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April 30, 2012

Via Federal eRulemaking Portal and U.S. Mail

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Federal Reserve Board Notice of Proposed Rulemaking on Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies (RIN 7100-AD-86) Issued Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act")

Dear Ms. Johnson:

We appreciate the opportunity to offer our comments in response to the Federal Reserve Board's (the "Board") notice of proposed rulemaking on Enhanced Prudential Standards and Early Remediation Requirements for Covered Companies (the "NPR").

MetLife has been in the business of providing insurance for over 140 years and is a leading global provider of insurance, annuities and employee benefit programs serving 90 million customers in over 50 countries. The MetLife companies offer life insurance, annuities, auto and home insurance, as well as group insurance and retirement and savings products and services to corporations and other institutions. MetLife's products and services are offered globally, through agents, third party distributors such as banks and brokers and direct marketing channels.

We are providing comments to the NPR from the perspective of a company that is primarily engaged in insurance activities and with experience as a Bank Holding Company ("BHC"). As such, we are uniquely positioned to provide a perspective on the application of banking regulatory and capital standards to insurance companies, their relevance in managing safety and soundness of an insurance company, and the resulting business and competitive consequences.

MetLife's view on the inclusion of insurance companies as Non-Bank Systemically Important Financial Institutions ("SIFIs")

- We realize that when making SIFI determinations, the Financial Stability Oversight Council ("FSOC"), will need to conduct firm-by-firm reviews, and then make firm-by-firm decisions. Nevertheless, we continue to believe that MetLife (as well as most members of the insurance sector) does not meet the criterion for which SIFI determinations may be predicated under Section 113 of the Dodd-Frank Act.

  Importantly, U.S. insurance companies are comprehensively and well regulated and have long standing capital and liquidity regulatory and operating frameworks that generally have been effective and have evolved and improved in light of past crises. These insurance-specific frameworks have contributed to dampening the impact of insurance company failures in the past. No past insurance company failure involving regulated, traditional insurance activities has generated systemic risk. We reiterate the position made in our December 19, 2011 comment letter to FSOC that MetLife and other insurance companies that substantially engage in regulated insurance activities should not be considered systemically important. Our views are consistent with the findings of U.S and foreign insurance regulators that "for most lines of business, there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy."[1]

- We acknowledge, however, some insurance companies that engage in a material amount of non-regulated and/or non-insurance activities may pose additional risk to the system. An important criterion in evaluating this risk is the extent to which such activities elevate the whole enterprise to the level of systemic importance due to the size of the potentially systemically important activity, heightened degree of interconnectedness, the lack of suitable substitutes and the potential for a significant impact to the real economy from the failure of the institution.

- We have significant concerns that a SIFI designation and therefore the application of the proposed enhanced prudential standards and early remediation requirements to only a few large U.S. insurance companies would introduce an unlevel playing field. This could put such companies at a competitive disadvantage not only against U.S peers but also against foreign insurance companies that are competing locally and are not subject to sufficiently equivalent standards.[2] Repeating our earlier points,

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[1] See Mary A. Weiss, Ph.D., Systemic Risk and the U.S. Insurance Sector, Center for Insurance Policy and Research, National Association of Insurance Commissioners, February 23, 2010, and John M. Huff, Testimony Before The Subcommittee on Insurance, Housing and Community Opportunity, Committee on Financial Services, United States House of Representatives, Regarding: "Insurance Oversight: Policy Implications for the U.S. Consumer", Director, State of Missouri, Department of Insurance, Financial Institutions and Professional Registration As Non-Voting Member of the Financial Stability Oversight Council, July 28, 2011 and Insurance and Financial Stability, International Association of Insurance Supervisors (IAIS), November 14, 2011.

[2] It is also possible that such companies would enjoy a competitive advantage since consumers may view a systemically important designation as "too big to fail" and therefore may be willing to pay more for products issued by such companies. While we do not believe an advantage would be created for SIFIs, we believe that the competitive playing field should remain level— no advantage or disadvantage should be created by a designation.

existing insurance capital and liquidity frameworks have contributed to dampening, if not mitigating, the impact of insurance company failures in the past and no past insurance company failure involving regulated, traditional insurance activities has generated systemic risk.

Appendix A addresses this issue in greater detail.

Considerations on the application of enhanced prudential standards to insurance companies designated as systemically important

- We have concerns regarding the application of enhanced prudential standards and the likely unintended consequences. Increased costs to compete in the marketplace would result in higher costs for insurance products. Such costs are likely to be passed on to consumers. Moreover, the increased costs to compete may make certain products, particularly long-term guaranteed products, economically less attractive to consumers. Reduced industry sales of such products would also likely impact related investment demand as insurance companies would have a reduced need to invest to match long-term product liabilities. Lower demand by insurance companies for long-term assets, while not a risk to the market, could push financing costs higher for long-term borrowers.

- While we understand the desire of regulators to have a common regulatory framework[3] and a consolidated enterprise view of risk, capital adequacy and liquidity, we also believe that any enhanced prudential standards applied to insurance companies must be tailored to fit their unique business models and risk profiles. In Appendix B, we discuss the unique characteristics of insurance companies which should be fully considered and factored into any standards that might be applied to insurance companies under Sections 165 and 166 of the Dodd-Frank Act.

