GE Capital

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By email: FEMR@bankofengland.co.uk

Re: Fair and Effective Markets Review

Ms Shafik and Gentlemen:

General Electric Capital Corporation ("GE Capital" or "the Company") appreciates the opportunity to comment on the Fair and Effective Markets Review (the "FEMR") issued by the Bank of England, HM Treasury and the Financial Conduct Authority. GE Capital is a subsidiary of the General Electric Company ("GE"), a diversified holding company that employs over 300,000 people and operates in approximately 160 countries worldwide. GE's businesses include energy, aviation, healthcare, transportation and financial services. GE's financial services business, 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.

GE Capital is a meaningful user of certain segments of the fixed income markets considered within the framework of the FEMR and therefore has a keen interest in the fair and effective conduct of these markets for our company, our lending and leasing customers and our debt holders. We support the objectives of the FEMR and efforts to reinforce ongoing confidence in these markets both in the UK and globally.

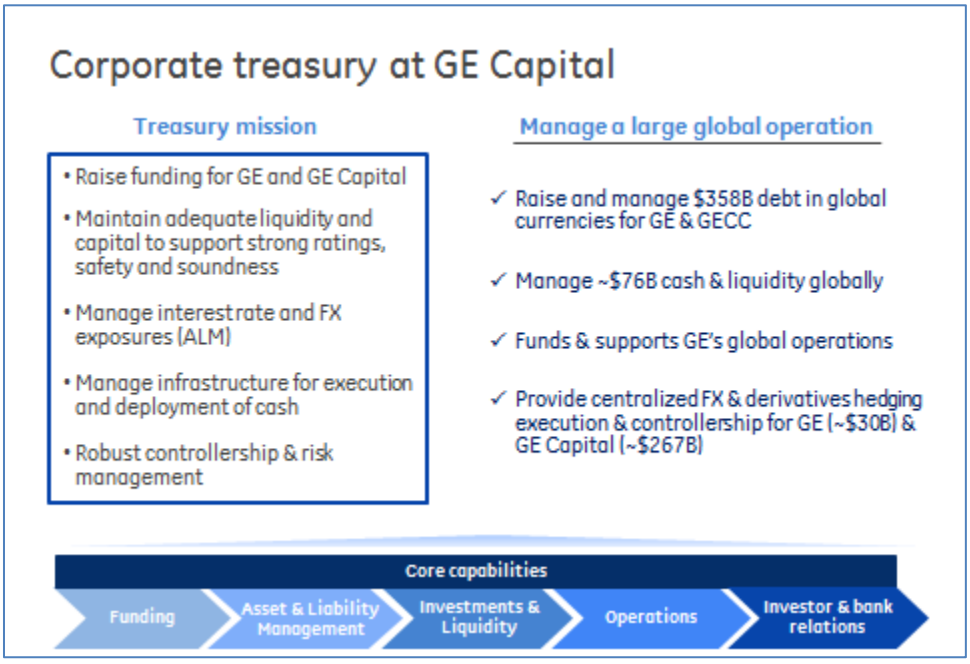
GE Capital is a grandfathered unitary savings and loan holding company ("SLHC") and since July 2011, GE Capital been supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). GE Capital is also a non-bank financial company designated for supervision by the Federal Reserve (a "nonbank SIFI") under Section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Such supervision, together with certain pending regulatory requirements and the policies and practices associated with the prudent management of our balance sheet, funding and liquidity are important considerations in the context of our response to the FEMR. We are mindful that some of the recommendations put forth by others to reform and standardize the corporate bond market (and echoed in the FEMR) may be favorable to some market participants but may also be inconsistent with the views of investors, bond issuers and the prudential regulators that supervise them.

In commenting on the FEMR we focus our response primarily on the structure and functioning of the corporate bond market, which represents more than 60% of GE Capital's corporate funding. The Company is engaged in other areas of the fixed income markets and would be pleased to provide additional information to or arrange meetings with the sponsors of the FEMR to support its objectives.

