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Subject: MetLife Final Determination
Date: Thursday, December 18, 2014 1:48:04 PM
Attachments: MetLife Public Basis.pdf
Notice and Basis for MetLife Final Determination.pdf
Dissenting and Minority Views.pdf

Ricardo and Heather,

The Financial Stability Oversight Council has made a final determination regarding MetLife. Attached please find the Council's notice and explanation of the basis for its final determination. Also attached is a public basis document that will be transmitted to Congress and posted on the Council's website tomorrow morning, as well as a document with a dissent and a minority view of Council members regarding the determination. As discussed, please review the public basis document and the dissent/minority view document to ensure that they do not include any confidential company information, and if you identify such information, please let me know by 8 p.m. tonight.

Thank you. Please feel free to contact me if you have any questions.

Patrick

Patrick Pinschmidt
Department of Treasury
202-622-2495
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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 18, 2014

Mr. Steven A. Kandarian
Chairman of the Board, President,
and Chief Executive Officer
MetLife, Inc.
200 Park Avenue
New York, NY 10166

Dear Mr. Kandarian:

We hereby notify you that pursuant to section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Financial Stability Oversight Council (Council) has made a final determination that material financial distress at MetLife, Inc. (MetLife) could pose a threat to the financial stability of the United States and that MetLife shall be supervised by the Board of Governors of the Federal Reserve System (Board of Governors) and be subject to prudential standards.¹

Enclosed are two documents relating to the Council's final determination: (1) the "Basis for the Financial Stability Oversight Council's Final Determination Regarding MetLife, Inc.,"² which the Council will publicly release on December 19, 2014, and (2) the "Notice of Final Determination and Statement of the Basis for the Financial Stability Oversight Council's Final Determination Regarding MetLife, Inc.,"³ which is not contemplated for public release.⁴

If you have any questions regarding this notice, please contact me at 202-622-2495.

Sincerely,

Patrick Pinschmidt
Deputy Assistant Secretary
Financial Stability Oversight Council

Enclosures

¹ See Dodd-Frank Act section 113, 12 U.S.C. § 5323. The Council voted to make the final determination by a vote of 9 in favor and 1 opposed.

² See Authority to Require Supervision and Regulation of Certain Nonbank Financial Companies, 12 C.F.R. § 1310.21(d)(3).

³ See Dodd-Frank Act section 113(e)(3), 12 U.S.C. § 5323(e)(3); see also 12 C.F.R. § 1310.21(d)(2).

⁴ See Dodd-Frank Act section 112(d)(5), 12 U.S.C. § 5322(d)(5); see also 12 C.F.R. § 1310.20(e).

**Explanation of the Basis of the Financial Stability Oversight Council's
Final Determination that Material Financial Distress at MetLife
Could Pose a Threat to U.S. Financial Stability and that MetLife Should be Supervised by
the Board of Governors of the Federal Reserve System
and Be Subject to Prudential Standards**

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1 EXECUTIVE SUMMARY

1.1 Overview

Under section 113 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Financial Stability Oversight Council (Council) may determine that a nonbank financial company shall be supervised by the Board of Governors of the Federal Reserve System (Board of Governors) and be subject to enhanced prudential standards if the Council determines that material financial distress at the nonbank financial company could pose a threat to the financial stability of the United States. Because MetLife, Inc. (MetLife) is a significant participant in the U.S. economy and in financial markets, and is interconnected to insurance and other financial firms through its insurance products and capital markets activities, as well as for the other reasons described herein, MetLife's material financial distress could lead to an impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict significant damage on the broader economy. Therefore, the Council has made a final determination under section 113 of the Dodd-Frank Act that MetLife shall be supervised by the Board of Governors and be subject to enhanced prudential standards. This overview summarizes certain key factors in support of the Council's final determination, as more fully described in this analysis.

On July 16, 2013, the Council notified MetLife that the company was under consideration for a proposed determination by the Council. The company was invited to meet with staff and to submit materials, and the Council also requested specific information relevant to the Council's evaluation. Between September 2013 and September 2014, staff of Council members and their agencies met with MetLife's representatives 12 times. In addition, representatives of the company also met with senior officials of Council members and member agencies. Staff also had five meetings with two state insurance regulatory authorities with jurisdiction over MetLife's insurance subsidiaries. MetLife submitted over 21,000 pages of materials to the Council during its evaluation. On September 4, 2014, the Council voted to make a proposed determination regarding MetLife. On the same day, the Council sent the company a notice and explanation of the basis of the proposed determination, which provided an extensive analysis of the potential for material financial distress at MetLife to pose a threat to U.S. financial stability. The notice also informed the company of its right to request a hearing before the Council to contest the proposed determination. On October 3, 2014, MetLife requested a written and an oral hearing before the Council, which was granted by the Council. MetLife submitted written hearing materials to the Council on October 16, 2014. An oral hearing before the full Council was held on November 3, 2014. On November 10, 2014, the company submitted additional written materials to supplement the materials presented during the oral hearing. These submissions were considered by the Council. This analysis addresses facts and analyses from MetLife's submissions to, and oral hearing before, the Council, as well as information submitted by MetLife following such hearing in response to questions raised by Council members.

MetLife is the largest public U.S. insurance organization based on total assets¹ and one of the largest financial services companies in the United States, with over 350 subsidiaries, many of which operate internationally.² Through its subsidiaries,³ MetLife is a leader in providing a wide array of financial services, including group and individual life insurance, annuity products, and retirement-related products and services. As of June 30, 2013, MetLife had approximately \$816 billion in total consolidated assets, consisting of approximately \$500 billion of general account invested assets (including cash and cash equivalents) and \$246 billion of separate account assets.⁴ MetLife had approximately \$4.4 trillion of gross life insurance in force (excluding annuities) as of year-end 2013.⁵

The direct or indirect exposures⁶ of MetLife's creditors, counterparties, investors, policyholders, and other market participants to MetLife are significant enough that MetLife's material financial distress could impair those entities or the financial markets in which they participate and thereby could pose a threat to U.S. financial stability. Large financial intermediaries, including global systemically important banks (G-SIBs) and global systemically important insurers (G-SIIs), have

¹ Best's Review, "Top 75 North American Public Insurers Ranked by 2013 Total Assets," (July 2014), p. 46.

² [REDACTED]

Consistent with the Dodd-Frank Act, the Council's final determination is with respect to MetLife, Inc., the holding company of the MetLife organization. However, because the business and activities of MetLife, Inc. are conducted primarily through its subsidiaries, this analysis assumes material financial distress at one or more of the company's significant subsidiaries as well as at the holding company. Therefore, depending on the context, references in this analysis to "MetLife" may refer to the holding company or to the holding company and one or more of its subsidiaries.

⁴ The total investment portfolio of a life insurance company can be separated into two categories: the general account, which holds assets and liabilities that are not allocated to the separate accounts, and separate accounts, which are held separately from the other assets and are not subject to the usual investment restrictions on the general account. Separate accounts support contracts in which the investment risk is passed through to the contract holder, such as variable life insurance and variable annuity products. Contract holders of these variable products are entitled to the market value of a separate account supporting their contract, or the allocable share of a separate account if there is more than one policy associated with the separate account. MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5. See section 3.2.3 for a discussion of general and separate accounts.

⁵ Publicly traded insurance organizations report financial data prepared on the basis of generally accepted accounting principles (GAAP); unless otherwise noted, financial data cited herein were prepared on a GAAP basis. Legal entity insurance companies, including subsidiaries of publicly traded companies, are also required to file financial data prepared on the basis of statutory accounting principles (SAP) for state regulatory reporting purposes. Combined legal entity SAP data cited herein are as of year-end 2013 from SNL Financial. Except as otherwise noted, data relied on for this analysis are generally as of June 30, 2013. Certain data in the public "Basis for the Financial Stability Oversight Council's Final Determination Regarding MetLife, Inc." are as of a more recent date; the Council has considered such data and found no changes that would affect the conclusions in this analysis.

⁶ For the purposes of the Council's analysis, "direct exposures" generally refer to exposures of MetLife's counterparties or investors that arise directly from the transactional relationship with MetLife. "Indirect exposures" generally refer to exposures of market participants that do not arise from direct exposures, and may encompass a market participant's potential losses arising from its exposures to other firms that have direct exposures to MetLife. For example, a firm may be impaired through indirect exposures if its counterparties are unable to satisfy their obligations due to losses from direct exposures to MetLife. Indirect exposures arising from the direct exposures contribute to the potential for MetLife's material financial distress to pose a threat to U.S. financial stability.

significant exposures and interconnections to MetLife through institutional products and capital markets activities. For example, capital markets exposures to MetLife, including securities lending and outstanding indebtedness, create an estimated \$183 billion of exposures to the company.⁷ These exposures are concentrated among G-SIBs and G-SIIs.⁸ In addition, large financial intermediaries and other companies have significant exposures to MetLife arising from the company's institutional products, such as general and separate account guaranteed investment contracts (GICs), funding agreements (FAs), and pension closeouts.

Retail policyholders are also directly exposed to MetLife. MetLife has 90 million customers, including approximately 50 million U.S. customers.⁹ MetLife's material financial distress could directly expose certain of these policyholders and contract holders to losses, particularly those who hold products with cash values and guaranteed benefit features. Unlike some institutional products, retail policies are typically long-term liabilities realized over time, which may minimize the potential impact in any given year.¹⁰ Further, state guaranty and security fund associations (GAs) may mitigate some policyholder losses from certain insurance and annuity products in the event of insolvency of the insurance company issuing those products. However, due to MetLife's size and broad national presence, the various states' GAs could have insufficient capacity to handle a resolution of one of MetLife's lead insurance underwriters.

In addition, if MetLife were to experience material financial distress, it could be forced to liquidate assets to meet its obligations to counterparties, contract holders, and policyholders. In order to meet a rapid increase in liquidity demand, MetLife could be forced to sell assets at fire-sale prices, which could impair financial intermediation or financial market functioning. There are two primary sources of potential liquidity strains that could cause or contribute to a forced asset liquidation: institutional and capital markets products that can be terminated or not renewed by the counterparty, and insurance-related liabilities. First, if MetLife experienced material financial distress, it could be subject to early termination of, or the inability to roll over, its institutional products. For example, actions by institutional counterparties to reduce exposures to MetLife could cause the company to be unable to roll over a portion of its approximately \$30 billion of outstanding FA-backed securities (FABS),¹¹ or to be forced to sell assets in response to early returns of securities borrowed in connection with its approximately \$30 billion securities lending program.¹² Second, the majority of MetLife's \$275 billion in U.S. general

⁷ These estimated exposures provide context for the range of potential outcomes that could occur in the event of MetLife's material financial distress, and are not estimates of expected losses to counterparties. See Table 8.

⁸ See Table 7, Table 8, and Appendix C.

⁹ MetLife Voluntary Submission, Section III, p. III-74. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-22.

¹⁰ For example, MetLife policyholder liabilities have a weighted average life of [REDACTED] MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-23.

¹¹ FABS have maturity schedules or expected benefit payout patterns that range from 12 months or less to six or more years. MetLife Response to OFR Data Request, document A.6_CFO_2of3.

¹² See Table 20.

account insurance liabilities can be surrendered for cash value, including \$50 billion that can be withdrawn with little or no penalty.¹³ Policyholders have a number of contractual and other disincentives to early withdrawal; however, these disincentives could serve as less of a deterrent if MetLife's ability to meet its obligations were in doubt. Further, in lieu of surrenders, policyholders can request liquidity through policy loans against an aggregate liability amount of \$116 billion.¹⁴ In addition, over 80 percent of MetLife's \$246 billion of qualifying separate account liabilities can be withdrawn or transferred, although separate account contract holders generally have stronger disincentives to surrender than general account policyholders.¹⁵

A forced liquidation of MetLife's assets could cause significant disruptions to key markets, including corporate debt and asset-backed securities (ABS) markets. The potential for a forced asset liquidation by MetLife could be exacerbated by MetLife's leverage, which is among the highest of its peers.¹⁶ The severity of the disruptions could be amplified by the fact that the investment portfolios of many large financial intermediaries are composed of similar assets, which could exacerbate losses for those firms. Moreover, significant outflows from MetLife could put other large life insurers that may also be perceived as vulnerable at risk of similar outflows. The potential resulting erosion of capital and de-leveraging could cause fire sales that could result in significant losses or funding problems for other firms with similar holdings.

MetLife's insurance company subsidiaries have the contractual right to defer payouts for up to six months on many of the immediately payable cash surrender values associated with their products.¹⁷ Further, state insurance regulators could impose stays on policyholder withdrawals and surrenders. However, any deferrals or stays could cause uncertainty to spread to the customers of other insurance companies offering similar products and could undermine confidence in the broader life insurance industry.

MetLife is a leading participant in various financial product markets. The company is the leader in the life and health insurance market, with a market share of approximately 17 percent when measured by premiums written.¹⁸ MetLife is also a significant participant in the corporate

¹³ See Table 24 and Table 25.

¹⁴ The amount of \$116 billion represents the global maximum aggregate policy liability amount with available policy loan features.

[REDACTED] MetLife Response to OFR Data Request, document B.8; MetLife Response to OFR Data Request, 2013.11.12_-Liability_cash_outflow_model_(PROTECTED).

¹⁵ MetLife Voluntary Submission, Section III, p. III-38; see Table 28.

¹⁶ See sections 4.3.7 and 4.3.8 for a discussion of MetLife's financial and operating leverage.

¹⁷ MetLife Voluntary Submission, Section III, p. III-81.

¹⁸ See Federal Insurance Office, U.S. Department of the Treasury, "Annual Report on the Insurance Industry" (June 2013), p. 10, available at <http://www.treasury.gov/initiatives/fio/reports-and-notice/ Documents/FIO%20Annual%20Report%202013.pdf>.

benefit funding and annuity product markets.¹⁹ While the withdrawal of a market leader such as MetLife could exacerbate financial market disruptions caused by its material financial distress, most of these markets appear to be competitive, and other firms would likely be able to absorb the increased demand for products and services if MetLife ceased to offer them. Nevertheless, there could be additional transmission of stress through this transmission channel, particularly in a weak macroeconomic environment and if there were broader pullbacks across the industry in certain of MetLife's core businesses.

The complexities involved in resolving MetLife could aggravate the threat posed to U.S. financial stability by the company's material financial distress. In addition to the significant challenges associated with the coordination of domestic and international regulators and judicial bodies in resolving such a large, internationally active organization, a rapid and orderly²⁰ resolution of MetLife could be complicated by a number of other factors. MetLife's U.S. entities have a substantial number of financial and operational linkages to one another through inter-affiliate reinsurance, capital and net worth maintenance agreements, lines of credit, and shared services arrangements. Resolution could be further complicated because its life insurers' variable annuity businesses create significant financial linkages between general and separate account liabilities associated with the guarantees on these annuity products.

MetLife's insurance subsidiaries are subject to supervision by regulators in all 50 U.S. states, the District of Columbia, the five U.S. territories, and numerous foreign countries. A state insurance regulator supervises numerous aspects of a licensed entity's operations, including solvency; pricing and products; investments; reinsurance; reserves; asset-liability matching; transactions with affiliates; use of derivatives; and management. However, state insurance regulators generally do not have direct authority to require a non-mutual holding company of a state-licensed insurer or any non-insurance company subsidiary to take or not take actions outside of the insurer for the purpose of safety and soundness of the insurer or for the avoidance of risks from activities that could result in adverse effects on U.S. financial stability. State regulators also do not have any direct authority for MetLife's international insurance activities.

Further, MetLife's use of captive reinsurance subsidiaries generally enables the company to hold lower-quality capital and lower reserves than would otherwise be required under applicable state law, which creates a greater risk that MetLife could be required to engage in asset sales to satisfy an increase in demand for liquidity.

¹⁹ MetLife Response to OFR Data Request C.4.

²⁰ Some insurance assets and businesses by their nature will take longer to wind down. In the context of the phrase "rapid and orderly resolution" and as applied to these assets and businesses, the term "rapid" refers to the ability to timely implement a plan for resolving a company that calms markets and participants. By design, the winding down of a failed insurer's estate may take several years to accomplish while policyholder and contract holder liabilities are paid off as they come due, or are transferred to solvent insurers.

MetLife's material financial distress could also indirectly affect other firms due to the market uncertainty about other firms' exposures to MetLife and the potential impact of such exposures on the financial health of those firms and their counterparties. This type of uncertainty can lead market participants to pull back from a range of firms and markets, in order to reduce exposures, thereby increasing the potential for destabilization.

In light of MetLife's size, leverage, interconnectedness with other large financial firms and financial markets, provision of products that may be surrendered or borrowed against for cash at the discretion of its institutional and retail contract holders and policy holders, and impediments to its rapid and orderly resolution, material financial distress at MetLife could have significant adverse effects on a broad range of financial firms, financial markets, and the broader economy, and could lead to an impairment of financial intermediation or financial market functioning that could be sufficiently severe to inflict significant damage on the economy.

1.2 Overview of the Council's Evaluation of a Nonbank Financial Company for a Final Determination

The Dodd-Frank Act includes various measures to identify and mitigate potential threats to U.S. financial stability. Among these measures is the establishment of the Council. One of the purposes of the Council under the Dodd-Frank Act is to identify risks to U.S. financial stability that could arise from the material financial distress of large, interconnected nonbank financial companies. As described below, section 113 of the Dodd-Frank Act authorizes the Council to determine that a nonbank financial company shall be supervised by the Board of Governors and be subject to enhanced prudential standards if the Council determines that material financial distress at the company, or the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the company, could pose a threat to the financial stability of the United States.²¹

In considering whether to subject a nonbank financial company to Board of Governors supervision, section 113 of the Dodd-Frank Act requires the Council to consider 10 enumerated statutory factors, including the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the particular company. In addition, the Council may consider "any other risk-related factors that the Council deems appropriate."²²

As noted in the Council's interpretive guidance regarding nonbank financial company determinations (Interpretive Guidance),²³ the Council will consider a "threat to the financial stability of the United States" to exist "if there would be an impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict

²¹ Dodd-Frank Act section 113, 12 U.S.C. § 5323 (2012).

²² Dodd-Frank Act section 113(a)(2)(K), 12 U.S.C. § 5323(a)(2)(K) (2012).

²³ 12 C.F.R. part 1310, app. A (2013).

significant damage on the broader economy.” The Interpretive Guidance also states that the Council believes “material financial distress” exists “when a nonbank financial company is in imminent danger of insolvency or defaulting on its financial obligations.” The Interpretive Guidance identified three channels (outlined in section 1.3.1, and described in detail in sections 4.2, 4.3, and 4.4) that are most likely to facilitate the transmission of the negative effects of a nonbank financial company’s material financial distress or activities to other firms and markets, thereby causing a broader impairment of financial intermediation or of financial market functioning.

In addition, the Interpretive Guidance states that for purposes of considering whether material financial distress at a nonbank financial company could pose a threat to U.S. financial stability, the Council intends to assess the impact of the company’s material financial distress “in the context of a period of overall stress in the financial services industry and in a weak macroeconomic environment.” As a result, the discussion herein addresses a range of outcomes that are possible but vary in likelihood. MetLife asserts that the Council’s analysis is based on “unsubstantiated speculation and conjecture with no grounding in the evidence”²⁴ and addresses events that “could” occur “rather than ask whether financial distress and systemic effects are likely.”²⁵ However, this analysis is based on extensive qualitative and quantitative analyses regarding MetLife, applying the statutory criteria and taking into account information such as the company’s businesses and activities, relevant historical evidence, and company-specific financial analysis. The Council’s approach is consistent with the statutory standard set forth in the Dodd-Frank Act;²⁶ it considers the range of potential outcomes of MetLife’s material financial distress, rather than relying on a worst-case scenario or any other specific scenario. This analysis notes that there may be scenarios in which material financial distress at MetLife would not pose a threat to U.S. financial stability, but that there is a range of possible alternatives in which it could do so.

MetLife also argues that the vast majority of the Council’s analysis is misleading, unsupported, or irrelevant.²⁷ This assertion is unjustified, although the analysis herein has been amended, as appropriate, or further clarified to address many of the company’s comments. In many instances, the company describes as “misleading” reasonable factual statements that support conclusions with which the company disagrees.²⁸ In addition, the statements the company criticized as “unsupported” are often in introduction or conclusion sections of the analysis, and their factual

²⁴ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-5.

²⁵ *Id.* at p. VI-42.

²⁶ *See* Dodd-Frank Act section 113(a)(1), 12 U.S.C. § 5323(a)(1).

²⁷ *See* MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII.

²⁸ *See, e.g.,* MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-1, VII-27, VII-97, VII-192, VII-210, VII-215, VII-153.

or analytical bases are addressed elsewhere.²⁹ With respect to statements the company describes as “irrelevant,” this analysis extensively addresses a broad array of considerations, and it is appropriate to include context for the issues being discussed.³⁰ Finally, in many cases the company applies these descriptions to conclusions that reflect the Council’s judgment based on the analysis.³¹

In considering whether material financial distress at a nonbank financial company could pose a threat to U.S. financial stability and the nonbank financial company should be subject to Board of Governors supervision and enhanced prudential standards, no one factor or consideration is determinative. The Interpretive Guidance emphasizes that the Council will consider a broad range of information and assess the various factors separately and in conjunction with each other to evaluate, in its judgment, the potential for a company’s material financial distress to pose a threat to U.S. financial stability. Accordingly, the Council considered information available through existing public and regulatory sources, as well as information provided by MetLife, and also consulted with certain regulators of MetLife or its subsidiaries. The Council has relied on the information and analysis set forth or cited herein, the materials that were submitted by MetLife to the Council, and materials submitted by regulators identified in Appendix B.³²

Based on an assessment of all of the considerations set forth in section 113 of the Dodd-Frank Act, as well as the Interpretive Guidance, the Council has made a final determination that material financial distress at MetLife could pose a threat to U.S. financial stability and that MetLife shall be supervised by the Board of Governors and subject to enhanced prudential standards.

1.3 Summary of the Conclusion that MetLife’s Material Financial Distress Could Pose a Threat to U.S. Financial Stability

1.3.1 Consideration of the Transmission Channels

Consistent with the Dodd-Frank Act and the Interpretive Guidance, the Council evaluated the extent to which MetLife’s material financial distress could be transmitted to other financial firms and markets and thereby pose a threat to U.S. financial stability primarily through the following three transmission channels: (1) the exposures of counterparties, creditors, investors, and other

²⁹ See, e.g., MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-49, VII-161, VII-168, VII-185, VII-209, VII-224, VII-228.

³⁰ *Id.* at pp. VII-58, VII-73-VII-74, VII-85, VII-101, VII-102, VII-174, VII-228.

³¹ *Id.* at pp. VII-3, VII-7, VII-10, VII-13, VII-61, VII-79, VII-223.

³² MetLife maintains that the Council “has refused to grant MetLife access to the record” upon which the Council’s analysis is based. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-20. On September 4, 2014, the Council provided MetLife with an explanation of the basis of the Council’s proposed determination. This basis provided MetLife with all the relevant information necessary to understand the Council’s analysis and to enable the company to respond fully to the Council’s proposed determination regarding MetLife.

market participants to MetLife; (2) the liquidation of MetLife's assets, which could trigger a fall in asset prices and thereby could significantly disrupt trading or funding in key markets or cause significant losses or funding problems for other firms with similar holdings; and (3) the inability or unwillingness of MetLife to provide a critical function or service relied upon by market participants and for which there are no ready substitutes.

The threat to U.S. financial stability that could be posed by MetLife's material financial distress arises primarily from the exposure and asset liquidation transmission channels, although under certain circumstances the critical function or service channel may exacerbate the extent to which the company's material financial distress could be transmitted to the broader financial system and economy. In addition, MetLife's complexity, intra-firm connections, and potential difficulty to resolve aggravate the risk that the company's material financial distress could materially impair financial intermediation and financial market functioning.

1.3.1.1 Exposure Transmission Channel

The exposure to a nonbank financial company that is significant enough to materially impair creditors, counterparties, investors, or other market participants and thereby pose a threat to U.S. financial stability is one of the three channels identified by the Council as most likely to facilitate the transmission of the negative effects of a nonbank financial company's material financial distress or activities to other financial firms or markets. As explained in greater detail in section 4.2, the direct or indirect exposures³³ of MetLife's creditors, counterparties, investors, policyholders, and other market participants to MetLife are significant enough that MetLife's material financial distress could materially impair those entities or the financial markets in which they participate, and thereby could pose a threat to U.S. financial stability.

Large financial intermediaries and other companies have significant exposures to MetLife arising from the company's institutional products and activities. If MetLife were to experience material financial distress, it may be unable to honor the guarantees on these institutional products, potentially exposing holders or beneficiaries of these products to losses. The sources of these exposures include MetLife's stable value products such as \$47.7 billion of outstanding GICs, whose balances MetLife's insurers guarantee up to the contract's book value; \$4.3 billion of outstanding synthetic GICs, which are financial guarantees under which MetLife provides clients

³³ For the purposes of the Council's analysis, "Direct exposures" generally refer to exposures of MetLife's counterparties or investors that arise directly from the transactional relationship with MetLife. "Indirect exposures" generally refer to exposures of market participants that do not arise from direct exposures, and may encompass a market participant's potential losses arising from its exposures to other firms that have direct exposures to MetLife. For example, a firm may be impaired through indirect exposures if its counterparties are unable to satisfy their obligations due to losses from direct exposures to MetLife. Indirect exposures arising from the direct exposures described in section 4.2 contribute to the potential for MetLife's material financial distress to pose a threat to U.S. financial stability.

with the right to make withdrawals; \$58.1 billion of liabilities with respect to pension closeouts and structured settlements; and \$17.4 billion of corporate-, bank-, and trust-owned life insurance (BOLI, COLI, and TOLI, respectively).

Market participants are also directly and indirectly exposed to MetLife as a result of its capital markets activities. Estimated capital markets exposures to MetLife total \$183 billion,³⁴ including \$19 billion of outstanding long-term debt; approximately \$31 billion of securities lending and repurchase agreements; \$3 billion of derivatives liabilities; \$16 billion of unsecured credit and committed facilities; \$51 billion of FA-backed securities, Federal Home Loan Bank (FHLB) financing, and other obligations; \$50 billion of outstanding equity securities; \$7 billion of net notional CDS for which MetLife is the reference entity; and \$5 billion of other financial debt. Additionally, an estimated [REDACTED] of MetLife's debt is held by other insurers, with approximately [REDACTED] of this amount held by G-SIIs.³⁵

Some counterparties' exposures to MetLife may be material relative to their equity capital, while others are smaller. For instance, the top five G-SIB counterparties, ranked by exposures as a percentage of equity, have aggregate exposures between 4.0 percent and 11.2 percent of their equity value, although some of these exposures are mitigated or reduced because of counterparties that hold collateral. Calculated using this exposure methodology, the G-SIB and G-SII counterparties represent \$52 billion of total outstanding exposure, or nearly 30 percent of the total \$183 billion in capital markets exposure to MetLife.^{36, 37} Exposures of these financial firms to MetLife could result in direct losses to those firms as a result of MetLife's material financial distress.

The majority of MetLife's derivatives counterparties, creditors, debt holders, and securities lending and repurchase agreement counterparties are other large financial intermediaries that are interconnected with one another and the rest of the financial sector. Exposures of these large financial firms to MetLife could result in direct losses to those firms as a result of MetLife's material financial distress. For example, at the beginning of 2013, money market mutual funds (MMFs) held over 50 percent of MetLife's FA-backed commercial paper (FABCP), and a maximum of 65 MMFs could "break the buck"³⁸ if MetLife were to default on its FABs.³⁹ As

³⁴ This amount provides context for the range of potential outcomes that could occur in the event of MetLife's material financial distress, and is not an estimate of expected losses to counterparties.

³⁵ As of June 30, 2013. MetLife Voluntary Submission, Section III, p. III-13; MetLife Response to OFR Data Request, documents A.I.a.iv and A.I.a.v. The total debt holdings were based on only approximately [REDACTED] of MetLife's total senior and subordinated debt due to the data limitations. G-SIB and G-SII holdings exclude approximately \$[REDACTED] of estimated asset management related holdings.

³⁶ See Appendix C.

³⁷ See footnote 381.

³⁸ See M.T. Kacperczyk and Philipp Schnabl, "How Safe are Money Market Funds?" Quarterly Journal of Economics volume 128 (2013), pp. 1073-1112.

³⁹ See Figure 6. A MMF has "broken the buck" (i.e., re-priced its securities below \$1.00 per share) if it is unable to maintain a stable net asset value (NAV) per share based on pricing of its portfolio holdings. On July 23, 2014, the

witnessed during the 2007-2009 financial crisis, when one MMF breaks the buck, a broader run on MMFs can be triggered. Such an event could lead investors to withdraw from short-term funding markets more broadly, which could impair the ability of large financial firms to serve as financial intermediaries.

MetLife asserts that the Council's analysis of exposures overstates or misattributes several exposures. While this analysis estimates the aggregate capital markets exposure to MetLife at \$183 billion, MetLife asserts that the figure is \$90 billion.⁴⁰ Further, while this analysis estimates G-SIB and G-SII exposures to MetLife at \$52 billion, MetLife contends that the figure is \$13.3 billion.⁴¹ Notwithstanding these broad ranges, even exposures at the lower ends of these estimates are substantial and could lead the company's material financial distress to pose a threat to U.S. financial stability. The primary reasons for the different estimates are that MetLife argues that the estimates should be reduced based on collateralization of exposures and potential recovery rates. Table 6 and Table 7 show the differences between the estimates in this analysis and the figures provided by MetLife with respect to aggregate capital markets exposures and exposures of G-SIBs and G-SIIs. As described in section 4.2.5, the factors cited by MetLife may, in certain circumstances, mitigate the potential effects of exposures to MetLife; however, a consideration of aggregate exposure estimates is relevant because, among other things, it assists in an analysis of the company's interconnectedness and with a comparison of exposures to MetLife with exposures to other financial institutions.

Retail policyholders are also directly exposed to MetLife. MetLife has 90 million customers, including approximately 50 million U.S. customers.⁴² MetLife's material financial distress could directly expose certain of these policyholders and contract holders to losses, particularly those who hold products with cash values and guaranteed benefit features. These customers could be negatively affected through losses or delays in accessing funds in the event of MetLife's material financial distress. However, there are important mitigants to some of those exposures. Unlike some institutional products, retail policies are typically long-term liabilities realized over time, which may minimize the potential impact in any given year. Further, GAs protect holders of certain insurance and annuity products in the event of insolvency of the insurance company issuing those products.⁴³ Although the GAs could mitigate some policyholder losses, the GAs

Securities and Exchange Commission (SEC) adopted MMF reforms that include a floating NAV requirement for institutional prime MMFs. The MMF reforms do not require a floating NAV for certain funds, including retail MMFs. As of October 31, 2013, a majority of the 69 MMFs holding MetLife's FABS are estimated to be retail MMFs. After the SEC's adoption of those reforms, the Council stated that it intends to monitor the effectiveness of the SEC's reforms in addressing risks to financial stability.

⁴⁰ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-26.

⁴¹ *Id.* at p. II-6.

⁴² MetLife Voluntary Submission, Section II, p. II-4.

⁴³ Guaranty funds are "administered by state guaranty associations, which are created by state law typically as nonprofit entities and are subject to the oversight and direction of insurers licensed in the state." *See* Federal Insurance Office Modernization Report (2013), at p. 44. Section 6.B. of the NAIC's Life and Health Insurance

only cover certain products and policies up to the point of state-specific coverage limits.⁴⁴ [REDACTED] of aggregate MetLife policyholder liabilities fall within GA limits.⁴⁵ Further, due to MetLife's size and scope, the withdrawal features of some of its life insurance and annuity offerings, and its broad nationwide presence, the GAs could have insufficient capacity to handle a resolution of one of MetLife's lead insurance underwriters. MetLife estimates that the total exposure of the GAs attributable to MetLife's life insurance and annuity products is approximately [REDACTED]⁴⁶ but the total annual GA assessment capacities of all 50 U.S. states, the District of Columbia, and Puerto Rico were \$2.9 billion for life insurance and \$3.4 billion for annuities.⁴⁷ The exposure of MetLife's individual policyholders and institutional customers could cause MetLife's material financial distress to impair those entities and affect financial market functioning and the economy.

In addition, the negative effects resulting from the material financial distress or failure of a large, interconnected financial firm such as MetLife are not limited to the amount of direct losses suffered by any one of the firm's counterparties, creditors, and customers. MetLife's material financial distress could indirectly affect other firms due to the market uncertainty about other firms' exposures to MetLife and the potential impact of such exposures on the financial health of those firms and their counterparties. This type of uncertainty can lead market participants to pull back from a range of firms and markets, in order to reduce exposures, thereby increasing the potential for destabilization. While a market participant may be confident in its own ability to protect against its direct loss exposure to MetLife, it may be far less able to assess the vulnerability of other counterparties to the material financial distress of MetLife, including those counterparties that it and MetLife have in common. In general, the broader and more interconnected a firm's network of financial counterparties, the greater the

Guaranty Association Model Act provides, "The Association shall come under the immediate supervision of the commissioner and shall be subject to the applicable provisions of the insurance laws of this State." See also section 10.B.(3) of the NAIC Property and Casualty Insurance Guaranty Association Model Act, which states that the commissioner may "examine, audit, or otherwise regulate the association." These model acts are available at http://www.naic.org/store_model_laws.htm.

⁴⁴ States have determined the level of protection to be afforded to their respective residents. For example, GA benefit protection for life insurance death benefits is capped at \$300,000 in 44 states and the District of Columbia and \$500,000 in six states. Life insurance cash value coverage is capped at \$100,000 in 41 states and the District of Columbia, while nine states set cash value coverage at various levels above \$100,000. The coverage cap for annuity benefits is at least \$250,000 in most states; it is \$100,000 in two states and Puerto Rico, \$300,000 in eight states and the District of Columbia, and \$500,000 in four states. See "The Life & Health Insurance Guaranty Association System: The Nation's Safety Net," 2014 Edition, National Organization of Life and Health Guaranty Associations (NOLHGA), available at <https://www.nolhga.com/factsandfigures/main.cfm>. Other products, particularly those for defined benefit plans, may be covered by GAs, but because the coverage limit may apply to the entire retirement plan, not each plan participant, the coverage level may be small relative to the size of the contract. Certain institutional products, such as stable value wraps, generally are not covered by GAs.

⁴⁵ As of June 30, 2013. MetLife Presentation to FSOC: Resolvability (January 27, 2014), p. 15.

⁴⁶ MetLife Response to OFR Data Request, document B.3.c, Schedule H. MetLife maintains that the expected loss would be much lower, given the range of shortfalls experienced in historical insurer insolvencies. MetLife Voluntary Submission, Section V, pp. V-136-V-137.

⁴⁷ As of year-end 2012.

potential impact of uncertain loss exposures resulting from the material financial distress of the firm. In the event of MetLife's material financial distress, large and leveraged counterparties with direct or indirect exposures to MetLife could engage in behavior that results in a contraction in lending and other economic activity by those counterparties as well as others.

1.3.1.2 Asset Liquidation Transmission Channel

The second channel identified by the Council as most likely to facilitate the transmission of the negative effects of a nonbank financial company's material financial distress or activities to other financial firms or markets is if the company holds a large amount of assets that, if liquidated quickly, could significantly disrupt the operation of key markets or cause significant losses or funding problems for other firms with similar holdings. During a period of overall stress in the financial services industry and in a weak macroeconomic environment, deterioration in asset prices or market functioning could pressure other financial firms to sell their holdings of affected assets in order to maintain adequate capital and liquidity. This, in turn, could produce a cycle of asset sales that could lead to further market disruptions.

There are two primary sources of potential liquidity strains that could cause or contribute to a forced asset liquidation by MetLife: institutional and capital markets products that can be terminated by the counterparty, and insurance-related liabilities that can be withdrawn or surrendered by the contract holder or policyholder. For example, in MetLife's securities lending program, the insurance subsidiaries lend securities to third parties in exchange for cash collateral. MetLife generally receives cash equal to at least 102 percent of the fair market value of the lent security. MetLife uses the cash collateral it receives to purchase securities that often are less liquid and higher-yielding than the lent securities and have longer maturities than the duration of the underlying securities loans. This maturity mismatch results in liquidity risk for MetLife. That liquidity risk would be increased if, in the event of MetLife's material financial distress, its securities lending counterparties moved to close out their transactions by returning the borrowed securities to MetLife in order to recoup the cash collateral. Potential runs by securities borrowers could force MetLife to rapidly sell a substantial volume of relatively illiquid assets at discount prices.

The second potential source of potential liquidity strains that could cause or contribute to a forced asset liquidation by MetLife is the portion of the company's retail insurance and annuity products that can be surrendered or withdrawn for cash. Over 50 percent of MetLife's \$275 billion in U.S. general account insurance liabilities are subject to early withdrawal, \$50 billion of which may be withdrawn with little or no penalty.⁴⁸ Furthermore, [REDACTED] of the associated cash surrender value of these liabilities is generally payable within

⁴⁸ See Table 24 and Table 25.

seven days.⁴⁹ Although these products generally are considered to be long-term liabilities and a number of these products include features or characteristics that disincentivize withdrawals, such as penalties, taxes, and loss of guarantee accumulation, a substantial portion of the cash value of these liabilities is available for immediate discretionary withdrawal through policy loans and partial or full surrenders with little or no penalty and therefore could, in some circumstances, take on characteristics of short-term liabilities. Upon requests for early withdrawal or surrender of some portion of these products, an insurer may find it necessary to liquidate securities in its investment portfolio to generate the cash required to meet those requests. With respect to MetLife, in lieu of surrenders, policyholders can request liquidity through policy loans against an aggregate liability amount of \$116 billion.⁵⁰ In addition, over 80 percent of MetLife's \$246 billion of qualifying separate account liabilities can be withdrawn or transferred, although separate account contract holders generally have stronger disincentives to surrender than general account policyholders.⁵¹

The potential for withdrawals could increase in the event that MetLife experiences material financial distress, as concerns about the company's ability to meet future obligations could induce large numbers of policyholders and contract holders to use or accelerate contractual cash withdrawals or policy loans.

