally no longer exposed to direct credit risk arising from a default by GE Capital in the event of its material financial distress. Instead, they are exposed to the credit risk of GE. This arrangement mitigates the risks posed by these exposures to GE Capital unless GE, an industrial company, is experiencing financial distress at the same time as GE Capital. Moreover, due to other changes at GE Capital since early 2015, GE Capital's material financial distress is less likely to materially impair GE because GE Capital represents a smaller proportion of GE's business mix and GE Capital is significantly less reliant on short-term funding.

Commercial Paper

At the time of the Council's final determination regarding GE Capital, the Council concluded that due to GE Capital's significant role in the short-term wholesale funding market, the company's material financial distress could impose losses on CP holders and could prompt a loss

⁴⁵ GE, Annual Report on Form 10-K for the period ended Dec. 31, 2015, p. 82.

⁴⁶ GE, Annual Report on Form 10-K for the period ended Dec. 31, 2015, p. 79.

of investor confidence in the CP market, potentially disrupting short-term funding markets and impairing financial intermediation or financial market functioning.⁴⁷

As of December 31, 2012, GE Capital had \$43 billion of CP outstanding.⁴⁸ At the time, the company was the largest participant in the U.S. CP market, with a market share of 3.3 percent.⁴⁹ In addition, at the time of the Council's final determination, most holders of GE Capital's CP were large, interconnected financial institutions, including MMFs.⁵⁰ The Council found that if the company were to experience material financial distress, a large number of MMFs could "break the buck," which could aggravate any runs on the CP market by contributing to a run on MMFs and a broader withdrawal of investments from the CP market and other short-term funding markets.

Since the Council's final determination, GE Capital has significantly reduced its CP program, decreasing its outstanding CP by 88 percent, to \$5 billion.⁵¹ The company's significant reduction in outstanding CP and its less prominent position as an issuer in the CP market sharply reduce the risk that GE Capital's material financial distress could lead to disruptions in the broader U.S. CP market.

In addition, the mix of holders of the company's CP has shifted significantly. As of December 31, 2015, no MMFs held GE Capital's CP.⁵² As a result, no MMFs could "break the buck" due to GE Capital's material financial distress, and the potential for GE Capital's distress to spread to other firms and markets through the exposure transmission channel has been greatly reduced.

Finally, as described above, GE Capital's outstanding CP is now guaranteed by GE, which further mitigates the risk that direct or indirect exposures to GE Capital's CP could impair short-term funding markets.

These significant changes in the company's funding model materially reduce the potential risks to U.S. financial stability posed by GE Capital's use of short-term wholesale funding.

Long-Term Debt

As of December 31, 2012, GE Capital had approximately \$269 billion of outstanding unsecured long-term debt, with \$44 billion maturing within one year and \$167 billion maturing within five years.⁵³ At the time of the Council's final determination, the Council found that exposures to GE Capital arising from GE Capital's outstanding debt could lead to a transmission of stress to the holders of those obligations in the event of the company's material financial distress.

Since the Council's final determination, GE Capital has reduced its outstanding unsecured long-term debt by 41 percent, to \$159 billion, of which \$43 billion represented the current portion of

⁴⁷ Basis for Final Determination, p. 7.

⁴⁸ GE Rescission Request Summary, p. 6.

⁴⁹ GE Rescission Request Summary, p. 6.

⁵⁰ Basis for Final Determination, p. 7.

⁵¹ GE Rescission Request Summary, p. 6.

⁵² GE Rescission Request Summary, p. 6.

⁵³ GE Capital, Annual Report on Form 10-K for the period ended Dec. 31, 2012, pp. 90-91.

long-term debt and was due within one year.⁵⁴ Scheduled maturities on GE Capital's long-term debt are substantially lower going forward, averaging approximately \$15 billion per year through 2019.⁵⁵

The significant decline in GE Capital's outstanding long-term debt has substantially reduced exposures of external debt holders to the company and the potential for GE Capital's material financial distress to impact other firms and markets. Further, GE's assumption and guarantee of substantially all of GE Capital's long-term debt reduces the risk that GE Capital's material financial distress could harm third-party financial market participants.