Background

- GE Capital Treasury Operations

Through its centralized Corporate Treasury, GE Capital is an issuer of fixed income securities around the world to fund it operations and is an investor in certain fixed income products to facilitate the management of the Company's cash and liquidity. GE Capital uses derivatives to mitigate or eliminate certain financial and market risks because we conduct business in diverse markets around the world and local funding is not always efficient. In addition, we use derivatives to adjust the debt we are issuing to match the fixed or floating nature of the assets we are originating. GE Capital is not a dealer or market maker in securities or derivatives. Neither is GE Capital a provider of securities custodial services.



As a frequent and ongoing issuer of debt securities during a range of market conditions, a principal concern of GE Capital is the overall integrity of the funding process, the relative stability of funding sources, the effective performance of the debt and sustaining pricing in the primary and secondary markets which is consistent with

peer issuers. As a consequence, direct controllership of the funding process, including price determination, deal timing and sizing and influence on the selection of those who would become creditors of GE Capital at initial debt issuance are important considerations. Within the existing market structure, abdicating control of these business critical processes in favour of untested solutions or auction-type processes holds the potential to destabilize funding, increase cost and reduce issuer flexibility.

We are open to new technologies and practices that preserve or improve the beneficial features of the corporate bond market but would advocate that these be adopted only after careful analysis and a determination that they perform in a fair and effective manner for all participants.

- Market Feedback and Transparency

A critical source of market information and feedback on corporate funding is the investment bank and securities dealer community that has traditionally supported corporate bond issuers in advising on, structuring of, pricing of, distributing and providing secondary market support for debt securities across different markets and in varied market conditions. The infrastructure, talent and systems required to support these services is significant and the competition among providers is high. Moreover, as GE Capital engages multiple firms and accesses a number of widely offered market information sources we believe there is a high level of market transparency, particularly available to and about frequent issuers. Over the past five years, GE Capital has engaged more than 40 separate institutions to support debt issuance either as lead or co-lead underwriters.

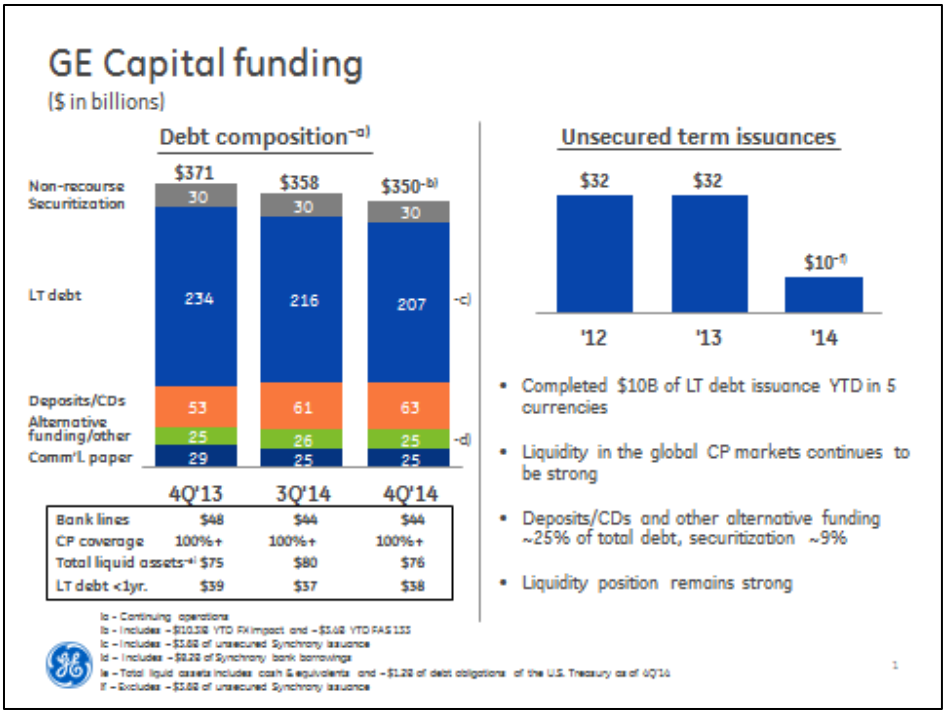
In addition, GE Capital has for many years devoted considerable management time and resources, as well as a dedicated professional staff, to fixed income investor outreach. The purpose of this outreach is to engage directly with the institutional and retail investors globally who are, or may become, the ultimate holders of the Company's debt, to present information about its business operations, performance and funding plans. This also creates a channel for bi-lateral communication to address investor questions and capture feedback on a range of topics. The Company also conducts a regular series of non-deal related "road shows" to engage personally with investors. Investors, both equity and fixed income, also have access to an extensive amount of information about GE and GE Capital operations via periodic securities filings and through www.ge.com/investor-relations, a website designed specifically for this purpose.