Some policyholders may opt for partial surrenders or policy loans to reduce the impact of the contractual disincentives while still withdrawing available cash from their policies. Further, surrenders and policy loan rates could increase if policyholders feared that stays were likely to be imposed either by MetLife's insurance subsidiaries or by their state insurance regulators. Additionally, an insurance company-imposed moratorium would delay the exercise of certain types of contract holder withdrawal or surrender options available based on contractual features.⁵² MetLife could have strong disincentives to invoke this option, and there could be significant negative consequences if the company took that action. This action, if taken at a time when the company is experiencing material financial distress but has not been placed into liquidation, could send a negative signal to counterparties, policyholders, and investors, thereby creating significant concern and market uncertainty about the current health and future of MetLife and resulting in negative effects for the broader industry. While the exercise of contractual deferral provisions, combined with operational and logistical considerations, could

⁴⁹ See Table 25.

⁵⁰ The amount of \$116 billion represents the global maximum aggregate policy liability amount with available policy loan features.

[REDACTED] MetLife Response to OFR Data Request, document B.8; MetLife Response to OFR Data Request, 2013.11.12_-Liability_cash_outflow_model_(PROTECTED).

⁵¹ MetLife Voluntary Submission, Section III, p. III-38. See Table 28.

⁵² MetLife Voluntary Submission, Section V, pp. V-7, V-29.

slow any asset liquidation well beyond seven days, moratoria on outflows would not necessarily mitigate the liquidity pressure on MetLife in the event that the organization experiences material financial distress. For example, if MetLife exercised its contractual deferrals at a time when it was experiencing material financial distress, the exercise of contractual provisions designed to suspend insurance and annuity product contract outflows could spread concern regarding MetLife's financial condition more broadly in the marketplace, which could lead to further liquidity demands as, for example, securities lending counterparties, FABS investors, and policyholders with surrenderable liabilities who are not subject to the suspension seek to reduce their exposures to MetLife. These increased liquidity demands could prompt additional asset liquidations.

Further, the imposition of a suspension of insurance policy and annuity product surrender or withdrawal options could cause uncertainty to spread to the customers of other insurance companies offering similar products and could undermine confidence in the broader life insurance industry. If such a situation were to occur during a period of overall stress in the financial services industry and in a weak macroeconomic environment, surrenders at other life insurers could increase, particularly if MetLife's material financial distress were related to a broader economic shock or market event, such as an interest rate spike or impairments in a widely held asset class. Policyholders have a number of contractual and other disincentives to early withdrawal, such as the loss of life insurance coverage or product guarantees, or negative tax implications; however, these disincentives could serve as less of a deterrent if MetLife's ability to meet its obligations were in doubt.

MetLife has a substantial portfolio of highly liquid assets; however, it may not be sufficient to avoid sales of less-liquid assets in order to meet increased liquidity demands. [REDACTED]

[REDACTED].⁵³ MetLife may be unable to quickly sell those liquid assets and may be required to sell a larger volume of less-liquid assets.

MetLife has substantial holdings of various assets that are relatively illiquid, such as corporate bonds and ABS. For example, U.S. and foreign corporate fixed income securities represent the two largest categories of MetLife's assets, and its holding of each asset category represent [REDACTED] of average daily trading volume (ADTV) in those respective markets.⁵⁴ In addition, as of June 30, 2013, MetLife's general account assets invested in U.S. ABS represented [REDACTED] of the market's ADTV.⁵⁵ Liquidity in the corporate debt and ABS markets has demonstrated the potential to significantly decrease in a period of overall stress in the financial services industry and in a weak macroeconomic environment. The large size of these portfolios

⁵³ See Table 31.

⁵⁴ MetLife Response to OFR Data Request, document B.3.

⁵⁵ Id.

could make it difficult to liquidate the associated assets, if needed, and any liquidation could put significant pressure on market prices, causing significant losses for other firms with similar holdings. Resulting price dislocations in debt markets could cause significant disruptions in critical funding markets relied upon by the largest and most leveraged financial firms, as well as the availability of funding for the broader U.S. economy.

A forced asset liquidation could be made more likely because of, and be exacerbated by, the scale and composition of MetLife's financial and operating leverage. MetLife's leverage, calculated as total debt (i.e., the sum of financial and operating debt) divided by total equity, is among the highest of its peers, at 1.8x.⁵⁶ Moreover, the severity of the disruption caused by a forced liquidation of MetLife's assets could be amplified by the fact that the investment portfolios of many large insurance companies are also composed of similar assets, which could cause significant losses for those firms. The resulting erosion of capital and potential deleveraging could result in asset fire sales that could disrupt financial market functioning and that could ultimately damage the broader economy.

MetLife commissioned the consulting firm Oliver Wyman to analyze the asset and liability positions of MetLife's U.S. entities under several stress scenarios to determine whether elevated surrenders by policyholders and other liability payment demands could force MetLife to rapidly liquidate assets in quantities large enough to cause a meaningful disruption in any asset market.⁵⁷ Oliver Wyman and MetLife concluded that there is no reasonable basis or evidentiary support for concluding that material financial distress at MetLife could trigger policyholder surrenders or other liability liquidity demands that would result in asset sales that could have systemic effects. However, the Oliver Wyman model indicates in two different ways that asset sales arising from MetLife's material financial distress could have significant effects on key financial markets. First, Oliver Wyman made a number of assumptions about key variables, to which the model is highly sensitive. Several of the modeled assumptions result in a significant underestimation of the potential effects of MetLife's assets sales. While there may be certain scenarios in which MetLife's asset liquidation would not disrupt key markets, there is a wide range of plausible alternative assumptions with respect to several of the key variables. The application of assumptions for these key variables that are different from—but no less plausible than—Oliver Wyman's generates price impacts that could have significant effects on debt markets, particularly in the context of material financial distress at MetLife and overall stress in the financial services industry. The extent of these potential effects shows that MetLife's material financial distress could pose a threat to U.S. financial stability through the asset liquidation transmission channel. Second, even accepting Oliver Wyman's assumptions, some of the price impacts generated in the Oliver Wyman analysis could be large enough to significantly disrupt key securities funding markets, such as the repurchase agreement market. Thus, even taken on its

⁵⁶ See Table 36 and sections 4.3.7 and 4.3.8 for a discussion of MetLife's financial and operating leverage.

⁵⁷ MetLife Voluntary Submission, Section IV, p. IV-1.

own terms, the Oliver Wyman analysis shows that asset liquidations by MetLife could disrupt key financial markets.

For example, one of Oliver Wyman's scenarios estimates that the price impact of a rapid asset sale of MetLife's holdings of non-agency MBS and ABS would be [REDACTED] and [REDACTED] respectively.⁵⁸ Margins of leveraged market participants such as hedge funds on prime MBS bilateral transactions were frequently much less than [REDACTED] in early 2007,⁵⁹ so a [REDACTED] decrease in the value of MBS at that time would have exhausted all the equity capital of any such MBS traders maintaining equity capital at this level, and would have forced better capitalized traders to de-leverage.⁶⁰ Margins on non-agency ABS would be expected to rise following this increase in price volatility, forcing additional exits and de-leveraging from other market participants.⁶¹ While the repo market for ABS is smaller than it was before the crisis, the MetLife's rapid liquidation of ABS could disrupt these markets due to the company's relatively large holdings of these less-liquid instruments. During a period of overall stress in the financial services industry and in a weak macroeconomic environment, the effect of higher price volatility and margin could decrease liquidity in the repurchase agreement market or other securities financing markets sufficiently to significantly disrupt these key markets.⁶²

1.3.1.3 Critical Function or Service Transmission Channel

MetLife operates in a range of insurance, risk transfer, and capital markets, and has a leading position in several of the key markets in which it offers products or otherwise participates, including life insurance, retirement products, and commercial real estate (CRE) lending. MetLife also operates lines of business that provide credit to households, businesses, agricultural enterprises, and state and local governments, while also serving as a federal government contractor and a provider of credit to low-income, minority, or underserved communities. While certain factors could aggravate the transmission of MetLife's material financial distress through the critical function or service channel, most of the key insurance markets in which MetLife

⁵⁸ MetLife/Oliver Wyman Presentation to FSOC: Analysis of Market Consequences of Severe Financial Distress (February 26, 2014), p. 30.

⁵⁹ [REDACTED]

Section 4.3.9.9 discusses how the effect of small changes in asset price volatility on collateralized borrowing markets can be amplified by a feedback effect between margins and market conditions as traders are forced to de-leverage and exit markets.

⁶² For instance, in late 2008, repo margins on non-subprime-related structured asset classes reached a maximum of 20 percent, while repo margins on subprime-related structured asset classes eventually reached 100 percent. See Gary Gorton and Andrew Metrick, "Haircut," Federal Reserve Bank of St. Louis Review (2010), p. 7, available at <http://research.stlouisfed.org/publications/review/article/8510>.

operates appear relatively unconcentrated, and MetLife's share in these generally fragmented and competitive markets does not appear large enough to cause a significant disruption in the provision of services if the company were to experience material financial distress and were unable or unwilling to provide services. Certain other markets in which MetLife is a significant participant are more concentrated and potentially less substitutable, such as the corporate benefit funding market, but MetLife's participation in these markets has fluctuated considerably over short time periods. In addition, it is unclear whether these markets are sufficiently large or interconnected with the broader financial system such that the negative effects of MetLife's material financial distress in those markets could pose a threat to U.S. financial stability. Nevertheless, under certain market conditions, the transmission of stress through this transmission channel could be aggravated, particularly in a period of macroeconomic stress and broader pullbacks by other market participants in the markets in which MetLife is a key player.

1.3.2 Existing Supervision and Regulation

One of the factors that the Council is required to consider in evaluating a nonbank financial company for a determination under section 113 of the Dodd-Frank Act is the degree to which the company is already regulated by one or more primary financial regulatory agencies. Consistent with this requirement, the Council considered the extent to which MetLife is subject to supervision and regulation.

MetLife is not currently supervised on a consolidated basis. From 2001 until early 2013, MetLife was subject to consolidated supervision by the Board of Governors as a bank holding company.⁶³ While under Board of Governors supervision, state insurance regulators supervised the insurance activities of MetLife and its insurance subsidiaries. Until 2013, Federal Reserve System staff coordinated with insurance and other regulators to supervise MetLife's subsidiaries.

MetLife's diverse subsidiaries are subject to supervision by a number of U.S. and international regulators.⁶⁴ In the United States, MetLife's insurance company subsidiaries are subject to state-based, legal entity regulation, the stated purposes of which are to protect policyholders and to ensure competitive insurance markets. As of December 31, 2013, MetLife had 25 U.S. insurance subsidiaries that were regulated by 11 state insurance regulators.⁶⁵ The primary U.S. insurance

⁶³ MetLife is no longer subject to consolidated supervision by the Board of Governors because the company has deregistered as a BHC. See section 5.1.

⁶⁴ In the United States, insurance companies are licensed and regulated by the chief insurance regulatory authorities of the 50 states, the District of Columbia, and the five U.S. territories. These authorities are members of the National Association of Insurance Commissioners (NAIC). The NAIC is an organization that provides a forum through which state insurance regulators develop model laws and regulations. The NAIC is not a regulator or government entity. Primary (or lead) state regulatory authorities for multi-state insurers are determined by state insurance regulatory members of the NAIC.

⁶⁵ See section 3.1.

regulators are the NYDFS, the Connecticut Insurance Department (CID), and the Delaware Department of Insurance for MetLife's life insurance and annuity products businesses.⁶⁶

State insurance regulators have a range of authorities. In addition to the regulator's financial analysis and examination authorities, an early intervention tool may be available to certain state insurance regulators if the state insurance regulator finds that an insurer is in hazardous financial condition.⁶⁷ The nature of intervention could include requiring an insurer to increase capital and surplus, requiring an insurer to file financial reports and a business plan, or a range of other corrective actions.⁶⁸ Further, the same stays on withdrawals that an insurance company can activate with its own policyholders also can be activated by a state court through the receivership process or a state regulator can do so at its discretion to preserve assets or to calm fears that the insurer will be unable to meet its obligations to policyholders. As in a company-imposed stay, however, this measure could have the opposite effect on a large insurer such as MetLife, given that the various states' GAs could be unable to fully cover the insurer's obligations in insolvency.

Another component of state insurance regulation is risk-based capital (RBC), a capital measurement tool designed to help state insurance regulators detect when progressively more intense levels of intervention may be appropriate. The RBC framework involves calculation of a legal entity-level capital position using a formula specific to the insurance sector within which an insurance company operates and yields the minimum capital standard for an insurance entity.⁶⁹ The RBC framework establishes an objective standard for triggering regulatory action when an insurer's RBC ratio is reported below certain levels. Capital levels for insurers are often influenced by credit rating agencies that provide views on the financial strength of a corporate group for a variety of interested parties, including agents and brokers who advise clients about risk-management purchases. To receive a preferred credit rating, many insurers, including

⁶⁶ Because MetLife's insurance business primarily consists of life insurance and annuity product offerings, MetLife's property and casualty business is not discussed in detail in this analysis. MetLife's property/casualty personal lines group of businesses ranked 27th among U.S. property/casualty underwriters in 2013 based on net premiums written. Best's Review, "Top 200 U.S. Property/Casualty Writers" (July 2014), pp. 39-40.

⁶⁷ See NAIC, Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition, July 2010, available at <http://www.naic.org/store/free/MDL-385.pdf>. MetLife also states that "[i]n New York, the regulator has special authority under N.Y. Ins. Law §§ 1310 and 1311 to issue these corrective actions if the regulator considers the insurer to have an impairment to capital (regardless of its RBC level). Connecticut and Delaware provide similar authority through their administrative supervision statutes." MetLife Voluntary Submission, Section V, pp. V-28-V-29. NAIC Model Laws have an effect only to the extent that they have been adopted by relevant states.⁶⁸ See NAIC, Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition, July 2010, available at <http://www.naic.org/store/free/MDL-385.pdf>.

⁶⁸ See NAIC, Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition, July 2010, available at <http://www.naic.org/store/free/MDL-385.pdf>.

⁶⁹ NAIC, Risk-Based Capital (last updated November 25, 2014), available at http://www.naic.org/cipr_topics/topic_risk_based_capital.htm.

MetLife's subsidiaries, hold capital at several multiples in excess of RBC requirements.⁷⁰ In some cases, the above authorities may be effective to mitigate the risks arising from an insurance company. However, state regulators' authorities have never been tested by an event of the material financial distress at an insurance company of the size, scope and complexity of MetLife's large insurance subsidiaries. Also, insufficient RBC is not the only factor that can be used by a state regulator to intervene when an insurance company is in financial distress. Many variables influence whether, when, and how a state regulator could intervene in the distress of an insurer with the size, scope, and complexity of MetLife.

In addition, state insurance regulators generally do not have direct authority to require a non-mutual holding company of a state-licensed insurer or any non-insurance company subsidiary to take or not take actions outside of the insurer for the purpose of safety and soundness of the insurer or for the avoidance of risks from activities that could result in adverse effects on U.S. financial stability. Some state regulators are currently working to address some of the transparency issues related to the regulatory oversight of MetLife's captive reinsurance companies, entities that reinsure from affiliated companies with a common ultimate parent. However, depending on the circumstances of individual states, it could take several years before recommended changes are implemented, and significant issues remain regarding the regulation of captives by state regulators. An opportunity for regulatory arbitrage exists because of differences in accounting and capital requirements for the primary insurer and captive reinsurer. In addition, in most instances, unlike a primary insurer, a reinsurance captive is not required to file public statutory financial statements.

MetLife's non-insurance subsidiaries include broker-dealers (regulated by the SEC and the Financial Industry Regulatory Authority (FINRA)) and registered investment advisers (regulated by the SEC). MetLife issues variable annuity contracts and variable life insurance policies through separate accounts that are registered with the SEC as investment companies under the Investment Company Act of 1940.⁷¹ In addition, the variable annuity contracts and variable life insurance policies issued by these registered separate accounts are registered with the SEC under the Securities Act of 1933.⁷²

If the Council were to determine that MetLife could pose a threat to U.S. financial stability and that MetLife should be subject to Board of Governors supervision and enhanced prudential standards, MetLife would be subject to a number of new requirements, including requirements to (1) submit a resolution plan to the Board of Governors and the Federal Deposit Insurance Corporation (FDIC) providing for its rapid and orderly resolution in the event of its material

⁷⁰ See Table 5.

⁷¹ Each registered separate account is generally divided into subaccounts, each of which invests in an underlying mutual fund which is itself a registered investment company under the Investment Company Act. See MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 26.

⁷² MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 26.

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financial distress or failure;⁷³ (2) comply with enhanced prudential standards imposed by the Board of Governors under section 165 of the Dodd-Frank Act and with regulations providing for the early remediation of financial distress at the company under section 166 of the Dodd-Frank Act;⁷⁴ and (3) file a written notice prior to acquiring voting shares of certain large financial companies.⁷⁵

1.3.3 Complexity and Resolvability

The threat that a nonbank financial company could pose to U.S. financial stability may be mitigated or aggravated by the company's complexity, the opacity of its operations, or its difficulty to resolve. Consistent with the Interpretive Guidance, the Council has evaluated MetLife's complexity and resolvability.

MetLife is a highly complex organization with significant financial and operational interconnections operating in multiple jurisdictions with multiple regulatory authorities and resolution frameworks. MetLife's legal structure includes 359 entities in approximately 50 countries⁷⁶ that provide services to 90 million customers globally, 50 million of which are U.S. customers.⁷⁷ Its financial and operational interconnections, including [REDACTED]

[REDACTED] create complexities that could pose obstacles to a rapid and orderly resolution. Its operations are subject to separate regulatory regimes administered by numerous state, federal, and non-U.S. regulators. There is no precedent for the resolution of an insurance organization of the size, scope, and complexity of MetLife.⁷⁸ These factors could aggravate the potential that MetLife's material financial distress could pose a threat to U.S. financial stability.

MetLife's complexity results, in part, from financial and operational interconnections among various MetLife subsidiaries and the MetLife holding company. MetLife's entities have significant financial interconnections, [REDACTED]

⁷³ See Dodd-Frank Act section 165, 12 U.S.C. § 5365 (2012).

⁷⁴ See Dodd-Frank Act sections 165 and 166, 12 U.S.C. §§ 5365, 5366. The enhanced prudential standards required by section 165 of the Dodd-Frank Act are for the purpose of "prevent[ing] or mitigat[ing] risks to the financial stability of the United States that could arise from the material financial distress, failure, or ongoing activities of large, interconnected financial institutions."

⁷⁵ See Dodd-Frank Act section 163, 12 U.S.C. § 5363.

⁷⁶ CONFIDENTIAL NYDFS INFORMATION: As of December 31, 2013, MetLife, Inc. had approximately 359 subsidiaries. Seventy-six of these subsidiaries are insurance affiliates of which 25 are domestic and regulated by 11 state regulators. NYDFS Supervisory College for MetLife, Inc., MLIC Presentation (March 25-26, 2014), pp. 23-24. MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 44.

⁷⁷ MetLife Voluntary Submission, Section II, p. II-4. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-22.

⁷⁸ MetLife indicates that the three largest failures of U.S. insurance companies were General American Mutual Holding (parent of GALIC), Mutual Benefit, and Executive Life (CA and NY). These failures occurred from 1991 to 1999, and these companies had assets that ranged from \$13 to \$14 billion. MetLife Voluntary Submission, Section IV, pp. IV-34-IV-38.

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[REDACTED]

MetLife's business activities fall under the authority of multiple state, federal, and non-U.S. regulators and resolution regimes. For example, if MetLife were to experience material financial distress, the resolution of its U.S. insurance subsidiaries would occur under the laws of the various state regulatory authorities in which it operates, and would involve various state GAs. Although state insurance regulators coordinate resolution through interstate associations and colleges, there is no single interstate regulator with jurisdiction across state boundaries. Further, there is no precedent for the resolution of an insurance organization of the size, scope, and complexity of MetLife.⁸⁴ While resolution authorities could cooperate when it is in the best interests of their particular resolution to do so and as applicable laws permit, the authorities might conclude that varying approaches need to be pursued, sometimes simultaneously, and any resulting conflicts could complicate and lengthen the resolution of the entire group or particular entities.

[REDACTED]

[REDACTED], and the coordination of numerous receiverships and judicial proceedings across multiple jurisdictions. Numerous receivers or judicial proceedings would have to disentangle a complex web of intercompany agreements—such as capital maintenance agreements, reinsurance agreements, liquidity arrangements, [REDACTED]

[REDACTED] A complex resolution process could increase the likelihood of delays in resolving claims and could result in increased losses. An important factor in this analysis is that the GAs have no experience handling the failure of an insurer with the size, scope, and complexity of MetLife. Taken together, these factors could result in significant challenges to resolving the company and could aggravate the potential that MetLife's material financial distress could pose a threat to U.S. financial stability.

⁸⁴ MetLife indicates that the three largest failures of U.S. insurance companies were General American Mutual Holding (parent of GALIC), Mutual Benefit, and Executive Life (CA and NY). These failures occurred from 1991 to 1999, and these companies had assets that ranged from \$13 billion to \$14 billion. MetLife Voluntary Submission, Section IV, pp. IV-34-IV-38.

2 THE STATUTORY STANDARDS AND THE LEGAL FRAMEWORK FOR A DETERMINATION

2.1 Statutory Standard Under Which MetLife Was Evaluated

Under section 113 of the Dodd-Frank Act, the Council may determine that a nonbank financial company shall be supervised by the Board of Governors and be subject to enhanced prudential standards if the Council determines that (1) material financial distress at the nonbank financial company could pose a threat to the financial stability of the United States (the First Determination Standard) or (2) the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the nonbank financial company could pose a threat to the financial stability of the United States (the Second Determination Standard).⁸⁵

The Council may subject a nonbank financial company to Board of Governors supervision and enhanced prudential standards if either the First or Second Determination Standard is met. The Council has evaluated MetLife under the First Determination Standard. In considering whether MetLife's material financial distress could pose a threat to U.S. financial stability, the Council considered each of the statutory considerations in section 113 of the Dodd-Frank Act, including the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of MetLife.⁸⁶ While the Council has considered these criteria in evaluating MetLife under the First Determination Standard, the Council has not considered whether the nature, scope, size, scale, concentration, interconnectedness, or mix of MetLife's activities, absent MetLife's material financial distress, could pose a threat to U.S. financial stability.

The Council's final determination regarding MetLife does not constitute a conclusion that the company is experiencing material financial distress. Rather, consistent with the First Determination Standard, the Council has made a final determination that material financial distress at the company, if it were to occur, could pose a threat to U.S. financial stability.

MetLife has submitted several legal arguments relating to the Council's consideration of MetLife, including that the Council's analysis and determination process have not complied with the requirements under the Dodd-Frank Act or other applicable law.

For example, MetLife asserts that the Council currently has no standardized process for making determinations, that the process and identifiable standards for determinations are unknown, and that there is no description of the thresholds triggering a determination or how any such thresholds would be weighed.⁸⁷ However, the applicable standards, statutory considerations, and procedures regarding the Council's nonbank financial company determinations authority are set forth in section 113 of the Dodd-Frank Act and the Council's procedural rule regarding its

⁸⁵ See Dodd-Frank Act section 113(a)(1), 12 U.S.C. § 5323(a)(1).

⁸⁶ See Dodd-Frank Act section 113(a)(2), 12 U.S.C. § 5323(a)(2).

⁸⁷ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, pp. VI-13, VI-18.

determinations authority,⁸⁸ and applicable clarification can be found in the Interpretive Guidance. All of these are publicly available. Furthermore, as the Council has noted, the Council does not believe that a determination decision can be reduced to a formula but rather will be made based on a company-specific evaluation and an application of the standards and considerations set forth in section 113 of the Dodd-Frank Act, and taking into account qualitative and quantitative information the Council deems relevant to a particular nonbank financial company.⁸⁹ The company-specific analysis described herein was conducted in accordance with these standards and procedures, and in accordance with the duties and purposes of the Council set forth in section 112(a) of the Dodd-Frank Act. Due to the unique threat that each nonbank financial company may pose to U.S. financial stability and the qualitative nature of the inquiry under the statutory considerations, it is not possible for the Council to provide broadly applicable metrics for its determinations that a company's material financial distress could pose a threat to U.S. financial stability.

In addition, MetLife argues that both section 113 of the Dodd-Frank Act and the Interpretive Guidance require the Council to consider "both the likelihood of a company's failure and the likelihood that such a failure will lead to systemic financial instability."⁹⁰ Section 113(a)(2) of the Dodd-Frank Act, however, sets forth the 10 considerations the Council must take into account in making a determination, and that list includes neither the likelihood or probability of a company's failure, nor the likelihood or probability of any particular scenario in which such a failure could pose a threat to financial stability. The First Determination Standard provides that a nonbank financial company "shall be subject to prudential standards ... if the Council determines that material financial distress at the [U.S.] nonbank financial company" could pose a threat to U.S. financial stability. Under this standard, the Council is to assume material financial distress at the company and is not required to determine whether the company's material financial distress is certain or likely to occur, or that if it were to occur, it would certainly or likely threaten U.S. financial stability. Rather, under the Dodd-Frank Act, the Council may conclude that a company has met the First Determination Standard if the company's material financial distress, if it were to occur, "could" pose a threat to U.S. financial stability. MetLife's interpretation of the First Determination Standard would set an unduly high and falsely precise threshold and would thereby impede the Council's ability appropriately to address potential threats to U.S. financial stability.

The Interpretive Guidance did not supersede the First Determination Standard set forth in the Dodd-Frank Act or the statutory considerations, but instead describes how the Council grouped

⁸⁸ 12 C.F.R. part 1310 (2013).

⁸⁹ See Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. at 21642.

⁹⁰ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-29.

the 10 statutory considerations into six categories to “organize its evaluation of a nonbank financial company under the statutory considerations.”⁹¹

The Interpretive Guidance does, as MetLife notes, state that three of those six categories—leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny—“seek to assess the vulnerability of a nonbank financial company to financial distress.”⁹² MetLife suggests that the Council’s consideration of these three categories requires a determination as to the likelihood or probability of a nonbank financial company’s material financial distress.⁹³ However, neither the Dodd-Frank Act nor the Interpretive Guidance requires or states that the Council will evaluate the probability or likelihood of material financial distress at a nonbank financial company. The Council instead stated its intent to assess how the company’s material financial distress or activities could be transmitted to, or otherwise affect, other firms or markets, thereby causing a broader impairment of financial intermediation or of financial market functioning.⁹⁴ Additionally, as noted in the Interpretive Guidance⁹⁵ and illustrated in the analysis herein regarding these three categories,⁹⁶ an assessment of the vulnerabilities at MetLife relating to the company’s leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny is relevant to an assessment of whether and how material financial distress at MetLife could be transmitted to other financial firms and markets and thereby pose a threat to U.S. financial stability. For example, sections 4.3.7 and 4.3.8 describe how MetLife’s leverage could amplify the scale and scope of any asset liquidation caused by MetLife’s material financial distress; section 4.3.3 describes how MetLife’s securities lending activities result in liquidity risk and a maturity mismatch that could cause the company to rapidly liquidate invested collateral to produce the necessary liquidity to return cash collateral to its securities lending counterparties; and section 5.2.1 describes authorities that MetLife’s existing regulators have to intervene in the event of the company’s material financial distress. For example, the Interpretive Guidance states, “Leverage can also amplify the impact of a company’s distress on other companies, both directly, by increasing the amount of exposure that other firms have to the company, and indirectly, by increasing the size of any asset liquidation that the company is forced to undertake as it comes under financial pressure.”⁹⁷ The evaluation of these three categories to assess the potential effects of a company’s material financial distress is consistent with the Interpretive

⁹¹ See Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. 21,637, 21,658 (April 11, 2012).

⁹² *Id.* at 21,658.

⁹³ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, pp. VI-29-VI-30.

⁹⁴ 77 Fed. Reg. 21657 (April 11, 2012).

⁹⁵ 77 Fed. Reg. 21662 (April 11, 2012). The Council notes here that the six category analytical framework and the metrics used to measure each of the six categories will assist the Council in assessing the extent to which the transmission of material financial distress is likely to occur.

⁹⁶ See, e.g., sections 4.3.7 and 4.3.8 (addressing leverage); sections 3.2.1.1, 4.3.2.2, and 4.3.3 (addressing liquidity risk and maturity mismatch); and section 5 (addressing existing regulatory scrutiny).

⁹⁷ See Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. at 21,659.

Guidance, which expressly states that the purpose of the six-category framework is to “assist the Council in assessing the extent to which the transmission of material financial distress is likely to occur”—not to assess the likelihood of the company’s material financial distress.⁹⁸

History has shown, as recently as 2008, that financial crises can be hard to predict and can have far-reaching and unanticipated consequences. Consistent with the Council’s mission under the Dodd-Frank Act to identify potential threats to U.S. financial stability, and pursuant to the Interpretive Guidance, this analysis focuses on the potential consequences of material financial distress at MetLife in the context of a stressed financial services industry and in a weak macroeconomic environment. The evaluation herein addresses relevant historical experience, including past failures of insurance companies. There is no historical precedent for the failure of an insurance organization with the size, scope, or complexity of MetLife; however, the fact that there is no such precedent does not, alone, preclude the possibility that it could occur in the future.⁹⁹

MetLife also asserts that the Council must consider certain potential effects of a final determination on MetLife, including potential costs to the company that could result from a Council determination, under the Dodd-Frank Act or under other applicable law.¹⁰⁰ However, under section 113 of the Dodd-Frank Act, consideration of factors other than those expressly set forth in the statute is as “the Council deems appropriate.”¹⁰¹ There is no requirement under the Dodd-Frank Act or other applicable law for the Council to conduct MetLife’s proposed cost-benefit analysis with respect to determinations regarding individual nonbank financial companies. As stated in the preamble to the Final Rule and the Interpretive Guidance, the relative cost and benefit of a Council determination is not one of the statutory considerations.¹⁰² Congress calls for a cost-benefit analysis explicitly when it intends to require it, as other financial regulatory laws demonstrate.¹⁰³ Further, the cases cited by MetLife in connection with its assertion that the Council is required to conduct a cost-benefit analysis are not factually or legally applicable to determinations by the Council under section 113 of the Dodd-Frank Act.

MetLife also argues that the Council’s consideration of the company is premature because the Board of Governors has not issued a final rule and prudential standards for nonbank financial companies subject to Board of Governors supervision under section 165 of the Dodd-Frank Act,

⁹⁸ See Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. at 21,662.

⁹⁹ Consistent with this approach, MetLife’s CEO stated at the Council’s oral hearing for MetLife, “But we are not saying that an insurance company, including MetLife, in theory, could not fail. That is not what we are saying.” Transcript of MetLife Oral Hearing, Statement of Steven Kandarian, CEO, MetLife (November 3, 2014), p. 110.

¹⁰⁰ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-70.

¹⁰¹ See Dodd-Frank Act section 113(a)(2)(K), 12 U.S.C. § 5323(a)(2)(K) (2012).

¹⁰² See Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. at 21,640.

¹⁰³ See, e.g., Commodity Exchange Act section 15(a), 7 U.S.C. § 19(a).

or implemented section 170(a) of the Dodd-Frank Act to set forth the criteria for exempting certain types or classes of nonbank financial companies from Board of Governors supervision.¹⁰⁴ As stated in the preamble to the Final Rule and the Interpretive Guidance, the Council does not believe it is necessary or appropriate to postpone the nonbank financial company determinations process until these other regulatory actions are completed. These rulemakings are not essential to the Council's consideration of whether a nonbank financial company could pose a threat to U.S. financial stability, and the Council has the statutory authority to proceed with determinations under section 113 of the Dodd-Frank Act independently of and prior to the adoption of such rules.¹⁰⁵ The Dodd-Frank Act provides for the Council to make a determination whether a nonbank financial company could pose a threat to U.S. financial stability; the nature of the enhanced prudential standards to be applied to companies subject to supervision by the Board of Governors is a separate question involving a separate process and analysis.

In addition, MetLife suggests that the Council's application of the statutory criteria is flawed, in part, because the analysis is not tailored to the insurance industry and instead applies the statutory considerations in a manner that "would apply equally to a range of large U.S. corporations in both the financial and non-financial sectors."¹⁰⁶ While aspects of the framework under section 113 of the Dodd-Frank Act and the Interpretive Guidance can—and are intended to—be applicable to companies in other industries, the Council relies on company-specific qualitative and quantitative analyses for its determinations, taking into account information relevant to a particular nonbank financial company.¹⁰⁷ Due to the unique threat that each nonbank financial company may pose to U.S. financial stability and the qualitative nature of the inquiry under the statutory considerations, the Council's evaluations of nonbank financial companies are firm-specific.

MetLife also suggests that the Council is required to conduct or consider an insurance industry activities analysis prior to or instead of making a final determination regarding MetLife.¹⁰⁸ MetLife suggests the Council's ongoing analysis of the asset management industry supports its

¹⁰⁴ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, pp. VI-7-VI-12.

¹⁰⁵ See Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. at 21,639.

¹⁰⁶ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-27.

¹⁰⁷ Section 113 of the Dodd-Frank Act requires the Council to consider the 10 statutory considerations discussed in section 2.2 below in evaluating any company for a potential determination, regardless of the company's industry. When issuing the Interpretive Guidance, the Council noted that a number of public commenters had suggested that the Council tailor its six-category analytic framework to particular industries under review; the Council responded that "the evaluation of any nonbank financial company under the six-category framework will be company-specific, and the description in the interpretive guidance is intended to indicate the types of information that the Council will consider." See Authority To Require Supervision and Regulation of Certain Nonbank Financial Companies, 77 Fed. Reg. at 21,641.

¹⁰⁸ See MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, pp. 6, 16-17; MetLife letter to Patrick Pinschmidt (August 6, 2014), p. 3.

contention.¹⁰⁹ The Dodd-Frank Act requires the Council to take into account a specific set of considerations in making a determination under section 113.¹¹⁰ Conducting or considering an industry-wide, activities-based analysis is not one of the statutory considerations, nor is it a prerequisite to a determination. Moreover, the Council has authority to make a determination regarding an individual nonbank financial company under section 113 of the Dodd-Frank Act regardless of whether it conducts a broader study. Further, an industry-wide evaluation of activities is not necessary or appropriate in the case of MetLife, where a company-specific analysis that takes into account, among other things, the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company, supports a determination that the company's material financial distress could pose a threat to U.S. financial stability.

MetLife also asserts that the Council's analysis improperly relies on identifications of G-SIIs¹¹¹ and G-SIBs by the Financial Stability Board (FSB) in evaluating MetLife.¹¹² This analysis does not "reflect deference" to the FSB's prior actions regarding MetLife, as the company asserts.¹¹³ While the FSB and the Council are both focused on strengthening financial stability, their processes are distinct, and the Council has conducted its own analysis under the Dodd-Frank Act. The identification of a particular firm by the FSB does not create a legal obligation on the part of the Council, nor does it indicate that the Council will arrive at the same conclusion if the Council chooses to consider the firm. However, addressing the potential effects of MetLife's material financial distress on G-SIIs and G-SIBs, which are generally large, complex, interconnected financial companies, is an appropriate part of this analysis.¹¹⁴

With respect to these and the other legal issues raised by MetLife, the Council believes that the evaluation of MetLife has been conducted in accordance with the Constitution, the Dodd-Frank Act, and other applicable law, and that any assertions to the contrary are without merit.

2.2 Discussion of Statutory Considerations

In considering whether to subject a nonbank financial company to Board of Governors supervision, section 113 of the Dodd-Frank Act requires the Council to consider the following 10 statutory factors:

¹⁰⁹ See MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, pp. 6, 16-17; MetLife letter to Patrick Pinschmidt (August 6, 2014), p. 3.

¹¹⁰ Dodd-Frank Act section 113(a)(2), 12 U.S.C. § 5323(a)(2).

¹¹¹ G-SIIs are identified by the FSB. The currently identified G-SIIs are Allianz SE, American International Group (AIG), Assicurazioni Generali S.p.A., Aviva plc, Axa S.A., MetLife, Ping An Insurance (Group) Company of China, Ltd., Prudential Financial, Inc. (Prudential), and Prudential plc. See FSB, "Global Systemically Important Insurers (G-SIIs) and the Policy Measures that Will Apply to Them" (July 2013), available at http://www.financialstabilityboard.org/publications/r_130718.pdf.

¹¹² MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, pp. VI-52-VI-53.

¹¹³ *Id.*

¹¹⁴ See, e.g., Dodd-Frank Act section 113(a)(2)(C), which requires the Council to consider, in making a determination regarding a nonbank financial company, "the extent and nature of the transactions and relationships of the company with other significant nonbank financial companies and significant bank holding companies."

1. the extent of the leverage of the company;
2. the extent and nature of the off-balance sheet exposures of the company;
3. the extent and nature of the transactions and relationships of the company with other significant nonbank financial companies and significant bank holding companies;
4. the importance of the company as a source of credit for households, businesses, and state and local governments and as a source of liquidity for the United States financial system;
5. the importance of the company as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities;
6. the extent to which assets are managed rather than owned by the company, and the extent to which ownership of assets under management is diffuse;
7. the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company;
8. the degree to which the company is already regulated by 1 or more primary financial regulatory agencies;
9. the amount and nature of the financial assets of the company; and
10. the amount and types of the liabilities of the company, including the degree of reliance on short-term funding.¹¹⁵

The following discussion provides a high-level overview of the Council's consideration of each of the statutory factors in evaluating whether MetLife's material financial distress could be transmitted through one or more of the transmission channels to other financial firms and markets to such a degree that there could be an impairment of financial intermediation or of financial market functioning sufficiently severe to inflict significant damage on the broader economy. Extensive analyses of each of the statutory considerations are provided in sections 3, 4, 5, and 6. While MetLife asserts that the Council devoted insufficient analysis to the statutory considerations,¹¹⁶ as shown elsewhere herein, the Council has evaluated each of the statutory considerations in assessing whether the Council should make a final determination with respect to MetLife. No single consideration is dispositive with regard to the Council's recommendation that the Council make a final determination.

