

Metropolitan Life Insurance Company  
10 Park Avenue, Morristown, NJ 07962



**Kevin M. Budd**  
Associate General Counsel  
Tel 973-355-4985  
kbudd@metlife.com

**Todd F. Lurie**  
Assistant General Counsel  
Tel 973-355-4368  
tlurie@metlife.com

March 8, 2011

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

**Re: RIN 3038 – AD18 Core Principles and Other Requirements for Swap Execution Facilities**

Dear Mr. Stawick:

MetLife welcomes the opportunity to comment on the proposed regulations regarding Core Principles and Other Requirements for Swap Execution Facilities (the “Proposed Rules”), which include Regulations, Guidance, Acceptable Practices and Core Principles for Swap Execution Facilities (each, a “SEF”), issued by the Commodity Futures Trading Commission (the “Commission”) in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”). In particular, MetLife wishes to comment on certain Sections of the Proposed Rules related to; (1) Permitted Execution Methods, including Request-for-Quote (“RFQ”) platforms, (2) regulatory determinations required to be made by SEFs, including determination of block sizes and when a swap is made “Available for Trading”, and (3) the delegation of audit and enforcement obligations to each SEF that positions each SEF as a *de facto* Self-Regulatory Organization with respect to its market participants.

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 active end-user of financial derivatives that appropriately uses these instruments to continuously and systematically hedge the risks associated with its investment portfolio and insurance product liabilities, such as hedging of equity and interest rate risks associated with our global variable annuity products. MetLife's continued ability to manage financial risks through the use of derivative hedges is an important component in our risk management framework that allows us to offer a broad range of insurance products to our customers. To the extent MetLife's costs of hedging these insurance products increases, a portion of such costs is likely to be passed on to our customers in the form of higher premiums and in some cases, we may no longer offer certain insurance products.

MetLife recognizes the public policy purposes embodied in the Proposed Rules and supports the goals of market transparency and price discovery, while expanding liquidity. However, we are also concerned that the restrictions on RFQ platforms, difficulties associated with swap-related determinations that will be required of each SEF, and the increased reporting, oversight and enforcement obligations imposed on SEFs in the Proposed Rules will; (1) increase market risk and intermediation costs to market participants, which will translate into increased hedging (including transactional) costs passed through to end-users such as MetLife, (2) materially decrease market liquidity in various derivative products, in each case, contrary to the specific provisions of Sections 2(a)(13)(C) and 2(a)(13)(E), of the Commodity Exchange Act (the "CEA") and (3) fail to protect anonymity of customer proprietary product information and hedging strategies.

MetLife appreciates the effort and consideration that the staff of the Commission has dedicated to developing the Proposed Rules. Efficient, well-structured trading platforms with appropriate reporting requirements will increase market confidence, and liquidity and MetLife is supportive of these efforts.

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

### **Permitted Execution Methods**

MetLife believes that the Proposed Rules generally implement the statutory directive that SEFs provide multiple participants with the ability to execute or trade swaps by accepting bids and offers made by multiple participants in an RFQ or order book. MetLife fully supports the inclusion of Central Limit Order Books, RFQ systems and any other systems as may be approved by the Commission, as Permitted Execution Methods under the Proposed Rules. MetLife believes that it is important for non-dealer market participants to have the ability to request quotes from multiple participants, make any bid or offer transparent to the entire market and receive resting, executable bids and offers as well as indicative quotes. However, such non-dealer market participants should not be required to do so and, in particular, should not be obligated to give priority to, or execute upon, any resting indicative quotes or executable bids or offers.

MetLife strongly disagrees with the Commission's proposal that participants be obligated to

request quotes from at least five market participants, as such requirement is likely to lead to decreased liquidity and increased bid/ask spreads for non-swap dealers. Dodd-Frank defines a SEF as “a trading system or platform in which multiple participants have the ability to execute or trade swaps by accepting bids and offers made by multiple participants in the facility or system.” Clearly, an RFQ platform that provides the option, but not the requirement, to disseminate RFQ’s to multiple market participants satisfies the SEF definition. Non-dealers should have the flexibility to determine the appropriate number of respondents for a particular trade, which could vary based on the size and liquidity of the trade and such participants priorities. For example, disclosure of hedging strategy/signaling to the marketplace may be a concern to MetLife on certain trades, while price discovery and maximum liquidity may be a priority on other trades).