Deposit Liabilities

In connection with its final determination in 2013, the Council considered GE Capital's relatively substantial use of brokered deposits at its U.S. insured depository institutions. As of December 31, 2012, GE Capital's depository institutions had approximately \$47 billion in deposits, comprising 10 percent of GE Capital's total liabilities.⁵⁶ Approximately \$30 billion in deposits was held at U.S. insured depository institutions, of which 86 percent, or \$26 billion, consisted of brokered deposits,⁵⁷ a product that the Council at the time of the final determination concluded tended to be a less-stable source of funding than other types of deposits.

Since the Council's final determination, GE Capital has divested both of its U.S. depository institutions and no longer funds itself with any U.S. deposits.⁵⁸ GE Capital holds \$9 billion in deposits in its non-U.S. bank subsidiaries, representing 4 percent of the company's liabilities.⁵⁹ The cessation of the company's use of brokered deposits and the significant decrease in reliance on deposits to fund its operations are significant changes since the Council's final determination and largely eliminate exposures arising from deposit liabilities as a source of potential risk to U.S. financial stability in the event of the company's material financial distress.

Exposures of Large Financial Institutions to GE Capital

In 2013, the Council found that the on- and off-balance sheet exposures of other large financial institutions to GE Capital, including through CP, long-term debt, securitizations, derivatives, and lines of credit, could serve as a mechanism by which stress from GE Capital's material financial distress could be transmitted to those firms and to financial markets more broadly.⁶⁰ Since the Council's final determination, aggregate on-balance sheet exposures of large financial

⁵⁴ GE, Quarterly Report on Form 10-Q for the period ended March 31, 2016, p. 77. On April 15, 2016, \$16.4 billion of GE Capital's long-term debt matured. GE, Quarterly Report on Form 10-Q for the period ended March 31, 2016, p. 78.

⁵⁵ Scheduled maturities include the annual maturities of GE Capital borrowings assumed by GE. GE, Annual Report on Form 10-K for the year ended Dec. 31, 2015, p. 166.

⁵⁶ GE Rescission Request Summary, p. 6.

⁵⁷ GE Capital, Form FR Y-9C for the period ended Dec. 31, 2012, p. 25.

⁵⁸ GE Rescission Request Summary, p. 2.

⁵⁹ As of 2015 Adjusted. GE Rescission Request Summary, p. 6.

⁶⁰ Basis for Final Determination, p. 6.

institutions to GE Capital have significantly decreased, including CP held by G-SIBs, unsecured long-term debt issued to G-SIBs, and securitization debt held by G-SIBs.⁶¹

As of December 31, 2012, GE Capital had \$30 billion of securitization debt, representing approximately 5 percent of its total assets.⁶² The Council found that while the non-recourse nature of these borrowings meant that holders of the asset-backed notes did not have recourse to GE Capital's assets, in the event of a significant downgrade of GE Capital's credit, the securitization entity could be downgraded and its asset values could decline, exposing noteholders to potential losses. Since the final determination, GE Capital has reduced its securitization activity by 90 percent, to approximately \$3 billion.⁶³ Due to the substantial reduction in securitization debt, GE Capital's securitizations are significantly less likely to serve as a mechanism through which GE Capital's material financial distress could be transmitted to other firms or markets.

At the time of the final determination, the Council also concluded that while GE Capital's relatively small position and minimal activities in the over-the-counter derivatives markets posed a relatively low risk of negatively affecting its counterparties, G-SIBs' exposures to the company through derivatives contributed to the potential for negative impacts on those institutions and the broader markets if GE Capital were to experience material financial distress. This potential for negative impacts has been mitigated to some extent by GE Capital's increased use of central clearing of derivatives.

As of June 30, 2012, GE Capital maintained aggregate committed lines of credit of approximately \$49 billion with 54 financial institutions.⁶⁴ Since then, as of March 31, 2016, GE Capital has replaced its direct credit lines with those institutions with a single line of credit for approximately \$42 billion with GE, which in turn has lines of credit with 44 financial institutions, and GE Capital may access GE's lines of credit unconditionally.⁶⁵ Thus, while large financial institutions no longer have any direct exposure to GE Capital through committed lines of credit, they are indirectly exposed to GE Capital as a result of GE Capital's ability to draw on its direct line with GE. Accordingly, in the event of GE Capital's material financial distress, GE Capital's ability to use its line of credit with GE could still indirectly increase liquidity strains on the third-party lenders to GE.

