FINANCIAL STABILITY OVERSIGHT COUNCIL ANNOUNCES RESCISSION OF NONBANK FINANCIAL COMPANY DESIGNATION

Council votes to rescind designation of GE Capital

WASHINGTON – The Financial Stability Oversight Council (Council) today announced that it has voted to rescind its determination that material financial distress at GE Capital Global Holdings, LLC (GE Capital) could pose a threat to U.S. financial stability and that GE Capital should be subject to supervision by the Board of Governors of the Federal Reserve System and enhanced prudential standards. The Council unanimously determined that GE Capital no longer meets the standards for a determination, with one member recused.

The Council designated GE Capital in July 2013 and explained to the company the potential risks that the Council had identified. Since the Council’s determination, the company has executed significant divestitures, transformed its funding model, and implemented a corporate reorganization. As a result, the company is a much less significant participant in U.S. financial markets and the economy. The Council concluded that these and other changes at GE Capital since the Council’s determination have significantly reduced the potential for GE Capital’s material financial distress to threaten U.S. financial stability. The public explanation of the basis for the Council’s rescission is available here.

“Today’s decision clearly demonstrates that the Council’s designation of nonbank financial companies is a two-way process. The Council will remove a designation when that company no longer poses risks to U.S. financial stability,” said Treasury Secretary Jacob J. Lew. “The Council follows the facts: When it identifies a company that could threaten financial stability, it acts; when those risks change, the Council also acts.”
“One of the key lessons from the financial crisis is that the distress of large, interconnected financial firms can threaten the entire system – making the Council’s authority to designate nonbank financial companies for supervision and enhanced prudential standards so important.

“Since its creation, the Council has designated four nonbank financial companies that could threaten U.S. financial stability. In each case, the Council conducted a rigorous, data-driven analysis, engaged extensively with the company, and provided a detailed explanation of the Council’s concerns to the company. The Council has also conducted numerous annual reviews of its designations.

“The Council’s rescission of GE Capital’s designation is the result of a methodical analysis of risks that is in keeping with the law and the lessons of the financial crisis. The Council designated GE Capital in 2013 after identifying a number of key concerns, including the company’s reliance on short-term wholesale funding and its leading position in a number of funding markets. Since then, GE Capital has made fundamental strategic changes that have resulted in a company that is significantly smaller and safer, with more stable funding. After a rigorous review and engagement with the company over the last year, the Council determined that based on these changes, the designation is no longer warranted.”

The Dodd-Frank Act requires the Council to review each nonbank financial company determination at least annually and rescind a determination if the Council, by a vote of two-thirds of the voting members, including an affirmative vote by the Chairperson, determines that the company no longer meets the statutory standards for a determination.

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 annual reevaluation of the determination regarding the company. The company was invited 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 determination, and in April and May 2016, staff of Council members and member agencies met with the company and engaged in follow-up discussions. Staff of Council members and member agencies also consulted with several of the company’s regulators: the Federal Reserve, the Federal Deposit Insurance Corporation, and the U.K. Prudential Regulation Authority.

On Tuesday, June 28, 2016, the Council voted to rescind its determination regarding GE Capital and provided the company with a detailed statement of the basis for the Council’s decision. The public explanation of the basis for the Council’s rescission of the determination 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.

During its reevaluation of the determination regarding GE Capital, the Council carefully considered a broad range of information available through public and regulatory sources, as well as information provided by the company. The Council’s rescission of the determination was
based on extensive quantitative and qualitative analyses of GE Capital, taking into account the company’s businesses and activities.

Further information about the Council, including the explanation of the basis for the Council’s rescission of its determination regarding GE Capital and the Council’s procedures for annual reevaluations generally, is available on the Council’s website at www.fsoc.gov.

###