Kathryn A. Cassidy
Senior Vice President and Treasurer

GE Capital
201 High Ridge Road
Stamford, CT 06927

T 203.357.6199
F 203 585.1191
Kathy.cassidy@ge.com

April 16, 2010

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002
Basel, Switzerland

baselcommittee@bis.org

Re: *International framework for liquidity risk measurement, standards and monitoring*

Ladies and Gentlemen:

General Electric Capital Corporation ("*GE Capital*") appreciates the opportunity to provide our thoughts on the Basel Committee's recent Consultative Document *International framework for liquidity risk measurement, standards and monitoring* (the "*Liquidity Proposals*").[1]

GE Capital is a subsidiary of General Electric Company ("*GE*"), a diversified holding company that employs approximately 320,000 people and operates in approximately 160 countries worldwide. GE's businesses include energy, technology infrastructure, media and consumer products, as well as financial services. GE Capital provides a broad range of financial services, with a focus on providing credit and banking products to consumers and small- to medium-sized businesses.

GE Capital is committed to careful management of our risk profile, capital and liquidity needs. Recognizing the key role that liquidity played in the recent financial crisis, we appreciate the Committee's efforts to work toward an international consensus on how best to apply the lessons of recent years. We operate several regulated banks in the U.S.,

[1] GE Capital is submitting separately a comment letter on the Committee's Consultative Document *Strengthening the resilience of the banking sector* (the "*Capital Proposals*").

the E.U. and elsewhere in the world, giving us a vested interest in the outcome of the Liquidity Proposals. In addition, although many of our businesses are not subject to direct regulation by financial regulators of a particular jurisdiction, we expect that the final rules resulting from the Liquidity Proposals will influence international business practices and will affect the ways that investors, analysts, rating agencies, and supervisors evaluate banks and other financial services providers. Accordingly, we are keenly interested in implementing sensible standards to strengthen liquidity while giving appropriate credit to the knowledge that institutions and their regulators have accumulated about the markets they operate in.

In the wake of the recent financial crisis, it is evident that there is a need for supervisors to put forward improved liquidity risk management standards. In particular, we recognize the need for a short-term survival ratio to provide a framework for supervisors to ensure that firms maintain sufficient liquidity to endure an acute stress period. In addition, we support the need for a ratio promoting the longer term structural funding of balance sheets. However, we also believe that in developing these ratios, particular attention must be paid to an institution's historical experience and the industry's experience in a stress environment. In light of this, we have some fundamental concerns with the Liquidity Proposals.

Our general concerns with the Liquidity Proposals are as follows:

- The Proposals contain extreme assumptions on cash outflow and funding access that are not supported by either GE Capital's experience or the experience of the financial industry as a whole. If these proposals are to be more broadly applied beyond traditional bank deposit-based funding models, then further refinement, based on industry experience, is needed.
    - The Proposals have yet to incorporate the results of the Quantitative Impact Study *("QIS")*. They should be republished for comment after the QIS data is digested and the full impact of the Proposals can be quantified.
        - The final guidance should incorporate a suitable phase-in period to mitigate the potential for severe market disruptions.
    - In the alternative, the Proposals should be less prescriptive, and thereby give enough latitude to supervisors to assess liquidity metrics

based on their detailed understanding of an institution's specific liquidity risks.

- The liquidity coverage ratios unduly penalize the use of wholesale funding and discount the role that it plays in the financial system, potentially leading to wide-ranging impacts on the commercial paper market as well as long-term credit markets.

Our specific concerns with the Liquidity Proposals are as follows:

- The Proposals impose an asymmetrical treatment between lenders and borrowers of credit lines in the Liquidity Coverage Ratio *("LCR")*, both between affiliated entities and with third parties.
- The Proposals assume that a categorical lack of access to wholesale funding would continue for an entire year in the Net Stable Funding Ratio *("NSFR")*.
- The Proposals require stable funding for non-renewable loans[2] maturing in less than one year that are durational match funded even though these loans pose no refinancing or structural funding mismatch risk (the unintended consequences of which would be to effectively introduce interest rate risk and potentially foreign exchange risk where none exists today).

I. General Concerns

A. Approach

We do not believe that there is currently enough empirical support for many of the assumptions behind the proposed liquidity ratios, or for so dramatically favoring some types of funding over others. In this regard, it is our understanding, based on interactions with industry peer groups, that the impact of the Liquidity Proposal may result in a funding gap of as much as $1 to $2 trillion across the largest banks worldwide. In such a scenario, institutions effectively must decrease lending and other forms of credit to customers and the market and ultimately the real economy will suffer. Indeed, we have difficulty envisioning a scenario under the Liquidity Proposals in which the overall supply of credit to the real economy does not shrink. Furthermore, we believe that the cumulative impact of the Liquidity Proposals, along with the Capital Proposals, will

---

[2]Under the Proposals, this treatment is applicable to all loans to retail and non-financial customers having a maturity of less than one year.

ultimately result in institutions becoming less appealing to investors, facing higher costs of capital and lower returns thereon, and thereby becoming less, not more, resilient in the face of future shocks.