In sum, the significant reductions in the on- and off-balance sheet exposures of G-SIBs to GE Capital substantially reduce the potential for GE Capital's material financial distress to pose a threat to U.S. financial stability through the exposure transmission channel.

⁶¹ GE Rescission Request Summary, p. 6.

⁶² GE Rescission Request Summary, p. 6.

⁶³ GE Rescission Request Summary, p. 6.

⁶⁴ GE Capital, Quarterly Report on Form 10-Q for the period ended June 30, 2012, p. 68.

⁶⁵ GE, Quarterly Report on Form 10-Q for the period ended March 31, 2016, p. 40; GE Rescission Request Summary, p. 6.

Aggregate Exposures and the Risk of Contagion

At the time of its final determination, the Council concluded that the aggregate exposures of large financial institutions to GE Capital could lead to contagion effects and serve as a mechanism by which material financial distress at GE Capital could be transmitted to financial markets more broadly.⁶⁶ Further, the Council found that there could be uncertainty among market participants regarding the extent of potential losses that could arise from GE Capital's indirect interconnections to other large financial institutions or the scale of potential disruptions in important funding and other markets. This type of uncertainty can lead market participants to pull back from a range of firms and markets in order to reduce exposures, thereby increasing the potential for destabilization.⁶⁷

A number of recent developments at GE Capital substantially mitigate the risk that contagion could spread as a result of material financial distress at GE Capital. First, GE Capital's decreased size and lesser importance to financial markets reduce the potential for the company's material financial distress to cause or contribute to contagion. The company has exited a number of key markets in which it previously operated, making it less likely that its distress would lead to a reduction in the provision of credit or a withdrawal from financial markets by market participants.

Second, the changes to GE Capital's funding model, particularly its decrease in short-term funding, reduce the risk of contagion arising from the company's material financial distress. In particular, GE Capital is not a significant issuer of CP, and no MMFs are holders of its CP, significantly mitigating this source of potential contagion.

Third, the potential for contagion is substantially reduced because G-SIBs' direct exposures to GE Capital have significantly decreased, as described above. Moreover, financial institutions' indirect exposures to GE Capital, such as exposures arising from GE Capital's securitization activity, have markedly declined.⁶⁸ The reduction in financial market participants' aggregate direct and indirect exposures to GE Capital reduces the risk that the company's material financial distress would lead to contagion.

Finally, GE's assumption and guarantee of a substantial portion of GE Capital's borrowings have substantially mitigated the risk of GE Capital's material financial distress impacting the U.S. financial system. The negative effects of these exposures to GE Capital would now be transmitted to the broader financial system only to the extent that market participants are concerned that GE may be unable to satisfy these obligations in the event of GE Capital's material financial distress. While the assumption and guarantee do not eliminate counterparties' exposures to GE Capital, this development mitigates the risks posed by GE Capital's material financial distress to other firms and markets, and thereby reduces the risk of contagion.

⁶⁶ Basis for Final Determination, p. 6.

⁶⁷ Basis for Final Determination, p. 7.

⁶⁸ Basis for Final Determination, p. 6.

3.1.2 *Asset Liquidation Transmission Channel*

At the time of the final determination, the Council concluded that if GE Capital were to experience material financial distress and could no longer access wholesale funding markets, the company could be forced to sell assets quickly to fund its operations and meet its obligations.⁶⁹

Since the final determination, the size and composition of GE Capital's balance sheet have significantly changed. Total assets have fallen by over 50 percent, the mix of the company's assets is far less similar to that of other large financial firms, and the company has significantly reduced its reliance on short-term funding. These significant changes to the company's funding model and asset holdings, described below, have substantially reduced the potential for material financial distress at GE Capital to impair financial intermediation or financial market functioning through the asset liquidation transmission channel.