- Based on our experience within the banking and insurance sectors, development and implementation of prudential standards, including new capital and liquidity requirements tailored specifically to insurance companies, will require thoughtful review of existing frameworks and coordination across global regulatory bodies. The Federal Reserve should work with state regulators, the National Association of Insurance Commissioners (the "NAIC"), the newly created Federal Insurance Office (the "FIO")[4] and with international supervisory counterparts to develop such a

[3] This is also consistent with the suggestion from the Joint Forum that "more consistency in prudential frameworks across sectors would be desirable due to the increasing exposure of financial groups to similar risk factors and increasing transfer of risks across sectors", IAIS, Insurance and Financial Stability (November 2011), p. 36.
[4] FIO is a new office within the US Treasury established by Title V of the Dodd-Frank Act. While it has no supervisory or regulatory authority, it has the mandate to advise on major domestic and prudential international insurance policy issues, consult with the states and state insurance regulators regarding insurance matters of national and international importance, identify issues or gaps in the regulation of insurance that could contribute to a systemic crisis in the insurance industry or the broader US financial system and to make recommendations to FSOC as to whether an insurer, including affiliates of an insurer, should be an entity subject to supervision

framework for any insurance company deemed systemically important by FSOC and the existing insurance risk-based capital framework should be a starting point for this effort. This will mitigate the risk of inefficiency and increased costs associated with inconsistent requirements and approaches to supervision.

- If the Board decides to impose the enhanced prudential standards identified in the NPR, including the proposed banking capital and liquidity frameworks, on any systemically important insurance company, it should address several elements that are inappropriate given the business model and risk profile of insurance companies. Appropriate considerations, which are discussed in-depth in Appendix C, include the following:

    - The inability of the proposed bank capital and leverage requirements to appropriately capture/measure an insurance company's risk profile and the necessary modifications or recalibrations required to remediate the problems and distortions that result. In particular, the Board should consider the appropriate treatment of separate accounts, policy loans, closed block assets and liabilities and other instruments and arrangements unique to insurance companies.

    - The restriction on certain exposures created by the proposed counterparty credit limit requirements does not recognize certain operating and regulatory constraints on insurance company's investment decisions. It also does not account for the mitigating impact of an insurer's liabilities, in particular, the offsets from changes in the economic value of liabilities in light of asset deterioration. The Board should recognize these offsets, exclude high quality foreign sovereign credits in exposure calculations, address specific considerations when implementing the proposed limits and recognize other risk mitigants for net credit exposure calculations.

    - The inability of the proposed liquidity requirements in the NPR developed for banking organizations to capture the less significant liquidity risks faced by traditional insurance companies. Insurance companies should be permitted to use internal models for liquidity risk analysis, liquidity stress testing and monitoring subject to supervisory review. Moreover, insurance companies should be allowed to calibrate proposed risk analysis and monitoring requirements based on insurance product risk profiles.

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by the Board of Governors of the Federal Reserve. The Office will also play a role in the resolution of certain troubled insurance companies.

Finally, Appendix D contains additional observations we have concerning the proposed prudential standards set forth in the NPR.

Thank you for considering our comments. We hope that our detailed comments, which were prepared with the assistance of outside experts from the financial services practice of Ernst & Young, prove helpful to the Board as it considers this rulemaking. If you have any questions concerning the views expressed in this letter, please feel free to contact me. We would be pleased to discuss our comments with you or provide any additional information you might need.

Res ectfull submitted,

Nicholas D. Latrenta
Executive Vice President & General Counsel

cc: Mr. Roy Woodall
Independent Member with Insurance Expertise
Financial Stability Oversight Council

Mr. Lance Auer
Financial Stability Oversight Council
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Mr. John Huff
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APPENDIX A

MetLife's view on the inclusion of insurance companies as Non-Bank Systemically Important Financial Institutions ("SIFIs")

We recognize that the intended objective of the proposed enhanced standards is to mitigate the potential for corporate failures that could cause widespread economic harm with the risk of requiring taxpayer bailouts. The same objective underpins regulatory efforts pursued by the Basel Committee on Banking Supervision ("BCBS") at a global level and the FSOC in the U.S. to identify certain institutions as "systemically risky" over which enhanced prudential standards and regulation should apply.

In this context, we support the conclusion of the International Association of Insurance Supervisors (the "IAIS"), that "for most lines of business, there is little evidence of traditional insurance either generating or amplifying systemic risk within the financial system or in the real economy."

In its paper published last November titled "Insurance and Financial Stability", the IAIS examined the interaction of insurance companies with other financial institutions and the financial system as a whole. We believe that the following key findings of that study should inform the debate over designating SIFIs in the U.S., as well as on a global basis[1].

- The insurance business model weathered the recent financial crisis better than others. This is because "insurance underwriting risks are in general not correlated with the economic business cycle and financial market risks," and because "insurance liabilities are in very broad terms not affected by financial market losses.[2]" These factors led the IAIS to conclude that "while impacted by the financial crisis, insurers engaged in traditional insurance activities were largely not a concern from a systemic risk perspective."

- Insurers engaging in non-insurance activities have greater potential to pose systemic risk, especially when such activities are conducted outside of a regulated entity. Using derivatives for non-hedging purposes and leveraging assets to enhance investment returns are two examples the IAIS highlights.[3] As we saw during the financial crisis, certain firms that expanded significantly into non-traditional and non-insurance activities suffered significant distress (and should not be used as rationale for designating firms without such activities as SIFIs.)

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[1] International Association of Insurance Supervisors , Insurance and Financial Stability, November 2011

[2] See section 1, footnote 2 of the IAIS paper on Insurance and Financial Stability (November 2011), which mentions certain exceptions including special lines, such as Lenders Mortgage Insurance, Directors & Officers coverage, Credit Insurance and Trade Credit Insurance, or certain activities defined as non-traditional, such as Financial Guarantee Insurance, which by their nature are closely related to the business cycle and to financial market volatility.

