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Mr. David A. Stawick  
Secretary, Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21st Street, NW  
Washington, DC 20581

**Re: RIN 3038 – AC98 General Regulations and Derivatives Clearing Organizations**

Dear Mr. Stawick:

MetLife welcomes the opportunity to comment on the proposed regulations regarding General Regulations and Derivatives Clearing Organizations (the “Proposed Rules”), issued by the Commodity Futures Trading Commission (“the Commission”) which constitute a portion of the Core Principles applicable to Derivatives Clearing Organizations (“DCOs”). In particular, MetLife wishes to comment on certain definitions within the Proposed Rules, the rules related to the establishment of a portfolio margining program for customer accounts carried by a derivatives commission merchant (“DCM”) in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”).

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 in over 60 countries. 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 Pacific, Europe and the Middle East. MetLife, Inc. is a public company, registered under the Securities Act of 1934 and has securities listed on the New York Stock Exchange.

### **Summary**

MetLife is providing this comment letter from the perspective of an end-user of financial derivatives that appropriately uses these instruments to hedge the risk associated with its investment portfolio and insurance product liabilities. MetLife’s continued ability to use derivatives to manage and hedge financial risks is an essential component to our investment management framework; which in turn allows us to offer a broad range of insurance and retirement products to our customers. A significant component of MetLife’s hedging costs is correlated to the type of collateral that may be

pledged in connection with our derivatives transactions. MetLife's investment portfolio consists of a diversified range of fixed income assets. These assets are available to be pledged as collateral to secure our derivatives transactions. A determination by the Commission that only a narrow range of collateral, such as cash and U.S. treasury obligations, may be provided to a DCO as collateral will cause asset managers, such as MetLife, to artificially restrict the mix of investments resulting in a less diversified and ultimately lower yielding investment portfolio.

To the extent MetLife's costs of hedging these insurance products increases, it will likely affect the cost to our customers associated with offering such insurance products or, in some instances, our ability to continue providing certain products. MetLife appreciates the effort and consideration that the staff of the Commission has dedicated to developing the Proposed Rules.

For the reasons set forth below, we respectfully recommend certain modifications to the Proposed Rules that will address each of MetLife's concerns:

### **Definitions**

The Commission, in its revised Part 39 dated December 13, 2010, proposes defining the terms "clearing initial margin", "customer initial margin", "spread margin" and "variation margin." In attempting to define these terms, the Commission may be creating a conflict with similar definitions that already have commonly understood meanings in the OTC derivatives marketplace. The Commission's proposed definitions of "clearing initial margin" and "customer initial margin" conceptually correspond to the definition of "Independent Amount" as set forth in the Credit Support Annex to the ISDA Master Agreement. MetLife, and other commentators, have previously proposed that the Commission adopt the well established and commonly understood ISDA definitions of "Independent Amount" in lieu of the term "initial margin", and the various derivations of such term contained in Part 39. Additionally, MetLife suggests that any future use or expanded definitions must include specific determinants for calculating initial margin (or Independent Amount) including; (i) the credit worthiness of the party posting the Independent Amount, (ii) the risk of the underlying exposure and (iii) the volatility of derivatives transactions. Any future definitions for calculating initial margin must not be arbitrary or overbroad in light of the risks that such margin it is intended to mitigate. It is imperative that any future or expanded definition of initial margin is narrowly tailored to represent the risk that the party posting such initial margin or Independent Amount would fail to make future variation margin payments to the secured party.

Similarly, MetLife concurs with other commentators that the term "variation margin" should be defined to correspond with the manner in which OTC margin is currently calculated pursuant to the ISDA Master Agreement.

## **Portfolio Margining and Collateral Types**

Under Section 731 of Dodd-Frank, the Commission is authorized to impose margin requirements in connection with swap transactions and to permit the use of any noncash collateral in connection with such margin requirements as the Commission determines to be consistent with "(i) preserving the financial integrity of markets trading swaps; and (ii) preserving the stability of the United States financial system." MetLife fully supports the goal of promoting market integrity, more stringent prudential standards and fostering of the derivatives clearing system's financial stability in the United States. However, MetLife has serious concerns regarding specific types of collateral that DCOs would be allowed the flexibility to accept from their clearing members in connection with swaps submitted for clearing to a DCO. In particular, MetLife respectfully submits that the Commission, pursuant to its authority under Dodd-Frank, should provide within its revised Part 39 that each DCO that will clear swaps must establish rules permitting both the DCO and its DCMs to accept as collateral in connection with cleared swaps certain corporate notes or bonds, US agency notes and pass through certificates in addition to cash and US treasury obligations (each subject to any appropriate haircuts) (the "Proposed Acceptable Collateral"). Current practice in the OTC derivatives market is to rely on the range of standardized collateral types, as set forth in the ISDA Collateral Asset Definitions. MetLife recommends that the Commission promulgate rules regarding Proposed Acceptable Collateral for DCO's that correspond to the same practices currently employed in the OTC market. We strongly believe that allowing DCOs and their DCMs to accept the Proposed Acceptable Collateral would be consistent with the objective of maintaining market liquidity without resulting in any adverse effect on the market integrity or significantly increasing credit risk.