These sources of market feedback, both direct and indirect, provide important signals regarding investor and dealer perceptions of the fair and effective performance of the fixed income markets we participate in – and the opportunity for GE Capital or its stakeholders to take action if there is evidence that GE Capital or its stakeholders are not well served.

Information on the relative performance of GE Capital's benchmark bond transactions in major currencies (USD, EUR and GBP) is readily available to the Company, its investors and its competitors through a variety of sources, including investment banks, Bloomberg and TRACE. GE Capital's bonds are traded by many market makers, thus, under most market conditions, market-wide transparency on GE Capital benchmark bond issuance is, we believe, quite good. Examples may be found in Attachment 1.

- Debt Issuance Process

GE Capital's debt issuance is conducted in a variety of ways, depending on the instrument and, in certain markets, the type of investor (i.e., institutional or retail). Our experience has been that there is no "one size fits all" approach in addressing corporate bond investors particularly as market practices frequently differ by geography or due to local regulation. As a rule, such differences require the engagement of market practitioners with local expertise and knowledge.



- Corporate bond issuance

GE Capital's long term debt is placed with investors in currency markets around the world generally through underwriters that are judged to be best qualified to execute the Company's funding transactions in a specific currency market. From time to time the Company will "re-open" a debt transaction to accommodate incremental demand observed for a specific issue while preserving the structure of the original transaction.

The Company will also entertain "reverse inquiry" transactions with institutional investors who may register their interest to the Company through the securities dealer community. Reverse inquiries may represent a mutually beneficial transaction as it presents an opportunity to tailor issuance to meet the specific needs of the investor and is, therefore, highly likely to remain in the investor's portfolio until maturity, thus contributing to funding stability.

Long term debt is also placed with retail investors in the U.S. through one of several highly automated "hub and spoke" platforms which make weekly offerings of GE Capital (and other issuers' debt) via a network of registered broker / dealers. One such platform, Incapital, has been utilized by GE Capital since 2002 and accounts for $11 billion, or 10%, of GE Capital's US long-term debt balance. Working with underwriters, the company may also structure debt transactions specifically for retail investors in various markets including, for example, the U.S., Italy and Japan.

In these various forms, new issuance of unsecured long-term debt over the five years ending 2014 totals $134 billion in 13 different currencies.

- Commercial Paper

GE Capital offers its unsecured commercial paper on a continuous basis directly to institutional investors in the US through an in-house sales and placement team. In the U.S. GE Capital commercial paper is also offered for sale over Bloomberg, a subscription based electronic platform that allows pre-authorized institutional investors to execute purchases electronically at rates which are set by the issuer based on market factors and the

Company's short term funding needs. Commercial paper is also placed with investors in the Euro and Pound Sterling markets through qualified dealers appointed by GE Capital for that purpose. The direct placement of commercial paper in the US and the identification of the institutional buyers in foreign currency markets provide an opportunity to balance specific investor demand while achieving competitive pricing and investor diversification objectives.

- Other forms of debt

Either directly, through wholly-owned affiliates or through third-party channels, GE Capital is an issuer of other forms of debt including Certificates of deposit, covered bonds, securitizations, direct bank borrowing and retail targeted funding programs.

