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MetLife®

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Basel Committee on Banking Supervision
Bank for International Settlements
Centralbahnplatz 2
CH-4002 Basel
Switzerland

International Organization of Securities Commissions
C/ Oquendo 12
28006 Madrid
Spain

Re: The Non-internal Model Method for Capitalising Counterparty Credit Risk Exposures (Consultative Document)

Ladies and Gentlemen:

MetLife appreciates the opportunity to comment on the Consultative Document issued by the Basel Committee on Banking Supervision ("Basel Committee") regarding the Non-internal Model Method for Capitalising Counterparty Credit Risk Exposures (the "Counterparty Credit Risk Framework"), which constitutes an important component of the overall regulatory framework for derivatives reform contained in the G-20's original 2009 reform program.

MetLife, Inc. is the holding company of the MetLife family of insurance companies. The MetLife organization is a leading provider of insurance, annuities and employee benefit programs, serving 90 million customers on a global basis. MetLife holds leading market positions in the United States (where it is the largest life insurer based on insurance in force), Japan, Latin America, Asia, Europe and the Middle East. MetLife, Inc. is a public company with securities listed on the New York Stock Exchange and registered under the United States Securities Act of 1934.

MetLife is providing this comment letter as a financial end-user of derivatives that regularly uses these instruments responsibly and effectively to hedge the risks associated with our investment portfolio, and insurance and annuity product liabilities. MetLife's continued ability to manage and hedge financial risks through the use of derivatives is an essential component of our risk management framework. This framework allows MetLife to offer a broad range of insurance and annuity products that provide over 90 million policyholders across the globe with a personal

financial safety net that protects against catastrophic losses and ensures financial stability in retirement. To the extent that national banking regulators require MetLife to comply with the Counterparty Risk Requirements, MetLife's costs of hedging these insurance and retirement products may likely increase, and a portion of such costs are likely to be passed on to our customers in the form of higher premiums. To the extent that MetLife is unable to appropriately hedge the financial risks in certain products or the costs of hedging certain products becomes prohibitive, MetLife may, in some instances, be forced to discontinue offering certain insurance or retirement products altogether.

The MetLife insurance companies are licensed and regulated in jurisdictions where they are domiciled and conduct business. Such regulations govern the business conduct and financial aspects of the insurance business, including standards of solvency, statutory reserves, reinsurance and capital adequacy. Each insurance subsidiary is required to file detailed operating and financial reports with and is subject to periodic examination by financial regulatory authorities in each jurisdiction where it conducts business. The financial investments that support contractual liabilities of each MetLife insurance subsidiary are subject to regulation requiring asset diversification within the insurers' investment portfolios and limit the amount invested in certain asset classes. These regulations also govern an insurers' use of derivatives and generally limits such activities to hedging, asset replication and limited writing of covered calls. Generally, regulators have also imposed limits on credit risk exposure that insurance companies can maintain with respect to a derivatives counterparty.

MetLife appreciates the substantial effort and consideration that the Basel Committee has dedicated to developing the Consultative Document. Further, MetLife fully recognizes the important public policy implications of a well-calibrated Counterparty Credit Risk Framework and supports the efforts of the Basel Committee to increase the safety and soundness of the banking system by reducing systemic risk through central clearing of standardized derivatives and margin requirements for uncleared derivatives. Although we are broadly supportive of the Basel Committee's efforts to address certain perceived flaws in the Current Exposure Method and Standardised Method as they relate to banks calculations of Counterparty Credit Risk, we believe strongly that these criteria should not be applied to insurers capital requirements regardless of whether insurers are designated as non-bank systemically important financial institutions "(Non-bank SIFIs") or globally systemically important insurers ("G-SIIs") because the Counterparty Credit Risk Framework set forth in the Consultative Document fails to reflect the business model and risk profile of insurance companies. Moreover, the limitations on netting by derivative transaction type are not consistent with existing netting arrangements for OTC uncleared derivatives and there is uncertainty whether such netting limitations will be wholly consistent with future arrangements for OTC cleared derivatives as central clearinghouses develop multi-product offerings. Finally, the netting benefits for interest rate products should be applied without a reduction for maturity differences. In the event that the Basel Committee preserves netting reductions by maturity buckets, we believe that , partial offset across broadly defined maturity buckets is appropriate.

An insurance company's liabilities are the primary determinate of its overall risk profile and drive its investment decisions, assumption of credit risk and its liquidity risk exposure. As a liability driven business, insurance often has long term cash flow patterns, and 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. The proposed counterparty credit risk framework fails to reflect the business model and risk profile of insurance companies.

The reduction in netting benefits due to different product types is not appropriate for risk hedgers, such as insurance companies given their unique risk profile and business model. Similarly, the proposed reductions fail to acknowledge regulatory limitations that typically include 1) the purposes for which insurance companies can use derivatives, 2) the quality of the counterparties with whom insurance companies can transact derivatives and/or 3) the amount of derivatives that an insurance company can transact generally or with a single counterparty. By way of example, over 96% of MetLife's derivatives are entered into to hedge assets and liabilities. Each of MetLife's derivatives counterparties is itself regulated by a national banking regulator and with limited exceptions, MetLife is fully collateralized on each of its derivatives trades in which it has exposure to a derivative counterparty. While the limitations on netting by product type and maturity bucket may be appropriate for banking institutions, these adjustments are inappropriate for insurance companies and other end-users of derivatives that utilize derivatives to hedge risk, regardless of their size. These reductions do not reflect the direct linkage between asset and liability management and therefore the overall management of capital at insurance companies.