[3] See Section 3, "The business spectrum of insurers and insurance groups", of the IAIS paper on Insurance and Financial Stability (November 2011), which discusses non-traditional and non-insurance activities that have emerged.

- On those rare occasions when insurance companies that conduct traditional insurance activities do fail, their impact on other financial institutions and the broader economy is limited. This is because, in general, insurance claims are paid out over long periods of time, investment assets are closely aligned with insurance liability cash flows, and insurance products are highly substitutable. The failure of any one insurance firm does not deprive the marketplace of needed financial products and the risk profile of insurance companies does not generally lead to acute short term dislocations in financial markets or the real economy[4]. Other financial institutions tend not to have high exposure concentrations to insurance companies; insurer liabilities extend to large numbers of companies and individuals whereas banks are more exposed to each other.

[4] See Section 2, "Salient insurance characteristics", Section 4, "Market structure and industry size", and Section 5, "Insurance in the financial system" of the IAIS paper on Insurance and Financial Stability (November 2011), which provide detail around why the insurance funding model, balance sheet, competitive landscape and relation to the financial system support the limited impact on other financial institutions when traditional insurance companies do fail.

APPENDIX B

Unique risk profile of insurance companies

We believe that it is beneficial for the Board to focus attention on the unique differences between the business models and risk profiles of insurance companies and the banking organizations for which the proposed standards are primarily designed. Such differences provide an overarching theme for most of the comments made in this letter and should be fully considered and factored into any standards that might be applied to insurance companies under Sections 165 and 166 of the Dodd-Frank Act.

An insurance company's liabilities are the primary determinant of its overall risk profile and drive its investment decisions, assumption of credit risk and its liquidity risk exposure. Although liabilities are also an important contributor to bank risk profiles, the linkages between asset and liability risk exposures are less integrated than is generally the case for insurance business models.

- Payments under insurance products are triggered when an insured event occurs. As promises of indemnity or protection, products such as life insurance and annuities create insurer cash flow obligations that are generally very long term in nature – often extending 30 years or more. This liability profile is unique to the life insurance industry and represents one of the primary risks of a life insurance company. In general, the primary risks flow out of the design and purpose of insurance products and depend on insurance-specific risks such as mortality, longevity, morbidity, loss or damage to property, casualty loss, lapse and catastrophe.

- Since insurance is a liability driven business with often long term cash flow patterns, an insurance company's investment portfolio composition and credit quality distribution is highly linked to and driven by the liability profile of its insurance products.

    - Insurance companies invest in assets to match the effective duration of liabilities. Unlike banks, which can have substantial liquidity risk, insurers generally have much less liquidity risk due to their stable portfolio of in-force insurance policies with regular premium payments and contractual features of liabilities that prohibit or limit (through surrender charges and/or tax penalties) early calls by policyholders. As a result, the liquidity risks and interest rate risks are substantively different and more controlled than those inherent in the banking business model.

- The liability profile of an insurance company also positively impacts the credit quality of its assets. Insurers generally invest in higher quality and more diversified assets to ensure that such assets can back reserve requirements against policyholder obligations. However, due to the long duration of liabilities as well as insurance contracts that guarantee minimum benefits, insurers are exposed to market risk (interest rate and equity).

- Furthermore, in order to mitigate foreign exchange risk, insurance companies typically invest in locally denominated assets (or hedge any currency risk) in order to back locally denominated liabilities.

- Movement in asset values on insurance companies' balance sheets due to market movements are often accompanied by offsetting movement in the economic value of liabilities, which dampens the impact of asset losses on the overall financial condition of an insurer.

APPENDIX C

Considerations for a modified banking framework due to the unique business model and risk profile of insurance companies

If the Board decides to impose the enhanced prudential standards identified in the NPR on any insurance company deemed systemically important, we believe that a modified banking framework is more appropriate. A modified banking framework would meet the dual objectives of a consolidated enterprise view and comparability across both bank and non-bank covered companies. At the same time, it also allows room for consideration of the unique business model and risk profiles of insurance companies

We believe that the starting point for a modified banking framework should be the general risk-based capital rules ("Basel I") as opposed to the Advanced Approaches ("Basel II"). From a policy perspective, we note that when setting the primary criterion for Basel II Core Bank designation, i.e., greater than $250 billion in consolidated assets (the "Asset Size test"), policy makers explicitly excluded assets held by insurance underwriting subsidiaries, because, in their view, "advanced approaches were not designed to address insurance underwriting exposures"[5]. From a tactical perspective, it will also be less costly and likely require a shorter timeframe for non-bank covered companies to implement the general risk-based capital rules than to develop, test and get approval for the Advanced Approaches. This shorter timeframe is appropriate for an interim approach and consistent with the NPR final rule implementation timeline.

We also note that the application of Basel III capital and liquidity standards would augment current Basel I and Basel II rules. Several elements of the Basel III framework are also not appropriate to the business model and risk profile of insurance companies and should be addressed when applying a modified banking framework.

Described in more depth below are the proposed modifications to both Basel I and Basel III rules.