Section 113 of the Dodd-Frank Act requires the Council to consider *the extent of MetLife's leverage*. MetLife's material financial distress could be transmitted via the exposure and asset liquidation channels due to the extent of its leverage, which could amplify the scale and accelerate the pace of any asset liquidation. As of June 30, 2013, MetLife had an asset leverage ratio of 9.4 to 1¹¹⁷ on a GAAP consolidated basis, which is below the Council's Stage 1

¹¹⁵ See Dodd-Frank Act section 113(a)(2), 12 U.S.C. § 5323(a)(2) (2012).

¹¹⁶ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, pp. VI-24-VI-26.

¹¹⁷ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

threshold of 15 to 1.¹¹⁸ However, using other measures of leverage, which capture the use of operating debt, MetLife on a consolidated basis has higher total financial leverage and more total debt and operating debt than most of its peer life insurance organizations.¹¹⁹ Financial system participants are exposed to MetLife as derivatives counterparties, creditors, debt investors, and securities lending and repurchase agreement counterparties, and MetLife's degree of leverage could exacerbate any losses to third parties to which MetLife has a financial obligation, including large, leveraged financial companies and MMFs.

The Council is also required to consider *the extent and nature of MetLife's off-balance sheet exposures*. With \$379 billion in notional amount of derivatives outstanding, MetLife is ranked as one of the largest U.S. holders of derivatives and the largest U.S. insurance organization holder of derivatives as of June 30, 2013.¹²⁰ The majority of MetLife's derivatives counterparties are G-SIBs or very large BHCs that are active in global financial markets.¹²¹ The banking organizations with off-balance sheet exposure to MetLife are also significant participants in the global debt and derivatives markets. MetLife had additional off-balance sheet exposures from the LOCs and collateral financing agreements that mainly support its captive reinsurance activities totaling \$16.4 billion, of which \$12.9 billion is in the form of LOCs.¹²² MetLife's off-balance sheet exposures could serve as a mechanism by which MetLife's material financial distress could be transmitted to banks and to financial markets more broadly.

The Council is also required to consider *the extent and nature of the transactions and relationships of MetLife with other significant nonbank financial companies and significant*

¹¹⁸ This leverage measure is calculated consistent with the Stage 1 methodology for measuring leverage (total assets less separate accounts, divided by total equity) as set forth in the Interpretive Guidance. As the Interpretive Guidance notes, the Stage 1 thresholds, including the leverage threshold, are intended only to identify nonbank financial companies for further review, and may not capture all of the potential ways in which a nonbank financial company could pose a threat to U.S. financial stability. Consistent with that statement in the Interpretive Guidance, other measures such as operating debt are relevant to this analysis.

¹¹⁹ See Table 34, Table 35, and Table 36.

¹²⁰ See Table 17.

¹²¹ G-SIBs are identified by the FSB. The list of G-SIBs includes HSBC; JPMorgan Chase; Barclays; BNP Paribas; Citigroup; Deutsche Bank; Bank of America; Credit Suisse; Goldman Sachs; Group Crédit Agricole; Mitsubishi UFJ FG; Morgan Stanley; Royal Bank of Scotland; UBS; Bank of China; Bank of New York Mellon; BBVA; Group BPCE; Industrial and Commercial Bank of China Limited; ING Bank; Mizuho FG; Nordea; Santander; Société Générale; Standard Chartered; State Street; Sumitomo Mitsui FG; Unicredit Group; and Wells Fargo & Co. See FSB, "2013 Update of Group of Global Systemically Important Banks" (November 2013), available at https://www.financialstabilityboard.org/publications/r_131111.pdf.

¹²² As of June 30, 2013, \$2.8 billion of \$16.4 billion was drawn and included on MetLife's balance sheet. See Table 16.

bank holding companies.¹²³ Large corporate and financial entities, including G-SIBs and other G-SIIs, have exposures to MetLife through the organization's insurance, annuity, and investment products that include GICs, FAs, other stable value products, and separate account contracts for the investment management of defined benefit and defined contribution plan assets. Large global banks that serve as derivatives counterparties and that provide credit facilities to MetLife have on- and off-balance sheet exposures to MetLife, which could serve as a mechanism by which MetLife's material financial distress could be transmitted to those firms and to financial markets more broadly. In addition, a sizeable portion of MetLife's long-term debt is held by other nonbank financial companies, including a number of large insurance companies. MetLife also funds its operations through a variety of short-term, accelerable and contingent instruments, including funding agreements, credit facilities, and commercial paper (CP). The holders of MetLife's wholesale funding instruments include significant banking organizations.¹²⁴ As described in section 4.2, MetLife's material financial distress could be transmitted to other significant nonbank financial companies and significant BHCs due to their exposures to MetLife.

The Council is also required to consider *the importance of MetLife as a source of credit for households, businesses, and state and local governments and as a source of liquidity for the U.S. financial system*. MetLife provides credit for both businesses and households through its investments in corporate debt, residential mortgages, commercial mortgages, and as an agricultural lender. Although MetLife also is an important investor in corporate bonds, with [REDACTED] held in its investment accounts,¹²⁵ the company is not an important source of liquidity for the U.S. financial system via significant wholesale or short-term funding arrangements. As of June 30, 2013, MetLife's general account investments included \$58.6 billion of CRE mortgage loans, making it the largest portfolio lender in the U.S. insurance industry, with \$41.4 billion in direct CRE loans and \$17.3 billion of commercial mortgage-backed securities (CMBS) outstanding.¹²⁶ MetLife estimates that its holdings of state and local

¹²³ The Dodd-Frank Act does not define "significant nonbank financial company" or "significant bank holding company," but instead directs the Board of Governors to define those terms by rule. On April 3, 2013, the Board of Governors approved a final rule defining these terms (Regulation PP). The rule defines a "significant nonbank financial company" as (1) any nonbank financial company supervised by the Board of Governors and (2) any other nonbank financial company that had \$50 billion or more in total consolidated assets as of the end of its most recently completed fiscal year. The rule defines a "significant bank holding company" as "any bank holding company or company that is, or is treated in the United States as, a bank holding company, that had \$50 billion or more in total consolidated assets as of the end of the most recently completed calendar year." See Dodd-Frank Act sections 102(a)(7) and (b), 12 U.S.C. § 5311(a)(7) and (b) (2012); 12 C.F.R. part 242 (2014).

¹²⁴ MetLife Response to OFR Data Request, document A.6.

¹²⁵ See Table 30.

¹²⁶ MetLife's commercial mortgage holdings include CMBS of \$17.3 billion, commercial mortgage loans held for investment of \$39.1 billion, and commercial mortgage loans held by consolidated securitization entities of \$2.3 billion. MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, pp. 27, 31; see also Damian Ghigliotty, "MetLife's Robert Merck Poised for Another Good Year as Competition Heats Up for Life Insurance Lenders," Commercial Observer (November 26, 2013), available at <http://commercialobserver.com/2013/11/metlifes-robert-merck-poised-for-another-good-year-as-competition-heats-up-for-life-insurance-lenders>.

government securities represent less than 0.4 percent of the total state and local government securities market;¹²⁷ given the relative size of MetLife's state and local government debt holdings, it does not appear that MetLife is an important source of credit for state or local governments.

The Council is also required to consider *the importance of MetLife as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities*. MetLife provides credit to low-income, minority or underserved communities through its Social Investment Program, which supports community development ventures that do not meet the customary investment criteria of private and institutional investors. MetLife's social investments (usually loans) offer favorable rates for projects that address significant social needs. Investments are considered primarily for nonprofit organizations and their subsidiaries. [REDACTED]

[REDACTED]¹²⁸ MetLife does not appear to play an important role as a source of credit for low-income, minority, or underserved communities, and therefore it does not appear that MetLife's material financial distress would have a material impact on the availability of credit in such communities.

The Council is also required to consider *the extent to which assets are managed rather than owned by MetLife, and the extent to which ownership of assets under management is diffuse*. [REDACTED]

[REDACTED]¹³¹ While MetLife's debt and equity holders have no claims on its third-party assets under management, MetLife's asset management business could be subject to reputational risk if MetLife experienced material financial distress. The negative effects of any withdrawals could be tempered by the degree to which these assets are transferred to or reinvested with other asset managers in a timely manner.

¹²⁷ MetLife Voluntary Submission, Section III, p. III-30.

¹²⁸ *Id.* at p. III-31.

¹²⁹ As of June 30, 2013. MetLife Response to OFR Data Request, document B.6, p. 2.

¹³⁰ *Id.* at pp. 2-5.

¹³¹ MetLife Response to OFR Data Request, document B.6.

Otherwise, rapid withdrawal requests could lead to asset liquidations by the owners of the assets, and the effects on asset prices that could result could be exacerbated if the withdrawal requests occurred during a period of overall stress in the financial services industry and in a weak macroeconomic environment.

The Council is also required to consider *the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of MetLife*.¹³² Through its domestic and international subsidiaries, MetLife provides a wide range of financial services including individual and group life insurance, annuity products, asset management services, commercial mortgage lending, mortgage servicing, trust products, and other retirement-related services. As of year-end 2013, MetLife had approximately \$4.4 trillion of gross life insurance in-force (excluding annuities).¹³³ As of June 30, 2013, MetLife had approximately \$816 billion in total consolidated on-balance sheet assets,¹³⁴ including approximately \$500 billion of general account invested assets (including cash and cash equivalents) and \$246 billion of separate account assets.¹³⁵ In the event of MetLife's material financial distress, MetLife could face a significant increase in liquidity demand in connection with its capital market and insurance products, which could result in a forced liquidation of a portion of its assets and the assets of its subsidiaries. The forced liquidation of a significant portion of these assets initiated by MetLife or its customers could cause significant disruptions in certain markets.

Certain of MetLife's activities expose its clients and counterparties to the risk of loss if MetLife were to experience material financial distress. For example, MetLife issues debt, in the form of FABNs and FABCP, the largest purchasers of which are other financial institutions, including MMFs.¹³⁶ In addition, MetLife engages in capital markets activities, such as derivatives to hedge various risks related to its assets and liabilities, and securities lending activities. As a result of these activities, MetLife's debt holders and counterparties are exposed to the risk of loss in the event of MetLife's material financial distress. In addition, MetLife's institutional and retail policyholders have exposure to MetLife and could experience losses in the event of MetLife's material financial distress.

¹³² MetLife asserts that the Council's analysis overemphasizes size and interconnectedness. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, pp. VI-42-VI-45. However, size and interconnectedness are only two of the many factors considered as part of the evaluation herein. In addition, a number of the factors that the Council is required to consider under section 113 of the Dodd-Frank Act relate to a company's size, including the extent and nature of the company's off-balance sheet exposures; the extent and nature of the company's transactions and relationships with other significant nonbank financial companies and with significant bank holding companies; the importance of the company as a source of credit; the scope, size, and scale of the activities of the company; the amount and nature of the company's financial assets; and the amount and types of the company's liabilities.

¹³³ As of December 31, 2013, the total face amount in-force for life and credit is \$4.4 trillion, and the total face amount in-force for annuities is \$4.5 billion. Data are from SNL Financial and are prepared on the basis of SAP.

¹³⁴ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

¹³⁵ *Id.*

¹³⁶ MetLife Response to OFR Data Request, document A.6.

MetLife is a leading participant in a number of insurance markets, but the majority of these markets are unconcentrated with numerous competitors. For example, although MetLife is a leader in several core insurance product markets, including term life insurance (retail and group), whole life insurance (retail), disability insurance (retail and group), universal life insurance, and retail annuity products, most of those markets appear relatively unconcentrated, with many potential substitute providers.

The Council is also required to consider *the degree to which MetLife is already regulated by 1 or more primary financial regulatory agencies*. MetLife's operations are subject to regulation by various regulatory regimes, including by insurance and securities regulatory authorities. MetLife's insurance subsidiaries are subject to regulation in all 50 U.S. states, the District of Columbia, the five U.S. territories, and numerous foreign countries, including Japan, Korea, and Mexico. MetLife has investment adviser and broker-dealer subsidiaries that are subject to regulation by the SEC, and the broker-dealers are also subject to regulation by the FINRA. MetLife also has subsidiaries such as captive reinsurers that are currently not subject to the same regulatory capital or reporting requirements as its commercial insurance company subsidiaries. From 2001 until early 2013, MetLife was subject to consolidated supervision by the Board of Governors as a BHC; however, MetLife is no longer subject to consolidated supervision by the Board of Governors because the company has deregistered as a BHC.¹³⁷

The Council is also required to consider *the amount and nature of the financial assets of MetLife*. As of June 30, 2013, MetLife had approximately \$816 billion in total consolidated assets.¹³⁸ MetLife is the largest U.S. insurance organization as ranked by total assets and is larger than many of the largest BHCs by this measure.¹³⁹ MetLife's assets include the following broad categories. As described in section 4.3, the company could be forced to sell these or other assets if it were to experience material financial distress:

- corporate debt securities;
- sovereign debt;
- ABS, including mortgage-backed securities (MBS);
- equity securities;
- cash equivalents;
- commercial mortgages;
- real estate; and
- other investments such as interests in joint ventures.

MetLife's general account assets are predominantly composed of fixed-income securities, including U.S. corporate bonds, as well as U.S. Treasury and agency securities.¹⁴⁰ MetLife's

¹³⁷ See section 5.1.

¹³⁸ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

¹³⁹ SNL Financial, Data as of June 30, 2013.

¹⁴⁰ MetLife Response to OFR Data Request, document B.3.

largest asset concentration is U.S. corporate securities, which represent approximately [REDACTED] of its general account invested assets (including cash and cash equivalents).¹⁴¹ MetLife also holds a substantial amount of foreign securities, including general account investments of [REDACTED] of foreign government securities and [REDACTED] of foreign corporate securities.¹⁴² In the event of MetLife's material financial distress, large-scale withdrawals could necessitate a rapid liquidation of a significant portion of invested general account assets, which could cause significant disruptions in the financial markets. In addition, a forced liquidation of these assets could cause a fall in asset prices and lead to asset sales at fire-sale prices by other companies with similar holdings.

The Council is also required to consider *the amount and types of MetLife's liabilities, including the degree of MetLife's reliance on short-term funding*. MetLife's financial debt is composed of short-term debt (\$100 million), long-term debt (\$18.6 billion), collateral financing arrangements relating primarily to support for intercompany reinsurance associated with statutory reserves¹⁴³ (\$4.2 billion), and junior subordinated debt (\$3.2 billion).¹⁴⁴ MetLife's liabilities also include FAs, insurance contracts, annuity contracts, separate account obligations, securities lending, and reinsurance. As of June 30, 2013, MetLife had approximately \$30 billion of securities lending transactions, and [REDACTED] MetLife subsidiaries had a total of \$24.6 billion of FABNs outstanding.¹⁴⁵ MetLife is exposed to liquidity risk in the event that its investors determine not to renew their investments in MetLife, particularly its FABS.

MetLife has substantially decreased its dependence on traditional CP as a source of short-term funding since 2008. However, MetLife has substantially increased the amount of FABCP that it issues. MetLife's FABCP is widely held among MMFs. Significant losses at MMFs arising from a decrease in the value of their holdings of MetLife debt securities could lead to a withdrawal of investments from short-term funding markets and impair the ability of large financial firms to fund their operations and serve as financial intermediaries.

Although MetLife's life insurance and annuity products are generally considered to be long-term liabilities, a substantial portion of the cash value of these liabilities in the general accounts of MetLife's U.S. life insurance subsidiaries is available for discretionary withdrawal through policy loans or partial or full surrenders with little or no penalty, and therefore could have characteristics of short-term liabilities. Policyholders in MetLife's separate account and international insurance businesses may also be able, under existing contractual provisions, to access or withdraw significant cash values on short notice. There are disincentives for early

¹⁴¹ MetLife Response to OFR Data Request, document B.3.

¹⁴² Id.

¹⁴³ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, pp. 298-299.

¹⁴⁴ See Table 9; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

¹⁴⁵ MetLife Response to OFR Data Request, document A.6; MetLife Response to OFR Data Request, document A.8.b.ii.

surrenders, including surrender charges, tax penalties, and the loss of insurance coverage or product guarantees; however, such disincentives may be less meaningful when a company is in material financial distress.

2.3 Determination that MetLife is Predominantly Engaged in Financial Activities

The Council is authorized to determine that a nonbank financial company will be subject to supervision by the Board of Governors and to prudential standards.¹⁴⁶ A company is a nonbank financial company, and thus eligible for a determination by the Council, if it is predominantly engaged in financial activities. Section 102(a)(6) of the Dodd-Frank Act provides that a company is predominantly engaged in financial activities if at least 85 percent of the company's and all of its subsidiaries' annual gross revenues are derived from, or at least 85 percent of the company's and all of its subsidiaries' consolidated assets are related to, "activities that are financial in nature" as defined in section 4(k) of the Bank Holding Company Act of 1956, as amended (BHC Act).¹⁴⁷

MetLife has stated that 95 percent of its total consolidated revenues are derived from regulated insurance companies and that 98 percent of its total assets are related to regulated insurance activities.¹⁴⁸ Based on the Council's analysis of MetLife's assets and revenues, the Council previously found MetLife to be predominantly engaged in financial activities within the meaning of section 102(a)(6) of the Dodd-Frank Act. The Council noted MetLife's extensive insurance activities and referenced sections 4(k)(4)(B) and 4(k)(4)(I) of the BHC Act.

On October 30, 2014, MetLife asserted that it is not a "nonbank financial company" eligible for a determination by the Council under section 113(a) of the Dodd-Frank Act because less than 85 percent of its revenues and its assets are attributable to "activities that are financial in nature," as that phrase is defined in section 4(k) of the BHC Act.¹⁴⁹ MetLife contends that only insurance activities that occur in the United States can be considered "financial activities" under section 4(k)(4)(B) because this provision contains the phrase "in any State." In addition, MetLife argues that section 4(k)(4)(I)'s requirement that investments be made "in accordance with relevant State law" means that MetLife's activities outside of the United States are not financial activities under section 4(k)(4)(I).

MetLife's position is contrary to the language and purpose of the Dodd-Frank Act and the BHC Act, and is inconsistent with MetLife's previous statements in regulatory filings. The Dodd-Frank Act charges the Council with identifying risks to U.S. financial stability that could arise from the material financial distress or failure, or the ongoing activities, of nonbank financial

¹⁴⁶ Dodd-Frank Act section 113(a), 12 U.S.C. § 5323(a).

¹⁴⁷ Dodd-Frank Act section 102(a)(6), 12 U.S.C. § 5311(a)(6); see also 12 C.F.R. part 242 (2014).

¹⁴⁸ MetLife Voluntary Submission, Section II, p. II-2.

¹⁴⁹ Letter from Ricardo Anzaldúa, Executive Vice President and General Counsel of MetLife, to Patrick Pinschmidt, U.S. Department of the Treasury (October 30, 2014), pp. 1-2.

companies. In the Dodd-Frank Act, Congress made clear that the Council can make determinations under section 113 regarding both U.S. nonbank financial companies and foreign nonbank financial companies.¹⁵⁰ Contrary to MetLife's position, the statute does not exclude from the Council's authority under section 113 U.S. nonbank financial companies with substantial insurance activities outside the United States. Where Congress intended in the Dodd-Frank Act to limit the Council's consideration of activities and subsidiaries to only U.S. activities and subsidiaries, such as with foreign nonbank financial companies, it did so clearly.¹⁵¹

MetLife misinterprets section 4(k)(4)(B) of the BHC Act. The Board of Governors, the agency charged with administering and carrying out the purposes of the BHC Act,¹⁵² has, since 2001, interpreted section 4(k) to mean that insurance activities are financial in nature if they are conducted in the United States or abroad.¹⁵³ Specifically, section 225.85(b) of the Board of Governors' Regulation Y, 12 C.F.R. Part 225, provides that any activity listed in section 225.86 can be conducted "at any location in the United States or at any location outside of the United States subject to the laws of the jurisdiction in which the activity is conducted."¹⁵⁴ Section 225.86 includes the broad range of insurance activities described in section 4(k)(4)(B). Sections 225.85 and 225.86 reflect the determination that insurance activities conducted outside of the United States are financial in nature under section 4(k)(4)(B) of the BHC Act.¹⁵⁵ This interpretation is entitled to deference.

MetLife is also predominantly engaged in financial activities when its foreign insurance subsidiaries are considered under section 4(k)(4)(I) of the BHC Act. Specifically, insurance subsidiaries and other assets held by ALICO (the Delaware insurance subsidiary) are attributable to activities that are financial in nature pursuant to section 4(k)(4)(I), and therefore revenues derived from and assets related to such subsidiaries and other assets are included in the "predominantly engaged" calculation, because: (1) the assets are not held by a depository institution or a subsidiary of a depository institution; (2) the assets are held by ALICO, an insurance company that is predominantly engaged in underwriting life, accident and health, or property and casualty insurance or providing and issuing annuities;¹⁵⁶ (3) the assets are

¹⁵⁰ See Dodd-Frank Act sections 102(a)(4) and 113(a) and (b), 12 U.S.C. §§ 5311(a)(4) and 5323(a) and (b).

¹⁵¹ See Dodd-Frank Act section 102(c), 12 U.S.C. § 5311(c); Dodd-Frank Act section 102(a)(6)(A) and (B), 12 U.S.C. § 5311(a)(6)(A) and (B).

¹⁵² 12 U.S.C. § 1844(b).

¹⁵³ See 66 Fed. Reg. 400, 406 (January 3, 2001).

¹⁵⁴ 12 C.F.R. 225.85(b) (2014).

¹⁵⁵ Nothing in the phrasing, content, or purpose of the Gramm-Leach-Bliley Act indicates that this phrase "in any State" in section 4(k)(4)(B) of the BHC Act was intended to serve as a geographical limitation on the insurance activities authorized for financial holding companies.

¹⁵⁶ ALICO is a Delaware-licensed insurance company, and 98.2 percent of its 2012 premiums were written in life, accident and health, or property and casualty insurance or annuities (1.8 percent related to credit lines of business). See Delaware Department of Insurance, "Report on Examination of the American Life Insurance Company (December 31, 2012), pp. 32-33, available at <http://www.delawareinsurance.gov/departments/berg/ExamReports/AmericanLifeInsuranceCo2012web.pdf>

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investments made by ALICO in the ordinary course of business of ALICO in accordance with Delaware state law governing such investments;¹⁵⁷ and (4) MetLife does not routinely manage or operate ALICO's subsidiaries except as may be necessary or required to obtain a reasonable return on investment.¹⁵⁸ ALICO's assets, including its ownership of foreign insurance subsidiaries (e.g., MetLife's Japanese subsidiary MetLife Alico Life Insurance K.K.), are attributable to activities that are financial in nature and are therefore appropriately included in the "predominantly engaged" calculation.¹⁵⁹

In sum, under section 4(k)(4)(B) and (I) of the BHC Act, the revenues derived from and assets related to MetLife's activities that are financial in nature encompass its domestic activities as well as the revenues derived from and assets related to MetLife's foreign insurance subsidiaries (which includes the foreign insurance subsidiaries of ALICO). These comprise substantially all of MetLife's revenues and assets. Therefore, MetLife is predominantly engaged in financial activities because at least 85 percent of the company's and all of its subsidiaries' annual gross revenues are derived from, and at least 85 percent of the company's and all of its subsidiaries' consolidated assets are related to, activities that are financial in nature as defined in section 4(k) of the BHC Act.¹⁶⁰

In prior submissions to the Board of Governors, MetLife acknowledged that its insurance activities abroad were financial activities under section 4(k) of the BHC Act. In 2000, when MetLife sought the prior approval of the Board of Governors to become a bank holding company and a financial holding company, [REDACTED] foreign subsidiaries engaged in insurance activities as conducting activities that were financial in nature under section 4(k).¹⁶¹ In early 2001, the Board of Governors, noting that MetLife was "engaged principally in the business of underwriting life and property and casualty insurance" and also engaged "in a variety

(Delaware Insurance Examination). Section 4(k)(4)(I)(ii) does not require the insurance company making the investment or owing the subsidiary to be engaged in insurance activities in the United States.

¹⁵⁷ See Delaware Insurance Examination p. 10 (noting that the minutes of ALICO's board of directors document its "authorization of investments as required by" Delaware law); see also DEL. CODE. ANN. 18 Tit. § 1313 (2014).

¹⁵⁸ [REDACTED]

¹⁵⁹ Further, notwithstanding MetLife's assertion to the contrary, section (4)(k)(4)(I) does not require the relevant financial activities to be conducted in the United States, so MetLife's foreign insurance subsidiaries' investment activities are financial activities, and their investments are included in the "predominantly engaged" calculation under section 102(a) of the Dodd-Frank Act.

¹⁶⁰ See section 3.1 for information on ALICO's assets.

¹⁶¹ [REDACTED]

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of other financial activities in the United States and internationally,” approved MetLife’s application and declared effective MetLife’s election to become a financial holding company.¹⁶²

In 2010, while still a financial holding company, MetLife sought the prior approval of the Board of Governors to acquire ALICO, including all of ALICO’s foreign insurance operations.¹⁶³ The Board of Governors approved the acquisition and the foreign insurance activities as permissible financial activities under section 4(k)(4) of the BHC Act.¹⁶⁴

MetLife also stated in annual reports filed with the Securities and Exchange Commission while it was a financial holding company that its activities were limited to section 4(k) activities under the BHC Act. Specifically, in each of its annual reports for the years 2000 to 2011 (after which the company deregistered as a bank holding company), MetLife stated as a financial holding company that its “activities and investments are restricted by the BHC Act ... to those that are ‘financial’ in nature or ‘incidental’ or ‘complementary’ to such financial activities.”¹⁶⁵ MetLife was engaged in international insurance activities in each of these periods.

Finally, to be included in the “predominantly engaged” calculation under section 102(a)(6) of the Dodd-Frank Act, the consolidated assets of the company and its subsidiaries need only be “related to,” rather than directly attributable to, activities that are considered “financial in nature” under section 4(k) of the BHC Act. MetLife’s domestic insurance activities are financial in nature under section 4(k) of the BHC Act,¹⁶⁶ and MetLife’s insurance activities conducted outside the United States are related to the company’s U.S. insurance activities. For example, the interests in and assets of the foreign insurance subsidiaries held by ALICO (a Delaware insurance company subsidiary of MetLife, Inc.) are related to ALICO by ownership and otherwise.¹⁶⁷ The assets of these and other foreign insurance subsidiaries are related to MetLife’s domestic insurance companies through shared services, agreements, or otherwise and

¹⁶² MetLife, Inc., 87 Federal Reserve Bulletin 268 (2001), pp. 2, 8, available at <http://www.federalreserve.gov/boarddocs/press/bhc/2001/20010212/attachment.pdf>.

¹⁶³ Letter from Steven J. Goulart, Senior Vice President and Treasurer, MetLife, to Ivan Hurwitz, Vice President, Board of Governors of the Federal Reserve System [sic], dated October 20, 2010.

¹⁶⁴ Letter from Robert deV. Frierson, Deputy Secretary of the Board of Governors, to Steven J. Goulart, Senior Vice President and Treasurer, MetLife, Inc. (October 29, 2010).

¹⁶⁵ See, e.g., MetLife, Annual Report on Form 10-K for the year ended December 31, 2011, p. 21. MetLife did not receive a determination from the Board of Governors that any of its activities were incidental to a financial activity and did not obtain the prior approval of the Board of Governors to engage in any activity “complementary” to a financial activity.

¹⁶⁶ MetLife concedes that its domestic insurance activities are financial in nature under section 4(k) of the BHC Act. Letter from Ricardo Anzaldúa, Executive Vice President and General Counsel of MetLife, to Patrick Pinschmidt, U.S. Department of the Treasury (October 30, 2014), p. 3 (stating that MetLife’s activities in the United States “fall within Sections 4(k)(4)(B) and (I) of the Bank Holding Company Act”).

¹⁶⁷ See, e.g., *In the Matter of ALICO, Delaware American Life Insurance Co. and MetLife*, NYDFS (Consent Order dated March 31, 2014), p. 7, available at <http://www.dfs.ny.gov/about/press2014/pr140331-amer-life.pdf> (describing the unlicensed solicitation of insurance business in New York by ALICO on behalf of ALICO and its subsidiaries, among others).

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are also appropriately included in the “predominantly engaged” calculation.¹⁶⁸ Thus, even under MetLife’s interpretation of section 4(k), all of MetLife’s assets related to insurance activities, whether the assets are held in or outside of the United States, are appropriately included in the “predominantly engaged” calculation. Substantially all of MetLife’s assets are related to insurance activities; therefore, more than 85 percent of the company’s and its subsidiaries’ assets are related to activities that are “financial in nature” as defined in section 4(k).

2.4 Consultations

Section 113 of the Dodd-Frank Act provides that the Council must consult with the primary financial regulatory agency, if any, for each nonbank financial company or subsidiary of a nonbank financial company that is being considered for a determination before the Council makes any final determination with respect to such nonbank financial company.¹⁶⁹ Appendix B summarizes the interactions between the Council and certain regulators of MetLife’s insurance subsidiaries.

3 DESCRIPTIVE OVERVIEW OF METLIFE

3.1 Company Overview

MetLife, Inc. (NYSE: MET), a Delaware corporation, is a publicly traded holding company headquartered in New York, New York. MetLife is the largest publicly traded U.S. insurance organization based on total assets,¹⁷⁰ is one of the largest financial service companies in the United States, and, through its insurance underwriting subsidiaries, is the fourth largest global insurance organization as ranked by total non-banking assets and the largest North American public insurance organization as ranked by total assets.¹⁷¹ MetLife had \$816 billion of total consolidated assets, \$60 billion of total equity, and a \$50 billion market capitalization as of June 30, 2013.¹⁷²

¹⁶⁸ [REDACTED]

[REDACTED] See also section 6.2.2.7 (describing accounting, reporting, and analytics services provided by a U.S. subsidiary of MetLife, Inc. to the company’s international segments).

¹⁶⁹ Dodd-Frank Act section 113(g), 12 U.S.C. § 5323(g).

¹⁷⁰ Best’s Review, “Top 75 North American Public Insurers Ranked by 2013 Total Assets” (July 2014), p. 46.

¹⁷¹ Best’s Review, “Top Global Insurers Ranked by Non-Banking Assets Ranked by Assets, Net Premiums,” (July 2014), p. 50. As of June 30, 2013, and December 31, 2013, from SNL Financial.

¹⁷² The source for MetLife’s total consolidated assets and total equity is the MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5. The source for MetLife’s market capitalization is SNL Financial. As of December 31, 2013, MetLife’s total consolidated assets and total equity were \$885 billion and \$62 billion (or \$54 billion, excluding unrealized gains), respectively. For purposes of consistency, this analysis uses total consolidated assets, total equity, and market capitalization figures as of June 30, 2013. MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 181. This document also refers to data supplied by MetLife, much of which

MetLife is the largest provider of life insurance in the United States as measured by total SAP admitted assets¹⁷³ and gross life insurance in-force, with \$4.4 trillion of gross life insurance in-force (excluding annuities) as of December 31, 2013.¹⁷⁴ As of year-end 2013, MetLife operated in approximately 50 countries through 359 entities, of which 76 are regulated insurance entities.¹⁷⁵ As of June 30, 2013, MetLife's regulated insurance companies generated 95 percent of total consolidated revenues, and represented 98 percent of total assets and 96 percent of total liabilities.¹⁷⁶

As of and for the six months ended June 30, 2013, more than 75 percent of MetLife's assets and revenues were derived from its U.S. and Latin American operations (i.e., the company's Americas segment).¹⁷⁷ MetLife's U.S. operations are managed by line of business, including Retail; Group, Voluntary & Worksite Benefits; and Corporate Benefit Funding.¹⁷⁸ The Retail line of business provides whole life, term life, variable life, and universal life insurance; disability and property and casualty insurance; and fixed and variable annuities.¹⁷⁹ The Group, Voluntary & Worksite Benefits business line provides term life, variable and universal life, disability, dental, and property and casualty insurance.¹⁸⁰ The Corporate Benefit Funding line of business primarily manages the company's institutional business, which offers insurance, annuity, and investment products that include GICs, funding agreements, other stable value products, and separate account contracts for the investment management of defined benefit and defined contribution plan assets.¹⁸¹ In addition, MetLife provides institutions with products to fund post-retirement benefits and COLI, BOLI, and TOLI for certain corporate employees.¹⁸²

is as of December 31, 2012. Certain discrepancies herein are attributable to data that refer to two different points in time.

¹⁷³ An insurer's statutory admitted assets are assets which can be valued and included on the balance sheet to determine financial viability of the company. NAIC Glossary, available at http://www.naic.org/consumer_glossary.htm.

¹⁷⁴ SNL Financial, using data prepared on the basis of SAP.

¹⁷⁵ CONFIDENTIAL NYDFS INFORMATION: As of December 31, 2013, MetLife had 76 regulated insurance entities, of which 25 are domestic insurance affiliates that are regulated by 11 state regulators. NYDFS Supervisory College for MetLife Inc., MLIC Presentation (March 25-26, 2014), pp. 23-24. In addition, 64 percent (228 entities) of MetLife's 359 subsidiaries are domestic and 36 percent (131 entities) are foreign. MetLife Annual Report on Form 10-K for the year ended December 31, 2013, Section 15, Exhibit 21.1. MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 44.

¹⁷⁶ MetLife Voluntary Submission, Section II, p. II-2.

¹⁷⁷ See MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, pp. 17, 19, 21. As of December 31, 2013, MetLife had total consolidated assets of \$885 billion and U.S. assets of \$663 billion. As of June 30, 2013, ALICO had total assets of \$100 billion and total investments of \$85 billion. Annual Report on Form 10-K for the year ended December 31, 2013, p. 181; MetLife Response to OFR Data Request, D.4.d.xls.

¹⁷⁸ *Id.*

¹⁷⁹ MetLife Voluntary Submission, Section II, pp. II-5, II-7.

¹⁸⁰ MetLife Voluntary Submission, Section II, p. II-5.

¹⁸¹ MetLife Voluntary Submission, Section II, pp. II-11-II-13; Annual Report on Form 10-K for the year ended December 31, 2013, pp. 8-9.

¹⁸² MetLife Voluntary Submission, Section II, p. II-13.

MetLife's U.S. insurance subsidiaries are regulated and supervised by their respective home state insurance regulatory authorities. As of December 31, 2013, those states include New York, Connecticut, Delaware, and Missouri for direct insurers, and Delaware, South Carolina, and Vermont for captive reinsurers.¹⁸³

On November 17, 2014, MetLife announced that it had completed a merger of four insurance subsidiaries into a single company domiciled in Delaware.¹⁸⁴ Under the merger, four entities (MetLife Investors USA Insurance Company (MLI-USA),¹⁸⁵ MetLife Investors Insurance Company (MLI-MO),¹⁸⁶ Exeter Reassurance Company Ltd. (Exeter Re), a former Cayman Islands captive that was redomesticated in 2013,¹⁸⁷ and MetLife Insurance Company of Connecticut (MICC)) merged.¹⁸⁸ The surviving entity was renamed MetLife Insurance Company USA (MICUSA).¹⁸⁹ The information presented in this analysis is generally as of June 30, 2013, so descriptions of these entities do not reflect this recent merger transaction. However, this transaction does not appear to reduce the potential risks arising from material financial distress at MetLife or affect the conclusions in this analysis.

MetLife states that the purpose of the merger was "to better position the company to comply with Dodd-Frank collateral requirements, proactively address regulatory issues surrounding the use of captive reinsurance companies, and improve the risk profile and transparency of MetLife's

¹⁸³ MetLife Presentation to FSOC: Overview of MetLife (October 1, 2013), p. 21.

¹⁸⁴ MetLife Press Release, "MetLife Completes Merger of Three Life Insurance Companies and One Former Offshore Reinsurance Subsidiary" (November 17, 2014), available at <https://www.metlife.com/about/press-room/index.html?compID=150359>.

¹⁸⁵ MLI-USA had total assets of \$98.1 billion and capital of \$1.9 billion at year-end 2013. SNL Financial, based on statutory data.

¹⁸⁶ MLI-MO had total assets of \$14.9 billion and capital of \$0.7 billion at year-end 2013. SNL Financial, based on statutory data.

¹⁸⁷ Exeter Re had \$17.6 billion in total assets and \$674 million in capital at year-end 2012. See MetLife Response to OFR Data Request, document A.15, p. 7.

¹⁸⁸ MetLife Insurance Company of Connecticut had \$60.3 billion in total assets and \$4.8 billion in capital at year-end 2013. SNL Financial, based on statutory data.

¹⁸⁹ MetLife press release, "MetLife Completes Merger of Three Life Insurance Companies and One Former Offshore Reinsurance Subsidiary" (November 17, 2014), available at <https://www.metlife.com/about/press-room/index.html?compID=150359>.