Market structure

- Flexibility and Resiliency

Fixed income market practitioners, particularly in the major currency arenas, have traditionally provided both issuers and investors with a broad range of products suited to their individual needs. These naturally change over time due to, for example, business strategy, market conditions or regulatory actions. While this has contributed to market heterogeneity it also underscores one of the real virtues of the fixed income market: the flexibility to structure solutions to meet the specific business needs of both issuers and investors in a timely fashion.

As a (primarily) market funded financial services company, GE Capital has been an issuer in the fixed income market for more than 60 years. This market has presented the Company with a wide range of funding solutions to support a dynamic global business strategy and broad based lending to both consumers and commercial borrowers, including mid-market customers. New funding products and programs have been developed over time to access a more diversified and international investor base, penetrate new geographies and manage interest rate or currency risk more effectively. Some have been bespoke or narrowly targeted solutions while others have been designed to appeal to a broader market or to tap a specific investor base. These actions have typically been delivered swiftly and largely independent of the traditional bank lending model. Examples include:

- New institutional debt programs in developed markets (Canada, Japan, Australia)
- US retail issuance platforms designed specifically for that purpose
- Retail targeted underwritten issuance in selected off-shore markets
- Sukuk (or Islamic) funding
- Covered bond issuance via regulated affiliates

Importantly, the fixed income market has allowed GE Capital to consistently issue debt at what the investor response demonstrates are fair and market established pricing levels. This is attributed, in part, to strong competition within the investment banking industry and to the market-led development and refinement of the market microstructure, which has led to improved transparency.

Most corporate issuers have access to fixed income funding solutions beyond the traditional bank loan market -- where credit may at times be constrained by conditions in the banking industry. Corporations in the established bond markets may issue securities that carry a range of pricing options, including fixed or floating

rates of interest and use various indices and other features to meet their specific asset / liability optimization requirements.

Investors have likewise found the range of flexibility useful as the market has allowed them to adjust exposure in a variety of ways that support their specific investment strategies or changing market views. These may include, for example, duration, rate, credit, sector and subordination.

Given the overall flexibility afforded to market participants a robust over-the-counter ("OTC") market has developed over time with a natural reliance on market makers for both primary issuance and secondary trading. Numerous attempts have been made to introduce electronic platforms for secondary corporate bond trading, although investors appear to limit such trading to small or "odd-lot" amounts today and prefer to execute larger amounts through the dealer community. We note the announcement of a new platform to be launched in 2015 by Zurich based SIX Swiss Exchange to provide market participants with more efficient trading of larger blocks and in less liquid issues. Similarly, MarketAxess and BlackRock are expanding their U.S. trading alliance into the European credit markets, seeking to improve liquidity and reduce transaction costs for European fixed income market participants.

As innovative, market led responses to changing conditions, we support the growth of these and other platforms and their wider use by investors, however, we continue to see electronic platforms as an adjunct to, and not a substitute for, the secondary market liquidity provided by professional market makers.

- Recent Challenges

While GE Capital has been able to meet its funding requirements and enjoys a diverse and global investor base, we are aware that new capital and liquidity rules applicable to regulated banks have reduced secondary market liquidity for corporate bonds. Some estimates suggest that dealer inventories of corporate bonds are down by as much as 75% from pre-crisis levels. We hear directly from institutional investors that it is more difficult, particularly for the larger investors, to trade out of positions, bid/offer spreads have widened and trading lot sizes have shrunk. This situation is exacerbated by the fact that some institutional investors have experienced significant growth in assets under management in recent years while market makers' balance sheet capacity to support the corporate bond market have moved in the opposite direction.

Three broad themes have been raised in the Consultative Questions:

1. How can transparency in both the new issue market and in secondary market trading be improved?
2. What can be done to ensure that the fixed income markets operate in the most efficient manner possible so that issuers and investors are able to meet their respective needs?
3. Would standardization in the structure of bonds and/or the use of electronic trading platforms help achieve #1 and #2?