1) Capital and Leverage Requirements

Basel I Adjustments

a) Proposal to revisit Basel I risk weights assigned for certain non-bank assets

[5] Consistent with past communications with the Board, we strongly believe that there is an inconsistency in the criteria that was likely unintended by policy makers. The primary criterion for Core Bank designation, i.e., greater than $250 billion in consolidated assets (the "Asset Size test") explicitly excludes assets held by insurance underwriting subsidiaries. In contrast, the secondary criterion for Core Bank designation, i.e., international exposures in excess of $10 billion ("Foreign Exposure test") is silent on the treatment of assets held by insurance underwriting subsidiaries. We respectfully submit that the lack of a similar exclusion of insurance assets from the Foreign Exposure test may have been deemed unnecessary (or could have potentially been an oversight) in the Final Rules especially when considered against the explicit policy statement that the advanced approaches were not meant to address insurance underwriting. We therefore recommend that the Board also exclude assets held by insurance underwriting subsidiaries in the "foreign exposures test" when determining the applicable Basel capital regime for nonbank covered companies. In addition, the exclusion should be clarified to exclude assets held by both US and non US insurance underwriting subsidiaries.

Certain nonbanking exposures are not explicitly identified or belong to any of the risk weight categories under the general risk-based capital rules. As a result, these exposures receive a 100% risk weight.

In response to the Collins Amendment, the agencies proposed a modification to the general risk-based capital rules to address the appropriate capital requirement for low-risk assets held by depository institution holding companies or by nonbank financial companies supervised by the Board pursuant to a designation by FSOC, in situations where there is no explicit capital treatment for such exposures under the general risk-based capital rules.[6] We agree with the retention of this proposal under the final rule including the agencies' observation that "automatically assigning [nonbanking] assets to the 100 percent risk weight category because they are not explicitly assigned to a lower risk weight category may not always be appropriate based on the economic substance of the exposure."

In line with the above, we recommend alternative risk weights for the following nonbanking assets in order to appropriately reflect their risk profile[7].

i) Separate Account Assets[8,9] – We recommend that a risk weight of 0% be applied to accounts that qualify for separate account treatment[10] and for which the policyholder (i.e., not the insurer) is contractually exposed without recourse to the underlying credit risk of those assets. We also recommend a risk weight of 0% for accounts that do not qualify for separate account treatment solely because they are not legally recognized or legally insulated from the general account, as long as all credit risk is borne by the policyholder.

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6 Risk-Based Capital Standards: Advanced Capital Adequacy Framework—Basel II, Establishment of a Risk-Based Capital Floor, Background Section D, The proposed rule, page 8

7 Ibid, Comments Section D, Proposed capital requirements for certain nonbanking exposures, page 14

8 Separate accounts represent assets that are typically maintained by a life insurance entity for purposes of funding obligations to individual contract holders under fixed-benefit or variable annuity contracts, pension plans, and similar contracts. The contract holder generally assumes the investment risk, and the insurance entity receives a fee for investment management, certain administrative expenses, and mortality and expense risks assumed. A separate account is not a distinct legal entity, but rather an accounting entity created by and under the control of an insurance entity that owns 100 percent of the assets held in the separate account. The separate account arrangement legally isolates certain assets backing variable contracts from the other assets of the insurance entity (the other assets of the insurance entity are held in the general account of the insurer). The main reason for this structure is to protect assets backing the separate account component of variable contracts from the general creditors of the insurance entity if the insurance entity becomes insolvent, FASB, Acct. Standards Update (No.2010-15), April 2010, pp.1-2.

9 AICPA Statement of Position 03-1 was published in July 2003 and provides guidance on why separate accounts receive on-balance sheet treatment. AcSEC states that "unlike a financial institution trust fund account or mutual fund, the assets of the separate account are legally owned by the insurance enterprise." Moreover, "the contract executed between the contract holder and the insurance enterprise creates an obligation of the insurance enterprise that is not defeased by the segregation of funds in the separate account. Based on the above, AcSEC concluded that separate account assets and separate account liabilities should be reported in the statement of financial position of the insurance enterprise that owns the assets and is contractually obligated to settle the liabilities."

10 In July 2003, the AICPA released SOP 03-1, which specifies that only separate accounts that meet certain criteria are eligible for separate account presentation and are to be valued at fair value. The criteria include: a) the separate account is legally recognized, b) the separate account assets are legally insulated from the general account liabilities of the insurance enterprise, c) the insurer is required to invest the contract holder's funds as directed by the contract holder or in accordance with specific investment objectives and d) all net investment performance must be passed through to the individual contract holder. If all four criteria are not met, the accounts shall be treated as general accounts.

ii) Policy Loans – We recommend that a 0% risk weight be applied to policy loans since there is no credit risk related to these assets. Policy Loans represent loans made to policyholders based on the existing cash surrender value of their respective policies. Such surrender values are significantly less than the value of the assets used to support the policy. Insurers hold the full reserve related to each policy, regardless of policy loan amount and if policyholders default, they surrender the account value in their policies. Therefore there is no credit risk related to policy loans, and these should receive a risk weight of 0%.

iii) Closed Block – At the point of demutualization, a mutual insurance company, which converts to a stock company, allocates a specific set of invested assets for the benefit of the affected policies, referred to as a "closed block". Consequently, policyholders' contractual rights to receive dividends that represent a share of the surplus earnings are not affected by the conversion. The assets allocated to this closed block are selected such that the future cash flows produced, together with anticipated revenues from the policies, are exactly sufficient to support obligations and liabilities related to these policies including all future guaranteed benefits, reasonable policyholder dividend expectations, and certain other costs. All cash flows arising from the closed block are exclusively committed to benefit the policyholders of the closed block as specified in pre-defined operating rules.