U.S. variable annuity business.”^{190, 191} Fitch Ratings stated that it does not view the merger as having a material effect on the overall financial strength of MetLife.¹⁹²

MLIC, domiciled in New York with approximately \$370 billion in assets,¹⁹³ is the largest of MetLife’s subsidiaries¹⁹⁴ and is wholly owned by MetLife, Inc.¹⁹⁵ MLIC underwrites life insurance and issues annuity products, which are sold to individuals, corporations, and other institutions and their employees.¹⁹⁶ MLIC provides insurance products to corporate employers in the United States, and is the largest entity issuer of individual life insurance products in the United States.¹⁹⁷

Approximately 34 percent of the organization’s 2012 full-year operating premiums, fees, and other revenues were from international operations, excluding revenues from the corporate and other business segment.¹⁹⁸ Approximately 22 percent of MetLife’s assets are located outside of the United States (predominantly in Japan).¹⁹⁹ MetLife’s international operations are organized and managed based on three geographic regions: the Americas, Asia, and Europe, the Middle East and Africa (EMEA).²⁰⁰

¹⁹⁰ Id.

¹⁹¹ MetLife also states that the reorganization has several benefits related to its U.S. domestic variable annuity business, including the potential enhancement of its asset and liquidity position and an increase in transparency regarding its capital allocation and risk management. MetLife notes that in deciding to domicile the surviving entity in Delaware, it considered the certainty of the regulatory accounting treatment afforded under Delaware rules as well as the familiarity of the Delaware regulators with, and their prior approvals of, past transactions. See MetLife Response to OFR Data Request, document A.15.c. p. 3. MetLife Presentation to FSOC: Overview of MetLife (October 1, 2013), p. 21.

¹⁹² Fitch Ratings press release, “Fitch Affirms and Withdraws Various MetLife Ratings; Outlook Stable” (November 17, 2014), available at https://www.fitchratings.com/creditriskdesk/press_releases/detail.cfm?print=1&pr_id=925315.

¹⁹³ MLIC of the State of New York, Statutory Filing for the quarter ended June 30, 2013, p. Q02, available at http://investor.metlife.com/phoenix.zhtml?c=121171&p=irol-statutory_MLIC.

¹⁹⁴ SNL Financial, data as of June 30, 2013.

¹⁹⁵ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 24.

¹⁹⁶ MLIC Annual Report for the year ended December 31, 2013, Management’s Discussion and Analysis, p. 1.

¹⁹⁷ SNL Financial, data for the year ended December 31, 2012. As of December 31, 2012, more than 1,000 life insurance companies were in business in the United States, offering more than \$616 billion of life insurance protection, as measured by direct premiums written, through individual policies and group certificates. In 2012, MLIC wrote over \$66 billion in direct premiums, including life insurance (no annuity), annuity product considerations, deposit-type contracts, and other considerations, which is more than any other insurance company. See also “Annual Report on the Insurance Industry,” Federal Insurance Office, U.S. Department of the Treasury (June 2013) available at <http://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/FIO%20Annual%20Report%202013.pdf>.

¹⁹⁸ MetLife Presentation to FSOC: Overview of MetLife (October 1, 2013), p. 5.

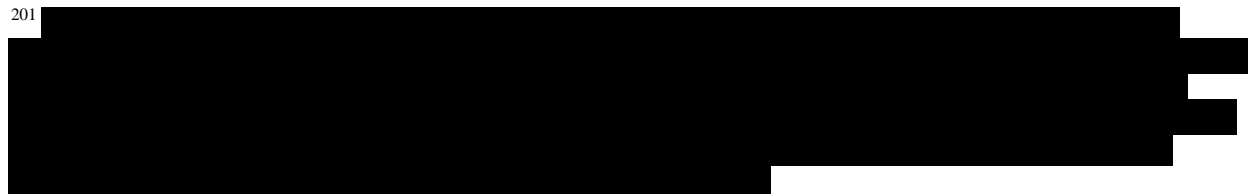
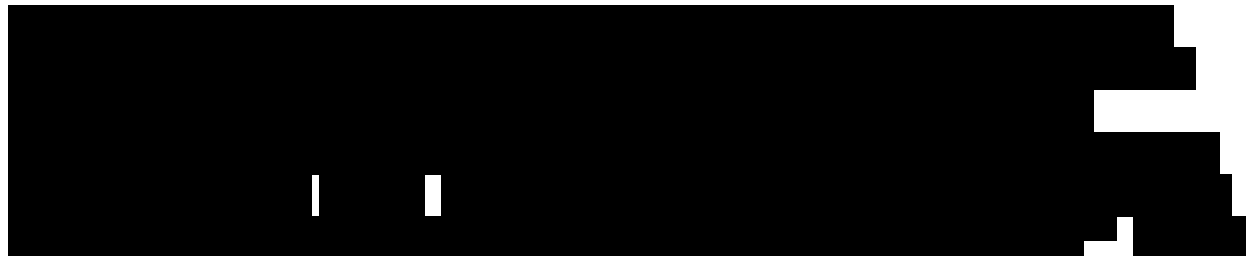
¹⁹⁹ Id. at pp. 5, 21. MetLife consummated its acquisition of American International Life Insurance Company (ALICO) from AIG in 2010, at which time ALICO has employees in more than 50 countries. See AIG Press Release, “AIG to Sell ALICO to MetLife for Approximately \$15.5 Billion” (March 8, 2010), pp. 1-2, available at <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MzU0MTI8Q2hpbGRJRDR0tMXxUeXBIPtM=&t=1>.

²⁰⁰ MetLife Voluntary Submission, Section II, p. II-1.

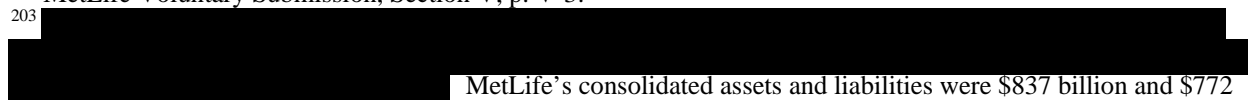
Figure 1: Abbreviated Organizational Chart with MetLife-Identified Material Subsidiaries²⁰¹



Sources: MetLife Presentation to FSOC: Overview of MetLife (October 1, 2013), unnumbered slide 21; MetLife Response to OFR Data Request B.11; and MetLife Voluntary Submission, Section V, p. V-3. On November 17, 2014, MetLife announced that it had completed a merger between MICC, MLI-USA, MLI-MO, and Exeter Re (the above figure has not been adjusted for this merger).



²⁰² MetLife Voluntary Submission, Section V, p. V-3.



MetLife's consolidated assets and liabilities were \$837 billion and \$772

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3.2 Overview of Certain MetLife Products and Activities

As explained above in section 2, the Council has considered each of the statutory considerations in section 113 of the Dodd-Frank Act, one of which is the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of MetLife.²⁰⁵ Below is an overview of some of MetLife's activities and a discussion of how the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of MetLife could affect the potential for material financial distress at the company to be transmitted to the broader financial system and economy. The discussion in this section is intended to provide information regarding certain of MetLife's activities that are relevant to the analyses later in this memorandum, particularly sections 4, 5, and 6.

3.2.1 Institutional and Capital Markets Products Overview

MetLife leads the U.S. life insurance industry in certain institutional and capital markets product activities, such as issuances of FABNs,²⁰⁶ guaranteed minimum return products (e.g., traditional GICs and its proprietary Met Managed GIC),²⁰⁷ securities lending activities,²⁰⁸ and Federal Home Loan Bank (FHLB) borrowings.²⁰⁹ These activities expose other market participants to MetLife and create on- and off-balance sheet liabilities that increase MetLife's operating leverage and susceptibility to rapid increases in liquidity demands that could trigger asset liquidations by MetLife in the event of its material financial distress.²¹⁰ Efforts to hedge such risks through derivatives and other financial activities are imperfect and further increase MetLife's complexity and interconnectedness with other financial markets participants.²¹¹

As shown in Table 1, institutional and spread margin products account for \$145 billion, or 17.8 percent, of MetLife's consolidated assets of \$816 billion as of June 30, 2013.²¹²

billion, respectively, as of December 31, 2012. MetLife Annual Report on Form 10-K for the year ended December 31, 2012, p. 188.

²⁰⁴ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-33.

²⁰⁵ See Dodd-Frank Act section 113(a)(2), 12 U.S.C. § 5323(a)(2) (2012).

²⁰⁶ See Fitch Ratings Special Report: "U.S. Funding Agreement-Backed Note Market Update: Tepid Market Since 2009" (December 10, 2013), p. 1. MetLife also has FAs through a program with the Federal Agricultural Mortgage Corporation (Farmer Mac). MetLife Annual Report on Form 10-K for the year ended December 31, 2012, p. 233.

²⁰⁷ See Table 46.

²⁰⁸ See Table 35.

²⁰⁹ Anna Paulson, Richard J. Rosen, Kyal Berends, and Robert McMenamin, "Understanding the relationship between life insurers and the Federal Home Loan Banks," Chicago Fed Letter number 318 (January 2014), p. 2, available at http://www.chicagofed.org/webpages/publications/chicago_fed_letter/2014/january_318.cfm.

²¹⁰ The FABNs and FHLB borrowings are included in the capital markets tables, but COLI, BOLI, and TOLI and general and separate account GICs are not.

²¹¹ See section 4.2.4.

²¹² MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

Table 1: MetLife Institutional and Spread Margin Products (\$ Billions)

Spread Margin Products					Corporate Benefit Products			
					Stable Value Products			
FHLB Advance Program	FABCP	Farmer Mac Program	FABNs	Securities Lending	Met Managed GICs	COLI/BOLI/TOLI	Other FAs	Total
\$15.0	6.0	2.8	24.6	30.1	5.4	42.3	17.4	1.0
Total as a percentage of MetLife U.S. GAAP Equity								239%
Total as a percentage of MetLife U.S. GAAP Equity (ex-accumulated other comprehensive income)								267%

Sources: Data are as of June 30, 2013. Securities lending information is from MetLife Response to OFR Data Request, document A.8_securities_lending.xlsx. [REDACTED]

[REDACTED] Source for data in all other columns is MetLife Response to OFR Data Request, document A.6_CFO_2of3.xlsx. Source for MetLife U.S. GAAP equity and MetLife U.S. GAAP equity (ex-accumulated other comprehensive income) is MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5. Corporate benefit products are not included in Table 6, Table 7, Table 8, or Appendix C.

3.2.1.1 Funding Agreements, Funding Agreement-Backed Note and Commercial Paper Programs

MetLife's FAs and related products, its FABNs and FABCP, constitute a significant portion of the company's capital markets financing activities and contribute to the company's operating leverage.²¹³ These FA-related instruments could contribute to or exacerbate the transmission of MetLife's material financial distress through the exposure and asset liquidation channels, as described in sections 4.2 and 4.3.

In general, FAs are investment products issued out of the general account of an insurer into the institutional market. Proceeds received from the sale of FAs typically are deposited in a general account and invested in a portfolio generally consisting of fixed-income securities. The insurer earns a profit by generating income in excess of the interest crediting rate, risk charges and expenses. From an insurer's standpoint, FAs represent a liability of the general account, while from the investor's standpoint, FAs represent an alternative to other fixed-income investments.²¹⁴

Generally, MetLife issues FAs from a subsidiary insurance company as collateral for borrowed money, including FHLB borrowings. In doing so, MetLife's insurance company subsidiaries can access short- and medium-term funding with which they can purchase additional general account assets.

²¹³ See Table 1 and Table 35.

²¹⁴ Fitch Ratings Special Report, "FA-Backed Notes: From Zero to \$135 Billion in Eight Years" (March 3, 2005), p. 6.

In addition to direct issuances of private placement institutional FAs, MetLife maintains FABN and FABCP programs. Beginning in the late 1990s, a number of large U.S. life insurance companies began funding a significant portion of their institutional spread business by issuing FABS through private placement securitization vehicles.²¹⁵ FABN programs are a subset of the broader institutional investment products segment that includes FAs, general account GICs, separate account GICs, synthetic GICs, short-term FAs, and securities lending programs.²¹⁶

In a typical FABS program, an insurer sponsors the establishment of a limited liability company to act as a special purpose vehicle (SPV) and issues an FA to the SPV.²¹⁷ Generally, an FA is a nonqualified annuity or annuity-like instrument,²¹⁸ although not contingent on morbidity or mortality risk, that is a direct senior obligation of the insurance company. The SPV issues notes that provide the note holders with a security interest in the underlying FA.²¹⁹ Under the terms of an FA, the insurance company agrees to pay interest on the amounts borrowed from the SPV, and ultimately, to repay the principal amounts of such deposit contracts on the maturity dates of the corresponding program notes.²²⁰ The FA is the SPV's primary asset and the source of funds to pay the note holders.²²¹ The amounts received by each insurance company under its FA are pooled for investment purchases with the assets held in the general account of the insurance company.²²² Because the FAs are reported together with all other policyholder account balances, these arrangements are not captured by traditional financial leverage ratios and do not reflect the short-term nature of many of the borrowings collateralized by the FAs (such as extendible FABNs and FABCP).²²³

²¹⁵ A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), p. 2, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>; see also Fitch Ratings Special Report, "FA-Backed Notes: From Zero to \$135 Billion in Eight Years" (March 3, 2005), p. 2 ("For many life insurers in the late 1990s, this product grew out of the declining popularity of general account GICs. GICs represented the fixed value option within employers' defined contribution pension plans.").

²¹⁶ Fitch Ratings Special Report, "FA-Backed Notes: From Zero to \$135 Billion in Eight Years" (March 3, 2005), p. 1.

²¹⁷ *Id.* at p. 4.

²¹⁸ A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), p. 2, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>.

²¹⁹ Fitch Ratings Special Report, "FA-Backed Notes: From Zero to \$135 Billion in Eight Years" (March 3, 2005), p. 4.

²²⁰ See Moody's Investors Service, "MetLife Short Term Funding LLC" (September 11, 2013), p. 4.

²²¹ See A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), p. 3, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>.

²²² See Moody's Investors Service, "MetLife Short Term Funding LLC" (September 11, 2013), p. 5.

²²³ See A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), p. 4, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>. MetLife states that it "is inappropriate to categorize capital markets activities as financial leverage because the proceeds of borrowings are not used for general corporate purposes and such activities present a fundamentally different risk profile than short-term borrowings used to fund longer-term business capital needs." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-36. MetLife's financial leverage is discussed in section 4.3.7.

Under its FABNs and FABCP programs, two of MetLife's insurance subsidiaries, MLIC and MICC, issue uncollateralized FAs to SPVs, and the SPVs issue marketable debt securities (medium-term notes²²⁴ or CP) to external investors.²²⁵ Cash proceeds from the debt securities are passed through the SPVs to MLIC or MICC.²²⁶ The payment of principal and interest on these debt securities is secured by the uncollateralized FAs issued to the SPVs.²²⁷

As of June 30, 2013, MetLife is the largest U.S. life insurer issuer of FABNs, which it issues through two SPVs, Metropolitan Life Global Funding I (MGF) and MetLife Institutional Funding II (MIF).^{228, 229} MGF and MIF began issuing FABNs in 2002 and 2010, respectively, and there was a total of \$24.6 billion outstanding as of June 30, 2013.²³⁰ MetLife issued approximately 75 percent of all FABNs issued by U.S. life insurers in the first six months of 2013.²³¹ FABNs typically range in duration from 1 to 10 years, but their structure allows for various types of call or put options.²³² In addition, FABCP is generally more short-term than FABNs.²³³

²²⁴ Typically, "medium term" refers to a five- to 10-year maturity.

²²⁵ MetLife Response to OFR Data Request, document A.19.b.c.d (response to A.19.c), p. 1; see also MetLife Annual Report on Form 10-K for the year ended December 31, 2013, pp. 9, 219; Metropolitan Life Global Funding I, September 2012 prospectus for US\$25 billion of Global Note Issuance Program, p. 10; MetLife Institutional Funding II, September 2012 prospectus for US\$7 billion of Global Medium Term Note Issuance Program, p. 5.

²²⁶ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 9. The arrangement may involve a currency swap if the notes are issued in a different currency than the funding agreements. See Fitch Ratings Special Report, "FA-Backed Notes: From Zero to \$135 Billion in Eight Years" (March 3, 2005), p. 4.

²²⁷ Although the FAs themselves are not secured by collateral, the claims under FAs typically rank *pari passu* with the claims of policyholders of the insurance company issuers, although this condition depends on the relevant state law. Therefore, holders' FAs might be in a superior position to the claims of general creditors of the insurance company issuers with respect to payments of principal and interest. The A.M. Best methodology for rating FABN states, "Notes issued under a standard FABS program will receive debt ratings that are the same as the [issuer credit rating] of the sponsoring insurance company (and also of the program)." A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), pp. 1, 4, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>; see also MetLife Annual Report on Form 10-K for the year ended December 31, 2013, pp. 9, 219; Metropolitan Life Global Funding I, September 2012 prospectus for US\$25 billion of Global Note Issuance Program, p. 10; MetLife Institutional Funding II, September 2012 prospectus for US\$7 billion of Global Medium Term Note Issuance Program, p. 5.

²²⁸ Based on data downloaded from a Bloomberg terminal as of March 20, 2014, and Council analysis.

²²⁹ MGF is a special purpose Delaware statutory trust organized for the sole purpose of issuing non-recourse notes secured by FAs issued by MLIC. MIF is a special purpose Delaware statutory trust organized for the sole purpose of issuing non-recourse notes secured by FAs issued by MICC. MGF and MIF are not subsidiaries of MetLife, but for accounting purposes, the results of MGF's and MIF's operations are included in MetLife's consolidated financial statements. See Metropolitan Life Global Funding I, September 2012 prospectus for US\$25 billion of Global Note Issuance Program; MetLife Institutional Funding II, September 2012 prospectus for US\$7 billion of Global Medium Term Note Issuance Program.

²³⁰ MetLife Response to OFR Data Request, document A.6; see also Metropolitan Life Global Funding I, September 2012 prospectus for US\$25 billion of Global Note Issuance Program, p. 24; MetLife Institutional Funding II, September 2012 prospectus for US\$7 billion of Global Medium Term Note Issuance Program, p. 17.

²³¹ Based on data downloaded from a Bloomberg terminal as of March 20, 2014, and Council analysis.

²³² MetLife Response to OFR Data Request, document A.19.b.c.d (response to A.19.c), p. 3.

²³³ Id. at p. 1.

MetLife's FABCP ranges in duration from one week to six months.²³⁴ Because these instruments are of varying durations, some of which are short-term, MetLife is exposed to liquidity risk in the event that its investors determine not to renew their investment in MetLife's FABS. This risk likely would increase if MetLife were to experience material financial distress and the program lost its prime rating.²³⁵

Through its FABCP program, MetLife typically issues an FA to a CP conduit, which is funded through the CP issuance. MetLife's FABCP issuance increased more than fourfold, from \$1.4 billion to \$6 billion, between January 2008 and June 2013.²³⁶ These FAs issued do not match the maturity of the CP (maturities of FABCP generally range from one week to six months, while the underlying FAs have maturities of 10 years).²³⁷ The FABCP is short-term, which exposes MetLife to the risk that its investors could determine not to renew their investment in MetLife's FABCP, particularly if MetLife were to experience material financial distress. MetLife's insurance companies act as the liquidity backstops in the event that the FABCP does not roll over.²³⁸ In addition, certain borrowings under MetLife's FA-related contracts are subject to provisions that, for example, allow a counterparty to demand repayment of outstanding borrowings, or require the cessation of FABCP issuances, after a material negative change in the financial condition of MetLife, Inc. or one of its subsidiaries, including a credit rating downgrade.²³⁹ The rollover risk and demand provisions associated with these products create liquidity risk for MetLife.

As discussed in section 4.3.2, if MetLife were to experience material financial distress, MetLife may not be able to roll over its fixed maturities FABS, extend its FABS with embedded put options, or maintain its securities lending transactions in connection with its FABS programs, which could force MetLife to liquidate assets, including illiquid assets, if the organization's liquid assets were insufficient to meet this unexpected demand.^{240, 241} In addition, as discussed in section 4.2.4.3, the holders of MetLife's FAs and FABS, which include asset managers, banking organizations, and MMFs, are exposed to the risks that the FABS could lose their

²³⁴ MetLife Response to OFR Data Request, document A.19.b.c.d (response to A.19.c), p. 2.

²³⁵ See Section 4.3.2 for a discussion of this issue.

²³⁶ MetLife Response to OFR Data Request, document A.19.b.c.d (response to A.19.c), p. 1; Moody's Investors Service, "Beagle Funding LLC" (April 11, 2008), p. 1.

²³⁷ See MetLife Response to OFR Data Request, document A.19.b.c.d (response to A.19.c), p. 2; Moody's Investors Service, "MetLife Short Term Funding LLC, ABCP Program Review" (September 11, 2013), p. 5.

²³⁸ Moody's Investors Service: "MetLife Short Term Funding LLC, ABCP Program Review" (September 11, 2013), pp. 4-5.

²³⁹ MetLife Response to OFR Data Request, document D.2.h, p. 8.

²⁴⁰ Rating agencies have noted that the use of FABCP or FABN programs has the potential to expose an insurer to liquidity and asset-liability management risks that could manifest during times of stressed market conditions. See Moody's Investor Service, "US Life Insurers' FANIP Issuance Up On Attractive Funding Costs; Higher ALM Risks but More Spread Income" (May 14, 2014), p. 1.

²⁴¹ See section 4.3.2.2 for discussion of the relationship between MetLife's FABS and securities lending programs and section 4.3.2.3 for discussion of MetLife short-term FABS with embedded put options.

liquidity following a sponsoring insurer's rating downgrade and that MetLife may be unable to meet its obligations under those agreements.

3.2.1.2 *Securities Lending*

MetLife's securities lending program provides the organization with a meaningful source of funding and operating leverage. Through this program, MetLife typically holds approximately \$30 billion in cash collateral at any time in exchange for lending securities owned by its insurance operating subsidiaries.²⁴² MetLife uses the cash collateral received to purchase additional securities, which typically are less liquid than the securities lent.²⁴³

[REDACTED]

[REDACTED]²⁴⁴ At the origination of each securities lending transaction, MetLife typically receives cash equal to 102 percent of the fair market value of the lent security.²⁴⁵ [REDACTED]

[REDACTED]

[REDACTED]²⁴⁷

²⁴² [REDACTED]

MetLife Response to OFR Data Request, document A.9, p. 2

²⁴⁴ As of June 30, 2013, the U.S. life insurance entities participating in the securities lending program were MLIC, MICC, MLI-USA, GALIC, Metropolitan Tower Life Insurance Company (MTL) and MLI-MO. See MetLife Response to OFR Data Request, documents A.8, p. 3 and A.8.f.

²⁴⁵ Loans of securities issued by entities organized in the United States carry a margin percentage of 102 percent, while loans of securities issued by entities organized outside the United States carry a margin percentage of 105 percent. In addition, the securities lending program in Japan is based on a collateralization level of 100 percent or higher, rather than 102 percent. See MetLife Response to OFR Data Request, document A.8, pp. 2-3; see also MetLife Response to OFR Data Request, document A.8.i-1 (Supplemental Request Response), p. 5.

²⁴⁶ MetLife Response to OFR Data Request, document A.8, pp. 2, 5.

²⁴⁷ MetLife Response to OFR Data Request, document A.8, p. 3.

Figure 2: MetLife Securities Lending Program Structural Diagram^{248, 249}



Source: MetLife Response to OFR Data Request, document A.8 and Council analysis.



As of June 30, 2013, based on cash collateral liability by legal entity, approximately 87 percent of the \$30 billion of securities lending activity occurred within the MLIC and MICC insurance entities, while less than 4 percent of the total activity took place through a life insurance entity in Japan.²⁵⁰ MetLife's securities lending program and the reinvestment of the cash collateral could



²⁵⁰ MetLife Response to OFR Data Request, document A.8_securities_lending; MetLife Response to OFR Data Request, document A.8.e_securities_lending.

create or exacerbate certain risks that MetLife could pose to other financial firms and markets in the event of its material financial distress, as described in sections 4.2.4.8 and 4.3.2.

3.2.1.3 Federal Home Loan Bank and Farmer Mac Programs

FHLB borrowing has become a common source of liquidity for many financial institutions, including MetLife. Six MetLife insurance subsidiaries are members of FHLB associations and enter into FAs with these entities to secure funding.²⁵¹ The advances drawn by MetLife's insurers are collateralized by assets ranging from government securities to MBS.²⁵² Like other insurance company members, FHLBs generally require MetLife to place eligible collateral with an FHLB or third-party custodian to protect against the uncertainties regarding the priority of a FHLB's claim in state insolvency proceedings.²⁵³ However, MetLife retains control over collateral pledged to an FHLB to the extent that it exceeds a collateral maintenance amount (generally slightly above the amount borrowed).²⁵⁴ MetLife's FHLB borrowings are generally subject to provisions that allow the FHLB to invoke certain rights in particular circumstances, such as a downgrade of the credit rating of MetLife's issuing subsidiary by selected rating agencies or another negative change in the financial condition of MetLife, Inc. or its issuing insurance subsidiary.²⁵⁵ For example, if a financial condition provision is triggered, an FHLB could declare all advances due and payable, or exercise other rights, such as increasing the level of haircuts assigned to pledged collateral.^{256, 257} In addition, because MetLife's FHLB borrowings are also subject to FHLB collateral maintenance requirements and regular collateral monitoring (i.e., daily or weekly valuation for securities), MetLife is exposed to the risk of sudden cash or collateral calls in the event that its pledged collateral suddenly declined in

²⁵¹ MetLife Response to OFR Data Request, document D.2.h., p. 12.

²⁵² MetLife Response to OFR Data Request, document B.3.d; MetLife Annual Report on Form 10-K for the year ended December 31, 2012, p. 233.

²⁵³ See Federal Housing Finance Agency, "Report on Collateral Pledged to Federal Home Loan Banks" (September 2013), p. 64, available at http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2013-09_CollateralPledgedReport_N508.pdf.

²⁵⁴ See, e.g., MLIC, Statutory Filing for the year ended December 31, 2013, Notes to the Financial Statements, p. 19.51, available at http://investor.metlife.com/phoenix.zhtml?c=121171&p=irol-statutory_MLIC.

²⁵⁵ MetLife Response to OFR Data Request, document D.2.h., p. 7.

²⁵⁶ FHLB advances to MetLife's subsidiaries and related collateral maintenance remedies are generally subject to negative financial condition and asset insecurity triggers. MetLife Response to OFR Data Request, document D.2.h, pp. 4, 7, 12. In addition, the advances to MLIC from the FHLB of New York may be shortened or otherwise limited if two of the three insurer financial strength ratings of MLIC from Standard and Poor's Ratings Services (S&P), Moody's Investors Service (Moody's), and Fitch Ratings, Inc. (Fitch) fall below A (stable), A2 (stable), and A (stable), respectively. See MetLife Response to OFR Data Request, document D.2.h., p. 7.

²⁵⁷ MetLife Response to OFR Data Request, document D.2.h. pp. 4, 12. Also, when assigning collateral haircuts for a particular borrower, an FHLB typically considers, among other things, the borrower's overall financial condition, the amount of the FHLB's credit exposure to the borrower, potential concerns regarding the borrower's credit quality, the level of reliance on a particular collateral type, and public information. See Federal Home Loan Bank System, "Lending and Collateral Q&A" (August 13, 2014), pp. 2, 6 available at http://www.fhlb-of.com/ofweb_userWeb/resources/lendingqanda.pdf.

value.²⁵⁸ Such cash or collateral calls could increase MetLife's liquidity needs in a period of heightened cash outflows, which are discussed further in the asset liquidation analysis in section 4.3.

In recent years, MetLife's subsidiaries have increased FHLB borrowings considerably. In June of 2013, MetLife subsidiaries had \$15 billion of FHLB FAs, up from \$1.9 billion in 2006.²⁵⁹ MetLife's insurance company subsidiaries borrow primarily from the FHLB of New York; the organization also maintains active borrowing relationships with the FHLBs of Des Moines, Boston, and Pittsburgh.²⁶⁰ As of year-end 2012, MLIC was the largest insurance company borrower in the FHLB system and the fourth-largest borrower among any type of company.²⁶¹ In 2011 and 2012, MLIC was the top recipient of advances from the FHLB of New York.²⁶² As of June 30, 2013, MLIC held the second largest advances from the FHLB of New York and received 15.5 percent of that FHLB's total advances^{263, 264} None of MetLife's insurers ranked in the top five advance holders of the FHLB of Boston as of 2013.²⁶⁵

Table 2: Top 5 Advance Holders of the FHLB of New York

Firm	City	State	Advances (\$billions)	Percentage of Total Par Value of Advances
Citibank, N.A.	New York	NY	\$20.2	24.6%
MLIC	New York	NY	12.8	15.5
New York Community Bank	Westbury	NY	8.6	10.4
Hudson City Savings Bank, FSB	Paramus	NJ	6.0	7.3
Investors Bank	Short Hills	NJ	3.3	4.0
Top 5 Advance Holders Total			\$50.9	61.8%

Source: FHLB of New York Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 46.

Through its insurance company subsidiaries, MetLife also issues FAs to Farmer Mac, with obligations secured by agricultural real estate mortgage loans from its \$3.2 billion portfolio of these loans.²⁶⁶ MetLife is essentially the only insurance organization lender to Farmer Mac. As shown in Table 3, as of June 30, 2013, MetLife was the top institutional counterparty to Farmer

²⁵⁸ In addition, securities held as collateral are subject to substitution if downgraded below an acceptable level (typically, below a single-A rating). See Federal Home Loan Bank System, "Lending and Collateral Q&A" (August 13, 2014), available at http://www.fhlb-of.com/ofweb_userWeb/resources/lendingqanda.pdf.

²⁵⁹ MetLife Quarterly Report on Form 10-Q for quarter ended June 30, 2013, p. 188; MetLife Annual Report on Form 10-K for the year ended December 31, 2007, pp. 138-139.

²⁶⁰ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 220.

²⁶¹ See Fitch Ratings Special Report, "The Federal Home Loan Bank System: Its role in the Life Insurance Industry" (June 12, 2013), p. 6.

²⁶² See FHLB of New York Annual Report on Form 10-K for the year ended December 31, 2013, pp. 146-147.

²⁶³ See FHLB of New York Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 46.

²⁶⁴ MLIC's borrowing is subject to the limitations of New York Insurance Law Section 1411(c), which generally prohibits a pledge or transfer of any securities for a loan (including securities lending), if such loan and all other outstanding loans secured by pledge or deposit of its securities will exceed 5 percent of an insurer's admitted assets.

²⁶⁵ See FHLB of Boston Annual Report on Form 10-K for the year ended December 31, 2013, p. 51.

²⁶⁶ MetLife Annual Report on Form 10-K for the year ended December 31, 2012, p. 233.

Mac, with an outstanding balance of \$2.8 billion, or 46 percent, of Farmer Mac's institutional loan exposure.²⁶⁷

Because insurance companies, including the insurance company subsidiaries of MetLife, hold large amounts of long-duration assets on their balance sheets to fund long-tail liabilities, through the FHLB Advance Program and Farmer Mac Program, MetLife can mobilize its long-term and illiquid assets to increase liquidity or enhance yield (if cash proceeds are reinvested), in addition to using them to meet long-term liabilities. The FHLB advances to MetLife have an estimated two-year average maturity, which is much shorter than the average duration of the MBS used as collateral for these advances.²⁶⁸ These products increase MetLife's operating leverage through this duration and liquidity transformation process.

Table 3: Top Holders of Farmer Mac AgVantage Securities

Counterparty	June 30, 2013			December 31, 2012		
	Balance (\$millions)	Credit Rating	Required Collateralization	Balance (\$millions)	Credit Rating	Required Collateralization
MetLife	\$2,750	AA-	103%	\$2,750	AA-	103%
CFC	1,553	A	100%	1,311	A	100%
Rabo Agrifinance, Inc.	1,600	N/A	106%	1,500	N/A	106%
Rabobank N.A.	50	N/A	106%	50	N/A	106%
Other	8	N/A	111% to 120%	9	N/A	111 to 120%
Total Outstanding	\$5,961			\$5,620		

Source: Farmer Mac Quarterly Report on Form 10-Q, for the quarter ended June 30, 2013, p. 86.

Note: Within this table, "MetLife" includes securities issued by MLIC or MICC. "Other" comprises AgVantage securities issued by three different users as of June 30, 2013, and four different issuers as of December 31, 2012.

3.2.1.4 *Guaranteed Investment Contracts*

MetLife's GICs are general account and separate account liabilities of its insurance company subsidiaries offered to defined contribution plans directly or through stable value product intermediaries.²⁶⁹ MetLife's basic GIC product, commonly referred to as the "Traditional GIC," is written out of the insurance companies' general accounts and offers clients a fixed or indexed rate investment with a specified maturity.²⁷⁰ For a customer, these products are general account contracts that integrate an investment in a group annuity and a guarantee of liquidity for participant-initiated transactions.²⁷¹ Additionally, the proprietary "Met Managed GIC" is a

²⁶⁷ See Table 3.

²⁶⁸ MetLife Response to OFR Data Request, document A.6_CFO_2of3.xls.

²⁶⁹ Section 719(d) of the Dodd-Frank Act mandates that the Commodity Futures Trading Commission (CFTC) and the SEC jointly conduct a study to determine whether stable value contracts should be considered swaps. As of December 2014, the study had not been concluded.

²⁷⁰ MetLife Voluntary Submission, Section II, p. II-12; MetLife Response to OFR Data Request, document B.7.1; see also MetLife letter to SEC and CFTC regarding Stable Value Contract Study (September 26, 2011), available at <https://www.metlife.com/assets/cao/institutional-retirement/MetLifeResponseSEC-CFTC-RFI-StableValueSept2011.pdf>.

²⁷¹ Id.

separate account product that integrates an investment of indefinite maturity with a general account guarantee of specified value, notwithstanding any decline in the value of the separate account assets.²⁷² The Met Managed GIC is offered to plan sponsors to support the liabilities of certain qualified benefit plans, and generally allows for employee-directed book value withdrawals for benefits provided under those plans, including transfers to certain plan investment options and loans to the participant.²⁷³ Although MetLife does not sponsor any stable value funds, it does provide stable value contracts to many of the leading stable value product intermediaries.²⁷⁴ A stable value contract assures that funds will always be available to pay plan participant benefits and make participant-initiated transfers at book value,²⁷⁵ regardless of the market value of the supporting assets.²⁷⁶ Synthetic GICs, which are described in section 3.2.1.5, are similar to Met Managed GICs (e.g., they offer a general account liquidity guarantee), but refer to GICs booked as derivatives against underlying assets held by the contract holder rather than by MetLife. Finally, in some instances, FABNs are referred to colloquially as “Global GICs” given the product similarities.

As of June 30, 2013, GICs represent MetLife’s largest institutional business product offering, with \$5.4 billion and \$42.3 billion of traditional and separate account GICs outstanding, respectively.²⁷⁷ GIC participant balances are guaranteed up to the contract’s book value by MetLife’s insurers²⁷⁸ and could develop into underfunded liabilities during stressed market conditions. The general account guarantees associated with MetLife’s Traditional GICs and Met Managed GICs increase MetLife’s susceptibility to unexpected liquidity demands, which could lead MetLife to liquidate assets and result in the transmission of the negative effects of MetLife’s material financial distress through the asset liquidation channel. The market value of the MetLife insurers’ assets supporting the GICs may be less than book value at the time the contract holder is due to receive a payout or other withdrawal supported by the GICs. MetLife could face losses if it were forced to sell assets to support its GIC obligations.

²⁷² Met Managed GICs are primarily fixed income investment management arrangements. Met Managed GICs entail maintenance of a contract value account for each contract. The amount in the contract value account is calculated to include the deposits, as specified in the contract, less benefit withdrawals, plus interest credited at rates set at least annually. See MetLife Voluntary Submission, Section II, p. II-12; see also MetLife Response to OFR Data Request, document B.7.1.

²⁷³ MetLife Response to OFR Data Request, document B.7.1; see also MetLife letter to SEC and CFTC regarding Stable Value Contract Study (September 26, 2011), available at <https://www.metlife.com/assets/cao/institutional-retirement/MetLifeResponseSEC-CFTC-RFI-StableValueSept2011.pdf>. As of December 18, 2014, the study has not been completed.

²⁷⁴ See MetLife letter to SEC and CFTC regarding Stable Value Contract Study (September 26, 2011), available at <https://www.metlife.com/assets/cao/institutional-retirement/MetLifeResponseSEC-CFTC-RFI-StableValueSept2011.pdf>.

²⁷⁵ Depending on the contract, book value can mean the principal amount of the deposit or the contracted rate of return on the contract.

²⁷⁶ Id.

²⁷⁷ MetLife Response to OFR Data Request, document A.6_CFO_2of3.xlsx.

²⁷⁸ See MetLife, The Met Managed GIC Brochure (2013), p. 2, available at <https://int.www.metlife.com/assets/cao/institutional-retirement/A11.pdf>.

MetLife submits that its GICs can mitigate risk for the following reasons: they tend to be counter-cyclical to the overall market; they either include formula provisions that would benefit MetLife in the event of early termination or they do not allow for early termination; plan sponsors that buy traditional GICs generally limit their exposure to any one provider to 10 percent of their total stable value fund; Met Managed GIC assets are held in insulated separate accounts that are protected against general account liabilities; the assets supporting separate account GICs are generally high-quality fixed-income assets; and financial distress at MetLife would not affect the value of the separate account assets supporting GICs due to the insulation of these assets from MetLife's general accounts and the cash buffer maintained in each separate account.²⁷⁹ However, as described in section 4, these mitigants do not address fully certain risks arising from these instruments.

