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MetLife®

February 8, 2012

By electronic submission

Board of Governors of the Federal Reserve System
20th Street & Constitution Avenue, N.W.
Washington, DC 20551

Office of the Comptroller of the Currency
250 E Street, S.W.
Washington, DC 20219

Commodity Futures Trading Commission
1155 21st Street, N.W.
Washington, DC 20581

Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429

Re: Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds (FRS Docket No. R-1432 & RIN 7100 AD 82; OCC Docket ID OCC-2011-14; FDIC RIN 3064-AD85; SEC File Number S7-41-11; CFTC RIN 3038-AD05)

Ladies and Gentlemen:

MetLife, Inc. ("MetLife") appreciates the opportunity to submit comments on the October 11, 2011 Notice of Proposed Rulemaking (the "Proposed Regulations") defining the Prohibitions and Restrictions on Proprietary Trading and Certain Interests in and Relationships with Hedge Funds and Private Equity Funds in accordance with Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").

MetLife is the holding company of the MetLife family of insurance companies. The MetLife organization is a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 50 countries. Through its subsidiaries and affiliates, 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.

This letter focuses on proprietary trading restrictions and permitted market making activities and we view this letter as responsive to Questions 80, 82, 83, 84, 85, 87, 89, 91, 94 and 96 in the Proposed Regulations. In addition, we have worked with the American Council of Life Insurers (the "ACLI") to address additional questions and other matters of importance resulting from the Proposed Regulations related to appropriately accommodating the business of insurance. We support the views with respect to these other important matters expressed in the ACLI submission dated January 24, 2012.

I. Introduction

12 U.S.C. §1851 (the "Volcker Rule") is one of the most important and complex provisions in Dodd-Frank. As the Agencies have recognized in the preamble to the Proposed Regulations, implementation of the Volcker Rule through the mandated rulemaking process involves an intricate analysis of the statutory provisions, including subtle but important distinctions among activities. Recognition of these subtle distinctions is necessary, for example, to permit banking entities "to

continue to provide client-oriented financial services."[1] As the Agencies have further recognized in the preamble, there are many areas where greater clarity will be necessary or desirable, particularly as to exemptions and as to the scope of prohibitions.

MetLife appreciates the step the Agencies took in December to extend the comment deadline and the efforts of the Agencies reflected in the Proposed Regulations to identify areas that require greater clarity as well as their efforts to provide appropriate latitude to banking entities to continue to provide client-oriented services. Recognition of the need and desirability of providing client-oriented services is crucial not only to the banking entities, but even more importantly to their customers, such as insurance companies, and the overall markets themselves. The efficient functioning of the markets, including for the insurance company investor community, requires that banking entities be permitted to provide market making and other client-driven services.

MetLife is providing this comment letter from the perspective of an investor with over $457 billion of assets under management for insurance company general accounts (as of September 30, 2011), the vast majority of which are fixed income investments. To satisfy the obligations to our policyholders, our fixed income portfolio is extremely diversified with investments across almost all asset sectors and rating categories. MetLife is also an active end-user of financial derivatives, which we use responsibly to systematically hedge the risks associated with both investment assets and insurance product liabilities in accordance with the provisions of state insurance laws. Our continued ability to manage our fixed income investments and to utilize derivative hedges to address financial risks is critically important to our asset-liability and risk management frameworks, and is central to our ability to offer customers a broad range of affordable insurance products.

One area of significant concern which has been identified by the larger financial community, including senior foreign finance officials, is the impact the Volcker Rule will have on overall liquidity in the marketplace, particularly in the fixed income markets. As an important long-term investor in the financial markets, we are very interested in seeing the Volcker Rule implemented in a manner that achieves its objectives with respect to proprietary trading without fundamentally affecting the efficiency of the markets in which we participate. We urge the Agencies to be deliberate in the implementation process for the final regulations, including a phase-in of the requirements over time to mitigate potential risks.

II. Executive Summary

By specifically identifying market making as a permitted activity, the Volcker Rule statute recognizes and distinguishes market making from proprietary trading. We are quite concerned that the Proposed Regulations reflect a very restrictive application of the Volcker Rule market making exception. We believe that if implemented as proposed, the criteria for permitted market making activities (including the requirements that there be "two-sided" markets on a regular or continuous basis, that activities not exceed near-term demand and that revenue generation be derived from fees, commissions and spreads) would significantly limit dealer inventory and inhibit market making activity. We believe this would severely undermine market liquidity in the fixed income markets, raise costs and spreads, negatively impact issuers in the fixed income markets and impede our ability to manage our fixed income portfolio and to enter into and manage hedging transactions. The direct and indirect costs of this reduced liquidity will ultimately be passed on to our policyholders in the form of higher premiums or reduced product options and features. We believe these unintended consequences of the Proposed Regulations deserve careful consideration. MetLife encourages the Agencies to adopt final regulations that provide for a forward-looking,

[1] Proposed Regulations, Supplementary Information, pt. II.A.

portfolio-based and customized implementation of the Volcker Rule to each covered banking entity market maker.