MetLife believes that the requirement that participants solicit bids and offers from at least five swap dealers would not only fail to meaningfully increase price discovery, but would likely diminish it, particularly in markets with a limited number of market makers. As the Commission has acknowledged in other rulemakings, swap dealers that effectively act as liquidity providers by agenting swaps for “natural long” customers, such as MetLife, hedge the risk of their customers’ trades by entering into additional, offsetting transactions. Disclosure of a large expected trade by RFQ to five swap dealers would likely result in a material widening of bid/ask spreads and increase hedging costs, as swap dealers will pass on to their customers the cost of protecting themselves against potential adverse price movements due to pre-trade transparency. In some circumstances, swap dealers may decline to provide quotes, further reducing liquidity.

For cleared derivatives markets to work effectively, market participants should not be exposed to increased hedging costs resulting from a substantially higher risk of “front running” and/or a reduction in liquidity. Accordingly, customers should not be required to disclose their positions or trading strategies to multiple swap dealers. Consequently, customers should not be required to make RFQs available to the broader marketplace either pre- or post-trade as such information will lead to adverse price movements and increased costs to customers. We urge the Commission to adopt the analogous proposal made by the Securities and Exchange Commission (the “SEC”), as well as other commentators, allowing non-dealer market participants to independently determine the number of swap dealers from whom to solicit bids and offers.

Furthermore, non-dealer market participants should have the right to receive executable bids/offers, but such unsolicited bids/offers should not be given priority over requested quotes, and non-dealers should not be required to execute on the basis of any such unsolicited bid or offer. A requirement that non-dealers execute on the basis of unsolicited bids/offers will result in a substantial increase in the a number of execution relationships and documentation required for trading and will undermine any pricing efficiencies that result from having a limited number of execution relationships with swap dealers. A regulatory and compliance conflict could arise if regulated end-users, such as insurance companies, are required to execute on unsolicited, resting quotes provided by participants that do not satisfy credit rating criteria mandated by insurance regulators. Credit considerations remain relevant even in a cleared trade environment because not all swap execution facility trades will necessarily be subject to central clearing and, in any event, some bilateral obligations will arise in relation to any trades that fail to clear as expected.

In order to adhere to the “by any means of interstate commerce” clause of Dodd-Frank, we also believe that RFQ should be available for all swaps that are made “Available for Trading” through a SEF. Limiting trading to a Central Limit Order Book for more frequently traded swaps would be inconsistent with the “by any means of interstate commerce” clause,” will not contribute price discovery or pre-trade transparency for swaps, and should therefore be rejected.

### **Market Regulatory Determinations to be Made by each SEF**

As a general matter, MetLife believes that SEFs are not the most appropriate choice for independently making regulatory determinations with respect to whether; (1) any particular swap should be deemed as “available for trading” or (2) a minimum swap size qualifying as a “block trade” for the purposes of trade execution and real time public reporting requirements.

Under Dodd-Frank and the Proposed Rules, a swap is required to be executed on a SEF or a registered designated contract market (a “DCM”) only if a SEF or DCM makes such swap “available for trade.” MetLife believes that the determination of “availability to trade” should not be made by a SEF independently and in its sole discretion, but rather in accordance with standard objective criteria, established by the Commission through the rule-making process. In addition to a SEF demonstrating compliance of any proposed swap instrument with each criterion promulgated by the Commission, the determination as to whether a swap is “available for trading” should also be subject to Commission approval taking into consideration public comment as well as a reasonable waiting period before any such determination becomes effective. The determination of availability to trade in accordance with the Commission’s uniform standards, rather than in a SEF’s sole discretion, would ensure that trading in any particular swap is not being commenced prematurely before a SEF successfully demonstrates that a liquid market for such swap in fact exists. Uniform standards administered by the Commission would also enhance product standardization. In addition, institution of an adequate waiting period of at least 180 days before effectiveness of the “availability to trade” determination would allow for greater competition among SEFs. This would be accomplished by limiting a SEFs ability to compel market participants to trade newly approved trades on a specific SEF, as well as providing a meaningful opportunity for market participants to make any related technological and trading strategy amendments.