We believe that it is important to recognize the different categories of issuers in any discussion of these themes. It should also be noted that the needs of the investor community are different depending on the size and particular focus of the institution.

- Segmenting corporate bond issuers

Different issuers address the market in different ways, creating challenges for process standardization. Depending on the size of their funding need, frequency of issuance and credit quality, issuers would naturally approach the market and the issuance process quite differently. Consider the following categories of issuers:

- **Frequent, investment grade issuers**, such as GE Capital, have a large amount of outstanding debt across a variety of maturities and capital classes. Secondary market trading is naturally more frequent and therefore more transparent, facilitating the ongoing determination and assessment of pricing levels by investors. Issuers who return to the market (and very likely to many of the same investors) frequently will put more weight on the quality of the issuance process and continuity of investor engagement.

- **Infrequent investment grade issuers** may approach the market in a different manner and with different views on deal size and pricing. This is especially true if their existing debt is closely held and rarely trades. Their issuance volume will make price transparency more challenging and there may be less concern about the continuity of the issuance process.

- **High yield issuers** will generally come to market less frequently, may have issues in the market that are thinly traded or may lack peers available to benchmark. Some greater management of portfolio managers and analysts may be necessary, particularly as the credit quality of the issuer diminishes.

- **New issuers may** present the greatest challenge for investors in terms the price discovery process. More analysis is required and a greater reliance is placed on the dealer community.

- New issue process

For the latter three issuer categories above; infrequent investment grade, high yield and first- time issuers, the market appears well served by the price discovery process which is currently afforded by professional market makers. For frequent investment grade issuers, we believe that a desire for tight control around this important corporate function makes new issuance through an electronic platform or an auction process undesirable. As mentioned previously, attempts have been made in the past to use both for new issuance and, to our knowledge; none have been successful on a large or continuing scale. As expressed above, the debt issuance process is naturally different for every issuer and one form or style may not be optimal for all issuers. Importantly, market volatility can create challenges that an electronic platform or auction process simply cannot adequately address. This inflexibility has the potential to destabilize the funding process and undermine investor confidence at the most critical time in the transaction cycle. No electronic platform can adequately respond in a timely fashion to the changing preferences or concerns of institutional investors as markets move, nor can it give the issuer a reasonable assurance of good execution in volatile markets.

The purest product which trades on an exchange is common stock which, of course, is a single, homogeneous product and carries the highest degree of price transparency. Comparisons of corporate bond issuance to a company's common equity in the FEMR and elsewhere are, in our view, unhelpful and belie the true nature and value of the fixed income market for both issuers and investors. Common stock holders invest in hope of returns in excess of their investment. Debt holders invest in hope of getting paid back principal with interest. Debt holders must have the flexibility to have tailored investments to match the risk and return they are willing to take which will vary. In the context of corporate bond funding, extremes in standardization would be neither fair nor effective to issuers or investors.

- Standardization

GE Capital generally favours efforts to standardize corporate bond issuance to support increased secondary market liquidity, provided that such standardization does not:

- Conflict with or impede issuers' ability to meet applicable regulatory expectations or requirements or prudential standards related to asset/liability management, liquidity management and investor diversification.

- Limit the flexibility of issuers to meet their unique business funding requirements or their ability to respond to unique and specialized investor demand.

GE Capital is actively engaged with other policy-makers and market participants to assess opportunities for standardization and closely examine the potential benefits and costs of such action.

