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**Secretariat of the Financial Stability Board  
C/O Bank for International Settlements  
CH-4002  
Basel, Switzerland**

**Re: Strengthening Oversight and Regulation of Shadow Banking; Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos.**

MetLife recognizes the substantial effort and consideration that the Financial Stability Board (“FSB”) has dedicated to ensuring a more resilient global financial system, and appreciates the opportunity to comment on the Proposed Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos.

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 globally. 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.

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, and reinsurance and capital adequacy.

### **Importance of Securities Lending and Repo.**

MetLife is a participant in the Securities Lending and Repo markets and recognizes the importance of these activities as a vital source of liquidity and short term financing in the US financial markets. The term “shadow banking” in some ways infer that financial institutions, other than banks, are lacking robust regulation of these activities. This is not the case for MetLife’s activities. As a regulated life insurance company, MetLife’s investments are subject to very strict state regulation and oversight. Repo transactions are subject to State Insurance law limits, as well as internal investment committee guidelines and authorizations. Moreover, Repo Transactions are executed only with counterparties approved by an internal credit risk management committee and are subject to tri-party custodial arrangements. In addition to the regulatory oversight applicable to Repo Transactions, MetLife’s Securities Lending Program is subject to direct supervision by the NY State Department of Financial Services, and all transactions must meet National Association of Insurance Commissioner (NAIC) guidelines in order to be recognized as a conforming program. Further, MetLife conducts its Securities Lending activities directly from the insurance operating companies (and not on a consolidated holding company level), but also manages liquidity at that legal entity level and develops alternative funding options within each operating company. Finally, the re-investment of collateral obtained in respect of Securities Lending Transactions is subject to both NAIC and internal investment guidelines.

The manner in which a business enterprise operates should dictate the manner in which they are regulated; and a one-size fits all, bank-centric regulatory framework is not appropriate for life insurers or other financial institutions. The proposed Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repo is one of several proposals (along with BCBS Revised Basel III Leverage Ratio Framework and the Regulatory Capital Enhanced Supplementary Leverage Ration Standards for Certain Bank Holding Companies proposed by various US Bank Regulators) that could unintentionally disrupt the efficient and orderly operation of the global capital markets by creating strong regulatory disincentives for market participants to engage in Securities Lending and Repo Transactions. We believe that any regulatory framework supported by the FSB must be considered in the context of both proposed and existing regulatory regimes, and be tailored in a manner that would not deter or

discourage participation in the Securities Lending and Repo Markets. MetLife believes that any regulation that would potentially impede Securities Lending and Repo activities will have a profound negative impact on the financial markets that depend on these transactions for short and intermediate term financing, and ultimately reduce the liquidity in the fixed income markets for the securities underlying these financing transactions, specifically the market for US Treasury Securities.

### **Increased Transparency for Securities Lending and Repo Markets in the US.**

As a general matter, MetLife is supportive of recommendations that serve to increase transparency in the Securities Lending and Repo markets. However, as noted above, MetLife is subject to regulation in each of the jurisdictions in which it conducts business. Accordingly, all financial transactions, including Securities Lending and Repos, are executed by a MetLife operating company and are reported to the national rating agencies on a quarterly basis and annually to local insurance regulators. The costs of regulatory compliance are not insignificant, and the FSB must be cognizant of existing regulatory regimes when proposing new requirements. We believe that it is important for regulators to collect only such data that is necessary in detecting and averting risks in the financial system. Further, we strongly urge the FSB to acknowledge any regulatory and reporting structures already in existence for insurance companies, as well as other regulated financial institutions, and utilize those existing infrastructures to formulate an un-intrusive and cost effective process to facilitate such data collection.

### **Reinvestment Guidelines.**

MetLife is a self-directed securities lender, executing and reporting Securities Lending Transactions on an operating company level. The reporting and execution of Securities Lending Transactions within each operating company provides transparency and reduces systemic financial system risk since the default risk is contained within each lending entity. Similarly, cash collateral obtained in respect of Securities Lending Transactions is invested at the operating company level. MetLife does not believe that a “best practice” for the reinvestment of cash collateral should be universally applied. Rather, we support the requirement that securities lending participants must establish and comply with prudent re-investment guidelines that take into account the profile of the securities loans funding the re-investment (including volatility, duration and consistency of demand for the asset on loan), the liquidity of the reinvestment and the risk appetite of the lending entity. Securities Lending provides incremental investment opportunities for its participants, while at the same time facilitating securities settlement efficiencies and increased liquidity to the financial markets. Regulations that limit or eliminate an investor’s ability to profitably reinvest cash collateral will have a chilling effect on the orderly functioning of these markets.

**Mandatory Collateral Haircuts.**

MetLife does not support the FSB’s recommendation for mandatory haircuts on Securities Lending and Repo collateral. The purpose of haircuts on collateral is to provide a flexible, bi-lateral risk mitigation tool that allows the parties to adjust such haircuts in response to changing factors including: the nature and value of the assets subject to the securities lending or repo transaction; the nature and value of the collateral received; the duration of the Securities Lending or Repo transaction and the counterparty risk characteristics. MetLife believes that mandatory daily collateral mark-to-market provisions, combined with flexible and prudent haircuts, best serve to mitigate counterparty and systemic market risk in Securities Lending and Repo Transactions.

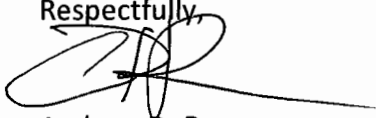
**Changes to Insolvency Regimes.**

Current US insolvency law provides a safe harbor for Securities Lending and Repo Transactions by allowing for the immediate termination and liquidation of collateral held in respect of these transactions. These safe harbor provisions are essential to the functioning of the Securities Lending and Repo markets by providing participants with the legal certainty that the disposition of collateral will be unfettered in the event of a counterparty insolvency. Any regulation aimed at restricting or eliminating these safe harbor provisions would have the unintended consequences of creating uncertainty in the markets; thereby reducing market liquidity and further triggering second-order effects of volatility in bond yields across the broader fixed income markets. Accordingly, MetLife opposes any proposal to insolvency law provisions that would narrow or eliminate these important safe harbor provisions.

**Conclusion.**

MetLife would like to reiterate our appreciation for the efforts that the FSB has taken with respect to the Proposed Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos. We are pleased to be able to continue to participate through the comment process and respectfully submit that certain aspects of the regulatory framework discussed above, have the potential to unintentionally reduce market liquidity, reduce or eliminate investor profitability and increase costs to market participants. We urge the FSB to continue to assess the existing regulatory regime of current market participants and evaluate the potential costs and consequences of implementing any new regulatory framework before finalizing these proposals.

Respectfully,



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