III. Importance of Fixed Income Market Making to Our Policyholders

Market makers play an important role in ensuring that fixed income markets function smoothly. Their willingness to step into the opposite side of a trade is an essential part of making sure that there is proper liquidity in the capital markets. This is especially true during times of stress in the market. We are in agreement with the description of market making contained in the Proposed Regulation's "Appendix B: Commentary Regarding Identification of Permitted Market Making-Related Activities" ("Appendix B").

When a dealer commits capital to buy or sell securities, such dealer can be considered involved in principal trading. Principal trading involves price making and provides market liquidity. Unlike proprietary traders, market makers, while involved in principal trading, have customers (as Appendix B, Section III, Part A indicates) and are expected to provide liquidity to those customers, even in distressed markets. In the principal trading model, the market maker acquires inventory for the benefit of its customers. Since market makers hold this inventory to meet expected client demand from customers desiring to buy, or because they purchase securities from customers desiring to sell, the market maker is exposed to risk from changes in the price of that security. A principal trader may make or lose money based on the management of that risk. Virtually all fixed income securities are traded in this manner. We believe that the description of market making contained in Appendix B, Section III, Part A is consistent with our view of how the fixed income markets work, particularly with respect to how that commentary relates to the intermediation role a market maker must play in an "over-the-counter" market.

While insurance company investors rely on market makers in multiple ways, the key underlying theme is a long-term and consistent commitment by a market maker. This commitment, of resources, time, and capital, is reflected in a number of ways. First, we expect that a market maker will carry sufficient inventory to ensure that it can offer bonds that meet our investment needs. This allows us to invest our funds in a timely manner, quickly matching our assets with our liabilities. We also expect market makers to commit sufficient capital to allow them to bid on bonds that we desire to sell. This provision of liquidity allows us to sell bonds both to manage the credit risk in our portfolio, as well as raise liquidity to fund benefit payments to our policyholders. When needed, we expect (and need) market makers to bid on sizeable bond positions. We see no alternatives to trading these large position sizes other than through covered banking entity market makers who are willing to commit capital in a principal transaction.

The fixed income market operates as an over-the-counter market, comprised of a vast number of different issuers and issues. For example, in the U.S. Credit Index (reflecting $4 trillion of debt), there are approximately 800 issuers. 302 of those issuers have outstanding index eligible debt of $1 billion or less with a total amount outstanding for such issuers of approximately $150 billion. The U.S. Credit index has 4,672 issues, with about 6 issues per issuer. The fixed income market of today requires covered banking entities to act as principals and provide intermediation services. The vast breadth and complexity of the market makes a transition to an "agent" market (such as the equity exchanges) not viable. And the fixed income marketplace requires that, as set forth in Appendix B, Section I, Part A, "in order to provide effective intermediation services, market makers are required to retain at least some risk for at least some period of time with respect to price movements of retained principal positions and risks." We set forth below our concerns regarding the provisions in the Proposed Regulations that may not fully recognize and enable market makers to reasonably take such principal positions and risks and that may very well make it impossible for a principal fixed income market to continue to function and provide liquidity as it has to date.

IV. Reduction of Market Liquidity and its Impact

We are highly concerned that the Proposed Regulations would significantly interfere with principal trading market making, primarily because of the difficulty under the Proposed Regulations for covered banking entities to determine if their market making practices will remain lawful. If, as we would expect, covered banking entities revert to an agented, "special order" style trading system, liquidity will invariably be reduced, negatively impacting both issuers and investors who participate in the fixed income market.

Lower liquidity in the market would most likely result in higher costs for issuers of debt, as investors will need to be compensated for buying less liquid securities. This cost will vary depending on the credit quality of the issuer, the amount of debt such issuer has in the market and the maturity of the security. For well-known, high quality issuers this cost may be small. Unfortunately, for lesser known or lower quality issuers this cost may be significant and in some cases prohibitive. The cost to corporate issuers, for example, of this increase in yields has been estimated to be $3 to $6 billion per year.[2] Importantly, any yield increases will have a compounding effect as outstanding debt matures and new debt must be priced at these higher spreads. These higher borrowing costs or in some cases the lack of debt availability will have a dampening effect on the economy, potentially leading to lower capital formation and an adverse impact on job growth.