In light of this, we believe that the Committee's stated intention to provide final guidance on liquidity by the end of 2010 will leave too little time to arrive at an appropriate result. The Liquidity Proposals are detailed and quantitative, yet at the same time they propose many funding formulas and other concepts with little elaboration of the modeling used to derive them. We recommend an extension of time that will allow the Committee to publish the research on which it has relied to date, recalibrate certain components of the liquidity ratios based on feedback in comment letters and the results of the QIS, and then publish for comment revised Liquidity Proposals together with updated research on how the various funding formulas have been established. We believe that following such a review process, the Committee should recommend that the completed Liquidity Proposals be phased in gradually by national regulators to minimize the disruption to financial markets.

Alternatively, the Liquidity Proposals could strike a better balance between rule-based regulations (so-called Pillar 1 regulation) and prudential supervision by national regulators (Pillar 2 regulation). In other words, given the difficulties inherent in a "one size fits all" formulaic approach to liquidity regulation, the Committee may more effectively achieve its goals by issuing less prescriptive guidelines to be used within a supervisory framework.

B. Wholesale Funding

We recognize that the risks of wholesale funding and retail funding are different and that in some cases it may be reasonable to assume that a particular source of wholesale funding would be less persistent than a particular source of retail funding. However, it is important to utilize both industry and institution specific experience during the recent financial crisis to determine the appropriate treatment in the liquidity ratios.

It should also be noted that regulatory initiatives that discount wholesale funding entirely will not increase the availability of retail funding, for the simple reason that wholesale suppliers of funding cannot and will not be converted into retail suppliers. Thus, the necessary macroeconomic effect of penalizing a reliance on wholesale funding will be to

reduce the supply of credit to borrowers. We believe it is critical that the Liquidity Proposals be revised to avoid that result.

II. Specific Concerns

Our more detailed observations fall into two categories: (i) comments on the proposed Liquidity Coverage Ratio *("LCR")*; and (ii) comments on the proposed Net Stable Funding Ratio *("NSFR")*.

A. Liquidity Coverage Ratio

1. Lines of Credit (External). Under the current proposal, all lines of credit to financial institutions are assumed to be 100% drawn for purposes of calculating net cash outflows, while all lines of credit from financial institutions are assumed to be unavailable for purposes of calculating net cash inflows during the LCR's 30-day stress scenario (Paragraph 76). We disagree with the asymmetrical treatment of these lines of credit. Even in a severe downturn, the expected availability of credit lines will almost always be greater than zero and the utilization will not be 100%.[3] Rather, we strongly recommend more robust and symmetrical assumptions be developed with input from national supervisors to reflect the recent industry experience and the likelihood and magnitude that lines of credit would be utilized and available. In establishing standards regarding expected inflows and outflows, important factors to consider would include the credit quality of the line provider and the structure of the credit lines themselves (e.g., their unconditional availability).

If the Liquidity Proposals were to be implemented as proposed, there would be a significantly unfavorable impact on the commercial paper market. Lines of credit to financial institutions serve to stabilize the commercial paper market because they provide additional confidence to investors that short-term obligations will be met under stress scenarios. If these lines are assumed to be 100% drawn, the price that back-up line holders would have to pay to obtain these credit lines would be prohibitive and the end result would be the destabilization and disruption of the commercial paper market. The

[3] It is our understanding that during the financial crisis the total draw on lines of credit by financial institutions was less than 10% of the available outstanding lines. We believe that once all of the data from the QIS is fully compiled and analyzed it will be apparent that historical evidence from the financial crisis does not validate the assumption of 100% utilization of credit lines.

contraction of this funding market would require institutions to shrink their balance sheets or replace commercial paper with more expensive longer-term funding and ultimately would result in a reduction of available credit and an increase in credit costs.

2. Lines of Credit (Inter-Company). In computing the LCR under the Liquidity Proposals, an institution would have to assume that all inter-company unfunded credit lines to all affiliates of the institution will be fully drawn while asymmetrically assuming no corresponding inflows to the receiving group entities. This asymmetrical treatment of intra-group liquidity inflows and outflows could dis-incentivize groups from maintaining the types of group liquidity management arrangements that can greatly strengthen the resilience of an entity or the group to external shocks.

We strongly believe that the LCR should be symmetrical within a group of multiple entities, such that when one entity assumes a cash outflow under a binding agreement, another would assume a corresponding cash inflow. We recognize that there may be concerns regarding the ability of specific institutions within a group to honor contractual obligations during times of stress. We believe, however, that such concerns are best addressed through co-operation and dialogue between national supervisors. Universally assuming asymmetry, when applied to entities under common control, does not accurately reflect the industry's historical experience in stress environments.

3. Treatment of Insured Retail Deposits and Other "Stable Deposits." We agree with the concept of distinguishing between "less stable" deposits and "stable" deposits (Paragraph 41). In our view, however, a deposit should be considered "stable" unless empirical data indicates a heightened risk of run-off. This approach would allow, for example, all portions of deposits covered by effective national deposit insurance of selected countries to qualify as "stable."