According to MetLife, roughly [REDACTED] of its Traditional GICs offer plan sponsors the option to elect a market value adjusted payout prior to maturity, which is capped at book value and generally requires the insurance company issuer to pay [REDACTED] to [REDACTED] of book value.²⁸⁰

MetLife has been successful in growing its stable value business with its separate account GIC, the Met Managed GIC. A key feature of the product is that contract holders are protected from creditor claims in the event of a failure of the issuing MetLife insurer, because assets are held in the separate account.²⁸¹ However, as with the Traditional GIC, Met Managed GICs guarantee payment of participant-initiated transactions, such as withdrawals for benefits, loans, or transfers to other funds within a plan. [REDACTED]

[REDACTED] As of June 30, 2013, MetLife held [REDACTED] of general account supplemental reserves against \$36.4 billion of separate account GIC assets (at market value), along with the related \$36.4 billion of separate account liabilities.²⁸³ GIC participant balances are guaranteed up to the contract's book value by MetLife²⁸⁴ and could develop into an underfunded liability during stressed market conditions. For example, during a weak macroeconomic environment, if the market value of the underlying assets falls below that of the book value guarantees, and if reserves were insufficient, MetLife would incur losses if account withdrawals triggered the need

²⁷⁹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-42-VII-43.

²⁸⁰ MetLife Voluntary Submission, Section II, p. II-12.

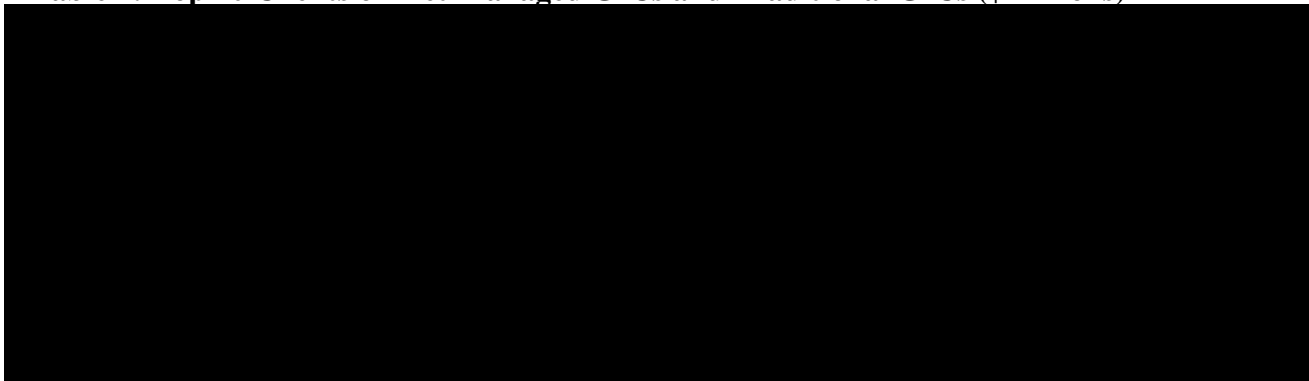
²⁸¹ See MetLife Met Managed GIC Brochure (2013), available at <https://int.www.metlife.com/assets/cao/institutional-retirement/A11.pdf>.

²⁸² [REDACTED]

²⁸⁴ The Met Managed GIC Brochure (2013), pp. 2, 3, available at <https://int.www.metlife.com/assets/cao/institutional-retirement/A11.pdf>.

to honor the guarantees. If MetLife experienced material financial distress and failed to honor its obligations under these contracts, entities holding these financial guarantees could be exposed to losses.²⁸⁵

Table 4: Top 10 Clients of Met Managed GICs and Traditional GICs (\$ Billions)



Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, document A.6.b.

3.2.1.5 Synthetic Guaranteed Investment Contracts

Synthetic GICs provide an insurer's client retirement plans with a minimum interest rate guarantee on their investments and a guarantee related to the excess of the contract value over the market value of the account assets. Unlike Traditional GICs and Met Managed GICs, the underlying reference assets are owned and controlled by the plan rather than MetLife. In issuing synthetic GICs, MetLife takes on many of the disadvantages of asset ownership without the advantages of ownership.²⁸⁶ Synthetic GIC participants may make benefit withdrawals at book value and receive certain guaranteed crediting rates regardless of the market value of the underlying assets.

As of June 30, 2013, MetLife had synthetic GIC contracts that covered \$4.3 billion of assets held by contract holders in external benefit plan trust accounts.²⁸⁷ Because MetLife's insurance companies do not directly hold these assets, the assets are not consolidated onto MetLife's balance sheet. Synthetic GICs can function as a put option to the contract holder and can be

²⁸⁵ MetLife states that it "performs monthly testing to determine whether the market value of assets backing separate account GIC contracts is adequate to support the Statutory contract liabilities guaranteed by MLIC with respect to each contract," in accordance with the "asset adequacy testing requirements established by the New York Department of Financial Services as prescribed in NY Regulation 128." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-44. Although, though this testing may mitigate the risk in ordinary times, it could be less effective in the event of broader financial market stress.

²⁸⁶ See MetLife letter to SEC and CFTC regarding Stable Value Contract Study (September 26, 2011), p. 11, available at <https://www.metlife.com/assets/cao/institutional-retirement/MetLifeResponseSEC-CFTC-RFI-StableValueSept2011.pdf>.

²⁸⁷ MetLife Response to OFR Data Request, document A.1.d.

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viewed as derivatives based on a Financial Accounting Standards Board definition.²⁸⁸ The gains or losses from synthetic GIC contracts are reflected on the issuing insurance company's income statement. [REDACTED] MetLife could incur losses if it had to meet its obligations under these contracts at a time when the MetLife assets supporting those obligations were to fall in value.

3.2.2 Description of MetLife's Captive Reinsurance Activities

Reinsurance is insurance purchased by an insurance company to cover portions of risk on insurance policies issued by that company. MetLife's reinsurance activities fall within two broad categories: external risk transfer through third-party reinsurers and inter-affiliate risk transfer through so-called "captive"²⁹⁰ reinsurers. In a typical captive reinsurance transaction, an insurance company creates a captive insurance subsidiary and reinsures a block of existing business through the captive, which is generally subject to lower reserve and capital requirements than the ceding (parent) insurance company.²⁹¹ Figure 3 provides an example of a simplified captive reinsurance transaction. Some regulators and commentators have stated that these transactions allow insurance companies to arbitrage the different regulatory capital frameworks that apply to commercial life insurers and captive insurers by reducing the total capital and reserve requirements for the overall insurance organization without actually transferring risk outside of the insurance holding company organization.²⁹² MetLife relies on letters of credit (LOCs)²⁹³ (primarily from large banks), collateral financing arrangements, and surplus notes to provide equity and statutory capital funding to affiliated reinsurance captives. MetLife, Inc. supports the reinsurance activities of its captives by guaranteeing the LOCs granted by large banks to its captive reinsurers and maintaining certain capital levels under various net worth and capital maintenance agreements for its captive reinsurers.²⁹⁴

An overview of the consolidated balance sheet of MetLife's six captives as of year-end 2012 illustrates their breadth and importance to MetLife's insurance operations.²⁹⁵ While MetLife's

²⁸⁸ See Financial Accounting Standards Board Statement 133, Implementation Issue No. A16, "Definition of a Derivative: Synthetic Guaranteed Investment Contracts" (April 10, 2001), available at <http://www.fasb.org/derivatives/issuea16.shtml>.

²⁸⁹ MetLife Response to OFR Data Request, document A.7, p. 1.

²⁹⁰ MetLife Voluntary Submission, Section I, p. I-23. Captive entities are licensed by their domiciliary regulator on the basis of a particular business plan.

²⁹¹ See NYDFS, "Shining a Light on Shadow Insurance" (June 2013), p. 1, available at http://www.dfs.ny.gov/reportpub/shadow_insurance_report_2013.pdf.

²⁹² *Id.* Moody's Investors Service Special Comment, "The Captive Triangle: Where Life Insurers' Reserve and Capital Requirements Disappear" (August 23, 2013).

²⁹³ LOCs are non-funded, off-balance sheet, contingent liabilities used to guarantee a payment by the borrower to a given beneficiary. If the borrower fails to make a payment on behalf of the beneficiary, then the LOC is drawn upon and becomes a loan.

²⁹⁴ MetLife Response to OFR Data Request, document A.14.a.b.c, p. 6.

²⁹⁵ On November 17, 2014, MetLife announced the completion of a merger involving four insurance entities, one of which was formerly Exeter Re. MetLife Press Release, "MetLife Completes Merger of Three Life Insurance

captives use a mixture of accounting methods, consolidated assets of the captives totaled [REDACTED].²⁹⁶ Assets consisted primarily of a funds withheld receivable (with [REDACTED] pledged to the ceding company for collateral purposes), cash and short-term investments [REDACTED] derivative assets [REDACTED] in the value of options and futures), and other receivables and other assets [REDACTED].²⁹⁷ Other receivables and other assets include other invested assets of [REDACTED] and outstanding LOCs of [REDACTED] (these LOCs are held on-balance sheet as an asset and also serve as a source of funding for collateral).²⁹⁸ The six captives reported [REDACTED] in total liabilities supported by [REDACTED] in surplus/equity.²⁹⁹

The majority of captive equity capital consists of LOCs [REDACTED] and third-party surplus notes [REDACTED]. These external capital sources represent [REDACTED] of equity capital and partially offset the negative accumulated retained earnings [REDACTED] of five affiliated captives.³⁰⁰

MetLife cedes [REDACTED] of reserves to its six captives, of which [REDACTED] is backed by other financial institutions for collateral and funding purposes. MetLife's capital markets exposure arises from three sources: LOCs, a collateral financing agreement, and third-party surplus notes.³⁰¹ The LOCs and collateral financing agreement represent the majority of MetLife's capital markets exposure together equaling \$16.4 billion, of which \$12.9 billion is in the form of LOCs (an aggregation of the captive committed LOC facilities).³⁰²

As described in sections 4.2.4.4 and 4.2.4.6, captive reinsurance backed by LOCs exposes MetLife to liquidity and re-pricing risks as these financial instruments are renegotiated periodically during the life of the captive reinsurance agreement.³⁰³ In addition, the bank LOC providers are exposed to both MetLife credit and insurance risk.

A primary life insurer's transactions with affiliated captives generally have the effect of (1) rendering the regulatory RBC ratio for the primary insurer a less relevant indicator of its capital adequacy; (2) increasing short-term liquidity and refinancing risks related to the use of bank LOCs associated with affiliated captive arrangements; and (3) increasing opacity with respect to the invested assets and capital instruments used in the captives to back the risks transferred to the

Companies and One Former Offshore Reinsurance Subsidiary" (November 17, 2014), available at <https://www.metlife.com/about/press-room/index.html?compID=150359>.

²⁹⁶ As of December 31, 2012. MetLife Response to OFR Data Request A.15.e and A.15.f.

²⁹⁷ Id.

²⁹⁸ As of December 31, 2012. MetLife Response to OFR Data Request A.15.

²⁹⁹ Id.

³⁰⁰ As of December 31, 2012. MetLife Response to OFR Data Request, document A15 I.ii

³⁰¹ MetLife Response to OFR Data Request A.15.

³⁰² See Table 16.

³⁰³ See Table 15; MetLife Response to OFR Data Request, document A.5.

captives.³⁰⁴ These effects reduce the transparency of the organization's potential risks. In the event of material financial distress at MetLife, the risk of losses for MetLife's customers and counterparties through the exposure transmission channel could be exacerbated by its lower capital levels arising from the use of captives, as described in section 4.2. In addition, the potential for off-balance sheet affiliated captive exposures converting to funded exposures could contribute to asset liquidation risk, as discussed in section 4.3.

MetLife's reliance on captive reinsurance and capital market products is consistent with two developments in the life insurance industry. First, the reserves life insurers are required to maintain in connection with level premium term life insurance increased in January 2000,³⁰⁵ followed by an increase in reserve requirements associated with certain universal life insurance policies and variable annuity products in January 2003.³⁰⁶ Second, the life insurance industry generally, and MetLife in particular, has experienced growth in the variable annuity business since 2001.³⁰⁷

Although captive reinsurers have been used by life insurance companies for many years to manage a range of business risks, organizations including the Federal Insurance Office, the

³⁰⁴ See Moody's Investors Service Special Comment, "The Captive Triangle: Where Life Insurers' Reserve and Capital Requirements Disappear" (August 23, 2013), pp. 3-4, 9; see also NAIC White Paper "Captives and Special Purpose Vehicles" (July 6, 2013), p. 3, available at <http://www.naic.org/store/free/SPV-OP-13-ELS.pdf>; NYDFS, "Shining a Light on Shadow Insurance" (June 2013), p. 2, available at http://www.dfs.ny.gov/reportpub/shadow_insurance_report_2013.pdf.

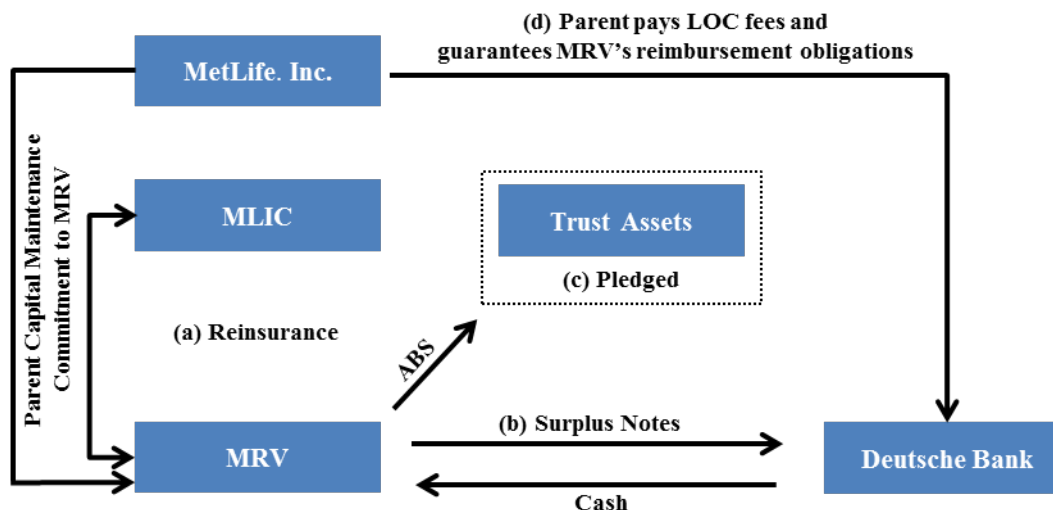
³⁰⁵ In 2000, the NAIC Valuation of Life Insurance Policies Model Regulation (#830), commonly referred to as Regulation XXX, was introduced to account for secondary guarantees present in universal life contracts. See NAIC CIPR Newsletter, "Reserving for Universal Life Policies with Secondary Guarantees and the Evolution of AG 38" (January 2012), available at http://www.naic.org/cipr_newsletter_archive/vol2_ag38.htm.

³⁰⁶ Actuarial Guideline 38 was created in 2003 to clarify NAIC Regulation 830, which set forth reserve requirements for all universal life products that employ secondary guarantees, with or without shadow account funds. See NAIC CIPR Topic "Actuarial Guideline 38" (July 30, 2014), available at http://www.naic.org/cipr_topics/topic_actuarial_guideline_xxxviii_ag_38.htm.

³⁰⁷ The life insurance industry and MetLife, in particular, experienced growth in variable annuities sales from 2001 to 2012, with a compound annual growth rate of 2.3 percent and 13.3 percent, respectively. Variable annuity assets under management for the life insurance industry also grew from 2001 to 2012 at a compound annual growth rate of 6.3 percent. The industry and MetLife experienced steady growth in variable annuity sales most of the period from 2001 to 2011, although there were several years in which sales declined. Most notably, in 2012 and in the first half of 2013, variable annuity sales declined for both the life industry and MetLife. However, despite the industry's and MetLife's significant reduction in variable annuity sales after 2011, variable annuity account balances continued to grow from 2011 to 2013 due to market appreciation. From 2011 to 2013, variable annuity account balances increased by \$277 billion industry-wide and \$31 billion for MetLife. See Life Insurance and Market Research Association (LIMRA) Data Bank "Annuity Sales Estimates 2004-2014," "Variable, fixed and total annuity sales over the past 10 years," available at http://www.limra.com/uploadedFiles/limra.com/LIMRA_Root/Posts/PR/Data_Bank/PDF/Annuity%20Estimates%202004-2013.pdf; see also LIMRA Data Bank "Annuity Sales Estimates 2001-2010," "Variable, fixed and total annuity sales over the past 10 years," available at http://www.limra.com/uploadedFiles/limracom/Posts/PR/Data_Bank/PDF/AnnuitySalesEstimates20012010.pdf. For AUM data, see also Life Insurance and Market Research Association (LIMRA), available at www.limra.com. See also MetLife, Financial Supplements for the quarters ended December 31, 2002-2013.

Federal Reserve Bank of Minneapolis, rating agencies, and state insurance regulators (independently and through the NAIC) have recently focused attention on the increasing use of transactions between commercial insurance companies and affiliated captive reinsurers that are intended to reduce the amount of overall capital and reserves without actually transferring risk outside of an insurance holding company system.³⁰⁸

³⁰⁸ See Federal Insurance Office, “2014 Annual Report on the Insurance Industry,” pp. 43-44; Ralph S. J. Kojen and Motohiro Yogo, Growing Risk in the Insurance Sector, Federal Reserve Bank of Minneapolis Economic Policy Paper 14-2 (March 2014), available at http://www.minneapolisfed.org/pubs/eppapers/14-2/epp_14-2.pdf; Moody’s Investors Service Special Comment, “The Captive Triangle: Where Life Insurers’ Reserve and Capital Requirements Disappear” (August 23, 2013), pp. 2-3; NAIC White Paper “Captives and Special Purpose Vehicles” (July 6, 2013), p. 3, available at <http://www.naic.org/store/free/SPV-OP-13-ELS.pdf>; NYDFS, “Shining a Light on Shadow Insurance” (June 2013), pp. 6-7, available at http://www.dfs.ny.gov/reportpub/shadow_insurance_report_2013.pdf.

Figure 3: Hypothetical Example of a Simplified Captive Reinsurance TransactionDescriptions of Hypothetical Transaction Flows

- MLIC establishes a captive,³⁰⁹ MetLife Reinsurance Company of Vermont (MRV), and contributes \$2 million in capital. MRV then reinsures \$1 billion of life insurance business from MLIC.
 - MetLife posts statutory reserves of \$1 billion, of which MetLife regards \$900 million as non-economic redundant reserves and \$100 million as economic reserves that are held by MLIC.
- MRV issues \$900 million of surplus notes³¹⁰ to Deutsche Bank in return for \$900 million in cash.
- MRV invests the cash in \$900 million of high-yielding securities (e.g., ABS) and places the securities in a trust account of which MLIC is the beneficiary. The collateralization is a requirement for MLIC to receive \$900 million of capital credit for reinsurance from MRV.
- MetLife, Inc. provides a guarantee on MRV's reimbursement obligations and pays the spread on financing fees. Hence, risk of MRV's non-performance has not been transferred from the consolidated insurance organization to an external party.

Source: Moody's Investors Service Special Comment, "The Captive Triangle: Where Life Insurers' Reserve and Capital Requirements Disappear" (August 23, 2013), p. 2; Council analysis.

³⁰⁹ Authorized reinsurers are licensed in the United States by state regulatory authorities to sell insurance in the same state as the primary ceding insurer, and therefore face the same capital regulations as the ceding insurer. As reinsurers that are not licensed to sell insurance to U.S. domestic insurers, unauthorized reinsurers are not subject to state insurance regulatory RBC and other regulatory requirements (e.g., required actuarial asset adequacy testing). Furthermore, special purpose captive reinsurance entities are not subject to the same requirements and oversight as traditional commercial insurers or reinsurers under the U.S. solvency framework promulgated by the NAIC, which is implemented by state insurance regulators. In order to produce a reinsurance reserve credit for insurers ceding to unauthorized reinsurers, state insurance laws require the reinsurer to post eligible collateral—which could include an LOC from domestic bank, withheld funds, or a collateral trust—in an amount at least equal to the statutory reserve liabilities ceded. See NAIC Credit for Reinsurance Model Law (January 2012), available at <http://www.naic.org/store/free/MDL-785.pdf>; NAIC Credit for Reinsurance Model Regulation (January 2012), available at <http://www.naic.org/store/free/MDL-786.pdf>. As discussed in footnote 67, NAIC Model Laws have an effect only to the extent that they have been adopted by relevant states.

³¹⁰ An insurer's regulatory capital and surplus is composed of common and preferred capital stock, surplus notes, paid-in and contributed surplus, and unassigned funds (retained earnings). Surplus notes have characteristics of both debt and equity. The notes must meet certain strict regulatory criteria in order to qualify for the issuing insurance company to record them as surplus and not as debt.

Table 5: Estimated Direct Statutory Capital Impact on MetLife Group and Its Entities if Captives Were Eliminated

Entities	Statutory Capital and RBC Ratio (Reported) ³¹¹			Statutory Capital and RBC Ratio (without captives)			Regulatory Capital Impact
	Regulatory Capital (\$millions)	Minimum Regulatory Capital		Regulatory Capital (\$millions)	Minimum Regulatory Capital		
		Regulatory Capital (\$millions)	RBC		Regulatory Capital (\$millions)	RBC	
MLIC	\$19,022	\$4,237	449%				
MLI-USA	1,907	301	633				
MICC	6,217	1,383	449				
MLI-MO	725	49	1478				
First MetLife Investors Insurance Co. (FMLI)	182	20	928				
New England Life Insurance Co. (NELICO)	559	43	1314				
MetLife Group	\$27,188	\$6,044	450%				

Sources: Statutory capital and RBC ratio (reported) figures are as of December 31, 2012. MetLife Response to OFR Data Request, document A.15.l.v_capital.xlsx. MetLife Group data are prepared on the basis of SAP, from SNL Financial, as of December 31, 2012. Statutory capital and RBC ratio (without captives) data are calculated based on MetLife Response to OFR Data Request, document A.5.lines_of_credit_2of2.xlsx; A.14.i._Intercompany_Reinsurance_Arrangements.xlsx; A.15.reinsurance_collateral.xlsx; and A.15.l.v_capital.xlsx.

Note: Regulatory capital impact is calculated based on the dollar difference between reported regulatory capital (reported) and regulatory capital (without captives). “MetLife Group” is composed of the subsidiaries of MetLife, Inc., as defined by SNL Financial’s grouping of MetLife, Inc.’s life insurance subsidiaries, which includes more than the six subsidiaries listed in Table 5. MetLife Reinsurance Company of Charleston (MRC) is excluded from the above analysis because the associated ceded reserves were backed by assets in Funds Withheld and Trust and not by LOCs.

To quantify the direct impact of MetLife’s use of captive reinsurers, Table 5 estimates the effect on the RBC levels of MetLife’s commercial insurance subsidiaries of unwinding the internal risk transfers and returning all ceded businesses to the commercial insurance companies.

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³¹¹ Regulatory capital refers to the actual amount of capital and surplus of the noted company. RBC ratio is regulatory capital divided by minimum regulatory capital. Regulatory capital (without captives) and minimum regulatory capital (without captives) are calculated with captive risks transferred back to MetLife’s ceding insurers.

³¹² State insurance regulators, through the NAIC, have been exploring options for increasing transparency and establishing consistent reserving and other requirements for certain captive reinsurance transactions. The goal of this work is to produce a solution that would address these reserving issues until the states implement a principles-based reserve valuation system, which would allow life insurers to “right-size” reserves based on the use of credible insurance company experience data. Moreover, in the event that a life insurer’s captive is eliminated, the

As discussed in sections 4.2 and 4.3, MetLife's arrangements on difficult-to-predict insurance exposures with and on behalf of affiliated reinsurance captives could give rise to, or aggravate, its insurance company subsidiaries' losses and the transmission of the negative effects of those losses in the event of MetLife's material financial distress.

3.2.3 Description of General Account and Separate Accounts

A life insurance company's invested assets are held in two types of accounts: the general account and one or more separate accounts.³¹³ An insurer's general account assets are obligated to pay claims arising from its insurance and annuity policies, debt, derivatives, and other liabilities. Separate accounts consist of funds held by a life insurance company that are maintained separately from the insurer's general assets.³¹⁴

An insurer owns the general account assets and directs the investment of these assets, subject to a written investment plan that complies with regulatory limits. The general account holds assets used to support contractual obligations providing guaranteed benefits. General account assets are subject to claims by the insurer's creditors in the event the insurer becomes insolvent. By contrast, for separate accounts, the investment risk is passed through to the contract holder; the income, gains, or losses (realized or unrealized) from assets allocated to the separate account are credited to or charged against the separate account.

Therefore, non-guaranteed separate account liabilities are not generally directly exposed to the insurer's credit risk because they are insulated from claims of creditors of the insurance company. However, because of the significant amount of separate account contracts supported by the general account through guarantees, as described in section 3.2.4, holders of separate accounts may be directly exposed to the insurer's credit risk.

3.2.4 Variable Annuities Business and Hedging

The scale and mix of MetLife's variable annuity product business is a key driver of its increasing use of captive reinsurance and derivatives hedging activities. A variable annuity is a hybrid insurance and securities contract issued by a life insurance company in which the purchaser pays the insurer a sum of money and the insurer promises to make periodic payments to the purchaser either immediately or beginning at some point in the future. The purchase payments often are invested in investment vehicles similar to mutual funds in which the purchaser allocates its money among any of the investment options available in the contract. Fees are typically

appropriate state insurance regulator would have the option to allow the ceding insurer some level of relief from the subject reserving methodologies, which would reduce the potential impact estimates in Table 5.

³¹³ MetLife has \$246 billion in separate account assets and an equivalent amount of separate account liabilities. See Table 30.

³¹⁴ See NAIC Glossary of Insurance Terms (accessed November 16, 2014), available at http://www.naic.org/consumer_glossary.htm#S.

generated on the balances of managed accounts. Variable annuities commonly offer, for a fee, certain protections—commonly referred to as “riders” or guaranteed living benefits (GLBs)—for payouts, withdrawals, or account values against investment losses or unexpected longevity. Offered at the time of purchase, GLBs entitle the policyholder to a minimum income stream, accumulation, or withdrawal benefits.³¹⁵ GLBs on variable annuity contracts expose variable annuity carriers to market risk. Accordingly, GLB liability values are sensitive to changes in market conditions. Thus, variable annuities, particularly those with GLBs, are generally viewed as exposing the issuing insurer to broader risks than those of ordinary protection products like term or whole life insurance.³¹⁶ MetLife engages in dynamic hedging by using a variety of financial derivative instruments (e.g., equity futures, variance and interest rate swaps, foreign exchange forwards) to hedge MetLife’s risks related to GLBs that could arise from adverse movements in markets, interest rates, and foreign currencies.³¹⁷ Nonetheless, MetLife experienced earnings volatility on these products during the recent financial crisis as well as post-crisis.³¹⁸ In addition, MetLife’s hedging activities increase MetLife’s complexity and interconnectedness with other financial institutions, and therefore, potential losses to MetLife’s counterparties in the event of MetLife’s material financial distress.³¹⁹

MetLife is a leading variable annuity writer, ranked second in overall variable annuity assets in the United States, and represents 9.7 percent of the total market share based on net assets.³²⁰ In recent years, MetLife’s business has grown in certain variable annuity products that involve guarantees associated with the market value of investments that contain large proportions of equity risk. As noted above, MetLife’s variable annuity products commonly include GLBs, such as guaranteed minimum withdrawal benefits, guaranteed minimum accumulation benefits, or guaranteed minimum income benefits. During the recent financial crisis, heightened volatility across equity markets and significant declines in U.S. Treasury yields caused large losses and a

³¹⁵ MetLife Response to OFR Data Request, document A.13.a, pp. 3-4.

³¹⁶ See A.M. Best, “Special Report: U.S. Life/Annuity - Issue Review. Rating Factors for Organizations Using Life Captive Reinsurers” (October 28, 2013), available at http://www3.ambest.com/bestweek/purchase.asp?record_code=218101&AltSrc=26.

³¹⁷ MetLife Response to OFR Data Request, document A.12, Attachment A.

³¹⁸ At the end of the fourth quarter of 2008, pre-tax losses attributable to variable annuity guarantees equaled \$454 million. Since 2010, pre-tax earnings attributable to variable annuity guarantees (net of hedging) have continued to produce swings ranging from pre-tax gains on domestic business of \$625 million in the quarter ending September 30, 2011, to losses in the quarters ending December 31, 2010, and December 31, 2012, of \$255 million and \$760 million, respectively. MetLife states that “much of this perceived volatility is attributable to GAAP asymmetries between the hedges and the liabilities.” MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-49-VII-50. However, GAAP accounting is required for reporting purposes, is widely used by the market for evaluating companies, and provides a reasonable measurement for the purposes of the Council’s analysis.

³¹⁹ For a discussion of mitigants to the risks posed by MetLife’s derivatives activities, see section 4.2.4.7.

³²⁰ See Investment News, “Variable Annuities” (February, 24, 2014), p. 1, available at <http://www.investmentnews.com/article/20140224/CHART02/140229937/variable-annuities#>. As of June 2013, the aggregate outstanding account value of variable annuities issued by MetLife’s U.S. insurers was approximately \$167 billion. See MetLife Voluntary Submission, Section V, pp. V-49-V-50.

rapid depletion of capital among some variable annuity carriers.³²¹ MetLife continued to grow its market share between 2009 and 2011 as a flight to perceived quality appears to have occurred after some of the largest variable annuity writers exited the market.³²² In 2012, MetLife began to scale back its U.S. variable annuity sales.³²³ Since the crisis, while variable annuity writers have redesigned product offerings and reduced product benefits as part of de-risking initiatives, legacy exposures remain for MetLife.³²⁴

As of June 30, 2013, MetLife reported \$92.9 billion of variable annuity account values with GLB features and \$189 billion of variable annuity account values with guaranteed death benefit features.³²⁵ Net amount at risk, measured by taking the present value of the guaranteed minimum benefit amount in excess of the current account balance, is a potentially useful indicator of risk in variable annuities. The net amount at risk for GLBs is \$3.6 billion (4.1 percent of the account balance of \$88.7 billion), and the net amount at risk for guaranteed death benefits is \$6.7 billion (4.4 percent of the account balance of \$151 billion).³²⁶

3.2.5 Closed Block

In 2000, when MLIC demutualized and became a wholly owned subsidiary of MetLife, Inc., a “closed block” was established for the benefit of holders of certain participating individual life insurance policies that were then in-force (Closed Block).³²⁷ MetLife states that the Closed

³²¹ McKinsey & Company, McKinsey Working Papers on Risk. “Responding to the Variable Annuity Crisis” (April 2009), p. 3.

³²² See LIMRA Data Bank, “Top Twenty Annuity Sales Comparison in 2011”; “Top Twenty Sales – U.S. Individual Annuity Sales, Fourth Quarter 2010”; “Top Twenty Sales – U.S. Individual Annuity Sales, Fourth Quarter 2009.”

³²³ According to the LIMRA, in 2012 MetLife ranked third in U.S. individual variable annuity sales, behind Prudential (with \$20 billion in sales) and Jackson National Life Insurance (with \$19.7 billion). See AdvisorOne, “Top 20 Companies for Annuity Sales in 2012” (March 21, 2013), available at <http://old.advisorone.com/2013/03/21/top-20-companies-for-annuity-sales-in-2012>. Despite MetLife’s high ranking in 2012, the organization reduced its variable annuity sales volume by nearly 38 percent, far greater than the industry-wide decline of 7 percent in that year. See LIMRA Data Bank, “Annuity Sales Growth Rate (2012, 4th Quarter),” available at http://www.limra.com/uploadedFiles/limracom/Posts/PR/Data_Bank/PDF/Annuity-4Q-2012-Estimates.pdf; see also MetLife Annual Report on Form 10-K for the year ended December 31, 2012, p. 105.

³²⁴ See Moody’s Investors Service, “Prudential, Jackson National, and MetLife: Headache from Legacy Variable Annuity Business Lingers” (March 11, 2014). Product design changes generally fall within three categories: reduced benefits, higher fees for guarantees, or new products with embedded risk management features to minimize equity market volatility, such as volatility managed funds as underlying investment options.

³²⁵ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, pp. 5, 24.

³²⁶ Because annuity and life contracts with guarantees may offer more than one type of guarantee in each contract (e.g., both living and death benefits), the amounts may not be mutually exclusive. See MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, pp. 5, 24. MetLife states that the Council’s “methodology for calculating net risk is flawed.” MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-51. However, the net amounts at risk for GLB and guaranteed death benefits are based directly on MetLife’s Quarterly Report on Form 10-Q.

³²⁷ Closed blocks are books of insurance business that do not actively underwrite or renew new policies and are effectively in run-off mode, paying out claim and benefit obligations as they come due. [REDACTED]

Block is a segment of MLIC's general account that is of a size sufficient to provide reasonable assurances to participating policyholders that assets in the Closed Block would be available to fund the required benefits under those policies and, in addition, to maintain the dividend scales in effect for 1999 if the experience underlying such scales continued.³²⁸ As such, on a SAP basis, the Closed Block was funded beyond normal reserve requirements and included an allocation of surplus.³²⁹

[REDACTED]

Many of the policies issued prior to demutualization are still in force, and the Closed Block business will continue in effect as long as any policy within it remains in force; the expected life of the Closed Block is over 100 years.³³¹

If MLIC were to be liquidated, the Closed Block would dissolve and the assets associated with it would be subject to the same liabilities (and claim priorities) as all other assets in MLIC's general account.³³² Furthermore, a rehabilitator of MLIC could discontinue the payment of dividends to participating policyholders, and in the event of a liquidation of MLIC, the various states' GAs would not cover the lost dividends. However, the fact that any loss of dividend payments would occur over a long period of time mitigates the potential negative effects of these exposures.³³³

3.3 MetLife During the Recent Financial Crisis

MetLife's Voluntary Submission states that it has "historically been a model of financial strength," and that it weathered the recent financial crisis well.³³⁴ Consistent with the First Determination Standard, the Council's analysis assumes material financial distress at MetLife and evaluates whether such distress could pose a threat to the financial stability of the United States.³³⁵

Like many of its life insurance peers, during the financial crisis, MetLife experienced significant decreases in the value of its assets, driven by its fixed income portfolio.³³⁶ The MetLife Voluntary Submission states that during the financial crisis, RBC ratios at each of MetLife's

³²⁸ MetLife Voluntary Submission, Section V, p. V-39.

³²⁹ Id.

³³⁰ Id.

³³¹ MetLife Annual Report on Form 10-K for the year ended December 31, 2012, p. 243.

³³² MetLife Voluntary Submission, Section V, p. V-40; see also N.Y. Ins. Law § 7435(c)(1) (McKinney 2014).

³³³ MetLife Voluntary Submission, Section V, p. V-40; MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-51-VII-52.

³³⁴ MetLife Voluntary Submission, Section II, pp. II-1, II-4.

³³⁵ Although MetLife asserts that the Council "disregard[ed] all evidence of MetLife's stability and financial soundness during the 2008-2009 financial crisis," this section 3.3 focuses on that issue. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-27.

³³⁶ See GAO, "Impacts of and Regulatory Response to the 2007-2009 Financial Crisis," GAO-13-583 (June 2013), p. 67.

subsidiary insurance companies “remained stable or increased, and were consistently well above the level at which regulators typically intervene.”³³⁷ However, MetLife’s GAAP equity significantly decreased between 2007 and the first quarter of 2009, due in part to the reduced value of the company’s fixed income portfolio.³³⁸ Among life insurers, in 2008, MetLife was second only to AIG in the amount of unrealized losses, and in 2009, MetLife’s unrealized losses amounted to 22.5 percent of all unrealized losses among life insurers. While a substantial portion of the decreases in the value of MetLife’s assets remained unrealized losses, this experience demonstrates both the scale of MetLife’s investments and also the extent to which the value of that portfolio can fall.³³⁹

Over the year beginning March 14, 2008 (the market trading day immediately prior to Bear Stearns’ sale to JPMorgan Chase), MetLife’s share price declined by 69 percent, compared to a decline of 62 percent for the Dow Jones U.S. Select Insurance Index (IAK) and a decline of 41 percent for the S&P 500.³⁴⁰ In addition, over the same period, the increase in CDS spreads on MetLife was 2.6 times greater than the increase in spreads implied by the CDX.NA.IG index.³⁴¹ In February 2009, Moody’s Investors Service affirmed MetLife’s credit ratings (A2 senior) but changed its outlook from stable to negative due to “pressures on its profitability and financial flexibility emanating from higher levels of investment losses and from the weak economy and capital markets over the medium-term.”³⁴²

MetLife had a variety of available funding options during the financial crisis. At the time, MetLife was a BHC, which gave the company access to a range of liquidity and capital sources made available to banking entities, including the capacity to borrow from the Federal Reserve Bank of New York (FRBNY) Discount Window (through MetLife’s then-held depository institution subsidiary) and emergency government programs launched in 2008 in response to the financial crisis. MetLife also initially sought funding from the Troubled Asset Relief Program (TARP), but ultimately withdrew its application.^{343, 344, 345} MetLife did use several emergency

³³⁷ MetLife Voluntary Submission, Section III, p. III-35.

³³⁸ MetLife Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, p. 4; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, p. 4.

³³⁹ See GAO, “Impacts of and Regulatory Response to the 2007-2009 Financial Crisis,” GAO-13-583 (June 2013), p. 67.

³⁴⁰ Data downloaded from a Bloomberg Terminal as of November 7, 2014. Pricing data for Dow Jones U.S. Select Insurance Index represented by iShares U.S. Insurance ETF (IAK).

³⁴¹ On March 14, 2008, the market trading date immediately prior to Bear Stearns’ sale to JPMorgan Chase, five-year CDS spreads on MetLife and the five-year CDX.NA.IG index were 225 and 191 basis points, respectively. One year later, on March 14, 2009, CDS spreads on each had increased by 282 percent and 23 percent (to 858 and 236 basis points), respectively. Based on information provided by Markit.

³⁴² Moody’s Investors Service, “Rating Action: Moody’s affirms MetLife ratings (A2 senior); changes outlook to negative” (February 9, 2009), available at https://www.moody.com/research/Moodys-affirms-MetLife-ratings-A2-senior-changes-outlook-to-negative--PR_172454.