Reliance on Short-Term Wholesale Funding

At the time of its final determination in 2013, the Council concluded that GE Capital's funding sources were volatile and could dry up quickly if the firm experienced material financial distress during a period of financial market stress, thus requiring the company to liquidate a significant amount of assets in order to meet its obligations.⁷⁰

Since year-end 2012, GE Capital has dramatically altered its funding structure and reduced its reliance on short-term funding.⁷¹ GE Capital's short-term funding has fallen from 18 percent to 5 percent of the company's total assets, dropping to \$14 billion.⁷² The decrease in short-term funding was driven largely by an 88 percent reduction in the company's outstanding CP and an 80 percent drop in the company's total deposits, which included a substantial amount of brokered deposits at the time of the final determination. This diminished reliance on short-term liabilities sharply reduces the potential for the company, in the event of its material financial distress, to be forced to liquidate assets as a result of an inability to roll over existing debt or due to significant deposit withdrawals.

Asset Composition

At the time of the Council's final determination, the Council considered the company's asset composition in assessing the potential effects of a forced liquidation of GE Capital's assets on other market participants.

GE Capital held approximately \$60 billion in investment securities as of March 31, 2016, a small increase from \$54 billion at year-end 2012.⁷³ While GE Capital has slightly reduced its holdings of potentially less-liquid securities, such as U.S. corporate bonds, commercial mortgage-backed

⁶⁹ Basis for Final Determination, p. 8.

⁷⁰ Basis for Final Determination, p. 8.

⁷¹ GE Rescission Request Summary, p. 6.

⁷² As of 2015 Adjusted. GE Rescission Request Summary, p. 6.

⁷³ GE Capital, Form FR Y-9C for the period ended March 31, 2016, p. 17; GE Capital, Form FR Y-9C for the period ended Dec. 31, 2012, p. 13.

securities (CMBS), and asset-backed securities (ABS),⁷⁴ the size of its investment portfolio has not materially changed because it has increased its holdings of U.S. Treasury and agency securities.⁷⁵ Since year-end 2012, GE Capital's holdings of CMBS and ABS have marginally declined, from \$9 billion to \$8 billion as of March 31, 2016.⁷⁶ The company's holdings of other domestic debt securities, including U.S. corporate bonds, also declined slightly, from \$24 billion as of year-end 2012 to \$23 billion as of March 31, 2016.⁷⁷

However, the potential for a rapid liquidation of assets by GE Capital to impact market functioning has decreased since 2012, because GE Capital's holdings relative to the size of these markets, as measured by both total outstanding amount and average daily trading volume, have declined.⁷⁸ Moreover, most of the company's U.S. corporate bonds and CMBS portfolios are held in its run-off insurance business and are not available to address non-insurance liquidity needs.⁷⁹

Since the Council's final determination, GE Capital has also decreased its holdings of financing receivables, which were some of its least-liquid assets, by 74 percent, from \$277 billion in 2012 to \$72 billion.⁸⁰ GE Capital now focuses on the healthcare, energy, and aviation leasing markets, among others,⁸¹ in which other large financial institutions are generally less concentrated. Due to the size and relative illiquidity of GE Capital's remaining portfolio of loans and leases, rapid liquidations of those assets could still produce negative market price impacts. However, changes to GE Capital's portfolio of financing receivables make it less likely that any such sales would directly impact the holdings of other large financial institutions.

In addition, at the time of its final determination in 2013, the Council noted that holdings of highly liquid assets can reduce the extent to which GE Capital would be forced to liquidate assets in the event of its material financial distress. As of year-end 2012, GE Capital held \$57 billion highly liquid assets, representing 10 percent of total assets.⁸² The company has increased these holdings to \$77 billion, or 29 percent of total assets.⁸³ This amount is in excess of the company's short-term funding and the current portion of long-term debt. The significant amount of GE Capital's available highly liquid assets as a proportion of total assets and short-term liabilities reduces the likelihood that the company would be forced to liquidate illiquid assets in

⁷⁴ These are markets that have previously experienced liquidity issues during periods of overall market stress.

⁷⁵ GE Capital, Form FR Y-9C for the period ended March 31, 2016, p. 16.