MetLife has similar concerns with respect to the authority granted to SEFs and DCMs under the Proposed Rules in setting the minimum block trade size for any swap contract traded on these facilities. We believe that in light of block trade exemptions from certain real time public reporting requirements, the determination of the appropriate block size thresholds is of particular importance and should be made by the Commission in accordance with objective criteria, rather than by each individual SEF and DCM in their own discretion. We believe that the relatively large number of SEFs (35-40 expected) would likely result in SEFs having fragmented access to data making it difficult for any particular SEF to adequately assess the available liquidity and accurately calibrate the block size thresholds. Rather, the block levels should be determined in accordance with the Commission’s standard criteria and further subject to the evaluation by the Commission, both at the time of the initial determination and subsequently. This issue is of particular importance to MetLife as we remain concerned that the multipliers determining size of trades to be

treated as Block Trades pursuant to the Distribution and Multiple Tests in Proposed Rules 43.5(g) (i) and (ii) are too restrictive and will result in the real-time disclosure of transactions that would likely impact the market. The legislative history of Dodd-Frank indicates that Congress understood that Block Trades are very common in the securities and futures markets. MetLife respectfully suggests that the static Distribution Test in Proposed Rule 43.5(g) (i) should be reduced to an initial 50% to be consistent with the Congress' intent. Similarly, the five (5) times Multiple Test in Section 43.5(g) (ii) should be reduced to an initial 1.5X. The time period for Public Reporting of Block Trades and Large Notional Amount Trades would be adjusted pursuant to the following table:

Social Size/Multiple	Distribution Test	Public Reporting Time Delay
Greater than 1.5X, but less than 2X	Greater than 50%, but less than 60% of Reported Trades	4 hours
Greater than 2X, but less than 3X	60%, but less than 70% of Reported Trades	8 hours
Greater than 3X, but less than 4X	70%, but less than 80% of Reported Trades	12 Hours
Greater than 4X, but less than 5X	80%, but less than 90% of Reported Trades	16 Hours
Greater than 5X, but less than 6X	90%, but less than 95% of Reported Trades	20 Hours
Greater than 6X	Greater than 95%	24 Hours

For example, a trade that was 2.5X the "Social Size" Test and was larger than 55% of the Distribution of Trades would be required to be publicly reported within 4 hours of execution.

### **Swap Data Reporting**

MetLife is also concerned that requiring SEFs to report swap trade information to a Swap Data Repository (an "SDR"), as set out under the Proposed Rules, will lead to unnecessary confusion and inconsistency to the extent that SEFs report trade data in different formats, which may overlap or be inconsistent with the reporting requirements applicable to registered derivatives clearing organizations ("DCOs"). The relatively large number of expected SEFs compared to DCOs for each Major Swap Category (currently fewer than five), could result in inconsistent and inaccurate data reporting by SEFs and suggests that compliance with such requirements would be better centralized at the DCOs, rather than at each SEF. We believe that DCOs, which are subject to stringent risk management requirements and have access to substantial risk management resources, will be in a more advantageous position than SEFs to obtain, analyze and disseminate trade data, particularly with respect to post-trade amendments (e.g., allocations among portfolio insurance companies and families of mutual funds)..

If SEFs would ultimately be tasked with swap data reporting and dissemination, each SEF should be required to display prices of all swaps available for trading on that SEF by sub-asset class and tenors, beginning with spot transactions. In addition, all-in fixed swap rates and swap spreads both should be displayed using the market-standard conventions.