³⁴³ See N.Y. Times, “MetLife Opts to Forgo TARP Cash” (April 13, 2009), available at <http://www.nytimes.com/2009/04/14/business/14insure.html>.

federal government-sponsored facilities. During 2008 and 2009, MetLife's subsidiary bank accessed the Federal Reserve Term Auction Facility 19 times for a total of \$17.6 billion in 28-day loans and \$1.3 billion in 84-day loans.³⁴⁶ In March 2009, MetLife raised \$397 million through the Temporary Liquidity Guarantee Program (TLGP) run by the FDIC, which enabled the organization to borrow funds at a lower rate than it otherwise would have been able to obtain.³⁴⁷ Additionally, MetLife borrowed \$1.6 billion through the Federal Reserve's Commercial Paper Funding Facility (CPFF).³⁴⁸ However, MetLife states that it "had no specific funding or liquidity needs that necessitated the use of the government programs," and instead "primarily accessed the programs as a prudent business decision to obtain low-cost sources of funding and, in certain cases, did so at the encouragement of federal regulators."³⁴⁹

The organization increased MLIC's funding agreement advances from the FHLB of New York to \$15.2 billion as of year-end 2008³⁵⁰ from \$4.6 billion as of year-end 2007.³⁵¹ While MLIC's FHLB borrowing amounts have remained largely unchanged since the crisis, MetLife has expanded its FHLB membership beyond the FHLBs of New York and Boston to also include the FHLBs of Des Moines and Pittsburgh.^{352, 353}

³⁴⁴ Life insurers that sought and received approval for TARP funds included The Hartford Financial Services Group, Inc. (Hartford), Prudential, Allstate Corp. (Allstate), Lincoln National Corp. (Lincoln National), Ameriprise Financial, Inc. (Ameriprise), and Principal Financial Group, Inc. (Principal Financial). Bloomberg, "Prudential, Allstate Among Insurers Cleared for TARP" (May 14, 2009), available at <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aT9ad60xoUw8>. Only Hartford and Lincoln National ultimately took TARP funds.

³⁴⁵ MetLife states that it "applied to the program in 2008 to assess the opportunity of accessing this additional source of low-cost funding," but later "withdrew its application prior to approval, when it became clear that the additional requirements and costs associated with the program no longer made it an attractive source of funds." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-53-VII-54.

³⁴⁶ See Board of Governors, Term Auction Facility (August 2013), available at http://www.federalreserve.gov/newsevents/reform_taf.htm.

³⁴⁷ MetLife Annual Report on Form 10-K for the year ended December 31, 2009, p. 18; see also N.Y. Times, "MetLife Opts to Forgo TARP Cash" (April 13, 2009), available at <http://www.nytimes.com/2009/04/14/business/14insure.html>.

³⁴⁸ See Board of Governors, Commercial Paper Funding Facility (August 2013), available at http://www.federalreserve.gov/newsevents/reform_cpff.htm.

³⁴⁹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-12.

³⁵⁰ MetLife Annual Report on Form 10-K for the year ended December 31, 2008, p. 144.

³⁵¹ MetLife Annual Report on Form 10-K for the year ended December 31, 2007, p. 138. For information on MetLife's current FHLB advances, see Table 8

³⁵² MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 220.

³⁵³ MLIC's borrowing capacity with the FHLB of New York and MLIC's borrowing capacity from the FHLB of Boston are each subject separately to the limitations of state insurance law (N.Y. Ins. Law section 1411(c) for MLIC and Connecticut Law Section 38a-55(b) for MICC), which generally prohibits a pledge or transfer of any securities for a loan (including securities lending), if such loan and all other outstanding loans secured by pledge or deposit of its securities will exceed 5 percent of a domestic insurer's admitted assets. In the first quarter of 2009, the New York State Insurance Department (the predecessor to the NYDFS) granted MLIC a temporary contingent increase in borrowing capacity under section 1411(c), which expired December 31, 2009. See MLIC 2009 Q1 Quarterly Statement, Note 20(H) and MLIC 2010Q1 Quarterly Statement, Note 31(G); see also MLIC 2013 Annual Statement, Note 32(G); MICC 2013 Annual Statement, Note 32(G).

MetLife also accessed the capital markets during the crisis. The company was able to raise capital through debt and equity issuances in 2008 and 2009, the most of any U.S. insurance company. The holding company issued \$750 million in junior subordinated debt in April 2008. In early October 2008, MetLife made a public offering of approximately \$2.3 billion of common stock, with the proceeds to be used for general corporate purposes.^{354, 355} MetLife was the first major U.S. insurer to publicly issue stock during the financial crisis and did so largely before stressed equity valuations in the life insurance industry occurred. The offering was priced at \$26.50, well above MetLife's March 2009 closing price low of approximately \$12.10 per share.³⁵⁶ In 2009, MetLife took advantage of the improved credit markets and undertook a number of debt issuances. The holding company issued \$1.3 billion in senior notes and \$500 million in junior subordinated debt in May 2009 and July 2009, respectively.³⁵⁷ As noted above, in March 2009 MetLife issued \$397 million of senior notes that were guaranteed by the FDIC under the TLGP.³⁵⁸

In addition, MetLife's lead insurance underwriting subsidiary, MLIC, requested and received approval from its state insurance regulatory authority, the NYDFS, for \$1.8 billion of statutory reserve relief related to variable annuity guaranteed living benefits at year-end 2008.³⁵⁹ MetLife states that the industry sought this relief under the applicable regulation (Regulation 128) and the relief benefitted all New York-licensed companies with variable annuity guaranteed living benefits in force.³⁶⁰ However, under Regulation 128, relief is optional and a company can

³⁵⁴ MetLife Annual Report on Form 10-K for the year ended December 31, 2008, p. 165.

³⁵⁵ \$2.3 billion of common stock issuance excludes remarketing related issuance. "In August 2008 and February 2009, we successfully remarketed a total of \$2,070 million of ten-year senior debt, with coupon rates of 6.817% for notes maturing in August 2018 and 7.717% for notes maturing in February 2019. The proceeds of both remarketings were used to satisfy holders' obligations to purchase common stock of the Company under the stock purchase contracts forming part of our common equity units issued in 2005." MetLife Annual Report on Form 10-K for the year ended December 31, 2008, p. 7.

³⁵⁶ MetLife Annual Report on Form 10-K for the year ended December 31, 2008, p. 144; MetLife Annual Report on Form 10-K for the year ended December 31, 2008, p. 165; data downloaded from a Bloomberg terminal as of August 26, 2014.

³⁵⁷ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, p. 74; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, p. 65.

³⁵⁸ MetLife Annual Report on Form 10-K for the year ended December 31, 2009, p. 18.

³⁵⁹ Transcript of MetLife's fourth-quarter 2008 earnings conference call, statement of MetLife CFO Will Wheeler (October 8, 2008), p. 15.

³⁶⁰ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-55; see also N.Y. Insurance Department, "Application of New York Comp. Codes R. and Reg. (NYCRR), tit. 11, Part 97 (Regulation 128) to Variable Annuities with Guaranteed Living Benefits (VAGLBs) & Pension Products (January 7, 2009), (accessed November 16, 2014), available at http://www.dfs.ny.gov/insurance/life/reserve/r128_guid.pdf. See also the Federal Insurance Office's Modernization Report, which stated that during the financial crisis, "a number of insurers sought and obtained access to federal emergency liquidity assistance, largely to bolster capital for variable annuity products. In addition, state regulators provided direct aid to insurers during the crisis by permitting many insurers to deviate temporarily from NAIC-codified SAP." See Federal Insurance Office Modernization Report, (December 2013), p. 20 (citing NAIC, "Annual Statement and Prescribed Practices Reports," available at http://www.naic.org/index_pps.htm).

benefit from the different methodologies available under Regulation 128 only if it applies for and receives the Superintendent's approval.

During the first half of 2009, the market dislocation reduced liquidity and access to the capital markets for much of the life insurance industry.³⁶¹ The issuance of FABNs stalled in the first quarter of 2009, with S&P not rating any new issuances of the securities.³⁶²

MetLife's experience during the financial crisis in 2008 and 2009 highlighted the fungibility of its liquidity sources in operating its businesses, including its spread margin business and the potential for the use of its FA programs as a general liquidity source, during stressed markets. In the absence of sufficient liquidity from those sources designated to support its spread margin business (e.g., FABNs and FABCP), the company could turn to general account assets as a backup liquidity source. For example, to avoid losses from the sale of the illiquid securities in which MetLife had invested using the counterparties' cash collateral, MetLife exchanged liquid assets from its general account with illiquid assets from its cash collateral reinvestment portfolio in the amounts of \$11.3 billion and \$3.7 billion in the fourth quarter of 2008 and the first quarter 2009, respectively.³⁶³ MetLife states that it has since "changed its cash collateral account portfolio guidelines ... and the portfolio is now highly (if not totally) liquid."³⁶⁴

4 ANALYSIS OF POTENTIAL IMPACTS OF METLIFE'S MATERIAL FINANCIAL DISTRESS ON TRANSMISSION CHANNELS

4.1 Transmission Channels Introduction

The Council's Interpretive Guidance describes three channels believed to be the most likely to facilitate the transmission of the negative effects of a nonbank financial company's material financial distress or activities to other firms and markets, which could result in the company posing a threat to the financial stability of the United States: (1) exposure of creditors, counterparties, investors, or other market participants to a nonbank financial company; (2) disruptions caused by the liquidation of a nonbank financial company's blocks of business or assets; and (3) the inability or unwillingness of a nonbank financial company to provide a critical function or service relied upon by market participant and for which there are no ready substitutes.

³⁶¹ Over the course of 2008, the amount of cash collateral held by MetLife in connection with its securities lending business declined by \$20 billion. MetLife Annual Report on Form 10-K for the year ended December 31, 2009, p. 154.

³⁶² See Financial Times, "Unprecedented stress for US life insurers" (April 16, 2009), available at <http://ftalphaville.ft.com/2009/04/16/54759/unprecedented-stress-for-us-life-insurers>.

³⁶³ MetLife Response to OFR Data Request, document A.8.f, p. 1; MetLife Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, p. 138; MetLife Annual Report on Form 10-K for the year ended December 31, 2008, p. 139.

³⁶⁴ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-55.

Each of the three transmission channels by which MetLife could pose a threat to the financial stability of the United States is addressed below. The analysis in each of these three subsections also addresses relevant potential mitigants to the identified risks, including those cited by MetLife.

4.2 Exposure Transmission Channel

A nonbank financial company's creditors, counterparties, investors, or other market participants have exposure to the nonbank financial company that is significant enough to materially impair those creditors, counterparties, investors, or other market participants and thereby pose a threat to U.S. financial stability.

4.2.1 Overview of Key Considerations

The exposure to a nonbank financial company that is significant enough to materially impair creditors, counterparties, investors, or other market participants and thereby pose a threat to U.S. financial stability is one of the three channels identified by the Council as most likely to facilitate the transmission of the negative effects of a nonbank financial company's material financial distress or activities to other financial firms or markets. For the reasons explained in this section, the direct and indirect exposures³⁶⁵ of MetLife's creditors, counterparties, investors, policyholders, and other market participants to MetLife are significant enough that MetLife's material financial distress could materially impair those entities or the financial markets in which they participate, and thereby could pose a threat to U.S. financial stability.

Large financial intermediaries and other companies have significant exposures to MetLife arising from its institutional products and activities. The sources of these exposures include MetLife's stable value products (primarily GICs and FAs); synthetic GICs; pension closeouts; BOLI, COLI, TOLI; and capital markets activities including derivatives, securities lending, FABS, and outstanding debt and equity securities.

As of June 30, 2013, GICs were MetLife's largest institutional business product offering, with \$5.4 billion and \$42.3 billion of traditional and separate account GICs outstanding, respectively.³⁶⁶ MetLife's insurers guarantee GIC participant balances up to the contract's book

³⁶⁵ For the purposes of the Council's analysis, "Direct exposures" generally refer to exposures of MetLife's counterparties or investors that arise directly from the transactional relationship with MetLife. "Indirect exposures" generally refer to exposures of market participants that do not arise from direct exposures, and may encompass a market participant's potential losses arising from its exposures to other firms that have direct exposures to MetLife. For example, a firm may be impaired through indirect exposures if its counterparties are unable to satisfy their obligations due to losses from direct exposures to MetLife. Indirect exposures arising from the direct exposures described in section 4.2 contribute to the potential for MetLife's material financial distress to pose a threat to U.S. financial stability.

³⁶⁶ MetLife Response to OFR Data Request, document A.6_CFO_2of3.xlsx.

value,³⁶⁷ and these guarantees could develop into underfunded liabilities during stressed market conditions.

MetLife's synthetic GICs are financial guarantees, such as a minimum or fixed rate of return, provided in the form of an insurance policy to retirement plans and pension funds. As of June 30, 2013, MetLife's notional value of synthetic GICs was \$4.3 billion.³⁶⁸ MetLife contractually provides its synthetic GIC clients with the right to make benefit withdrawals at book value and guarantees certain crediting rates regardless of the market value of the underlying assets.³⁶⁹ If MetLife were to experience material financial distress, holders of its synthetic GICs could suffer losses.

With respect to pension closeouts and structured settlements, which are general and separate account annuity products, MetLife's total liabilities are \$58.1 billion,³⁷⁰ and payments to beneficiaries could be interrupted or reduced in the event of MetLife's material financial distress. In addition, MetLife has \$17.4 billion of in-force COLI, BOLI, and TOLI products, which include [REDACTED]³⁷¹ [REDACTED]

[REDACTED]³⁷² Material financial distress at MetLife could expose the beneficiaries or guarantors to losses if the market value of the assets were less than the guaranteed value.

Retail policyholders are also directly exposed to MetLife. MetLife has 90 million customers, including approximately 50 million U.S. customers.³⁷³ MetLife's material financial distress could directly expose certain of these policyholders and contract holders to losses, particularly those who hold products with cash values and guaranteed benefit features. However, there are important mitigants to some of those exposures. Retail policies are typically long-term liabilities realized over time, which may minimize the potential impact in any given year.³⁷⁴ Further, GAs protect holders of certain insurance and annuity products in the event of insolvency of the

³⁶⁷ See MetLife Met Managed GIC Brochure (2013), p. 2, available at <https://int.www.metlife.com/assets/cao/institutional-retirement/A11.pdf>.

³⁶⁸ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 51.

³⁶⁹ MetLife Response to OFR Data Request, document A.7, p. 1.

³⁷⁰ MetLife Response to OFR Data Request, document B.7.f

³⁷¹ MetLife Voluntary Submission, Section II, p. II-13; MetLife Response to OFR Data Request, document A.6_CFO_2of3.xlsx.

³⁷² MetLife states that for BOLI contracts [REDACTED] of stable value guarantees are provided by third parties. Third-party guarantors include [REDACTED] MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-20. MetLife Response to OFR Data Request, document A.7, p. 2.

³⁷³ MetLife Voluntary Submission, Section III, p. III-74. Approximately 40 million of MetLife's 90 million customers are non-U.S. customers. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-22.

³⁷⁴ For example, MetLife policyholder liabilities have a weighted average life of [REDACTED] MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-23.

insurance company issuing those products. The GAs would be expected to mitigate some policyholder losses.

At the same time, the GAs protect certain products and policies only up to state-specific coverage limits. While 97 percent of MetLife's policies would be covered by the GAs, [REDACTED] of aggregate MetLife policyholder liabilities fall within GA limits.³⁷⁵ Further, due to MetLife's size and scope, the withdrawal features of some of its life insurance and annuity offerings, and its broad nationwide presence, the GAs could have insufficient capacity to handle a resolution of one of MetLife's lead insurance underwriters. The liquidation of MetLife's large insurer subsidiaries could strain the GAs' capacity for many years. MetLife has estimated that, as of June 30, 2013, the total exposure of the GAs attributable to MetLife's life insurance and annuity products is approximately [REDACTED]³⁷⁶ The total annual GA assessment capacities of all 50 U.S. states, the District of Columbia, and Puerto Rico—including assessments that would be imposed on MetLife's insurance subsidiaries if they were not insolvent—were \$2.9 billion for life insurance and \$3.4 billion for annuities.³⁷⁷ In 2013, MetLife accounted for 16.6 percent of the market share for life insurance³⁷⁸ and 6.5 percent³⁷⁹ of the market share for total retail annuities; therefore, elimination of the MetLife premiums from the assessment base could decrease GA assessment capacity. [REDACTED]

[REDACTED] These amounts represent the upper bounds of the capacity of the GAs available to a liquidator and the funds to supplement estate assets, in order to cover policy and contract holder liabilities up to guaranteed amounts. While such assessments are made in response to claims that come due over time, depending on the extent of the claims arising from a failure of MetLife's insurance subsidiaries, future GA commitments in connection with such claims could impose additional strain on the industry at a time when insurers may already be capital constrained due to overall stress in the financial services industry and a weak macroeconomic environment. If the GAs' capacity were to become exhausted, guaranty funds can borrow funds secured by pledges against future annual assessments.³⁸⁰ Nevertheless, MetLife's liquidation

³⁷⁵ As of June 30, 2013. MetLife Presentation to FSOC: Resolvability (January 27, 2014), p. 15. MetLife Voluntary Submission, Section V, pp. V-12-V-13

³⁷⁶ MetLife Response to OFR Data Request, document B.3.c, Schedule H. MetLife maintains that the expected loss would be much lower, given the range of shortfalls experienced in historical insurer insolvencies. MetLife Voluntary Submission, Section V, pp. V-136-V-137.

³⁷⁷ As of year-end 2012. See NOLHGA, "Nationwide Capacity, Assessments Called and Refunded Summary" (October 28, 2013), available at <http://www.nolhga.com/resource/file/capacity/2012/R1%20Nationwide%20Capacity.%20Assessments%20Called%20and%20Refunded%20Summary.pdf>.

³⁷⁸ See Table 45.

³⁷⁹ MetLife Response to OFR Data Request, document C.4, p. 2.

³⁸⁰ NAIC Life and Health Insurance Guaranty Association Model Act, Section 8, subsection L(3), available at <http://www.naic.org/store/free/MDL-520.pdf>.

could leave the GAs with little capacity to respond to the failure of other large or mid-size life insurers.

Market participants are also directly and indirectly exposed to MetLife as a result of its capital markets activities. Estimated capital markets exposures to MetLife total \$183 billion,³⁸¹ including \$19 billion of outstanding long-term debt; \$31 billion of securities lending and repurchase agreements; \$3 billion of derivatives liabilities; \$16 billion of unsecured credit and committed facilities; \$51 billion of FABNs, FABCP, FHLB financing, and other obligations; \$50 billion of outstanding equity securities; \$7 billion of CDS for which MetLife is the reference entity; and \$5 billion of other financial debt.³⁸² The majority of MetLife's derivatives counterparties, creditors, debt holders, and securities lending and repurchase agreement counterparties are other large financial institutions that are interconnected with one another and the rest of the financial sector.³⁸³ An estimated [REDACTED] of MetLife's debt is held by other insurers, with approximately [REDACTED] of this amount held by G-SIIs.³⁸⁴ In the event of a default by MetLife, these insurers would experience realized or unrealized losses due to the decrease in the value of MetLife debt. Some counterparties' exposures to MetLife may be material relative to their equity capital, while others are smaller. For instance, the top five G-SIB counterparties, ranked by exposure as a percentage of equity, have aggregate exposures between 4.0 percent and 11.2 percent of their equity value, although some of these exposures are mitigated or reduced because of counterparties that hold collateral. Calculated using the Council's exposure methodology reflected in Appendix C, the G-SIB and G-SII counterparties represent \$52 billion of total outstanding exposure, or approximately 30 percent of the total \$183 billion in capital markets exposure to MetLife.^{385, 386} Further, a large portion of the \$30.6 billion of outstanding FABS issued by MetLife are held by G-SIBs, G-SIIs, and MMFs.³⁸⁷ Exposures of these financial firms to MetLife could result in direct losses to those firms as a result of MetLife's material financial distress.

In addition, MetLife uses, in part, wholesale funding, including FABS and CP, to fund its operations.³⁸⁸ In the event that MetLife were to experience material financial distress, the

³⁸¹ This amount provides context for the range of potential outcomes that could occur in the event of MetLife's material financial distress, and is not an estimate of expected losses to counterparties.

³⁸² See Table 8.

³⁸³ See Table 8 and Appendix C. In calculating the total capital markets exposures to MetLife, this analysis primarily relies on the outstanding, reported amounts of various types of exposures.

³⁸⁴ As of June 30, 2013. MetLife Voluntary Submission, Section III, p. III-13; MetLife Response to OFR Data Request, documents A.1.a.iv and A.1.a.v. The total debt holdings were based on only approximately [REDACTED] of MetLife's total senior and subordinated debt due to the data limitations. G-SII holdings exclude approximately [REDACTED] of estimated asset management related holdings.

See Appendix C.

³⁸⁶ See footnote 498.

³⁸⁷ See Table 11, Table 12 and Table 13.

³⁸⁸ MetLife Response to OFR Data Request, document A.6; MetLife Response to OFR Data Request, document A.19.

holders of its \$30.6 billion in FABS, including investment funds and large banking organizations,³⁸⁹ could sustain losses. Under MetLife's FABNs and FABCP programs, two of MetLife's insurance subsidiaries, MLIC and MICC, issue uncollateralized FAs to SPVs,³⁹⁰ and the SPVs issue medium-term notes or CP to external investors.³⁹¹ Cash proceeds from the debt securities are passed through the SPVs to MLIC or MICC.³⁹² The principal and interest of these debt securities are secured by the uncollateralized FAs issued to the SPVs.³⁹³ Maturities of FABCP generally range from one week to six months, while the maturities of FABNs generally range from one to 10 years and may include various types of embedded call or put options.³⁹⁴ In the event that MetLife were to experience material financial distress and could not meet its obligations under the FAs backing the FABNs or FABCP, the holders of these instruments, which include investment funds and large banking organizations,³⁹⁵ could sustain losses. For example, at the beginning of 2013, MMFs held over 50 percent of MetLife's FABCP, and a maximum of 65 MMFs could "break the buck"³⁹⁶ if MetLife were to default on its FABS.³⁹⁷ The rest of MetLife's FABCP is held by [REDACTED] investors, including banking

³⁸⁹ As of June 30, 2013. MetLife Response to OFR Data Request, document A.6.

³⁹⁰ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 9.

³⁹¹ MetLife Response to OFR Data Request, document A.8.i.ii.1; Overview and document A.8.i.ii.1; CUSIP List; MICC 2012 Annual Statement, Schedule D; MICC 2013Q2 Quarterly Statement, Schedule D; MLIC 2012 Annual Statement, Schedule D; MLIC 2013Q2 Quarterly Statement, Schedule D. Note that for the assessment of the relevance of this risk, MetLife provided the list of CUSIPs (unique security identifier) and market values of individual securities in MetLife's reinsurance trust portfolios for year-ends 2010, 2011, and 2012.

³⁹² See A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), pp. 2-3, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>. The arrangement may involve a currency swap if the notes are issued in a different currency than the FAs. MetLife Presentation to FSOC: MetLife Investments (November 1, 2013), p. 29; Metropolitan Life Global Funding I, September 2012 prospectus for US\$25 billion of Global Note Issuance Program; MetLife Institutional Funding II, September 2012 prospectus for US\$7 billion of Global Medium Term Note Issuance Program.

³⁹³ The FAs are not secured by collateral, but the claims under FAs typically rank *pari passu* with the claims of policyholders of the insurance company issuers, although this condition depends on the relevant state law. Therefore, holders of FAs might be in a superior position to the claims of general creditors of the insurance company issuers with respect to payments of principal and interest. Fitch Ratings Special Report, "FA-Backed Notes: From Zero to \$135 Billion in Eight Years" (March 3, 2005). The A.M. Best methodology for rating FABN states: "Notes issued under a standard FABS program will receive debt ratings that are the same as the issuer credit rating of the sponsoring insurance company (and also of the program)." A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>.

³⁹⁴ See Moody's Investors Service: "MetLife Short Term Funding LLC, ABCP Program Review" and data downloaded from a Bloomberg terminal as of March 20, 2014.

³⁹⁵ MetLife Response to OFR Data Request, document A.6.

³⁹⁶ See M.T. Kacperczyk and Philipp Schnabl, "How Safe are Money Market Funds?," Quarterly Journal of Economics volume 128 (2013), pp. 1073-1112.

³⁹⁷ See Figure 6 for details. The number of MMFs holding MetLife's FABCP increased steadily from 38 to 52 between February 2011 and October 2013 (see Figure 4), and MMF holdings of MetLife's FABCP were \$2.1 billion as of October 2013 (see Table 13). On July 23, 2014, the SEC adopted MMF reforms that include a floating-NAV requirement for institutional prime MMFs. The MMF reforms do not require a floating NAV for certain funds, including retail MMFs. As of October 31, 2013, a majority of the 69 MMFs holding MetLife's FABS are estimated to be retail MMFs. The Council has stated that it intends to monitor the effectiveness of the SEC's reforms in addressing risks to financial stability.

organizations, investment managers, state and municipal governments, and pension funds.³⁹⁸ These entities also could sustain losses if MetLife were to experience material financial distress and the notes lost their liquidity or MetLife could not meet its obligations under the FA backing its FABCP.³⁹⁹ The holdings of MetLife's FABNs are also concentrated among financial institutions; [REDACTED] financial institutions hold approximately [REDACTED] of MetLife's FABNs, including [REDACTED] G-SIBs and [REDACTED] G-SIIs.⁴⁰⁰ These financial institutions could suffer losses if MetLife were to experience material financial distress and either the notes became less liquid or MetLife could not meet its obligations under the FAs backing its FABNs.

MetLife's arrangements with and on behalf of affiliated reinsurance captives could give rise to or aggravate the company's losses and the transmission of the negative effects of those losses in the event of the organization's material financial distress. MetLife's affiliated reinsurance captives are not subject to the same statutory capital, accounting, and reporting requirements applied to its commercial insurance subsidiaries. Minimum capital levels are generally lower for captives than for commercial insurers.⁴⁰¹ By transferring risk from MetLife's commercial insurance subsidiaries to its captive reinsurance subsidiaries, the overall organization generally is able to hold lower-quality capital and lower reserves than would be required absent these transfers.⁴⁰²

MetLife's gross notional amount of derivatives outstanding as of June 30, 2013 was \$379 billion, making it one of the largest U.S. holders of derivatives and the largest holder of derivatives among U.S. insurance organizations.⁴⁰³ MetLife's derivatives portfolio includes interest rate derivatives (68 percent as of June 30, 2013), equity derivatives (16 percent), foreign exchange derivatives (12 percent), and credit derivatives (3 percent).⁴⁰⁴ MetLife's derivatives portfolio increased by 91 percent between the end of 2008 and the middle of 2013, with the notional amount of equity derivatives almost tripling.⁴⁰⁵ Approximately 97 percent of MetLife's derivatives positions applied to economic hedging and 3 percent involved asset replication.⁴⁰⁶

³⁹⁸ See Table 11.

³⁹⁹ Contrary to MetLife's argument (see MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-31), recovery rates on FABN and FABCP are not relevant for investors focusing on market liquidity or maintaining a stable NAV. The analysis demonstrates the hypothetical outer bound of potential MMF losses caused by FABN and FABCP (at various levels of value depreciation) and does not represent an estimate of investor losses.

⁴⁰⁰ See Table 12.

⁴⁰¹ See NYDFS, "Shining a Light on Shadow Insurance" (June 2013), p. 1, available at http://www.dfs.ny.gov/reportpub/shadow_insurance_report_2013.pdf.

⁴⁰² See Table 5.

⁴⁰³ See Table 17.

⁴⁰⁴ See Table 18; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 51.

⁴⁰⁵ Id.

⁴⁰⁶ MetLife Voluntary Submission, Section III, pp. III-17-III-18; MetLife Response to OFR Data Requests A.11.g-l, document k, p. 9.

Measured as the sum of net negative exposure (net of cash collateral) and potential future exposure, the exposure of MetLife's derivatives counterparties to MetLife was \$3.3 billion.⁴⁰⁷

MetLife's material financial distress could cause losses to the counterparties to MetLife's approximately \$30 billion in securities lending transactions if MetLife has insufficient liquidity to repay the cash collateral.^{408, 409} [REDACTED]

[REDACTED]⁴¹¹ MetLife typically lends securities in exchange for cash collateral representing 102 percent of the value of the securities.⁴¹² Each loan is marked to market daily, and borrowers must deliver additional collateral when the aggregate fair market value of collateral held by MetLife is less than 100 percent of the fair market value of the lent securities.⁴¹³ MetLife reinvests the cash collateral in securities, including in MBS and ABS. A securities-lending counterparty to MetLife typically has the option to return a security at any time and receive the full amount of the collateral pledged by the counterparty, subject to any breakage fee that may apply. If MetLife were to experience material financial distress, its securities lending counterparties, particularly those counterparties holding lower-quality securities (compared with Treasury securities), could have an incentive to close out transactions as quickly as possible in order to withdraw cash collateral and reduce exposure to MetLife or to the borrowed securities. In addition, to avoid market concerns regarding their own financial condition, counterparties and other institutional customers may have an incentive to reduce exposures and disclose the limited extent to which they have a financial relationship with the firm in material financial distress. MetLife's experience during the 2008-2009 financial crisis demonstrates that securities borrowers, particularly those holding relatively illiquid securities, may tend to close out their transactions during times of financial stress. During the financial crisis, MetLife's securities borrowers returned approximately [REDACTED] of the less-liquid

⁴⁰⁷ See Table 19.

⁴⁰⁸ See Table 20. As noted in the table, MetLife's securities lending transactions may involve residential mortgage-backed securities (RMBS).

⁴⁰⁹ MetLife states that this approximately \$30 billion securities lending amount overstates the losses MetLife's counterparties could experience. MetLife estimates the exposure of its counterparties as \$1.2 billion. While available collateral may mitigate some of the risks created by these activities, exposures remain due to the potential for price fluctuations of the underlying collateral that would need to be liquidated in order for counterparties to minimize potential losses.

⁴¹⁰ See Appendix C; MetLife Response to OFR Data Request, document A.8.b.ii.

⁴¹¹ Id.

⁴¹² MetLife Response to OFR Data Request, document A.8, p. 2.

⁴¹³ Loans of securities issued by entities organized in the United States carry a margin percentage of 102 percent, while loans of securities issued by entities organized outside the United States carry a margin percentage of 105 percent. In addition, the securities lending program in Japan is based on a collateralization level of 100 percent or higher, rather than 102 percent. See MetLife Response to OFR Data Request, document A.8, p. 3; see also MetLife Response to OFR Data Request, document A.8.i-l (Supplemental Request Response), p. 5.

securities, but retained virtually all U.S. government securities that had been borrowed.⁴¹⁴ As a result, MetLife now lends a larger proportion of U.S. government securities. As of June 30, 2013, approximately 88 percent of securities lent were U.S. Treasury securities, or agency securities; the remaining 12 percent were investment-grade corporate bonds or RMBS.⁴¹⁵ In addition, MetLife states that it invests cash collateral in high-quality securities.⁴¹⁶ While this mitigates the risks created by these activities, exposures remain due to the potential for price and market fluctuations.

MetLife asserts that this analysis of exposures overstates or misattributes several exposures. While this analysis estimates the aggregate capital markets exposure to MetLife at \$183 billion, MetLife asserts that the figure is \$90 billion.⁴¹⁷ Further, while this analysis estimates G-SIB and G-SII exposures to MetLife at \$52 billion, MetLife contends that the figure is \$13 billion.⁴¹⁸ Notwithstanding these broad ranges, even exposures at the lower ends of these estimates are substantial and could lead the company's material financial distress to pose a threat to U.S. financial stability. The primary reasons for the different estimates are that MetLife argues that the estimates should (1) be reduced to reflect securities collateral held by MetLife's counterparties to secure MetLife's obligations, which reduces those counterparties' expected losses; (2) be reduced based on expected recovery rates in the event of MetLife's material financial distress, which would reduce counterparties' losses to the extent of the recovery rate; (3) exclude from classification as capital markets certain exposures, including exposures of the FHLBs and Farmer Mac; (4) exclude undrawn amounts of unsecured credit lines and committed facilities; and (5) exclude CDS for which MetLife is the reference entity. Table 6 and Table 7 show the differences between the estimates in this analysis and the figures provided by MetLife with respect to aggregate capital markets exposures and exposures of G-SIBs and G-SIIs. As described in section 4.2.5, the factors cited by MetLife may, in certain circumstances, mitigate the potential effects of exposures to MetLife; however, a consideration of aggregate exposure estimates is relevant because, among other things, it assists in an analysis of the company's interconnectedness and with a comparison of exposures to MetLife with exposures to other financial institutions.

⁴¹⁴ MetLife Voluntary Submission, Section III, p. III-25.

⁴¹⁵ MetLife Response to OFR Data Request, document A.8.b.ii.

⁴¹⁶ MetLife Response to OFR Data Request, document A.8, p. 2.

⁴¹⁷ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-26.

⁴¹⁸ *Id.* at p. II-6. See Appendix C.

Table 6: MetLife Capital Market Exposure Comparison (\$ Billions)

Exposure	Council Estimate	MetLife Exposure Estimate	MetLife Adjusted* Exposure Estimate
Gross outstanding fair value **	\$73.4	\$76.2	\$76.2
<i>Financial Debt</i> **	23.3	26.1	26.1
<i>Market Capitalization</i>	50.2	50.2	50.2
FABNs, FABCP, FHLB financing, and other liabilities	51.0	33.3	4.6
Unsecured credit and committed facilities	16.4	5.6	5.6
Derivatives liabilities	3.3	2.7	2.7
Securities lending and repurchase transactions	31.5	1.2	1.2
Net notional amount of CDS with MetLife as a reference entity	7.1	-	-
Total	\$182.6	\$118.9	\$90.3

Sources: Data are as of June 30, 2013. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, pp. II-27-II-28. Note: (*) Represents MetLife's capital market exposure amount adjusted for expected recoveries on policyholder liabilities. (**) Consistent with MetLife's submissions, the Council calculated MetLife's total financial debt as \$26.1 billion (see Table 9).

Table 7: Top 5 G-SIB and G-SII Capital Markets Exposure to MetLife (Based on Combined Exposure as a Percentage of Total Equity)

Counterparty	Combined Exposure to MetLife (\$millions)	Counterparty's Total Equity (\$millions)	Combined Exposure as Percentage of Counterparty's Total Equity	MetLife Calculation of Combined Exposure as Percentage of Counterparty's Total Equity
<u>G-SIBs (Top 5)</u>				
			11.2%	2.0%
			7.8	1.4
			7.2	0.6
			5.6	0.8
			4.0	0.4
<u>G-SIIs (Top 5)</u>				
			1.2	1.2
			0.7	0.7
			0.4	0.4
			0.3	0.3
			0.0	0.0

Sources: Data are as of June 30, 2013. See Appendix C. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, pp. II-67-II-68.

Note: The top five G-SIB and G-SII were ranked by combined exposure as a percentage of counterparty total equity. Combined exposure figures have been reduced for certain securities of which the identified counterparty is the record holder but not necessarily the beneficial owner (based on available data). BOLI, COLI, TOLI, and GICs are not included in this table. The MetLife calculations represented above exclude any recovery rate adjustments. For certain products, MetLife provided exposure calculations adjusted for estimated recovery rates. Applying this methodology further reduced estimated counterparty exposure to MetLife. See Section 4.2.5 for discussion of methodological differences.

In addition, while any individual exposure to MetLife may not be sufficiently material to create a threat to U.S. financial stability, this analysis focuses on the potential effect of such exposures in the aggregate. The negative effects of the material financial distress of a large, interconnected financial firm such as MetLife are not limited to the amount of direct losses suffered by the firm's counterparties, creditors, and customers. Rather, MetLife's material financial distress could indirectly affect other firms due to the market uncertainty about other firms' exposures to MetLife and the potential impact of such exposures on the financial health of those firms and their counterparties. This type of uncertainty can lead market participants to pull back from a range of firms and markets, in order to reduce exposures, thereby increasing the potential for destabilization. While a market participant may be confident in its own ability to protect against its direct loss exposure to MetLife, it may be far less able to assess the vulnerability of other counterparties to the material financial distress of MetLife, including those counterparties that it and MetLife have in common. In general, the broader and more interconnected a firm's network of financial counterparties, the greater the potential effect of uncertain loss exposures resulting from the material financial distress of the firm.

In light of such uncertainty, market participants interconnected with MetLife may choose to engage in protective behavior, such as reducing exposures to counterparties and customers, selling illiquid assets, or pulling back from other risky activities to increase liquidity in anticipation of an unmeasurable shock.⁴¹⁹ Moreover, during a period of overall stress in the financial services industry, it may be difficult to distinguish healthy from unhealthy counterparties within that network even before considering the impact of MetLife's distress.

Such opacity can also lead counterparties to de-risk.⁴²⁰ Decisions to engage in de-risking activities could occur in an environment of incomplete and asymmetric information. The lack of complete information could elevate the level of de-risking transactions and general protective behavior by market participants as a result of the material financial distress of MetLife. The potential impact of this behavior could be exacerbated because MetLife's network includes large, leveraged, and interconnected financial firms such as G-SIBs and G-SIIs.⁴²¹ Moreover, incentives for market participants to engage in protective behavior can result from uncertain exposures to MetLife's liabilities as well as exposures to the same categories of potentially illiquid assets held in MetLife's investment portfolio.

⁴¹⁹ See Ricardo J. Caballero, "Macroeconomics After the Crisis: Time to Deal with the Pretense-of-Knowledge Syndrome," *Journal of Economic Perspectives* volume 24, issue 4 (2010), pp. 85-102, available at <https://www.aeaweb.org/articles.php?doi=10.1257/jep.24.4.85>.