⁷⁶ GE Capital, Form FR Y-9C for the period ended Dec. 31, 2012, pp. 12-13; GE Capital, Form FR Y-9C for the period ended March 31, 2016, pp. 16, 17.

⁷⁷ GE Capital, Form FR Y-9C for the period ended Dec. 31, 2012, p. 13; GE Capital, Form FR Y-9C for the period ended March 31, 2016, p. 17.

⁷⁸ Securities Industry and Financial Markets Association, Statistics, *U.S. Bond Market Issuance and Outstanding, U.S. Mortgage-Related Issuance and Outstanding, U.S. ABS Issuance and Outstanding, U.S. Bond Market Trading Volume, U.S. SF Trading Volume, U.S. Bond Market Trading Volume*, accessed June 10, 2016, available at <http://www.sifma.org/research/statistics.aspx>.

⁷⁹ GE, Annual Report on Form 10-K for the period ended Dec. 31, 2015, p. 163.

⁸⁰ As of 2015 Adjusted. GE Rescission Request Summary, p. 6.

⁸¹ See GE Rescission Request Summary, p. 2.

⁸² "Highly liquid assets" includes GE Capital's cash and balances due from depository institutions, federal funds sold, securities purchased under agreements to resell, and U.S. Treasury and agency securities.

⁸³ As of 2015 Adjusted. GE Rescission Request Summary, p. 6.

the event of its material financial distress, and therefore mitigates the potential impact of the company's distress on other firms and markets.

At the same time, in the context of the company's material financial distress, the company may be in imminent danger of insolvency or defaulting on its financial obligations.⁸⁴ In such a scenario, the company's highly liquid assets may be insufficient to satisfy the company's obligations. If GE Capital no longer held a sufficient supply of highly liquid assets to satisfy its obligations, the company could access its \$42 billion credit line with GE, which, in turn, may access its committed credit lines with third-party financial institutions.⁸⁵ This additional source of funding is well in excess of GE Capital's amount of short-term funding, but is less than the sum of its short-term funding and current portion of long-term debt. GE Capital's ability to access this line of credit does not eliminate the potential for an asset liquidation by the company in the event of its material financial distress, but it reduces the likelihood of such a liquidation and therefore significantly reduces the potential for GE Capital to create a fire-sale dynamic in financial markets.⁸⁶

3.1.3 Critical Function or Service Transmission Channel

In making a final determination with respect to GE Capital, the Council considered whether, if GE Capital were to experience material financial distress, it may no longer be able or willing to provide a critical function or service that is relied upon by market participants or customers and for which there were no ready substitutes.⁸⁷ The Council analyzed GE Capital's role as one of the largest lenders in the areas of middle market commercial lending and leasing, consumer revolving credit, and aviation financing.⁸⁸ The Council concluded that material financial distress at GE Capital that limited its ability to continue to provide credit in these markets, particularly during a period of overall stress in the financial services industry or in a weak economic environment, could have an adverse effect on borrowers in those markets.⁸⁹

Since 2012, GE Capital has exited U.S. consumer lending through its divestiture of Synchrony, substantially reduced its middle-market lending activities, and is now focused on three businesses that support GE's industrial business: aviation, energy, and industrial financing.⁹⁰ Although GE Capital remains one of the leading providers of aviation leasing,⁹¹ potential risks to U.S. financial stability arising from the critical function or service transmission channel have substantially declined.

⁸⁴ See 12 C.F.R. part 1310, app. A, II.b.

⁸⁵ GE, Quarterly Report on Form 10-Q for the period ended March 31, 2016, p. 40.

⁸⁶ However, if GE Capital accessed its line of credit with GE and GE in turn borrowed under its lines of credit with third-party financial institutions, GE Capital's distress could be transmitted to those third parties through the exposure transmission channel, as described above.

⁸⁷ Basis for Final Determination, pp. 8-9.

⁸⁸ Basis for Final Determination, pp. 8-9.

⁸⁹ Basis for Final Determination, pp. 8-9.

⁹⁰ GE Rescission Request Summary, pp. 2, 6.