4. Definition of High Quality Liquid Assets. We appreciate that the classes of assets qualifying as high quality liquid assets under the Liquidity Proposals are intended to be limited. However, the "fundamental characteristics" and "market-related characteristics" of a high quality liquid asset that can be converted to cash at little to no loss of value, as articulated in Paragraphs 28 and 29, are found in a broader range of assets, specifically certain debt obligations discussed below, than the list in Paragraph 34 specifies.

Obligations of Government-Sponsored Enterprises. Paragraph 34 lists the assets that are proposed to be included in a company's stock of high quality liquid assets for purposes of the LCR. Securities "issued by banks or other financial services entities" are specifically excluded, even GSE securities guaranteed by sovereigns (Paragraph 34(c)(iii)). We recommend including the obligations of a GSE, particularly when guaranteed or supported by the relevant sovereign.[4] These obligations have appropriate characteristics such as low risk and high liquidity to justify their inclusion in high quality liquid assets.

Corporate and Covered Bonds. We also support the inclusion of highly rated, liquid corporate and covered bonds in the stock of high quality liquid assets. Such bonds, especially when meeting the extensive criteria set forth in the Liquidity Proposals (Paragraph 36), have the quality and liquidity to justify their inclusion in the numerator of the LCR. The proposed 20% and 40% haircuts are presented without elaboration or derivation. We believe that the Committee should disclose the research it has used to model these haircuts to allow more meaningfully informed comment on this aspect of the Liquidity Proposals.

B. Net Stable Funding Ratio

1. Required Stable Funding Factors and the Treatment of Certain Loans with a Maturity of Less than One Year. We understand that the Committee is specifically focused on establishing a minimum acceptable amount of stable funding based on the liquidity characteristics of an institution's assets and activities over a one year period. Overall, the metric is meant to incent structural changes in liquidity risk profiles away from duration funding mismatches.

We believe in the concept of match-funding and it's inherent benefits in mitigating risk. Given this, we are particularly concerned with the application of Required Stable Funding ("*RSF*") requirements (50% for non-financial loans and 85% for retail loans) to non-renewable loans maturing in less than one year. All match-funded, non-renewable loans, including those with a maturity of less than one year, should be treated the same as non-renewable loans to financial companies with a similar maturity (i.e., receive a zero RSF factor) given their match-funded nature.

---

[4] In the U.S. this might include, for example, the debt issued by Fannie Mae and Freddie Mac, which as of 2008 is backstopped by the U.S. government through agreements that support the obligations of those firms.

By effectively requiring funding longer than the duration of the asset, the Liquidity Proposals would lead to balance sheet mismatches for maturing loans and therefore expose those institutions who already match-fund for both duration and interest rate to significant new interest rate (and potentially foreign exchange) risk.

2. Available Stable Funding Factors and the Treatment of Certain Liabilities of Less than One Year. We would strongly recommend that the Committee reconsider the severity of any medium to long-term stress scenario used in determining available sources of funding.

In particular, it is not realistic to assume the loss of all access to wholesale funding for an entire year.[5] The Proposals should be further clarified and take into account the current prudent liquidity management strategies employed by wholesale funded financial institutions. For example, outstanding commercial paper balances should be given available stable funding credit, if they are supported by legally enforceable unconditional liquidity lines, provided by creditworthy institutions.

The commercial paper market is both an important source of short-term funding and a cash management tool for institutions globally. As currently written, the proposal would effectively disrupt a large portion of the commercial paper market because debt issued with a maturity of less than one year would be less attractive as no available funding credit is allowed to issuers. Introducing conflicting pressures on supply and demand in the commercial paper market would have unpredictable negative effects and would surely lead to decreased credit availability and higher costs of credit for customers as longer-term wholesale funding is relied upon more heavily.

Finally, historical evidence suggests that institutions have the ability to conduct asset sales and accomplish a reasonable degree of prospective balance sheet shrinkage over a year-long time horizon, yet there is no allowance for this in the Liquidity Proposals. At a minimum, institutions and their national supervisors should be given reasonable leeway to account for potential asset sales and loan pre-payment behavior based on institution-specific circumstances and historic experience.

---

[5] The Proposals assess a 0% credit for wholesale funding sold to financial institutions and 50% credit for funding sold to non-financial customers.

Again, we appreciate the opportunity to provide our comments and hope that the Committee will find them constructive.

Very truly yours,

KATHRYN A. CASSIDY
Senior Vice President and Treasurer
GE Capital

cc:
Office of Thrift Supervision
Harborside Financial Center Plaza Five
Suite 1600
Jersey City, NJ 07311
Attn: Michael Finn

Office of Thrift Supervision
1700 G Street NW
Washington, D.C. 20552
Attn: Michael Solomon

Office of Thrift Supervision
1700 G Street NW
Washington, D.C. 20552
Attn: Grovetta Gardineer