⁴²⁰ See Ricardo J. Caballero and Alp Simsek, "Fire Sales in a Model of Complexity," Massachusetts Institute of Technology Department of Economics Working Paper 09-28 (April 2011), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1496592.

⁴²¹ See Pressana Gai, Andrew Haldane, and Sujit Kapadia, "Complexity, Concentration and Contagion," *Journal of Monetary Economics*, volume 58 (July 2010), pp. 453-470.

MetLife's size and market prominence increase the potential for MetLife's material financial distress to cause or exacerbate contagion. MetLife holds approximately 10 percent of the total admitted assets (on a statutory basis) in the U.S. life insurance industry⁴²² and has a market share of life insurance products of approximately 16.6 percent.⁴²³ Institutional and individual contract holders and policyholders with the ability to surrender or withdraw their contracts early may seek to do so. MetLife's material financial distress could lead investors to withdraw from other insurers or other significant financial intermediaries, out of fear that those firms could also experience distress.⁴²⁴ These actions could lead to a reduction in the provision of credit and a reduction in financial markets activities by market participants seeking to reduce exposures to other financial firms, which could impair financial intermediation and financial market functioning. Institutional policyholders could potentially experience greater losses because of institutional products that have redeemable, investment-like features that may increase MetLife's near-term liabilities and do not have any additional third-party protections. Notably, the avoidance of contagion effects was an important concern before the intervention that helped to prevent the potentially disorderly failure of AIG in the fall of 2008.⁴²⁵

The exposure of institutional customers and individual policyholders to MetLife is significant enough that the negative effects of MetLife's material financial distress could be transmitted to other financial firms and markets, and materially impair those entities, which could in turn cause an impairment of financial intermediation or financial market functioning that could be sufficiently severe to inflict significant damage on the broader economy.

4.2.2 Institutional Customers' Exposures

4.2.2.1 *Overview of Institutional Customers' Exposures*

MetLife's institutional customers include large financial intermediaries and other G-SIIs that have significant exposure to MetLife and could suffer losses if MetLife were to experience material financial distress. For institutional customers, MetLife offers various insurance,

⁴²² As of year-end 2013, on a statutory basis, MetLife had \$585 billion total admitted assets related to life insurance compared to a total of \$5.8 trillion in total admitted assets for the U.S. life insurance industry. MetLife statutory assets based on information provided by SNL Financial; U.S. life insurance industry statutory assets based on "Annual Report on the Insurance Industry," Federal Insurance Office, U.S. Department of the Treasury (September 2014), p. 8, available at http://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/2014_Annual_Report.pdf.

⁴²³ As of year-end 2012, more than 1,000 life insurance companies were in business in the United States, offering more than \$615 billion of life insurance protection through individual policies and group certificates. See Table 45.

⁴²⁴ See Hal Scott, "Interconnectedness and Contagion," Financial Panics and the Crisis of 2008 (November 20, 2012), available at <http://ssrn.com/abstract=2178475>; see also Scott G. Alvarez, General Counsel, Board of Governors, "Remarks at the American Enterprise Institute Conference on Professor Hal Scott's Paper on Interconnectedness and Contagion" (February 8, 2013), available at http://www.aei.org/files/2013/02/08/-scott-alvarez-remarks_163346998313.pdf. See Hal Scott, "Interconnectedness and Contagion," pp. 106-135.

⁴²⁵ See Testimony of Thomas C. Baxter, Jr., General Counsel and Executive Vice President, FRBNY, (May 26, 2010), available at http://www.newyorkfed.org/newsevents/speeches/2010/bax_dah100526.html.

annuity, and investment products that include GICs, FAs, other stable value products, and separate account contracts for the investment management of defined benefit and defined contribution plan assets.⁴²⁶ In addition, MetLife provides institutions with products to fund post-retirement benefits and COLI, BOLI, and TOLI for corporate executives.⁴²⁷ A large portion of MetLife's institutional products are in separate accounts, but the guarantees for these products are obligations of the general account and therefore are reliant on MetLife's financial strength. For example, some products carry minimum value guarantees that rely on the financial strength of the issuing MetLife operating company.⁴²⁸

Although some of the exposures from MetLife's institutional products for group plans may be dispersed among individual policyholders, material financial distress at MetLife could force pension plans and other institutional users of these products to write down certain of their assets from book value to market value, which could result in significant costs for the pension plans and potentially also for their institutional sponsors. Additionally, policyholders with investments held in many separate accounts have exposures arising from minimum value guarantees or stable value guarantees covering the amount of any deficiency if the market value of separate account assets falls below the guaranteed level.

Through these institutional products and other activities of MetLife, including its capital markets activities, a large number of major financial institutions and corporations are significantly interconnected with and exposed to MetLife.⁴²⁹ In the event of MetLife's material financial distress, these exposures could impair the ability of those firms to provide financial services and result in a contraction in the supply of financial services that could negatively affect the broader economy.

4.2.2.2 *Stable Value Products and Institutional Customers*

As of June 30, 2013, GICs were MetLife's largest institutional business product offering, with \$5.4 billion and \$42.3 billion of traditional and separate account GICs outstanding, respectively.⁴³⁰ MetLife's GICs are reported as liabilities and make up part of the general account and separate account liabilities of its insurance company subsidiaries. These insurance products are offered to retirement plans directly or through intermediaries that provide stable value products.⁴³¹ GIC participant balances are guaranteed up to the contract's book value by

⁴²⁶ MetLife Voluntary Submission, Section II, pp. II-12-II-13; MetLife Voluntary Submission, Section III, p. III-39.

⁴²⁷ MetLife Voluntary Submission, Section II, p. II-13.

⁴²⁸ See MetLife, The Met Managed GIC Brochure (2013), p. 2, available at <https://int.www.metlife.com/assets/cao/institutional-retirement/A11.pdf>.

⁴²⁹ See MetLife Response to OFR Data Request, document A.6; See also Appendix C.

⁴³⁰ MetLife Response to OFR Data Request, document A.6_CFO_2of3.xlsx.

⁴³¹ MetLife Voluntary Submission, Section II, p. II-12.

MetLife⁴³² and could develop into an underfunded liability during stressed market conditions. Statutory reserving requirements for GICs are relatively modest. As of December 31, 2012, MetLife held [REDACTED] of general account supplemental reserves against \$36.4 billion of separate account GIC assets (measured at market value) along with the related \$36.4 billion of separate account liabilities.⁴³³ As shown in Table 4, investment funds and large corporations are exposed to MetLife through its GIC business. These entities could suffer losses if MetLife were to experience material financial distress and fail to honor these contracts.

4.2.2.3 *Synthetic Guaranteed Investment Contracts*

As discussed in more detail in section 3.2.1.5, synthetic GICs are financial guarantees, such as a minimum or fixed rate of return, provided in the form of an insurance policy to retirement plans and pension funds. As of June 30, 2013, MetLife's notional value of synthetic GICs was \$4.3 billion.⁴³⁴ MetLife contractually provides all of its synthetic GIC clients with the right to make benefit withdrawals at book value and guarantees certain crediting rates regardless of the market value of the underlying assets.⁴³⁵ [REDACTED]

[REDACTED]⁴³⁶ MetLife's synthetic GIC clients include benefit plan trusts affiliated with other large financial institutions and commercial firms.⁴³⁷ These institutions are exposed to MetLife, and if MetLife were to experience material financial distress, these entities could suffer losses through the forced write-down of their assets from book to market value, which could undermine the funding statuses of the plans.

4.2.2.4 *Pension Closeouts and Structured Settlements*

MetLife offers pension closeouts, which are general account and separate account annuity products issued typically when a defined benefit plan is terminated. The U.S. general account pension closeouts are non-participating products with no withdrawal rights.⁴³⁸ Total liabilities outstanding in MetLife's U.S. Pension Solutions business as of June 30, 2013, were \$35.3 billion.⁴³⁹ MetLife also provides structured settlement annuities, which are used in complex litigation settlements. Structured settlements are general account, non-participating

⁴³² See MetLife, The Met Managed GIC Brochure (2013), p. 2, available at <https://int.www.metlife.com/assets/cao/institutional-retirement/A11.pdf>.

⁴³³ [REDACTED]

MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 51.

⁴³⁵ MetLife Response to OFR Data Request, document A.7, p. 1.

⁴³⁶ *Id.*

⁴³⁷ Financial institution clients include benefit plan trusts affiliated with [REDACTED] MetLife Response to OFR Data Request, document A.1.d.

⁴³⁸ MetLife Voluntary Submission, Section II, p. II-13.

⁴³⁹ MetLife Response to OFR Data Request, document B.7.f

products with no rights to unscheduled withdrawals. As of June 30, 2013, MetLife's general account liabilities for structured settlements were [REDACTED].⁴⁴⁰ If MetLife experienced material financial distress and could not meet its pension closeout or structured settlement obligations, payments to beneficiaries could be interrupted or reduced, although MetLife states that a substantial majority of pension beneficiaries would have exposure below the guaranty system thresholds.⁴⁴¹

4.2.2.5 Bank-, Corporate-, and Trust-Owned Life Insurance

MetLife provides BOLI, COLI, and TOLI designed to finance benefit plan liabilities for banks, insurance companies, trusts, and other companies. These products include general benefit obligations, retiree benefits, defined benefit supplemental executive retirement plans, nonqualified deferred compensation plans, executive life insurance plans, and voluntary employee benefit associations.⁴⁴² The company's BOLI, COLI, and TOLI policies are held directly by banks, companies, or trusts. MetLife had \$10.4 billion of in-force BOLI, \$6 billion of in-force COLI, and \$1 billion of in-force TOLI as of June 30, 2013.⁴⁴³

In these transactions, the bank, company, or trust purchases either a group policy or individual policies and uses the death benefit to defray expenses. [REDACTED]

[REDACTED]⁴⁴⁴ [REDACTED]⁴⁴⁵ MetLife states that for BOLI contracts [REDACTED] of stable value guarantees are provided by third parties, thereby mitigating the negative effects of MetLife's material financial distress on the contract holders; however, while those guarantees mitigate the exposures of policyholders, they create exposures of the guarantors to MetLife.⁴⁴⁶ In addition, seven of MetLife's top ten BOLI policyholders are G-SIBs or large BHCs.⁴⁴⁷ Material financial distress at MetLife could expose these entities to losses that could impair their ability to meet benefit plan-related obligations if the market value of the assets were less than the guaranteed value.

⁴⁴⁰ MetLife Response to OFR Data Request, document B.7.f.

⁴⁴¹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-18.

⁴⁴² MetLife Response to OFR Data Request, document A.6, p. 2.

⁴⁴³ MetLife Response to OFR Data Request, document A.6_CFO_2of3.

⁴⁴⁴ MetLife Voluntary Submission, Section II, p. II-13.

⁴⁴⁵ MetLife Response to OFR Data Request, document A.7, p. 2.

⁴⁴⁶ Third-party guarantors include [REDACTED] MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-20.

⁴⁴⁷ MetLife states that G-SIBs and large bank holding companies that purchase BOLI products are subject to specific supervisory and risk expectations, but MetLife's material financial distress could nonetheless expose these firms to losses. [REDACTED]

[REDACTED] MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-21. MetLife Response to OFR Data Request, document A.6_CFO_2of3.

4.2.3 Exposure of U.S. Policyholders and the GAs

MetLife is the largest insurance organization provider of savings and retirement products in the United States, with approximately 50 million U.S. customers as of June 30, 2013.⁴⁴⁸ As of June 30, 2013, MetLife had \$275 billion of U.S. general account liabilities⁴⁴⁹ that create exposure for MetLife policyholders and contract holders in the event of MetLife's material financial distress and inability to satisfy these obligations. In addition to the assets in MetLife's general account available to support these liabilities, the various states' GAs act as a mitigant to reduce policyholder exposure to MetLife in the event MetLife fails to satisfy its obligations. An important consideration in this analysis is that the GAs have no experience handling the failure of an insurer with the size, scope, and complexity of MetLife. MetLife has estimated that as of June 30, 2013, the total exposure of the GAs attributable to MetLife's life insurance and annuity products is approximately [REDACTED].⁴⁵⁰

4.2.3.1 *Overview of State Guaranty Associations*

State guaranty associations for U.S. life insurance companies protect holders of certain insurance and annuity products in the event of insolvency of the insurance company issuing those products. Upon the filing of a court order of liquidation against an insurer in its state of domicile, each GA of states where policyholders of the insolvent insurer reside is then triggered⁴⁵¹ to provide coverage of claims of the failed insurer's policyholders in that state, up to statutorily prescribed limits.⁴⁵²

⁴⁴⁸ MetLife Voluntary Submission, Section III, p. III-74. Approximately 40 million of MetLife's 90 million customers are non-U.S. customers. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-22.

⁴⁴⁹ See Table 24.

⁴⁵⁰ MetLife Response to OFR Data Request, document B.3.c, Schedule H. MetLife maintains that the expected loss would be much lower, given the range of shortfalls experienced in historical insurer insolvencies. MetLife Voluntary Submission, Section V, pp. V-136-V-137.

⁴⁵¹ The various GAs are not activated until a receivership of an insurer results in a state court placing the insurer's estate into liquidation based upon a finding that the insurer is insolvent (i.e., it cannot pay its obligations as they become due or its assets are inadequate to meet its liabilities). The GAs may also be activated prior to insolvency if a state court finds that an insurer is impaired and places the insurer into rehabilitation or conservation. While the analysis in this document generally assumes material financial distress, certain portions of the analysis, including this subsection, necessarily address the implications of insolvency at MetLife or its significant subsidiaries in order to consider the potential effects of the company's failure. In this subsection, this assumption is made to trigger the legal mechanisms in which the GAs becomes relevant.

⁴⁵² The coverage level for life insurance death benefits is \$300,000 in 44 states and the District of Columbia and \$500,000 in six states. Life insurance cash value coverage level is \$100,000 in 41 states and the District of Columbia, while nine states cover cash values at different levels above \$100,000. The coverage level for annuity benefits is at least \$250,000 in most states; it is \$100,000 in two states and Puerto Rico, \$300,000 in eight states and the District of Columbia, and \$500,000 in four states. See "The Life & Health Insurance Guaranty Association System: The Nation's Safety Net," National Organization of Life and Health Guaranty Associations (NOLHGA), (2014), pp. 3-4, available at <http://www.nolhga.com/resource/file/NOLHGA%20Safety%20Net%202014.pdf>.

To provide funding for payments of covered claims, each GA may, on an after-the-fact basis, assess all licensed insurance companies doing business in that state and those companies writing policies in the same lines of business as the insolvent insurer. Such assessments are generally based on a percentage of each solvent insurer's average annual premiums during the three calendar years prior to the year of insolvency, subject to an annual cap. Assessments may continue for a number of years, as necessary, to reimburse the guaranty fund for its payments of covered claims. In referring to the "Guaranty Association system," MetLife notes that the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA), a voluntary association of all state GAs, coordinates the actions and coverage responses of the GAs.⁴⁵³ However, each GA's participation in a coordinated resolution is voluntary and based on an independent determination by the board of directors of each GA to participate (opt in) or not participate (opt out). Under the NAIC Life and Health Insurance Guaranty Association Model Act, which, as of July 2014, has been adopted in a substantially similar manner by 34 states and the District of Columbia,⁴⁵⁴ each GA is created and governed by the laws of its state, is managed by its board of directors (which may include public representatives appointed by the insurance commissioner), has its own plan of operations, and is legally independent from other GAs in exercising its statutory authority to guarantee, assume or reinsure the policies or contracts of the insolvent insurer, call and collect assessments to fund the GA's obligations to policyholders in its state, intervene in an insolvency proceeding, or take other actions as it considers necessary or appropriate to discharge its duties and obligations under its specific GA statute.⁴⁵⁵

In the event of increased policyholder surrenders at an insurer, the insurer's managers or state regulators may impose moratoria, or stays, on surrenders. According to Peter Gallanis, the president of NOLHGA, these moratoria on surrenders relieve liquidity pressure for an insurer and consequently protect an insurer's assets so that it can deliver on its promises to policyholders.⁴⁵⁶ However, the imposition of a stay by either MetLife or a receiver, especially in a period of overall stress in the financial services industry and in a weak macroeconomic environment, could affect confidence in other life insurers that have similar product or balance sheet profiles and could prompt increased surrenders by retail and institutional policyholders at

⁴⁵³ MetLife Voluntary Submission, Section V, p. V-9.

⁴⁵⁴ Information regarding adoption of this Model Act is available at <http://www.naic.org/store/free/MDL-520.pdf>. The status of adoptions of other Model Acts by the various states is available at http://www.naic.org/store_model_laws.htm.

⁴⁵⁵ See NAIC, "Life and Health Insurance Guaranty Association Model Act," Section 6, Creation of the Association; Section 7, Board of Directors; Section 8, Powers and Duties of the Association; and Section 10, Plan of Operation, available at <http://www.naic.org/store/free/MDL-520.pdf>. Subsection 8M permits, but does not require, the association to join an organization such as NOLHGA.

⁴⁵⁶ Statement of NOLHGA President Peter G. Gallanis (March 27, 2014), p. 11.

these other insurers.^{457, 458} Such an action could impact decisions of investors and other market participants about the financial strength of the company and the broader industry.

4.2.3.2 *Impact on Policyholders Partially or Not Protected by State Guaranty Funds*

The various states' GAs cover benefits on many insurance policies and annuity contracts up to state-specific and product-specific statutory limits. Obligations under certain products offered by MetLife, however, are not protected by GAs, either because the products are not eligible for coverage or because a portion of the policy value exceeds the coverage limit provided under the laws of a particular state.⁴⁵⁹ For example, many state guaranty funds do not provide coverage for GICs.⁴⁶⁰ Other institutional products, particularly unallocated annuities issued to benefit plans, may be covered by state guaranty funds, but the coverage level is small relative to the size of the contract. Additionally, the coverage is for the retirement plan, not the plan participants.⁴⁶¹ Losses on many of the group insurance and other products held by institutional customers, particularly those not fully covered by the GAs, could directly impair economic activity of the corporate entities and financial institutions that hold such products.

MetLife states that “[i]t is very unlikely that MetLife’s customers — its life insurance and other policyholders—would be materially impaired if MetLife experienced material financial distress

⁴⁵⁷ Data from the NAIC, based on insurance company statutory filings, show that, for general account liabilities, aggregate industry life and annuity surrenders, as a percentage of net policy reserves, were actually slightly lower in 2008 and 2009 than in 2007; this may be due, in part, to the effect of a decline in interest rates over the period, as well as the effect on variable annuities of a declining stock market. There was significant variation across the largest institutions, however, as some experienced increased surrenders. The data on deposit contracts, which combines surrenders and maturities, show a significant increase in aggregate activity; as is the case with the life and annuity data, however, there is significant variation across individual companies. Deposit-type contract surrenders and maturities for the industry increased from \$121 billion in 2007 to \$168 billion in 2008 and \$186 billion in 2009. The reason for this increase is uncertain.

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⁴⁵⁹ MetLife Voluntary Submission, Section V, pp. V-134-V-135.

⁴⁶⁰ See American Council of Life Insurers, “Insurance Guaranty Associations: Frequently Asked Questions” (accessed May 1, 2014), available at <https://www.acli.com/Tools/Industry%20Facts/Guaranty%20Associations/Pages/FS08-007.aspx>.

⁴⁶¹ MetLife Voluntary Submission, Section V, pp. V-134-V-137. Section 5, Definitions, subsection X of the NAIC Life and Health Insurance Model Act defines an unallocated annuity contract as “an annuity contract or group annuity certificate which is not issued to or owned by an individual, except to the extent of any annuity benefits guaranteed to an individual by the insurer under the contract or certificate.” Section 3, Coverage and Limitations, subsection C.(2)(e) of the Model Act allows \$5 million of coverage benefits under an unallocated annuity contract. For a group annuity contract issued to a defined benefit plan, certificated participants would receive GA coverage in their states of residence up to the limits provided under the laws of the particular states for individual annuity contract holders.

or were put into receivership by a state insurance authority.”⁴⁶² However, MetLife has acknowledged that certain policyholders could face losses as a result of its insolvency. According to MetLife, the “Guaranty Associations would fully cover 97 percent of MetLife’s policies.” [REDACTED]

[REDACTED]

[REDACTED]

These [REDACTED] provide examples of policyholder losses that could occur, but losses may vary depending on MetLife’s financial condition. Moreover, MetLife’s scenarios are based on assumptions that may not apply to the insolvency of an insurer of the size, scope, and complexity of MetLife. As in the insolvencies of Executive Life Insurance Company and Executive Life Insurance Company of New York (described in section 4.2.6), MetLife’s material financial distress could result in a general account shortfall in excess of the estimates, particularly during a period of financial stress in the financial services industry and in a weak macroeconomic environment. This increased general account shortfall could be caused by, among other things, MetLife’s size, scope, complexity, usage of FABNs and FABCP, amount of operating leverage, extensive use of captive reinsurance, and increases in general account liabilities for guaranteed benefits resulting from equity market declines. While policyholder losses can be drawn out over an extended time period, the full extent of losses could be greater than historical examples would indicate.

⁴⁶² MetLife Voluntary Submission, Section III, p. III-74. MetLife also stated that “after Guaranty Associations’ contributions many policyholders would suffer no loss or a minimal loss.” MetLife Voluntary Submission, Section III, p. III-75.

⁴⁶³ As of June 30, 2013. MetLife Presentation to FSOC: Resolvability (January 27, 2014), p. 15.

⁴⁶⁴ MetLife Voluntary Submission, Section V, p. V-2.

⁴⁶⁵ Id. at p. V-136.

⁴⁶⁶ Id. at p. V-137.

Furthermore, an insurer with the size, scope, and complexity of MetLife has never been placed into receivership. In the case of MetLife's holding company, with 76 insurance subsidiaries regulated by 11 U.S. states and approximately 50 countries⁴⁶⁷, receivership proceedings could be initiated in multiple states and countries, with no authoritative legal mechanism to resolve disputes over leadership of the proceedings or to compel cooperation and coordination among the receivers, the state GAs, and resolution authorities in foreign countries. Resolution would become even more complex in the event of contemporaneous insolvency of MetLife's non-insurer subsidiaries because resolution of those entities would be outside the scope of the insurance receiverships.

Under the laws of some states, most life insurance and annuity contracts allow an insurance underwriter to halt discretionary withdrawal payments for a period of up to six months.⁴⁶⁸ As MetLife noted with respect to the contractual deferral rights of its insurers, state insurance regulators may use existing statutory authorities to compel life insurers to exercise contractual provisions allowing for the imposition of stays on outflows in order to protect policyholders and contract holders.⁴⁶⁹ The imposition of these stays can reduce the impact of "first movers" on policy holders. The timing of regulatory directions to invoke company stays could vary among each MetLife insurance company subsidiary due to the individual characteristics of the material financial distress experienced by the legal entity.⁴⁷⁰

4.2.3.3 *Impact on GA Capacity*

NOLHGA has stated that in the case of historical life insurer insolvencies, shortfalls of assets as a percentage of liabilities "are seldom more than 15% in larger cases and are more typically in the range of 5% to 10%."⁴⁷¹ In addition, MetLife states that the "state insurance insolvency and

⁴⁶⁷ CONFIDENTIAL NYDFS INFORMATION: As of December 31, 2013, MetLife had 76 regulated insurance entities, of which 25 are domestic insurance affiliates that are regulated by 11 state regulators. NYDFS Supervisory College for MetLife Inc., MLIC Presentation (March 25-26, 2014), pp. 23-24. In addition, 64 percent (228 entities) of MetLife's 359 subsidiaries are domestic and 36 percent (131 entities) are foreign. MetLife Annual Report on Form 10-K for the year ended December 31, 2013, Section 15, Exhibit 21.1. MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 44.

⁴⁶⁸ Under state insurance Standard Valuation Law, insurance companies may be able to delay payment of some withdrawable liabilities. The NYDFS has for many years required all insurers writing business in the state of New York to include a contractual provision allowing the insurer to impose a stay on outflows connected with an insurance policy or contract. See sections and 4223 of the New York State Insurance Code pertaining to individual policies and contracts (non-variable); see also New York Regulations 47 and 77 for individual variable annuity and individual variable life contracts, respectively, at New York Comp. Codes R. & Regs. tit. 11, §§ 50.7(a)(4), 54.6(b)(8)(ii). With respect to group contracts, deferral provisions are typically agreed to by the parties to the contracts. Additionally, state insurance regulators' authorities permit the suspension of certain payment outflows in situations where the regulators have taken control of an insurance company in receivership.

⁴⁶⁹ MetLife Voluntary Submission, Section III, p. III-69.

⁴⁷⁰ See section 4.3.5.2 for a discussion of the impact of regulatory stays on policyholders.

⁴⁷¹ "Joint Comments of the NOLHGA and the National Conference of Insurance Guaranty Funds (NCIGF) in Response to the Federal Insurance Office Request for Public Input," (December 16, 2011), p. 9, available at <http://www.nolhga.com/pressroom/articles/NOLHGA-NCIGF%20FIO%20SUBMISSION.PDF>.

GA systems would have sufficient capacity to capably handle the resolution of MetLife's lead insurance underwriters under any reasonable insolvency scenario."⁴⁷² However, even within the range presented by NOLHGA, in the event of the insolvency of an insurer with the size, scope, and complexity of MetLife, the various GAs' funding needs could be significant over the life of a liquidation.⁴⁷³ The liquidation of MetLife's large insurer subsidiaries could strain the GAs' capacity for many years and more than any other life insurer.

The total annual assessment capacities of all 50 U.S. states, the District of Columbia, and Puerto Rico to fund these jurisdictions' GA obligations were \$2.9 billion for life insurance and \$3.4 billion for annuities as of year-end 2012.⁴⁷⁴ In 2013, MetLife accounted for 16.6 percent of the nationwide market share for life insurance⁴⁷⁵ and 6.5 percent⁴⁷⁶ of the nationwide market share for total retail annuities; therefore, elimination of the MetLife premiums from the assessment base could decrease GA assessment capacity.

These amounts represent the upper bounds of GA capacity available to a liquidator and the funds to supplement estate assets, in order to cover policy and contract holder liabilities up to guaranteed amounts. If the GAs' capacity were to become exhausted, GAs in most states can borrow funds secured by pledges against future annual assessments.⁴⁷⁷ Further, guaranty funds have credit facilities available for this purpose. Nevertheless, MetLife's liquidation could leave the GAs with little capacity to respond to the failure of other large or mid-size life insurers.

Concerns about guaranty fund capacity would be more acute to the extent that policyholders are concentrated in certain states. Each state's guaranty fund exists only to protect the residents of its state up to the guarantee limits in that state. Additionally, the capacity of each state's fund is based on the number of insurers operating in that state (the assessment base) and there is no legal authority to transfer the obligations of a GA to the GA of another state.⁴⁷⁸ Hence, if the

⁴⁷² MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-24.

⁴⁷³ Based on \$564 billion of combined statutory liabilities for MetLife (SNL Life Group) as of December 31, 2013, from SNL Financial, and prepared on the basis of SAP. Some academics have suggested that a failure of a large insurer, pointing to MetLife as an example, could exhaust the assessment funding capacity of the various states' GAs. See J.D. Cummins and M.A. Weiss, "Systemic Risk and the U.S. Insurance Sector," Journal of Risk and Insurance (2014), at p. 28, available at <http://fic.wharton.upenn.edu/fic/papers/11/11-07.pdf>.

⁴⁷⁴ As discussed below, assessment capacity is based on written premium volume. See NOLHGA, "Nationwide Capacity, Assessments Called and Refunded Summary" (October 28, 2013), available at <http://www.nolhga.com/resource/file/capacity/2012/R1%20Nationwide%20Capacity,%20Assessments%20Called%20and%20Refunded%20Summary.pdf>.

⁴⁷⁵ See Table 45.

⁴⁷⁶ MetLife Response to OFR Data Request, document C.4.

⁴⁷⁷ NAIC Life and Health Insurance Guaranty Association Model Act, Section 8, subsection L.(3), available at <http://www.naic.org/store/free/MDL-520.pdf>.

⁴⁷⁸ However, in special circumstances, the guaranty association law of a state may extend to a nonresident. In those cases, the law is construed to result in coverage by only one GA. See NAIC Life and Health Insurance Guaranty

insolvency funding needs in one state exceeded that state's assessment capacity, it would not be able to draw on any spare assessment capacity from another state and could be required to borrow against assessments in future time periods.⁴⁷⁹ In addition, other insurance companies may not have the capacity or willingness to assume certain large blocks of existing business of MetLife's insurers, especially in lines of business such as variable annuities where guaranteed living benefits require large capital commitments.⁴⁸⁰

One of the largest life insurance insolvencies in U.S. history occurred in 1991 when Executive Life Insurance Company (Executive Life), a California-domiciled life insurer, was placed into receivership in California state court. Executive Life's insurance subsidiaries owned combined assets of approximately \$13 billion and had approximately 300,000 policyholders.⁴⁸¹ Executive Life's resolution process involved lengthy delays caused by, among other things, the unprecedented size of the insolvent estate and shortfall, the necessity of coordination among multiple guaranty funds, and protracted litigation. In addition to economic losses incurred by Executive Life's policyholders due to the time value of money, some annuity holders lost as much as 30 percent of their contract value.⁴⁸² NOLHGA estimates the resulting costs to the GAs at over \$3.7 billion to date.⁴⁸³ Based on NOLHGA's estimate that the insolvent subsidiaries held \$6.7 billion in GA-covered obligations and \$2.7 billion of assets, the shortfall, after accounting for expenses and litigation settlements, was 54 percent of GA covered obligations.⁴⁸⁴ Losses in the event of a MetLife insolvency at even a fraction of this scale could pose unprecedented demands on the various states' GAs.

Executive Life Insurance Company of New York (ELNY), a New York-domiciled insurance company affiliated with Executive Life, was placed into receivership in New York state court in

Association Model Act, Section 3, Coverage Limitations, subsection A.(6), available at <http://www.naic.org/store/free/MDL-520.pdf>.

⁴⁷⁹ MetLife acknowledges the possibility of the various GAs' shortfall on a state-by-state basis but asserts that these shortfalls could be addressed by the GA borrowing against future capacity or by the roll-forward of assessments. MetLife Voluntary Submission, Section V, p. V-13. In the case of an insolvent life insurer that has policyholders across multiple states, NOLHGA would seek to coordinate the response among the GAs. See American Council of Life Insurers, "Insurance Guaranty Associations: Frequently Asked Questions" (January 17, 2014), available at <https://www.acli.com/Tools/Industry%20Facts/Guaranty%20Associations/Pages/FS08-007.aspx>.

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See "The Collapse of Executive Life Insurance Co. and its Impact on Policyholders," Hearing before the House Committee on Government Reform, 107th Congress (2002).

⁴⁸² GAO, "Insurer Failures: Regulators Failed to Respond in Timely and Forceful Manner in Four Large Life Insurer Failures," GAO/T-GGD-92-43 (September 9, 1992), p. 1, available at <http://www.gao.gov/assets/110/104752.pdf>.

⁴⁸³ 2013 NOLGHA Insolvency Cost Report, pp. 5, 52-53, available at <http://www.nolgha.com/resource/file/costs/Report13.pdf>.

⁴⁸⁴ Id.

April 1991. The NYDFS did not petition to liquidate ELNY until September 2011.⁴⁸⁵ The final order of liquidation, which was issued in August 2013, was delayed by policyholder litigation and the negotiation of a restructuring plan acceptable to the GAs, the NYDFS, and the industry.

The various states' GAs could impose premium assessment liabilities on other insurance companies to fund guaranteed amounts, should an insolvent insurer's assets be inadequate to honor its contract obligations. MetLife has estimated that as of June 30, 2013, the total exposure of the various GAs that results from MetLife's life insurance and annuity products is approximately [REDACTED]⁴⁸⁷ Assessments are typically based on a percentage of each solvent insurer's average annual premium in each state during the three calendar years prior to the year of insolvency, subject to a 2 percent annual cap.⁴⁸⁸ While such assessments are made in response to claims that come due over time, depending on the extent of the claims arising from a failure of MetLife's insurance subsidiaries, future GA commitments in connection with such claims could impose additional strain on the industry at a time when insurers may already be capital constrained due to overall stress in the financial services industry and a weak macroeconomic environment.

Additionally, although the insurance industry is only required to support a failed insurer's policy and contract holders through the construct of the GAs and the associated state product-specific benefit or claim cap payout levels, there have been examples of commitments of additional resources by insurance companies that are peers of a failed insurer in order to ensure continued confidence in the insurance industry. For instance, solvent insurance companies have created special funding vehicles outside of the GAs to support policyholders who would otherwise have suffered haircuts or losses.⁴⁸⁹

⁴⁸⁵ According to its audited statutory financial statements, as of December 31, 2009, ELNY had total admitted assets of approximately \$984 million and total liabilities of approximately \$2.5 billion. "Annual Report of the New York Liquidation Bureau, December 31, 2009 and 2008" (July 28, 2010), p. 122, available at http://www.nylb.org/Documents/Audit_2009.pdf.

⁴⁸⁷ MetLife Response to OFR Data Request, document B.3.c, Schedule H. MetLife maintains that the expected loss would be much lower, given the range of shortfalls experienced in historical insurer insolvencies. MetLife Voluntary Submission, Section V, pp. V-136-V-137.

⁴⁸⁸ See NAIC Life and Health Insurance Guaranty Association Model Act, Section 9, subsection E(1)(a), available at <http://www.naic.org/store/free/MDL-520.pdf>.

⁴⁸⁹ Examples include Executive Life of New York, Mutual Benefit, and Baldwin-United. Baldwin-United was an insurance company that went bankrupt in 1984, before the imposition by state insurance regulators of current resolution processes and mandatory assessments on all licensed insurers to support state guaranty funds. Baldwin-United had a relatively large annuity book of business, including a group annuity contract for California teachers. The resolution of all of the annuity contracts of this insurer took four years to complete and required voluntary contributions of \$157 million by 22 brokerage firms and \$50 million by 50 insurance companies to make the policyholders whole to the extent of the minimum guarantees in their policies. MetLife Voluntary Submission, Section V, pp. V-138-V-139.

A potential mitigant to these impacts on the insurance industry is that many states allow insurers to offset guaranty assessments against premium tax liabilities.⁴⁹⁰ Under certain circumstances, some or all of these future liabilities would be recorded as both statutory and GAAP reserves and offset by premium tax credits, which would be recorded as assets. If the amount of the full liability could not be recorded as an asset, the capital position of industry participants subject to assessments could be reduced. However, while the impact on the insurance industry is mitigated, these tax offsets, which enable insurance companies to recoup the assessments contributed to their state guaranty association, could shift the burden to state budgets and taxpayers.

An additional mitigant that MetLife notes is that the “full financial impact of insolvency may be spread or even deferred for many years as liabilities come due over time, further reducing any potential impact on other insurers.” The company believes that this “could not create a systemic issue.”⁴⁹¹ For example, the weighted average life of MetLife’s policyholder liabilities is [REDACTED]⁴⁹² Therefore, payments could be dispersed over years or decades as the failed insurer’s liabilities come due over time, limiting the GAs’ burden in any single year. However, NOLGHA estimated the largest anticipated funding requirement on the various states’ GAs in a single year for a single existing insolvency at over \$1 billion, which comprised more than 34 percent of the total projected GAs’ funding costs for that particular insolvency over 22 years.⁴⁹³ Given the size and scope of MetLife, the amounts required by the GAs in a single year could either exceed the GAs’ available capacity or constrain the GAs’ ability to respond to other insolvencies of other life insurance companies, particularly during a period of financial stress and in a weak macroeconomic environment.

4.2.4 Capital Markets Activities Exposures

4.2.4.1 *Exposures Arising from Capital Markets Activities: Overview*

MetLife is an important participant in financial markets, as illustrated by its significant volume of capital markets activities (see Table 8). MetLife participates in the capital markets primarily through its derivatives activities, its securities lending portfolio, its FABS, and its issuances of

⁴⁹⁰ According to materials on NOLGHA’s website, approximately 35 states permit full offsets against premium taxes in 20 percent increments over a five-year period, and seven additional states permit offsets of 10 percent or more over a period of five to 10 years. See NOLGHA, “State Laws and Provisions Report, Tax Offsets,” available at <http://www.nolgha.com/factsandfigures/main.cfm/location/lawdetail/docid/9>.

⁴⁹¹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-25.

⁴⁹² *Id.* at p. II-23.

⁴⁹³ NOLGHA, “2013 NOLGHA Insolvency Cost Report” (November 27, 2013), p. 24, available at <http://www.nolgha.com/resource/file/costs/Report13.pdf>. The NOLGHA estimate excludes certain factors and is not reconciled with the actual assessments for each state GA in a given year, but does indicate that GA assessments related to a particular insurer have the potential to be material in a single year, even for insolvency cases spread over longer periods.

other debt and equity securities.⁴⁹⁴ MetLife states that its individual capital markets activities are not significant enough to cause material impairment to its counterparties or other market participants, and that financial market participants have exposures to MetLife that are limited in size, scope, and potential third-party losses. However, several counterparties may have a significant amount of exposure to MetLife as a percentage of their equity. Additionally, the combination of various product on-balance sheet and off-balance sheet exposures of large financial institutions to MetLife expose those companies to the risk of significant losses if MetLife were to experience material financial distress. According to Table 8, which shows a broad set of capital markets exposures, investors and counterparties have total capital markets exposure to MetLife of an estimated \$183 billion, which equals approximately 1.10 percent of U.S. gross domestic product (GDP) as of June 30, 2013.⁴⁹⁵ This amount provides context for the range of potential outcomes that could occur in the event of MetLife's material financial distress, and is not an estimate of expected losses to counterparties. Factors that may mitigate the extent of direct losses arising from exposures to MetLife include collateralization, potential estimated recovery rates, and the inclusion in total exposure estimates of exposures to MetLife's outstanding equity securities (whose fall in value could result in security holder losses but do not appear to be a significant direct source of risk to U.S. financial stability). Using MetLife's assumptions regarding the effectiveness of these mitigants, the estimated capital markets exposure, including that of shareholders, still totals \$90 billion. Even capital markets exposures of the magnitude estimated by MetLife, taken in the aggregate, could cause the company's material financial distress to pose a threat to U.S. financial stability.