⁹¹ See, e.g., GE, Press Release, *GE Capital Aviation Services Delivers Leased Boeing 737-800 to New Customer NewGen Airways* (May 3, 2016) available at <http://www.genewsroom.com/press-releases/ge-capital-aviation-services-delivers-leased-boeing-737-800-new-customer-newgen>.

3.2 Existing Supervision and Regulation

In the annual reevaluation of its final determination regarding GE Capital, the Council considered the degree to which GE Capital is already regulated by one or more primary financial regulatory agencies.⁹² Staff of Council members and member agencies consulted with representatives from the GE Capital supervisory staff from the Board of Governors, with staff of the Board of Governors and FDIC with respect to the second resolution plan submitted by GE Capital in December 2015, and with representatives of the supervisory staff of the U.K. PRA regarding their supervision of GE Capital's non-U.S. businesses.

Over the last year, GE Capital has divested the entirety of its U.S. banking operations and no longer owns or controls any U.S. insured depository institutions.⁹³ In November 2015, GE divested GE and GE Capital's stake in Synchrony, and in December 2015, the Board of Governors de-registered GE Capital as an SLHC.⁹⁴ As of April 2016, GE Capital had sold or transferred all of the loan and lease assets and all of the deposits of its subsidiary GE Capital Bank, an FDIC-insured Utah industrial loan company.⁹⁵ As of December 2015, GE Capital is no longer an SEC registrant and does not report under the Securities Exchange Act of 1934.⁹⁶

GE Capital was subject to consolidated supervision by the Board of Governors as a result of the Council's final determination regarding the company. On July 20, 2015, the Board of Governors issued a final order establishing enhanced prudential standards for GE Capital pursuant to section 165(b) of the Dodd-Frank Act.⁹⁷ Following the Council's rescission of its final determination regarding the company, GE Capital is no longer subject to supervision by the Board of Governors. Further, because GE Capital is no longer a registered SLHC, the company is no longer subject to consolidated supervision in the United States. GE Capital's U.S. insurance operations continue to be regulated and supervised by the Kansas Insurance Department.

Over the past year, GE Capital has also reduced the scope of its foreign banking operations.⁹⁸ GE Capital conducts foreign banking operations in Europe under the authority of national supervisors and the European Central Bank. GE Capital has reorganized its foreign operations through the establishment of a holding company for its non-U.S. assets and operations.⁹⁹ The non-U.S. holding company is subject to consolidated supervision by the U.K. PRA and, as such, is subject to consolidated capital and liquidity requirements under EU and U.K. Basel III rules. The company's non-U.S. entities are subject to the consolidated supervision of the U.K. PRA as

⁹² See Dodd-Frank Act section 113(a)(2)(H), 12 U.S.C. § 5323(a)(2)(H).

⁹³ GE Rescission Request Summary, p. 2.

⁹⁴ GE, Press Release, *Synchrony Financial Announces Completion of Separation from GE* (Nov. 17, 2015) available at <http://www.businesswire.com/news/home/20151117006159/en/Synchrony-Financial-Announces-Completion-Separation-GE>; Federal Reserve Release, *Actions of the Board, Its Staff, and the Federal Reserve Banks: Applications and Reports Received* (Dec. 2, 2015), p. 6, available at <http://www.federalreserve.gov/Releases/H2/20151205/h2.pdf>.

⁹⁵ See GE Rescission Request Summary, p. 6.

⁹⁶ GE, Current Report on Form 8-K (Dec. 2, 2015), p. 4.

⁹⁷ Final Order Applying Enhanced Prudential Standards And Reporting Requirements To General Electric Capital Corporation, 80 Fed. Reg. 44,111 (July 24, 2015).

⁹⁸ See GE Rescission Request Summary, p. 5.

⁹⁹ GE Rescission Request Summary, p. 2.

long as it maintains U.K. banking assets or the consolidated supervision of a EU host country for as long as the company retains credit institutions in the EU.¹⁰⁰ If GE Capital completes the sale of all of its European banking assets, GE Capital's non-U.S. operations would no longer be subject to consolidated prudential supervision.