MetLife believes that the resulting lower market liquidity will also have a profound impact on investors in the debt markets. Our involvement in the debt capital markets is the result of our need to effectively match our assets and liabilities. This process ensures that we can make good on the long-term promises that we make to our policyholders. Lower liquidity in the debt markets will impact us in numerous ways. First, investors will demand higher spreads in order to compensate for this lower liquidity. This new "liquidity premium" will result in an almost instantaneous decline in the value of our currently held investments. The overall impact of this on the corporate bond market alone is estimated to be $300 billion.[3] Second, transaction costs will increase as bid-offer spreads increase to compensate for this shift in liquidity. Third, long-term investors, such as MetLife, will be forced to keep their portfolios more liquid and avoid positions that are likely to be harder to sell during credit downturns. This risk avoidance is one reason some borrowers may lose access to the market. Finally, we believe that the Proposed Regulations will also limit the ability to use derivatives to hedge risks. This is because the firms that we trade with will likely be less willing to enter into derivative trades if they cannot hedge these positions with other market participants or otherwise find themselves concerned that the market making positions they take to make these trades possible may not be permissible under the Proposed Regulations. We expect that the cumulative impact of the above issues will be higher priced products as well as lower returns for our policyholders. This may prevent some customers from purchasing the insurance and retirement products that are so important for their financial security.

V. Selected Specific Concerns with the Proposed Regulations

We appreciate the openness to input reflected by many questions raised by the Agencies in connection with the Proposed Regulations. While we will not offer an exhaustive list of changes and

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[2] Oliver Wyman, "The Volcker Rule Restrictions on Proprietary Trading – Implications for the US Corporate Bond Market" (December 2011) ("Oliver Wyman Study").

[3] Oliver Wyman Study.

drafting modifications, for the reasons set forth below, we respectfully raise the following concerns with the Proposed Regulations that we ask you to consider addressing, which we believe would be consistent with the Volcker Rule and the understanding of market making reflected in Appendix B.

A. Restrictive Market Making Permitted Activity Definition

Volcker Rule clause (a)(1)(A) states that unless otherwise provided in the statute, a banking entity cannot engage in proprietary trading. Volcker Rule clause (d)(1)(B) provides as a "permitted activity" the purchase, sale, acquisition or disposition of securities "in connection with underwriting or market-making-related activities, to the extent that any such activities ... are designed not to exceed the reasonably expected near term demands of clients, customers, or counterparties." Our concern is that the Proposed Regulations take a very narrow and prescriptive approach to implementing that exception. The Proposed Regulations have specific criteria that apply equally across all asset classes and market conditions, which must *each* be met in order for an activity to qualify as permissible market making.

- Some of the criteria that must be met include -
    - Two-sided markets on a *regular or continuous* basis (Sec. __.4(b)(2)(ii)) - may not be applicable in all markets.
        - Example: A highly structured, negotiated transaction with an insurance company to hedge its variable annuity portfolio presents a classic example of a client facing market making activity that is both initiated by, and beneficial to, clients. However, this type of transaction may not meet the criteria for regular or continuous quoting.
    - Activity designed not to exceed *reasonably expected near-term client, customer and counterparty demand* (Sec. __.4(b)(2)(iii)) - may be difficult to quantify since the determination of which securities are to be bought and sold and the timing of those transactions is customer driven and may also discourage holding inventory. We believe this requirement should be interpreted in accordance with the spirit of the Volcker Rule exception to allow market making activity, as it exists today, to continue.
        - Example: A concentrated large trade of a customer that has the potential to move the market would normally be intermediated by a market maker willing to hold the position and work out of it over time. However, the market maker will have to determine whether holding such a position in inventory would meet the criteria of near-term customer demand. If a market maker has to quickly sell out of the position, efficient intermediation of these types of trades may be limited - either with worse prices or an unwillingness to enter into the trade and the likely result of a move towards an agent market will reduce liquidity.
    - Activities of a trading unit must be designed to generate revenues *primarily from fees, commissions, and bid/ask spreads*, or other income not attributable to appreciation in value of covered financial positions (Sec. __.4(b)(2)(v)) - does not fully recognize that the market maker must hold inventory, which may increase or decrease in value, until a natural buyer appears.