In establishing a closed block, insurance companies define a dividend scale based on operating experience at the point of demutualization. This dividend scale can be adjusted in future periods and even eliminated depending on actual experience relative to expected cash flow and operating earnings set out at demutualization for the closed block. The objective is to exhaust all assets when the last policy in the block terminates, while achieving a fair distribution of surplus earnings among all policyholders. (i.e., avoiding a situation where relatively few last surviving policyholders receive dividends substantially disproportionate to those previously received by other policyholders in the same closed block).

b) Proposal to exclude separate accounts from the calculation of the Leverage Ratio

As the investment risks/rewards of assets held in arrangements like insurance company separate accounts are borne by the contract holder and pose no credit risk to the insurer, the Board should exclude such assets from the calculation of the Leverage Ratio.

The principal objective of the Tier 1 Leverage measurement is to place a constraint on the degree to which a banking organization can leverage its equity capital base. The metric is intended to limit risk and to be used as a supplement to the Basel RBC ratios. As stipulated in the FSOC's second NPR entitled "Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies," 12 CFR Part 1310, separate account balances are excluded from the leverage and short term debt ratios. These exclusions are due to the fact that such accounts are not available to satisfy claims of general creditors. A related exclusion for separate account asset balances should be extended to the 12 CFR part 225 calculation of Tier 1 Leverage. Such an exemption would be consistent with the intent of the leverage ratio as the investment risk/rewards over these separate account assets are borne by the contract holder, rather than the insurer (i.e., they pose no credit risk to the institution).

c) *Proposal to exclude non-leverage accounts from the calculation of the Leverage Ratio*

The Board should consider the exclusion of assets that back policyholder liabilities where payment is contingent on occurrence of insured events. Such liabilities, unlike debt liabilities, deposit liabilities and insurance liabilities where payment is not contingent on occurrence of insured events, do not easily lend to creation of excessive leverage.

Basel III Adjustments

d) *Proposal to adjust the capital treatment of unrealized gains/losses*

We recommend removal of the effect of unrealized gain/loss from the calculation of available regulatory capital due to the temporary nature of such gain or loss and the unnecessary volatility that this introduces to the capital ratios of an insurance company, which generally hold long-dated investment assets to back long-dated liabilities.

Unrealized gains/losses are included under Basel III for the purpose of calculating Tier 1 common, Tier 1 capital and Total risk based capital. Per Page 13 of the Bank of International Settlements guidelines: "There is no adjustment applied to remove from Common Equity Tier 1 unrealized gains or losses recognized on the balance sheet. Unrealized losses are subject to the transitional arrangements set out in paragraph 94 (c) and (d). The Committee will continue to review the appropriate treatment of unrealized gains, taking into account the evolution of the accounting framework."

This treatment is in contrast with Basel I and Basel II, which deduct net unrealized gain/loss on Available for Sale ("AFS") securities and equities (the "AOCI filter") from capital calculations. The intent of the Basel III treatment is to ensure that Tier 1 common equity can absorb unrealized losses and address concerns that the existing AOCI filter undermines confidence in Tier 1 common equity.

The inclusion of unrealized gains and losses in the calculation of regulatory capital under Basel III poses unique challenges for an insurance company since, compared to a typical bank, a significantly larger percentage of its assets are investment securities classified as AFS and carried at fair value. As a result, under Basel III an insurance company's capital position will be particularly sensitive to changes in interest rates and credit spreads due to the long term nature of its liabilities and therefore its invested assets. In addition, liabilities are recorded at book value and, under current accounting standards any decline in the value due to a rise in interest rates is not recorded on the financial statements. Hence, in a rising interest rate environment, insurance companies would experience an increase in unrealized losses on its investment portfolio without recognizing an accounting offset for the corresponding gain resulting from the decline in the value of policyholder liabilities.

Our primary recommendation is to remove the effect of unrealized gain/loss from the calculation of available regulatory capital. The rationale is as follows:

- Insurance companies are more likely to retain the assets in their investment portfolio since these assets back long-dated liabilities. Unrealized gains/losses are therefore temporary and result primarily from movements in interest rates, not changes in credit risk. Accordingly, loss realization is rare, manageable and already subject to OTTI-related rules. Including the effect of unrealized gains/losses in available regulatory capital would inappropriately raise or lower regulatory capital with minimal, if any parallel change in risk.

- The inclusion of unrealized gain/loss introduces substantial volatility to regulatory capital ratios which may undermine the same market confidence that this rule was originally intended to address. This volatility is estimated to be three to six times greater for insurance companies relative to banks due to the larger percentage of insurance assets in the "available for sale" ("AFS") book[11].

[11] Approximately 66% of MetLife's assets are investment securities classified as AFS and are carried at fair value, compared to a comparable 10-20% for a typical bank.

It is also important to note that current expected changes to accounting rules governing insurance contracts[12] will largely offset the unrealized gain/loss starting 2016/2017 by carrying insurance liabilities at market consistent values. As an alternative to the primary recommendation above, if the Board decides to retain the current rule around unrealized gain/loss, we recommend that the economic movement in liability values associated with unrealized gain/loss, due to interest rate movements be reflected, until such time the accounting for insurance contracts reflects the offset.

e) Proposal to remove the insurance subsidiary capital deduction rule

We seek confirmation that under Basel III, the policy makers have removed the Basel II requirement for companies to deduct the minimum capital requirement of the insurance subsidiary [defined as 200% of the subsidiary's Authorized Control Level (the "ACL") in the U.S] from its overall capital base.