We reiterate that insurance companies are heavily regulated and have long-standing capital and liquidity frameworks that have been effective and have evolved in light of past crises through regulatory responses. These insurance-specific frameworks have contributed to mitigating the impact of insurance company failures on the broader financial markets.

We have significant concerns that the application of the proposed rules in the Consultative Document to insurance companies would penalize the insurance business model in a manner that is disproportionate to the actual risk. For example, the application could lead insurance companies designated as Non-bank SIFIs or G-SIIs to revise their portfolio structure to focus on assets that minimize capital requirement under the proposed rules, but such revisions may not be appropriate for the associated liabilities. The application could also lead to other unintended consequences including increased product costs to insurance customers, reduced quality of insurance providers for certain capital-intensive insurance products and even possibly curtailment of the availability of certain insurance products. Such decisions would adversely impact the public interest, most notably the interests of insurance customers, be inconsistent with prudent capital management and not serve to enhance the safety and soundness of the global financial system, outcomes most certainly counter to the intent of the Consultative Document.

Responses to Selected Questions Posed in the Consultative Document

Q5. *Of the options under consideration for recognizing offset across hedging sets, which treatment if preferred? What number of maturity buckets is appropriate to consider?*

Response to Question 5:

MetLife does not believe that the creation of "hedging sets" as set forth in the Consultative Document accurately reflects the current mechanics of margining for interest rate, f/x, credit and equity derivatives under documentation for OTC uncleared derivatives. The Credit Support Annex used by MetLife and most financial end-users calculates a single net margin amount for all covered transactions. In order to reflect current and evolving market practice, we suggest that netting sets be defined based on the transactions covered under a specific netting agreement. Separating trades by "hedging sets" is unnecessarily conservative as it fails to recognize or provide full credit for legal, valid netting arrangements that are margined on a unified basis.

MetLife believes that netting of interest rate products should be preserved regardless of maturity differences unless it can be shown that the difference in values of such derivatives can not accurately be reflected by margining and can not be settled within the same time frame.

Question 7. *Are the proposed minimum time risk horizons for each transaction category (unmargined, non-centrally cleared, centrally cleared) appropriate? Should the Basel Committee consider factors other than the IMM for determining the appropriate time risk horizon for the NIMM (e.g., harmonizing with other international or national legislation?*

Response to Question 7:

Revision of the initial margin baseline to better reflect the length of time necessary to close out derivatives upon a swap dealer default, including distressed market scenarios such as those occurring in September 2008. Under the Counterparty Credit Risk Framework, the baseline contains initial margin requirements that greatly exceed the potential change in market value during the time period in which a market participant would close-out a defaulting counterparty under its OTC uncleared derivatives as well as port and/or terminate OTC cleared positions with a defaulted Futures Commission Merchant ("FCM"). Based on MetLife's experience in the Lehman insolvency and other derivatives close-outs, we believe that it is more appropriate to use a five (5) business day close-out window for OTC uncleared transactions, instead of the ten (10) business day period and a three (3) business day close-out window for OTC cleared transactions, instead of the five (5) business day period specified in the Counterparty Credit Risk Framework. As drafted, the Counterparty Credit Risk Framework would require initial margin for OTC uncleared transactions that, in some instances, is at least double the amounts that apply to comparable exchange-traded, futures. For example, under the standardized initial margin schedule, a non-cleared, 10-year interest rate swap could have initial margin of up to 6% of the notional amount. By contrast, a 10-year, exchange traded interest rate future typically has initial margin of approximately 3% of

the notional amount. We believe that these amounts are excessive and do not reflect market participants actual experience in times of financial distress.

In considering our comments, we respectfully request that the Basel Committee balance the public policy considerations of preserving safety and soundness in our financial markets against the need for insurance companies such as MetLife to manage the capital markets risks associated with the insurance and retirement products we offer by utilizing derivatives as a risk management tool. We believe that certain aspects of the Consultative Document, as currently drafted, could have unintended consequences to derivatives end-users like MetLife. Certain provisions, which are described in our responses to the Basel Committee's specific questions, could cause non-bank SIFIs to incur substantial costs as a result of increased costs to hedge assets and liabilities, thereby creating additional financial risk for customers who may no longer have affordable access to retirement and savings products as a result of prohibitive cost increases or the reduced availability of such products [or who may be forced to utilize less-well capitalized insurers for certain insurance products]..

Conclusion

MetLife appreciates the thoughtful approach that the Basel Committee has taken in formulating the Counterparty Credit Risk Requirements. However, we respectfully submit that certain aspects discussed above are not appropriate for market participants whose primary purpose for utilizing derivatives is hedging, regardless of whether they are designated as Non-bank SIFIs and/or G-SIIs. Application of these requirements have the potential to unintentionally increase risk to financial end-users and other similarly situated market participants whose derivatives usage largely consists of transactions to hedge financial and investment risk. Failure to address the items listed above will unnecessarily increase costs to MetLife and our customers.

We believe the derivatives markets can function in a manner that promotes safety and soundness, while maintaining the ability of market participants like MetLife to continue to appropriately hedge risks and provide the insurance products upon which our customers rely.

MetLife is pleased to be able to continue to participate through the comment process in the framing of this critical new regulatory framework. Please feel free to contact either of us if you have any questions regarding this comment letter.

Respectfully,

Jason P. Manske

Todd F. Lurie

CC:

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