- Example: Market makers will offer more for an illiquid bond if they know that they can hold that bond until the other side of the trade naturally surfaces. If the trader is required to sell that bond within an artificially prescribed period, he will naturally pay significantly less to acquire the bond, shifting time risk back to the client. This requirement of income generation is not set forth in the statute and sets forth very limiting parameters that could be expected to have a severe dampening effect on how this market works.

- Aspects of the rule do not recognize that interdealer trading helps provide deep and liquid markets, indirectly facilitates customer trades, and helps dealers efficiently hedge their risks. Because not all customers and end users have a relationship with every dealer, interdealer trading creates a hub-and-spoke system, allowing customers of different dealers to be linked through interdealer transactions which helps to expand overall inventory and the liquidity of the markets. The rule should explicitly recognize that interdealer trading is an important part of market making-related activities.

B. Restrictive Hedging Provisions

To be permitted market making-related hedging, Sec. __.4(b)(3) of the Proposed Regulations requires a covered financial position to be "purchased or sold to reduce the specific risks to the covered banking entity in connection with and related to" market making holdings. In addition, under Sec.__.5 of the Proposed Regulations, permitted hedging must also be "reasonably correlated" to the risk or risks the purchase or sale is intended to mitigate. The ability to hedge positions on both individual trade and portfolio bases is integral to enabling covered banking entities to manage the risks of their business activities. Similar to our concerns regarding the narrow criteria for permitted market making, we believe that a hedging regulation focusing on the trade level and not aggregate positions will limit the use of the hedging exemption significantly. Because this will be prescriptive to market making, we believe the final regulations should permit hedging on a portfolio basis.

C. Process Issues

We would urge the Agencies to be deliberate in the implementation process for the final regulations, especially in the face of the potential risk to the markets and the resulting impact to the economy. Given the impact on the fixed income markets, the Volcker Rule would be best implemented in a measured and incremental way. In addition, we believe that phasing the requirements in over time will allow the Agencies and covered banking entities to think about the best way to allocate resources and to implement the Proposed Regulations in an organized and orderly manner, and will serve to mitigate the risks of market disruption affecting issuers and investors alike.

VI. Recommendations

MetLife would urge the Agencies to revise the Proposed Regulations so that the resulting final regulations reflect a structure that focuses on general guidelines rather than strict and rigid criteria that must be met. We believe that this would be consistent with the Volcker Rule and the spirit reflected by Appendix B. In considering the revisions to the Proposed Regulations, we believe it is important for the Agencies to address three factors which we believe could greatly inhibit market making and increase the challenges we face in managing our risk. The factors are: (i) the very restrictive criteria for permitted market making activity set forth in the Proposed Regulations, (ii) that the Proposed Regulations are applied at the trade level which may or may not have been the intent of the Agencies and (iii) that a determination as to whether an activity is permissible appears to be a backward-looking analysis rather than considering the reasonable expectations of the parties at the time they enter into a transaction, given that markets are uncertain and not every investment will perform favorably.

Specifically,

1) "Portfolio" Approach – Please consider revising the Proposed Regulations to ensure that the guidelines and criteria to determine market making are done on a portfolio, as opposed to a "trade-by-trade" approach. We manage a highly diversified fixed income portfolio and understand, firsthand, the importance of considering the risk and positioning of the entire portfolio rather than focusing solely on how any one trade would behave. We favor a holistic, portfolio-based approach to the final regulations and believe that this type of oversight is achievable and consistent with the Volcker Rule and the intent recently expressed by some of the Agencies.

2) Development of Market Making "Plan" – We believe that the Volcker Rule and the commentary expressed in Appendix B is supportive of an approach whereby a specific covered banking entity would work together with the Agencies to develop an individualized plan within which such covered banking entity could safely pursue its market making activities. This plan could identify, among other metrics, targeted inventory aging and level guidelines, capital commitment targets and permissible buckets for liquid bonds evidenced by Trace data. The plans should not take a "one size fits all approach," instead they should recognize the fact that different covered banking entities approach their businesses in different fashions with different product types and different risk profiles. Having a variety of approved plans will likely help the regulators develop better insight into the relevant risks and the means of managing it, and be more tailored so that each covered banking entity can appropriately deal with market developments. An approved and jointly developed plan seems reasonable and is not inconsistent with certain regulatory oversight arrangements we have with our state insurance regulators, a model we suggest the Agencies review for feasibility and inclusion as part of the proposed regulation.

VII. Conclusion

MetLife would like to reiterate its appreciation for the analysis and effort that went into the Proposed Regulations and 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 or James Donnellan of our Government and Industry Relations Department (at 212-578-3968) if you have any questions regarding this comment letter.

Respectfully,

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