During the proposal stages of Basel II, several commenters objected to the proposed deduction from Tier 1 capital by noting that it was overly conservative and resulted in a double-count of capital requirements for insurance regulation and banking regulation. For example, C1 is the statutory RBC version of credit risk, which means that the RBC calculation already has a required capital component for credit risk. By deducting this amount (plus additional balances for market, insurance and operational risk) out of Tier 1 capital for Basel II purposes, the commentators argued correctly that the consolidated BHC may have to reserve additional capital to cover these assets, despite the fact that they are already provided for in the statutory RBC calculation.

In response, the Board noted that the capital requirements imposed by a functional regulator reflect capital needs at the particular subsidiary, while the consolidated measure of minimum capital requirements reflect the consolidated enterprise. Recognizing that this deduction was included in the rules to minimize any potential regulatory capital arbitrage and ensure there is adequate capital at the consolidated level, such treatment is more suitable to traditional banking institutions with smaller insurance underwriting activities.

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[12] The Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) are developing a new accounting standard for insurance contracts. The proposed framework contains market consistent components for the valuation of insurance liabilities. The liability would be reported each period as the present value of the current estimate of future cash flows (premiums less claims and certain direct expenses). The discount rate will be re-measured each reporting period using current interest rates determined based on the characteristics of the liability. The corresponding impacts would be a natural offset to the unrealized gain/loss on the bond portfolio assuming assets and liabilities are well matched. This Standard has been released for comment and a new exposure draft is expected in Q2 2012 with a final Standard by the end of 2012. The published timetable for the adoption and implementation of the new Standard has an effective date of 1/1/2015.

For companies where insurance underwriting accounts for a majority of revenue and balance sheet items, the combined impact of a deduction of insurance subsidiary capital and the retention of insurance subsidiary assets in the overall RWA calculation is overly punitive to its capital base. Moreover, it does not recognize that the deducted amount is, in fact, available capital at the consolidated enterprise level.

2) Single Counterparty Exposure Limits

The single counterparty credit limit imposes a cap for aggregate net credit exposure by a major covered company to an unaffiliated major counterparty equal to 10% of the major covered company's capital stock and surplus as defined in subpart 252.92(g) of the NPR. It also imposes a more general limit for aggregate net credit exposure of a covered company to an unaffiliated counterparty equal to 25% of the covered company's capital stock and surplus.

The intent of these limitations is to reduce the interconnectedness of large financial counterparties and thereby mitigate any potential risks to U.S. financial stability posed by their failure. The proposed rule expands the current concentration limit framework imposed on banks (i.e., legal lending limit and investment limit) through broader coverage by including all credit exposures and by applying the limit at the consolidated enterprise level.

Incorporate the offsets from changes in the economic value of liabilities for local credit exposures that back local policyholder obligations

We believe that management of credit concentration is a prudent risk management principle. Nevertheless, it is important to highlight certain operating and regulatory constraints that should inform the appropriate application of the proposed limits on insurance company activities.

- Insurance companies seek to invest in assets to defease their policyholder liabilities. In addition to generating appropriate yields to support such liabilities and minimizing interest rate risk, foreign exchange risk and credit risk, insurers in certain jurisdictions have to comply with investment requirements (e.g., on sovereign debt) in order to compete in those markets. This may result in credit exposures to these counterparties, which are higher than what the proposed limit would require.

- Moreover, as stated previously, movement in asset values on insurance company balance sheets often are accompanied by offsetting movement in the economic value of liabilities, which reduce the impact of asset losses on the overall financial condition of an insurer. History also shows that defaults of certain sovereigns, which would have had a significant impact on the investment losses of insurers

operating within that country, were mitigated by a decrease in the value of the liabilities (i.e. less policyholder obligations for such insurers).

In light of the above, we propose that the net credit exposure calculation for sovereigns incorporate the offsets from changes in the economic value of liabilities for local credit exposures that back local policyholder obligations in the same currency.

3) Liquidity Requirements

Insurers engaged in traditional insurance activities generally have much less liquidity risk than banks due to their stable portfolio of in-force insurance policies with regular premium payments and contractual features of liabilities that prohibit or limit (through surrender charges and/or tax penalties) early calls by policyholders.

MetLife's liquidity risk is actively managed. MetLife and the insurance industry, in general, have established practices, frameworks and competencies around the identification, measurement, management and control of liquidity risk. Insurance companies perform extensive modeling of policyholder behavior which is a critical assumption used by insurance companies in key processes such as pricing, risk measurement, financial reporting and regulatory compliance. Such assumptions are among the key inputs to our liquidity stress model framework.

Consistent with the guiding principle that prudential standards should build on current sound risk management practices for the industry, we recommend that regulators revisit the appropriateness of the proposed enhanced liquidity standards as applied to insurance companies. We identify below certain elements of the proposed liquidity framework that are not appropriate to the business model and risk profile of insurance companies:

- We have significant concerns about the Liquidity Coverage Ratio (the "LCR"). The LCR was designed for banks, not insurance companies. This is evidenced by the fact that the LCR only explicitly covers less than 20% of MetLife's balance sheet, leaving 80% that is not accounted for under the framework. We strongly advocate the use of internal liquidity risk models that take into account the specific cash flow characteristics of an insurance company, subject to supervisory reviews of internal liquidity risk management processes.