### **Compliance and Enforcement Obligations of SEFs**

***Limited SEF Membership.*** In the over-the-counter derivatives markets, non-swap dealers have traditionally had access to the market place and pricing without having to resort to third-party intermediaries. MetLife believes that allowing non-dealers to continue to independently access the market information would alleviate the transaction costs imposed on such market participants and reduce the risks associated with the disclosure of sensitive information to the dealers, including the potential for front running and any abusive uses of insider information. MetLife suggests that each SEF should be required to offer restricted membership to non-dealer market participants, which would be limited solely to accessing the pricing information and RFQ solicitation. The Commission should limit a SEF's jurisdiction over any such restricted member and expressly indicate that such restricted membership would not subject its holder to the regulatory burden imposed on dealer participants, including any recordkeeping, audit or reporting requirements. Further, the Commission should provide that a SEF would have no enforcement authority over such restricted members.

***Cooperation among SEFs.*** MetLife commends the Commission for its attempts to address abusive trading practices in § 37.203(a) and recommends that the Commission adopt flexible practices that recognize the broader range of OTC cleared swaps compared to traditional DCM-traded contracts which are generally more limited. To the extent that SEFs are required to conduct market surveillance and do not have the ability to utilize regulatory service providers for such functions as specified in § 37.204, sharing of information in real-time among SEFs should be required.

***Segregation between commercial and regulatory functions.*** MetLife agrees that SEFs should be subject to the detailed disciplinary procedures in the Proposed Rules, including procedural safeguards for respondents and a clear separation between SEF personnel recommending the issuance of charges, review panels determining whether charges should be issued, and hearing panels adjudicating cases on the merits. The Proposed Rules create the opportunity for abuse by SEFs of their broad enforcement powers and could have the unintended consequence of allowing SEFs to deny or suspend access via disciplinary or emergency procedures that would allow discrimination by a SEF against competitors for inappropriate business reasons. MetLife believes that a more streamlined disciplinary process that features a robust staff summary fine program, rather than formal disciplinary hearings, could also lead to abuses and discrimination by SEFs which would be inconsistent with the Core Principles that the Commission seeks to implement. Similarly, an enforcement regime that calibrates financial penalties to the financial resources of the respondent could lead to the unintended consequence of punishing larger participants disproportionately to smaller participants and provide a further disincentive to reduce the capital and assets held by such respondents.

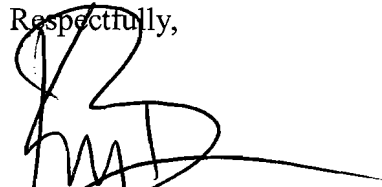
## Conclusion

In conclusion, MetLife respectfully submits that best practices, customer interests and fundamental fairness call on the Commission to distinguish the underlying customer protection concerns set forth under the SEF Core Principles and other sections of the Proposed Rules and permit non-swap dealers the opportunity to receive the broadest range of executable and indicative bids and offers without (1) compromising the flexibility to determine the number of quotes requested for a specific trade, (2) compelling such derivatives users to enter into transactions with an unsuitable counterparty or (3) incurring any undue increase in the costs of legitimate hedging. Similarly, MetLife believes that determinations of whether a swap is "Available for Trading" should be made in accordance with the Commission's standards and be further subject to the Commission's review and public comment and that minimum Block Trading Size should also be determined by the Commission in accordance with the standards proposed in this comment letter and our previous comment letter.

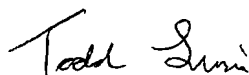
Further, MetLife believes that (1) swap data reporting requirements should be standardized and that the DCOs should be the primary reporting entities, (2) SEFs should be required to offer non-dealers limited access membership arrangements, which relieve such members of the burden of SEF compliance and enforcement, (3) SEFs should be required to share market surveillance information on a real-time basis with other SEFs and (4) there must be a clear distinction between a SEF's commercial operations and its regulatory function.

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 at the email addresses above if you have any questions regarding this comment letter.

Respectfully,



Kevin M. Budd



Todd F. Lurie