In one of its Viewpoint commentaries, the investment management firm, BlackRock, Inc., highlights the diminishment of liquidity in the secondary market for corporate bonds driven primarily by new banking regulations. In offering solutions, BlackRock makes the case that corporate bonds should carry certain standardized features, including:

- Minimum tranche size of $750 million.
- SEC Registration
- Semi-annual coupons with coupon and maturity dates that fall on one of the four IMM dates
- A 3-month par call option prior to maturity date to address refinancing flexibility
- Bonds would contain a make whole call option set at 15% of initial credit spread rounded to nearest multiple of 5 bps
- Bonds would be listed on ECN or another regulator approved platform
- All bonds would be underwritten, i.e. no private placements
- Only investment grade bonds would be considered
- Bonds can be reopened
- The bonds would trade and be reported on TRACE

GE Capital is already following many of these practices in their corporate bond issuance in the U.S. market today. As shown below, at year-end 2014, GE Capital had approximately $109 billion of corporate bonds outstanding in the US market, of which $82 billion (76%) are represented by just 42 issuances. These transactions already carry most of the characteristics highlighted above and similar features exist in the Company's Euro and Pound Sterling benchmark bond issuance.

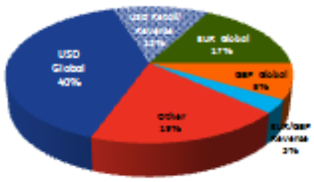
The balance of GE Capital's U.S. corporate bond issuance ($24 billion in 524 transactions) results from either reverse inquiry or weekly issuance under the continuously offered retail program mentioned earlier. These achieve important objectives related to investor diversification and funding stability and would not be held or traded by large fund managers.

GE Capital corporate bond funding

(As of 12/31/2014)

- Long-term debt issuance supported by a diverse and global investor base

Total O/S $208B ... 800 Trades



Benchmark Issuance [1]

	Trades	$O/S
USD global	42	82.4
EUR global	25	35.6
GBP global	20	17.5
Total	87	135.5

Retail, reverse, other

	Trades	$O/S
USD	524	26.5
EUR/GBP	33	6.5
Other CCY	156	39.4
Total	713	72.4

Standardized form benchmark issuance:

- US 7% of trades ... 76% of LT debt O/S
- Globally 11% of trades ... 65% of LT debt O/S

76% of USD issuance in standardized format

1. USD $720MM+, EUR $720MM+, GBP $300MM+

- **Concerns with Standardization**

GE Capital's main concern with standardization centers on liquidity risk and avoiding an unduly large amount of debt maturing at one time or during a single defined period. Concentrating interest payment dates potentially creates the same risk and may also concentrate debt re-pricing around common interest rate determination dates. A 3-month par call feature prior to the maturity date may help mitigate some of this pressure, but creates some level of uncertainty for debt holders. Re-opening existing corporate bond issues is a common practice today and is managed within specified limits to avoid a build-up of maturities and the attendant liquidity challenges.

- **Electronic platforms and auctions**

For the new issuance process, GE Capital values the skill and services of underwriters and expects to continue to use them to support the majority of the Company's corporate bond issuance. Electronic issuance or Dutch auction platforms are attractive in theory and, as mentioned previously, may work in stable markets, but can create challenges for all parties in volatile markets. For frequent issuers, these are business critical processes and the strong leadership from a well selected group of underwriters is essential in ensuring that a deal is executed in an orderly manner. Further, during the new issuance process, investors may want to switch out of current positions to make room for the new transaction. These transactions are better facilitated with dealers, just as they frequently do in crossing U.S. Treasury securities.

We often hear from smaller institutional investors that they feel disadvantaged in the allocation process. GE Capital has addressed this in a variety of ways such as engaging targeted placement firms with a specific mandate to sell solely to smaller institutional accounts. We recognize, however, that market makers still tend to allocate proportionately more to the larger and more consistent institutional buyers. This is not inconsistent with our own natural preference for a "buy and hold" investor and to avoiding the unhelpful influence of "flippers" on stable funding and price performance.

Summary remarks

The currently constructed corporate bond market is an integral part of GE Capital's diversified funding profile, an important source of business capital and a major influence on the stability of our funding and business model. In our view, while the infrastructure that supports the bond market continues to evolve and improve, it has generally served our Company and our bond investors in a fair and effective manner.

By necessity, design and nature, the corporate bond market is not homogeneous and is in a constant state of change as market participants respond to the economic environment, regulatory and market forces and new technologies. The flexibility it offers issuers and investors to adapt to these changes should be steadfastly preserved.