- The NPR proposes heightened requirements regarding the frequency of performing cash flow projections, collateral monitoring and the tracking and reporting of liquidity positions. We are concerned about implementing burdensome and costly processes which yield fairly static results compared to those of banks. Instead, we propose that insurance companies be allowed to identify which activities require more frequent

analysis and reporting based on the risk of the product or activity. In any event, materiality thresholds should be considered.

- The NPR also proposes that covered companies establish and maintain limits on the amount of specified liabilities that mature within various time horizons. Moreover, the NPR contemplates whether a limit on short-term debt should be adopted. We understand and agree with the importance of managing debt maturities, but insurance company liabilities are composed primarily of stable and generally long term policy-related liabilities. We believe that limits should reflect the unique risk profile and legal entity structure of an insurance company and not be imposed in a prescriptive manner.

APPENDIX D

Comments on other proposed enhanced prudential standards

1) Capital and Leverage Requirements

a) Proposal to differentiate risk weights for corporate bonds and commercial and agricultural mortgages

General risk-based capital rules do not distinguish between higher quality and lower quality corporate bonds, commercial mortgages and agricultural mortgages as these assets receive standard 100% risk weights. Since insurance companies have a significantly higher share of these assets in their investment portfolios compared to banks, insurance companies are more negatively impacted by this lack of differentiation. MetLife recommends that the Board modify current Basel I rules and assign differentiated risk weights that correlate to the credit risk of corporate bonds issued by different obligors and the degree of security provided for commercial and agricultural mortgages as measured by loan to value ratios for example. This is consistent with the differentiated risk treatment for securitized transactions and programs under Basel I.

As agencies define standards of credit worthiness in light of section 939-a of the Dodd-Frank Act, requiring agencies to remove any reference to and required reliance on credit agency ratings, MetLife will also review how these proposed standards, if not directly applicable to MetLife, could be adapted to support an internal assessment of credit worthiness.

b) Proposal to align quantitative measures used for designating non-bank SIFIs with those used for assessing capital surcharge for SIFIs

We recommend that regulators ensure that there is alignment between the quantitative metrics and thresholds used in the FSOC proposed rules and those that will be used in any resulting capital surcharge assessment framework based on the BCBS framework[13]. This will prevent a situation where the measure by which non-bank SIFIs are designated is inconsistent with the measure used for assessing capital surcharges as a SIFI.

For the NPR, the Board is asking for comment on how the Board should implement the BCBS framework in determining a quantitative capital surcharge for covered

[13] The BCBS framework utilizes a scoring system which weights systemic metrics relative to a sample of 73 banks representing 65% of global bank assets. Within this construct, five categories reflecting bank size, interconnectedness, market role, cross-jurisdictional activities and complexity are evaluated via 12 indicators. Each indicator score is calculated by dividing the 12 individual indicator amounts by each indicator's individual aggregate over the 73 banks. The score is then weighted by the indicator weighting within each category. The result is a systemic risk assessment which shows a bank's relationship to the system - a far more relevant measure than the static thresholds proposed by FSOC.

companies that are not identified as global systemically important banks in the BCBS framework. In this connection, we refer the Board to the points raised in our December 19, 2011 comment letter to FSOC regarding the factors to be considered in determining whether a non-bank financial company should be supervised as a SIFI. We recommend that the measures by which non-bank SIFIs are designated be consistent with the measures used for assessing capital surcharges as a SIFI.

c) Proposal to modify debt-to-equity metric calculation

We recommend exclusion of separate accounts when calculating and assessing compliance with the debt-to-equity limit requirement for covered companies deemed by FSOC to pose a grave threat.

The proposed rule prescribes that a covered company maintain a debt-to-equity ratio of no more than 15-to-1 upon a determination by the Council that (i) such company poses a grave threat to the financial stability of the United States and (ii) the imposition of such a requirement is necessary to mitigate the risk that the company poses to U.S. financial stability.

We understand that this is a requirement under section 165(j) of the Dodd-Frank Act. Nevertheless, we would like to highlight that it appears this metric is duplicative of both the current tier 1 leverage metric under the early remediation requirements and the leverage ratio proposed by FSOC as one of the stage 1 metrics for analyzing the systemic importance of non-banks. Notwithstanding substantial differences in the measures of equity across the three metrics, they fundamentally measure leverage.

In response to the specific question on whether the Board should consider alternatives to the definition of the debt-to-equity metric, we recommend that the Board exclude separate accounts in the calculation. This is consistent with our previous recommendation for the tier 1 leverage ratio metric and with the proposed FSOC leverage ratio definition.[14]

In addition, as previously mentioned, the Board should consider the exclusion of assets that back policyholder liabilities where payment is contingent on occurrence of insured events since these liabilities do not easily lend to creation of excessive leverage.

[14] In FSOC's second NPR entitled "Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies", one of the stage 1 metrics used by the FSOC is a 15:1 leverage ratio. This is defined as total consolidated assets (excluding separate accounts) to total equity. Notwithstanding substantial differences between the measure of equity, FSOC's leverage metric is more in line with the current tier 1 leverage metric and already incorporates our proposal to exclude separate accounts in the calculation.

d) Proposal to modify regulatory reporting

We propose that required regulatory reports for insurance companies designated as systemically important be modified. This is in light of proposed elements for a modified banking framework and as regulators develop a more permanent capital and liquidity framework that is more appropriate for the business model and risk profile of insurance companies. For example, the current FRY-9C needs to be expanded to include a more detailed breakdown of insurance liabilities. This will improve transparency in risk measurement, specifically in the calculation of metrics where modifications are proposed (e.g., exclusion of separate accounts and assets backing non-leverage liabilities in the calculation of the leverage and debt-to-equity ratios).