We are aware that the Commission has proposed a rule amendment on investment of customer funds by DCOs and futures commission merchants (the "Proposed Regulation 1.25 Amendment"). The Proposed Regulation 1.25 Amendment would limit such investments to certain "highly liquid" government, agency and money market funds securities in order to ensure a greater level of financial stability, as there would be a reasonable basis to conclude that such a "highly liquid" instrument would have the ability to be converted into cash with a minimum haircut off of its book value. We do not believe this is inconsistent with our suggestion that customers be permitted to post the wider range of assets included within the Proposed Acceptable Collateral.

MetLife recognizes the Commission's overall objective under the Proposed Regulation 1.25 Amendment to narrow the scope of investment choices available to futures commission merchants and DCOs with respect to customer funds held in their custody in order to eliminate the potential use of instruments that may increase customer risk exposure and adversely affect customers' financial interests. We respectfully submit, however, that requiring acceptance of the Proposed Acceptable Collateral by DCOs and their members will not materially detract from that goal for a number of reasons. First, a condition to any Proposed Acceptable Collateral is that it is liquid and subject to ready valuation. Second, we submit that the Proposed Acceptable Collateral will not

materially increase the financial exposure to the futures commission merchant or the DCO, particularly when properly haircutted, which is also an element of our recommendations. Third, the principal customer protection concern underlying the Proposed Regulation 1.25 would no longer be relevant in respect of assets posted as margin by the customers themselves rather than assets selected by a futures commission merchant or a DCO. Furthermore, requiring DCOs and their members to accept the Proposed Acceptable Collateral as margin would be in the customers' best interests, as it would allow customers to retain an appropriate degree of investment flexibility and opportunities for generating investment income and attaining capital efficiency. This is particularly important whereas Congress has required the regulation and clearing of well established market instruments upon which MetLife and many other businesses have long relied to hedge market risks.

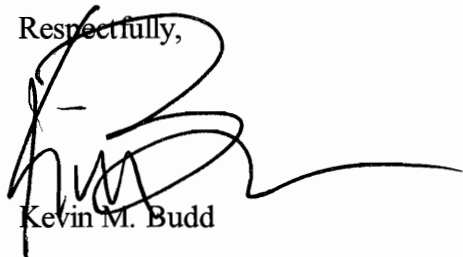
The efficiencies and protections of this hedging and the use of various liquid assets as collateral have become essential to the pricing of several of MetLife's insurance products and the structuring of the asset portfolio that supports such pricing. Presently, MetLife invests a significant portion of its funds in liquid and readily marketable corporate bonds in accordance with the investment guidelines and prudential standards prescribed by the insurance regulators. The income generated from these investments is significant to MetLife's business model and continued operation because it allows MetLife to lower the cost of insurance offered to customers. Narrowing the range of assets that may be used as collateral will increase the costs associated with providing insurance and retirement products to our customers. In the event MetLife is not permitted to continue to post the Proposed Acceptable Collateral as margin in connection with its cleared swap transactions, it will be presented with the dilemma of either reducing its hedging program or restructuring its investment portfolio. Reducing hedging programs would expose MetLife to avoidable and potentially expensive market risks. Restructuring of the investment portfolio solely to accommodate statutory collateral requirements associated with our hedging program would result in a less diversified and lower yielding portfolio. Ultimately, the opportunity cost of limiting the type of collateral accepted by a DCO in connection with cleared swaps would be borne by hardworking Americans who rely on MetLife for cost effective insurance and retirement products to that ensure a stable financial future.

## Conclusion

In conclusion, MetLife respectfully submits that best practices, customer interests and fundamental fairness call the Commission to distinguish the underlying customer protection concerns set forth under the Proposed Regulation 1.25 Amendment and require DCOs and their members to accept a broader range of liquid assets owned by customers to allow for the greater degree of investment flexibility and collateral efficiency, minimize any unnecessary impairment to existing business models promulgated in accordance with standards set by other prudential regulators, and avoid any undue increase in the costs of legitimate hedging.

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 me at my email address above if you have any questions regarding this comment letter.

Respectfully,



Kevin M. Budd



Todd Lurie