3.3 Resolvability

In making a final determination with respect to GE Capital, the Council considered whether the threat GE Capital could pose to U.S. financial stability could be mitigated or aggravated by its complexity, the opacity of its operations, or the difficulty of resolving the company. The Council found that GE Capital's interstate and cross-border complexities and the lack of a global resolution framework aggravated the risk that material financial distress at GE Capital could pose a threat to financial stability.¹⁰¹ The Council also observed that a number of other factors could further complicate a resolution, including GE Capital's intercompany funding and shared service arrangements.¹⁰² The Council concluded that GE Capital's complexity could aggravate the risk that its material financial distress could pose a threat to U.S. financial stability and significantly decreased the likelihood of preserving its franchise value in a recovery or resolution scenario.¹⁰³

GE Capital has fundamentally changed its business and taken steps to become a simpler organization since the Council's final determination. As noted above, GE Capital has become a much less significant participant in the financial markets and the economy through a series of divestitures and a transformation of its funding model. The company has also reorganized its legal structure, reducing the number of its legal entities, among other developments.¹⁰⁴ In addition, except with respect to intercompany services and certain intercompany debt, the company has largely separated its U.S. and non-U.S. assets and operations from each other, which reduces the potential for transmission of distress between GE Capital's U.S. and non-U.S. businesses.¹⁰⁵

GE Capital remains a complex financial company with entities operating in many countries, and could pose potential challenges to a rapid and orderly resolution in bankruptcy. However, the changes at GE Capital since the Council's final determination in 2013 have significantly reduced the potential for the negative effects of material financial distress at GE Capital, including any effects resulting from potential resolvability challenges or the company's complexity, to be transmitted through each of the three transmission channels described above and thereby to pose a threat to U.S. financial stability.

¹⁰⁰ See Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013, Chapter 3, Section I, Article III, p. L176/396, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:176:0338:0436:EN:PDF>.

¹⁰¹ Basis for Final Determination, pp. 10-11.

¹⁰² Basis for Final Determination, pp. 10-11.

¹⁰³ Basis for Final Determination, pp. 10-11.

¹⁰⁴ GE Capital Rescission Request Summary, p. 2.

¹⁰⁵ See GE, Quarterly Report on Form 10-Q for the period ended March 31, 2016, p. 78.

4. CONCLUSION

The Council has determined that GE Capital no longer meets the standards for a determination under section 113 of the Dodd-Frank Act and has rescinded its final determination that material financial distress at GE Capital could pose a threat to U.S. financial stability and that GE Capital shall be supervised by the Board of Governors and be subject to enhanced prudential standards.

APPENDIX: SELECT GE CAPITAL FINANCIAL METRICS

(\$ Billions)

	Dec. 31, 2012	2015 Adjusted	% Change
<u>Assets</u>			
Total Assets	\$549	\$265	(52)%
Highly Liquid Assets	57	77	35%
<i>Highly Liquid Assets as a % of Total Assets</i>	<i>10%</i>	<i>29%</i>	
Loans and Lease Financing Receivables	277	72	(74)%
Loans to Consumers	72	4	(95)%
<i>U.S. Loans to Consumers</i>	<i>50</i>	<i>–</i>	<i>(100)%</i>
Loans Secured by Real Estate	72	17	(77)%
<i>U.S. Loans Secured by Real Estate</i>	<i>23</i>	<i>5</i>	<i>(76)%</i>
Commercial & Industrial (C&I) Loans	101	35	(66)%
<i>U.S. C&I Loans</i>	<i>57</i>	<i>12</i>	<i>(78)%</i>
Commercial Real Estate Equity	22	–	(100)%
Other Assets	165	71	(57)%
<u>Liabilities</u>			
Total Liabilities	466	227	(51)%
Commercial Paper Outstanding	43	5	(88)%
Deposits	47	9	(80)%
<i>U.S. Deposits</i>	<i>30</i>	<i>–</i>	<i>(100)%</i>
Short-Term Funding	98	14	(86)%
<i>Short-Term Funding as a % of Total Liabilities</i>	<i>21%</i>	<i>6%</i>	
Securitization Debt	30	3	(90)%
Long-Term Debt	225	113	(50)%

Source: GE Rescission Request Summary, p. 6.