2) Single Counterparty Exposure Limits

a. Expand definition of high quality sovereign exposure beyond US debt

The NPR seeks comment on whether there are other governmental entities that should receive an exemption from the definition of the term "credit exposure"; hence, not be subject to the limits of the proposed rule. We recommend exempting certain high quality foreign sovereigns. Possible criteria that the Fed may consider include measures of growth (e.g., GDP), financial position (e.g., current account deficit), stability (e.g., currency volatility, political climate) and others, as appropriate. We also request that any resulting definition be consistent with the universe of "highly liquid" assets in the context of the liquidity buffer requirements under subpart 252.51(g).

b. Grant waiver for temporary limit breaches due to foreign exchange effects in exposure calculation and remediation trigger

We request clarification on how variability caused by currency denomination will be accounted for when calculating aggregate net credit exposures. Specifically, we recommend a waiver process for temporary limit breaches due to foreign exchange effects in the counterparty exposure calculation. Covered companies should therefore be able to attribute changes in net credit exposures due to foreign exchange volatility in order to evidence the temporary nature of a limit breach.

c. Institute a two-tier system for exposure aggregation and monitoring

We question the practicality of daily credit exposure aggregation and monitoring for counterparties given the operational and infrastructure requirements to support such activities across all legal entities of a counterparty. We favor a two-tier approach with respect to the frequency of exposure aggregation and monitoring. "Tier 1" monitoring would require daily exposure aggregation for counterparties that are

within "X" percent relative to the proposed limits. "Tier 2" monitoring would require weekly or monthly exposure aggregation for counterparties that are within "Y" percent relative to the proposed limits. This two-tier approach will not only alleviate the operational burden associated with the requirement but will also allow institutions to focus on their larger counterparties that are more likely to breach limits.

d. Request clarification around tactical implication of single counterparty credit exposure breaches

We request clarification whether a covered company will be subject to an enforcement action for a period of 90 days (or such other period determined by the Board to be appropriate to preserve the safety and soundness of the covered company or U.S. financial stability) if there is breach to the proposed limits in any one day except the last day of the reporting month. We suggest that there should be a demonstrated pattern of breaches before enforcement actions are applied.

e. Propose considerations on the use and eligibility of credit and equity derivative and other risk mitigants for gross and net credit exposure calculation

The NPR requests feedback on the use and eligibility of risk mitigants (i.e. guarantees, collateral, credit and equity derivatives, other hedging instruments, etc.) for gross and net credit exposure calculation purposes.

- We advocate that for eligible credit derivatives for single-name corporate credit exposures, long credit positions should be included in gross credit exposure calculations and short credit positions should be used for off-setting purposes to calculate net credit exposure.

- Additionally, credit hedges are also made at the portfolio level using equity/rates/FX options and we would advocate that consideration be given to the risk mitigation benefits of such instruments. While the NPR does not address the potential netting effect of non-transaction-specific hedging instruments given that the mitigation impact of such instruments cannot be reflected in a dollar-for-dollar manner at the single counterparty level, we would advocate that such hedging instruments potentially be accounted for through either a standardized discount on gross exposure or a standardized netting benefit across all counterparty types.

  Specifically within the context of MetLife's practices, we currently use credit derivatives on an index or index tranches as a portfolio level protection strategy and not as a single name credit protection strategy. While the allocation of such instruments down to component credit families or credit indices would be operationally burdensome, the portfolio level benefits of such hedges should be reflected in either gross or net credit exposure calculations.

- We think that it would be important to recognize that the notional measurement of exposure is not appropriate--especially for certain transactions (e.g., securities lending, overnight repos and covered bonds) due to certain mitigating features such as overcollateralization and access to underlying securities.

3) Application of net income adjustments when applying capital distribution guidelines

We encourage the Board to recognize the inherent volatility of net income for insurance companies when applying its quantitative capital distribution/payout guidelines. Specifically, the Board should exclude the net income effect of derivatives used to hedge interest rate risk where the liabilities are not measured at fair value, and should also exclude the effect of a company's own credit spread on the valuation of its fair valued liabilities.

Accounting-related elements of net income can, in certain circumstances, be inconsistent with the general economics of the business and certain essential asset liability management strategies such that they run counter to dividend stability objectives.

Life insurance companies enter into significant hedging activities to manage the duration and convexity of a portfolio of assets against long-dated insurance liabilities. Insurance liabilities are generally not compatible with GAAP fair value hedge accounting models such that much of this hedging activity does not receive hedge accounting treatment. The fair value changes therefore are recorded in and contribute to the volatility of net income as these are not "matched" in the financial statements by offsetting changes in insurance liabilities held at what amounts to an amortized cost.

This accounting recognition mismatch does not represent an economic mismatch, is largely timing driven, and reverses over time as the instruments are held and accrue. This is very different from typical bank hedging activity where strategies may not require hedge accounting as liabilities are already at fair value or would usually qualify for hedge accounting as their liabilities have more certain terms (i.e., are not based on insured events), can easily be aggregated and/or have readily determinable capital markets only attributions.

Net income also includes the effect of the change in a company's "own credit" which is included in the measurement of certain insurance liabilities required to be carried at fair value. Net income is therefore picking up volatility that does not represent the true economics of the business (i.e., this is more than timing mismatch).

Notwithstanding any changes to net income for the purpose of dividend guidance as suggested above, companies would still be expected to meet minimum capital requirements.