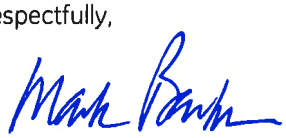
Recent concerns around the lack of secondary market liquidity and the potential systemic risks that may arise from this have been driven by both structural changes and regulatory actions. Regulatory actions have altered the economic incentives for traditional market makers to support the secondary market for corporate bonds and it will take time for these new influences to be fully revealed. We support the market-led initiatives underway to develop economically viable alternatives to supplement the role of traditional market makers.

Exacerbating current liquidity constraints is the continued concentration of fixed income assets with large fund managers who are necessarily focused on potential new or heightened limitations on their ability to (1) achieve their portfolio management objectives and (2) meet the near-term liquidity demands of their investors. A range of mitigating actions may exist either within the asset management business model or externally (as noted above), or both. We support efforts to increase stakeholder awareness of these issues and any associated risks.

The fixed income market has functioned well over the years in bringing corporate bond issuers together with investors to support global economic growth. This is evidenced by record levels of corporate bond issuance in recent years, including the corporate bond issuances of GE Capital. As long-time participants we have adopted features and tailored our debt issuance processes to achieve wide market acceptance and investor appeal in the primary and secondary markets while supporting the business objectives of GE Capital. This will continue.

We recognize and appreciate the changes influencing the market today and their impact on all stakeholders – and we applaud the sponsors of the FEMR for highlighting the challenges and vulnerabilities that arise with these changes. However, we are concerned about any initiative that requires standardization of markets and market practices focused on new and untested methods without considering both the costs and the benefits of any such efforts, including the flexibility currently available to all issuers and investors.

Respectfully,



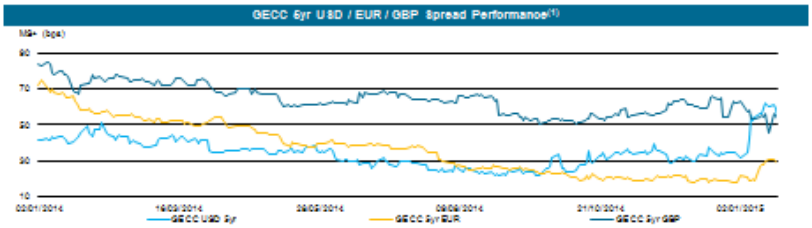
Mark S. Barber
Deputy Treasurer – Global Relations

Attachment 1

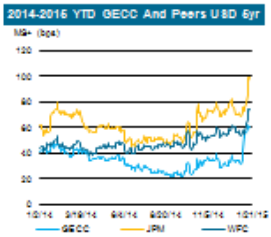
GECC 5yr Spread Performance

GECC and peers saw strong secondary performance in the first half of 2014, but valuations retreated towards the end of the year

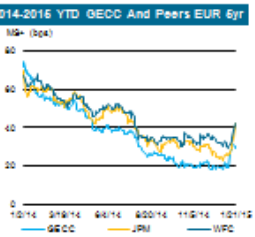
GECC 5yr USD / EUR / GBP Spread Performance[1]



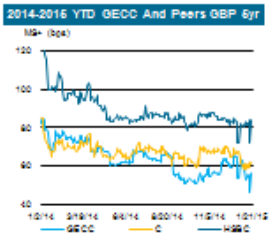
2014-2015 YTD GECC And Peers USD 5yr



2014-2015 YTD GECC And Peers EUR 5yr



2014-2015 YTD GECC And Peers GBP 5yr



Multiple Sources Available For Investors To Track Secondary Market Spreads

There are several different platforms that allow market participants the ability to view the prices and trading performance / flows of GE and GECC securities

GE/GECC Is Quoted By Traders

GE/GECC Spread Data Available Via Indices

Bloomberg Updates Each Security's Historical Price Daily...

...And Makes Available Secondary Trades Reported To TRACE