The majority of MetLife's derivatives counterparties, creditors, debt holders, and securities lending and repurchase agreement counterparties are other large financial institutions that are interconnected with one another and the rest of the financial sector.⁴⁹⁶ In addition to these direct exposures noted above, material financial distress at MetLife could be transmitted through indirect exposures to other firms.

⁴⁹⁴ See Table 8.

⁴⁹⁵ See Table 8 and Appendix C.

⁴⁹⁶ See Table 21.

Table 8: MetLife's Capital Markets Exposure (\$ Billions)

	Amount
Combined Funding – Financial Debt Outstanding and Market Capitalization (1)	\$73.4
MetLife as CDS Reference Entity, net notional amount (2)	7.1
Securities Lending and Repurchase Transactions (3)	31.5
Repurchase Transactions	1.4
Securities Lending – Payables for Collateral	30.1
Derivatives Liabilities: Net Negative Exposure (NNE) + Potential Future Exposure (PFE) (4)	3.3
Unsecured Credit and Committed Facilities (5)	16.4
Unsecured Credit Facilities Capacity	4.0
Committed Facilities	12.4
FABNs, FABCP, FHLB Financing, Other (6)	51.0
Other FAs	0.5
FABCP	6.0
FABNs	24.6
Unfunded Committed Unconsolidated Variable Interest Entities (VIEs)	2.1
Obligations Outstanding in FAs to FHLB (in policyholder account balances)	15.0
Farmer Mac	2.8
Total Capital Markets Exposures	\$182.6
U.S. GDP (7)	\$16,633.4
Total Exposure as Percentage of U.S. GDP	1.10%

Source: Based on Council estimates, data are as of June 30, 2013, unless otherwise noted. See Appendix C for full sources.

- (1) [REDACTED]
- (2) Based on information provided by the Trade Information Warehouse on “gold” records, or legal records for CDS transactions. The gross notional amount of CDS referencing MetLife was \$26 billion and the net notional amount of legal records for CDS transactions was \$3.7 billion. This item shows the net notional amounts of single-name CDS referencing MetLife and the portion of the notional amount for CDX.NA.IG indices where MetLife is one of the referenced names (\$3.4 billion) (MetLife represents approximately 1/125th of the index). See section 4.2.4.10.
- (3) See sections 4.2.4.8 and 4.2.4.9.
- (4) NNE is net of cash collateral and allows for netting with counterparties, using data as of June 30, 2013. NNE does not allow, however, for netting across different MetLife entities or across different counterparties. PFEs are as of December 31, 2012. This amount reflects the top 20 derivatives counterparties' exposures to MetLife [REDACTED] These counterparties represent 99 percent of MetLife's derivatives gross notional amount.
- (5) Data noted are for credit and committed facilities. See section 4.2.4.6 for additional information on credit and committed facilities.
- (6) Other exposures not included in Table 8, such as BOLI, COLI, TOLI, and GICs, are considered to be capital markets exposure. FABNs are reflected at fair value in the table above. In addition, MetLife noted, “[e]xposures created through insurance and reinsurance policies (except for funding agreements)” may be considered by market participants to be capital markets exposures, but were also excluded from these calculations. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-8.
- (7) U.S. GDP data are available at http://www.bea.gov/newsreleases/national/gdp/2013/gdp2q13_adv.htm.

Appendix C provides more detailed information about MetLife's counterparties' exposures to the company. Some counterparties' exposures to MetLife may be material relative to their equity

capital, while others are smaller. For instance, the top five G-SIB counterparties, ranked by exposure as a percentage of equity, have aggregate exposures between 4.0 percent and 11.2 percent of their equity value, although some of these exposures are mitigated or reduced due to counterparties' collateralization. Calculated using this exposure methodology, the G-SIB and G-SII counterparties represent \$52 billion of total outstanding exposure, or approximately 30 percent of the total \$183 billion in capital markets exposure to MetLife.^{497, 498} Further, a large portion of the \$30 billion of outstanding FABNs and FABCP issued by MetLife are held by G-SIBs, G-SIIs, and MMFs.⁴⁹⁹ Exposures of these financial firms to MetLife could result in direct losses to those firms as a result of MetLife's material financial distress. Although the extent to which MetLife's distress could be transmitted would likely vary by funding or product type, MetLife's material financial distress could cause losses to large financial intermediaries and impair financial intermediation or financial market functioning.

MetLife asserts that the Council significantly overstated its capital markets exposures. The differences in methodology are described in section 4.2.5.

4.2.4.2 Largest Holders of MetLife's Debt

MetLife's debt obligations are an important aspect of the company's interconnectedness with the financial system. As of June 30, 2013, MetLife had total outstanding debt obligations of \$56.1 billion, including long-term debt of \$18.6 billion and securities lending of approximately \$30.1 billion, as described in Table 9. The largest record holders of MetLife's debt are investment funds and other insurers that are interconnected with other financial firms and markets.⁵⁰⁰

MetLife argues that the Council's calculation of its total outstanding debt is misleading, asserting that the company has \$26.1 billion in outstanding debt, rather than \$56.1 billion. As noted in Table 9, MetLife has \$26.1 billion in total financial debt outstanding. However, when calculated

⁴⁹⁷ See Appendix C.

⁴⁹⁸ This amount provides context for the range of potential outcomes that could occur in the event of MetLife's material financial distress, and is not an estimate of expected losses to counterparties. Factors that may mitigate the extent of direct losses arising from exposures to MetLife include collateralization, potential recovery rates, the inclusion in total exposure estimates of exposures to MetLife's outstanding equity securities, and holdings of MetLife securities by financial intermediaries as record holders but not as beneficial owners. Using MetLife's assumptions regarding the effectiveness of these mitigants, the estimated capital markets exposure, including that of shareholders, still totals \$90 billion. Even capital markets exposures of the magnitude estimated by MetLife, taken in the aggregate, could cause the company's material financial distress to pose a threat to U.S. financial stability.

⁴⁹⁹ See Table 11, Table 12 and Table 13.

⁵⁰⁰ MetLife Voluntary Submission, Section III, p. III-13; MetLife Response to OFR Data Request, documents A.1.a.iv and A.1.a.v. The total debt holdings were based on only approximately [REDACTED] of MetLife's total senior and subordinated debt due to the data limitations.

to include certain other indebtedness, specifically the payables for collateral under securities loaned and other transactions, MetLife's total debt equals \$56.1 billion.⁵⁰¹

Table 9: Total Debt Outstanding (\$ Billions)

	2008	2009	2010	2011	2012	6/30/2013
Surplus Notes	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7	\$0.7
Advance Agreements	1.1	1.8	3.6	4.2	—	—
Senior Notes	7.7	10.5	16.3	15.7	15.7	15.6
Fixed Rate Notes	0.1	0.1	0.1	—	—	—
Other Notes	0.1	0.1	0.1	0.0	0.1	0.1
Capital Lease Obligations	0.0	0.0	0.0	0.0	0.0	0.0
Debt Relating to Consolidated Securitization Entities	—	—	6.8	3.1	2.5	2.1
Total Long-Term Debt	9.7	13.2	27.6	23.7	19.1	18.6
Short-Term Debt	2.7	0.9	0.3	0.7	0.1	0.1
Subordinated Debt	3.8	3.2	3.2	3.2	3.2	3.2
Collateral Financing Arrangements	5.2	5.3	5.3	4.6	4.2	4.2 ⁵⁰²
Total Financial Debt	21.3	22.6	36.4	32.2	26.6	26.1
Cash Collateral on Deposit from Counterparties (Securities Lending)	23.3	21.5	24.6	24.2	27.7	30.1
Total Debt Outstanding	\$44.6	\$44.1	\$61.0	\$56.4	\$54.3	\$56.1

Sources: Data for years 2008 to 2012 are reported as of December 31 of the relevant year. Total long-term debt, short-term debt, subordinated debt, and collateral financing arrangements for years 2008 to 2012 are from MetLife Annual Reports on Form 10-K for the years ended December 31, 2009 to 2012, pp. 62, 70, 75, 69, respectively. Surplus notes, advance agreements, senior notes, fixed rate notes, other notes, capital lease obligations, and debt relating to consolidated securitization entities are from MetLife Annual Reports on Form 10-K for the years ended December 31, 2009 to 2012, pp. F-123, F-151, 355, 320, respectively. Cash collateral on deposit from counterparties (securities lending) is from MetLife Annual Reports on Form 10-K for the years ended December 31, 2009 to 2012, pp. 149, 169, 273, 262, respectively.

2013 data are from the following sources: MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 190 for debt; p. 38 for cash collateral on deposit; and p. 19 for short-term debt, subordinated debt, and collateral financing arrangements. Other Notes and capital lease obligations are from MetLife Annual Reports on Form 10-K for the years ended December 31, 2009 to 2013, pp. F-123, F-151, 355, 320, 295, respectively. Other Notes data for 2013 are calculated using MetLife Response to OFR Data Request, document A.1, Debt Equity description 2 of 7, p. 1, and MetLife Annual Reports on Form 10-K for the years ended December 31, 2012 and 2013, pp. 320, 295, respectively. Senior notes and surplus notes balances for 2013 are from MetLife Response to OFR Data Request, document A.1, Debt Equity description 2 of 7, p. 1 (Other Notes are not included in this reference, but are in the Annual Reports on Form 10-K).

The largest category of record holders of MetLife's senior and subordinated debt, based on limited available are investment funds (approximately 50 percent).⁵⁰³ MetLife notes that beneficial ownership of these holdings is dispersed across individuals, and many of the funds are

⁵⁰¹ For example, the additional \$30.1 billion of obligations are included as liabilities in MetLife's financial statements. See MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 181. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. VII-58.

⁵⁰²

⁵⁰³ As of June 30, 2013. MetLife Voluntary Submission, Section III, p. III-13; MetLife Response to OFR Data Request, documents A.1.a.iv and A.1.a.v. The total debt holdings were based on only approximately [REDACTED] of MetLife's total senior and subordinated debt due to the data limitations.

not leveraged.⁵⁰⁴ Thus, investment fund debt holdings comprise investments by unidentified institutional and retail investors. In addition, an estimated [REDACTED] of MetLife's debt is held by other insurers, with approximately [REDACTED] of this amount held by G-SIIs.⁵⁰⁵ In the event of a default by MetLife, these insurers, individuals and institutional investors could experience realized or unrealized losses resulting from decreases in the value of MetLife's debt.

4.2.4.3 Wholesale Funding: Funding Agreement-Backed Commercial Paper and Securities

As discussed in section 3, MetLife uses, in part, wholesale funding to fund its operations. In particular, MetLife issues a variety of short- and medium-term instruments, including FABS.⁵⁰⁶ In the event that MetLife were to experience material financial distress, the holders of its \$30.6 billion⁵⁰⁷ in FABS, including investment funds and large banking organizations, could sustain losses.

In a typical FABS program, an insurance company sponsors the establishment of a limited liability company to act as an SPV and issues an FA to the SPV.⁵⁰⁸ The SPV issues notes that provide the note holders with a security interest in the underlying FA.⁵⁰⁹ Under the terms of an FA, an insurance company agrees to pay interest on the amounts deposited by the SPV, and ultimately, to repay the principal amounts of such deposit contracts on the maturity dates of the corresponding program notes.⁵¹⁰ The FA is the SPV's primary asset and the source of funds to pay the note holders in the program.⁵¹¹ The amounts received by each insurance company under its FA are pooled for investment purchases with the assets held in the general account of the insurance company.⁵¹²

MetLife issues FABS in the form of FABNs and FABCP.⁵¹³ Under its FABNs and FABCP programs, two of MetLife's insurance subsidiaries, MLIC and MICC, issue uncollateralized FAs

⁵⁰⁴ MetLife Voluntary Submission, Section I, p. I-10.

⁵⁰⁵ As of June 30, 2013. MetLife Voluntary Submission, Section III, p. III-13; MetLife Response to OFR Data Request, documents A.1.a.iv and A.1.a.v. The total debt holdings were based on only approximately [REDACTED] of MetLife's total senior and subordinated debt due to the data limitations. G-SII holdings exclude approximately [REDACTED] of estimated asset management related holdings.

⁵⁰⁶ MetLife Response to OFR Data Request, document A.6; MetLife Response to OFR Data Request, document A.19.

⁵⁰⁷ As of June 30, 2013. MetLife Response to OFR Data Request, document A.6.

⁵⁰⁸ See Fitch Ratings Special Report, "FA-Backed Notes: From Zero to \$135 Billion in Eight Years" (March 3, 2005), p. 4.

⁵⁰⁹ *Id.*

⁵¹⁰ See Moody's Investors Service, "MetLife Short Term Funding LLC" (September 11, 2013), p. 4.

⁵¹¹ See A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), p. 3, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>.

⁵¹² See Moody's Investors Service, "MetLife Short Term Funding LLC" (September 11, 2013), p. 5.

⁵¹³ At the beginning of 2008, MetLife established MetLife Short Term Funding LLC, an FABCP program with a maximum capacity of \$10 billion. Issuances of FABCP increased more than six-fold from \$1.3 billion to \$8 billion between the start of 2008 and the end of 2013 (see Figure 4). MetLife Presentation to FSOC: MetLife Investments (November 1, 2013), p. 29.

to SPVs,⁵¹⁴ and the SPVs issue marketable debt securities (medium-term notes or CP) to external investors.⁵¹⁵ Cash proceeds from the debt securities are passed through the SPVs to the operating insurance companies that issued the FAs (MLIC or MICC).⁵¹⁶ The principal and interest of these debt securities are secured by the uncollateralized FAs issued to the SPVs.⁵¹⁷ Maturities of FABCP generally range from one week to six months, while the maturities of FABNs generally range from one to 10 years and may include various types of embedded call or put options.⁵¹⁸

As of year-end 2013, MetLife had approximately \$8 billion of FABCP outstanding.⁵¹⁹ In the event that MetLife were to experience material financial distress and could not meet its obligations under the FAs backing the FABNs or FABCP, the holders of these instruments, which include investment funds and large banking organizations,⁵²⁰ could sustain losses. For example, at the beginning of 2013, MMFs held over 50 percent of MetLife's FABCP, and a maximum of 65 MMFs could "break the buck"⁵²¹ if MetLife were to default on its FABS.⁵²²

⁵¹⁴ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 9.

⁵¹⁵ MetLife Response to OFR Data Request, document A.8.i.ii.1_Overview and document A.8.i.ii.1_CUSIP List; MICC 2012 Annual Statement, Schedule D; MICC 2013Q2 Quarterly Statement, Schedule D; MLIC 2012 Annual Statement, Schedule D; MLIC 2013Q2 Quarterly Statement, Schedule D. For the assessment of the relevance of this risk, MetLife provided the list of CUSIPs (unique security identifier) and market values of individual securities in MetLife's reinsurance trust portfolios for year-ends 2010, 2011, and 2012.

⁵¹⁶ See A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), pp. 2-3, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>. The arrangement may involve a currency swap if the notes are issued in a different currency than the FAs. MetLife Presentation to FSOC: MetLife Investments (November 1, 2013), p. 29; Metropolitan Life Global Funding I, September 2012 prospectus for US\$25 billion of Global Note Issuance Program; MetLife Institutional Funding II, September 2012 prospectus for US\$7 billion of Global Medium Term Note Issuance Program.

⁵¹⁷ The FAs are not secured by collateral, but the claims under FAs typically rank *pari passu* with the claims of policyholders of the insurance company issuers, although this condition depends on the relevant state law. Therefore, holders of FAs might be in a superior position to the claims of general creditors of the insurance company issuers with respect to payments of principal and interest. Fitch Ratings Special Report, "FA-Backed Notes: From Zero to \$135 Billion in Eight Years" (March 3, 2005). The A.M. Best methodology for rating FABN states, "Notes issued under a standard FABS program will receive debt ratings that are the same as the issuer credit rating of the sponsoring insurance company (and also of the program)." A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>.

⁵¹⁸ See Moody's Investors Service: "MetLife Short Term Funding LLC, ABCP Program Review" and data downloaded from a Bloomberg terminal as of March 20, 2014.

⁵¹⁹ See Figure 4.

⁵²⁰ MetLife Response to OFR Data Request, document A.6.

⁵²¹ See M.T. Kacperczyk and Philipp Schnabl, "How Safe are Money Market Funds?" Quarterly Journal of Economics volume 128 (2013), pp. 1073-1112.

⁵²² See Figure 6. The number of MMFs holding MetLife's FABCP increased steadily from 38 to 52 between February 2011 and October 2013 (see Figure 4), and MMF holdings of MetLife's FABCP were \$2.1 billion as of October 2013 (see Table 13). On July 23, 2014, the SEC adopted MMF reforms that include a floating NAV requirement for institutional prime MMFs. The MMF reforms do not require a floating NAV for certain funds, including retail MMFs. As of October 31, 2013, a majority of the 69 MMFs holding MetLife's FABS are estimated to be retail MMFs. The Council has stated that it intends to monitor the effectiveness of the SEC's reforms in addressing risks to financial stability.

The rest of MetLife's FABCP is held by [REDACTED] investors, including banking organizations, investment managers, state and municipal governments, and pension funds.⁵²³ These entities also could sustain losses if MetLife were to experience material financial distress and the notes lost their liquidity or MetLife could not meet its obligations under the FA backing its FABCP.⁵²⁴

Table 10: MetLife CP (Yearly Maximum) and FABCP (Year-end Value) Outstanding, 2008–2013 (\$ Millions)

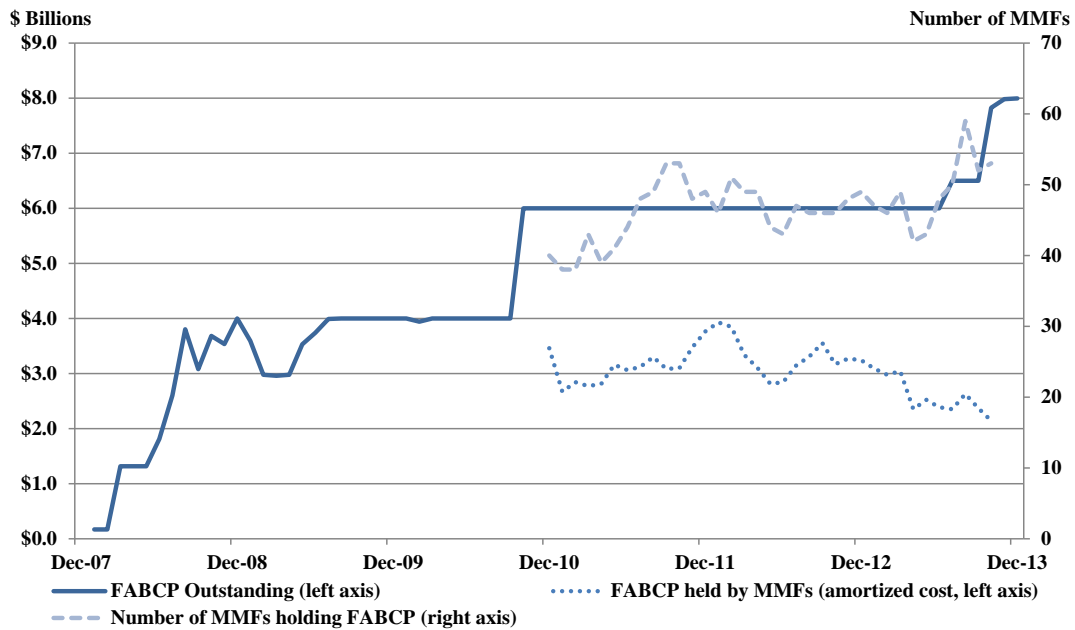
	2008	2009	2010	2011	2012	2013
MetLife, Inc. (CP)	\$616	\$301	\$0	\$0	\$0	\$0
MetLife Funding, Inc. (CP)	1,022	655	319	102	101	175*
Total CP	1,638	956	319	102	101	175*
Total FABCP	4,000	4,000	6,000	6,000	6,000	7,993
Total CP and FABCP	\$5,638	\$4,956	\$6,319	\$6,102	\$6,101	\$8,168

Sources: MetLife Response to OFR Data Request, document A.19.

(*) indicates CP outstanding at year-end 2013, based on data from MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 297.

⁵²³ See Table 11.

⁵²⁴ Contrary to MetLife's argument (see MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, pp. II-31-II-41), recovery rates on FABN and FABCP are not relevant for investors focusing on the instruments' market liquidity or on maintaining a stable NAV. The analysis demonstrates the hypothetical outer bound of potential MMF losses caused by FABN and FABCP (at various levels of value depreciation) and does not represent an estimate of investor losses.

Figure 4: MetLife FABCP Outstanding and MMF Exposures

Sources: MetLife Response to OFR Data Request, document A.19. MMF holdings data are from SEC Form N-MFP.

Table 11: Non-MMF Holders of MetLife FABCP


Source: MetLife Response to OFR Data Request, document A.19.b, p. 5.

MetLife also had \$24.6 billion in FABNs outstanding as of June 30, 2013.⁵²⁵ MetLife's FABNs are medium-term notes backed by FAs of the same maturity issued by MLIC or MICC. During the last five years, MetLife has been the largest issuer of FABNs,⁵²⁶ issuing notes through two SPVs: MGF and MIF.⁵²⁷ Fitch estimates that MetLife's FABN issuance between 2011 and 2013 accounted for about 65 percent of total issuance by U.S. life insurers.⁵²⁸

⁵²⁹ and MetLife

⁵²⁵ MetLife Response to OFR Data Request, document A.6.

⁵²⁶ Fitch Ratings Special Report: "U.S. Funding Agreement-Backed Note Market Update: Tepid Market Since 2009" (December 10, 2013), available at http://www.fitchratings.com/creditedesk/reports/report_frame.cfm?rpt_id=723058.

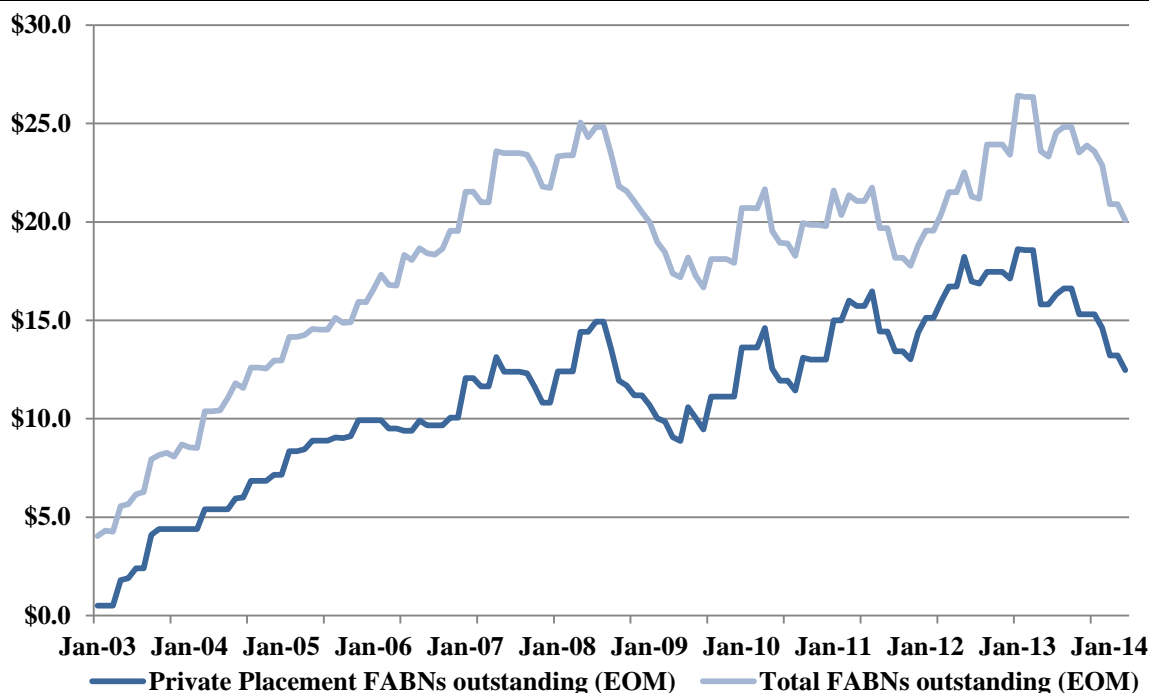
⁵²⁷ MGF and MIF are special-purpose Delaware statutory trusts organized for the sole purpose of issuing non-recourse notes secured by funding agreements issued to MGF and MIF by MLIC and MICC, respectively.

⁵²⁸ See Fitch Ratings Special Report: "U.S. Funding Agreement-Backed Note Market Update: Tepid Market Since 2009" (December 10, 2013), available at http://www.fitchratings.com/creditedesk/reports/report_frame.cfm?rpt_id=723058.

⁵²⁹ MetLife Response to OFR Data Request, document A.19. Metropolitan Life Global Funding I, September 2012 prospectus for US\$25 billion of Global Note Issuance Program; MetLife Institutional Funding II, September 2012 prospectus for US\$7 billion of Global Medium Term Note Issuance Program.

issued FABNs in 2012 and 2013 of approximately \$9.9 billion and \$6.4 billion, respectively.⁵³⁰ MetLife's private placement FABNs⁵³¹ outstanding increased by 50 percent between the beginning of 2009 and the end of 2013, from \$10 billion to \$15 billion, and the amount subsequently decreased to approximately \$13 billion.⁵³²

Figure 5: MetLife FABNs Outstanding



Source: Data downloaded from a Bloomberg terminal as of March 20, 2014. EOM refers to end of month value.
 Note: Includes FABNs issued by MetLife of Connecticut Institutional Funding Limited and MetLife of Connecticut Global Funding I (formerly Travelers Insurance Company Institutional Funding Limited and Travelers Life & Annuity Global Funding I, respectively).

⁵³⁰ Data downloaded from a Bloomberg terminal as of March 20, 2014.

⁵³¹ MetLife's FABNs are issued in Ireland and subject to regulation by the Central Bank of Ireland. However, a significant portion of those FABNs is available to U.S. investors in transactions effected under Rule 144A under the Securities Act of 1933 (see Figure 5). MetLife Response to OFR Data Request, document A.19 and data downloaded from a Bloomberg terminal as of March 20, 2014.

⁵³² See Figure 5.

Table 12: Top FABNs Holders

Name	December 2011 (\$millions)	June 2013 (\$millions)	Change (%)
Total	\$19,215.0	\$24,674.0	

Source: MetLife Response to OFR Data Request, document A.6.

The holdings of MetLife's FABNs are concentrated among financial institutions; [REDACTED] financial institutions hold approximately [REDACTED] of MetLife's FABNs, including [REDACTED] G-SIBs and [REDACTED] G-SIIs (see Table 12), which tend to be connected to each other and to the broader financial system. These financial institutions may suffer losses if MetLife were to experience material financial distress and either the notes became less liquid (e.g., following a downgrade of MICC or MLIC's rating) or MetLife could not meet its obligations under the FAs backing its FABNs. Due to data limitations, the amounts shown in Table 12 include certain holdings of the named financial institutions' asset management and securities lending businesses, which may overstate

the exposures of individual firms. MetLife calculates this adjustment related to FABNs and FABCP held for purposes of asset management as [REDACTED].⁵³³

Moreover, MMFs held \$2.0 billion of MetLife's FABNs as of October 2013 (see Table 13), and MetLife has increased its issuance of short-term FABS that are eligible for investment by MMFs from under \$2 billion in 2004 to more than \$10 billion during 2013.^{534, 535} [REDACTED]

Holders of MetLife's FABCP and FABNs could suffer losses if MLIC's or MICC's debt rating were downgraded or if they could not meet their obligations with respect to these instruments. In addition, because MMFs held approximately one-third of MetLife's total outstanding short-term FABS between 2011 and 2013⁵³⁸ there could be contagion effects if MLIC's or MICC's debt rating were downgraded or if they defaulted on the FAs backing MetLife's FABNs and FABCP.

⁵³³ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, pp. II-32.

⁵³⁴ Data downloaded from a Bloomberg terminal as of March 20, 2014. MetLife's MMF-eligible FABS accounted for about one-third of MetLife's total FABS outstanding in 2013. In contrast, less than 20 percent of MetLife's FABS outstanding were MMF-eligible between 2003 and 2006.

⁵³⁵ Data downloaded from a Bloomberg terminal as of March 20, 2014. Extendible FABNs are more liquid FABNs, with an investor put option. The amount of FABNs that is not extended by investors typically matures in 397 days or less, explaining why extendible FABNs outstanding started declining in the second half of 2008, while many investors elected not to extend their notes in the second half of 2007. The increase in MetLife's short-term FABS is associated with a substantial shortening of FABS maturities. MetLife experienced a large decrease in maturity extension from holders of its extendible FABNs in the summer of 2007. See Figure 7 and section 4.3.2 for more information about the shortening of MetLife's FABS maturity.

⁵³⁶ As discussed in section 3.3, MetLife initially issued \$1.6 billion in FABCP to the Board of Governors' CPFF. See Board of Governors, "Commercial Paper Funding Facility (CPFF), available at http://www.federalreserve.gov/newsevents/reform_cpff.htm.

⁵³⁷ See section 4.3.2.

⁵³⁸ See Figure 8 in section 4.3.2. Among the 69 MMFs holding MetLife's FABS in October 2013, 52 MMFs held FABCP, 23 MMFs held FABNs, and six MMFs held both FABNs and FABCP. SEC Form N-MFP.

Table 13: Top MMF Exposure to MetLife FABS (\$ Millions)

Fund name	Fund Assets	Fund Combined Exposure	FABCP	FABNs⁵³⁹	Exposure as Percent of Assets
J.P. Morgan Prime Money Market Fund ^(m)	\$115,673	\$1,140	\$277	\$863	1.0%
U.S. Bancorp First American Prime Obligations Fund ^(m)	10,154	266	164	102	2.6
Goldman Sachs Financial Square Prime Obligations Fund ^(m)	17,531	250		250	1.4
Columbia Short-Term Cash Fund	8,287	215	215		2.6
RBC Global Prime Money Market Fund ^(m)	12,874	203		203	1.6
Prudential Core Taxable Money Market Fund	37,121	180		180	0.5
J.P. Morgan Liquid Assets Money Market Fund ^(m)	15,798	142	60	82	0.9
U.S. Bancorp Mount Vernon Securities Lending Prime Portfolio ^(l)	5,343	126		126	2.4
Schwab Money Market Fund	15,066	120	120		0.8
John Hancock Money Market Trust	2,723	109	109		4.0
Schwab Advisor Cash Reserves	22,217	107	107		0.5
Dreyfus Institutional Reserves Money Fund ^(l)	2,972	105	105		3.5
All other MMFs (57 MMFs)		1,213	982 (44)	217 (16)	1.4*
Total (all MMFs holding MetLife securities)		\$4,177	\$2,140 (52)	\$2,023 (23)	1.4%*

Sources: Data are as of October 31, 2013, from publicly available SEC Form N-MFP.

Note: (*) indicates average exposure to MetLife as a percentage of assets for all other MMFs or all MMFs. The entries in parentheses denote the numbers of MMFs with non-zero exposure. ^(l) and ^(m) indicate institutional and mixed retail/institutional MMFs, respectively; see footnote 540 for more information.

A maximum of 65 MMFs could “break the buck,” which occurs when their NAVs fall below \$1, following a decrease in the value of their holdings of MetLife debt securities (see Figure 6). All other things being equal, MMFs holding more than 0.5 percent in MetLife’s debt securities risk having their NAVs fall below \$1 if the value of these securities falls below a certain threshold.⁵⁴⁰ As witnessed during the 2007-2009 financial crisis, when one MMF breaks the buck, a broader run on MMFs can be triggered, such as that which occurred in September 2008 after the collapse of Lehman Brothers.⁵⁴¹ Such an event could lead to investor withdrawal from the FABS market and other short-term funding markets generally, which could impair the ability of large financial

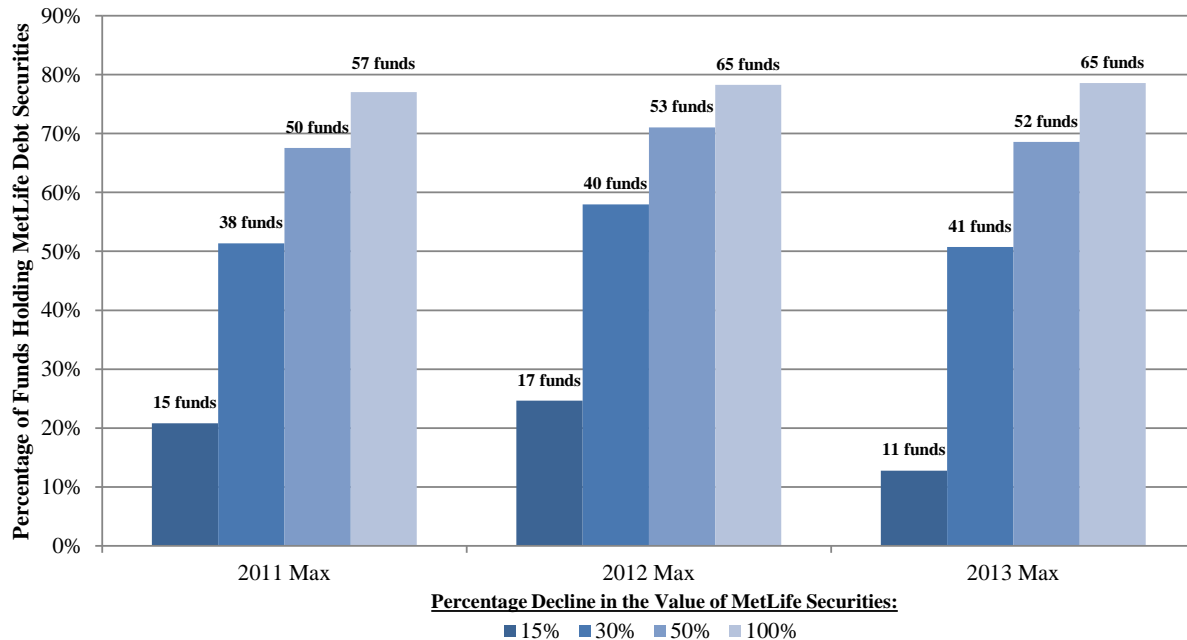
⁵³⁹ \$1.3 billion are extendible FABNs. Data downloaded from a Bloomberg terminal as of March 20, 2014. There were \$2.05 billion of extendible FABNs outstanding as of October 31, 2013.

On July 23, 2014, the SEC adopted MMF reforms that include a floating NAV requirement for institutional prime MMFs. The MMF reforms do not require a floating NAV for certain funds, including retail MMFs. As of October 31, 2013, a majority of the 69 MMFs holding MetLife’s FABS are estimated to be retail MMFs. After the SEC’s adoption of those reforms, the Council stated that it intends to monitor the effectiveness of the SEC’s reforms in addressing risks to financial stability.

⁵⁴¹ See M.T. Kacperczyk and Philipp Schnabl, “How Safe are Money Market Funds?,” Quarterly Journal of Economics volume 128 (2013), pp. 1073-1112.

firms to serve as financial intermediaries, as those institutions generally rely, at least in part, on short-term funding markets to fund their operations.⁵⁴²

Figure 6: MMF “Break the Buck” Analysis



Sources: Data are as of October 31, 2013, from SEC: Form N-MFP and Council analysis.

Note: Figure 6 shows the maximum number and fraction of MMFs holding MetLife debt securities in a given month that could have broken the buck following a 15, 30, 50, or 100 percent decline in the value of MetLife debt securities in 2011, 2012, or 2013. For example, a maximum of 40 out of 69 (or 58 percent) MMFs holding MetLife debt securities could have broken the buck following a 30 percent decrease in the value of these securities in 2012.

MetLife states, “the possibility that an issuer could cause MMFs to ‘break the buck’ is not evidence of systemic importance.”⁵⁴³ However, while the exposure of MMFs to MetLife, alone, is not the basis for the conclusions herein regarding the potential for MetLife’s material financial distress to pose a threat to U.S. financial stability, this exposure is relevant to an evaluation of the various ways in which MetLife’s material financial distress could be transmitted to market participants.

⁵⁴² MetLife states that the failure of a large number of non-G-SIBs could make at least one MMF break the buck following a 100 percent price decrease in the value of their debt securities. See MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, pp. II-31-II-41. However, only three U.S. non-G-SIB companies could result in more MMFs breaking the buck following a 100 percent decrease in value than MetLife: Coca-Cola Corporation, GE Capital Corporation, and Toyota Motor Corporation. Data are as of March 31, 2014, from SEC Form N-MFP and Council analysis.

⁵⁴³ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-85.

4.2.4.4 *Affiliated Reinsurance Captive Counterparties*

As discussed in section 3.2, MetLife is an extensive and highly sophisticated user of reinsurance, and it engages in inter-affiliate risk transfer through captive reinsurers.⁵⁴⁴

MetLife's arrangements with and on behalf of affiliated reinsurance captives could give rise to or aggravate the company's losses and the transmission of the negative effects of those losses in the event of the organization's material financial distress. As discussed in section 4.2.4.5, MetLife's affiliated reinsurance captives are not subject to the same statutory capital, accounting, and reporting requirements applied to its commercial insurance subsidiaries. Minimum capital levels are generally lower for captives than for commercial insurers. By transferring risk from MetLife's commercial insurance subsidiaries to its captive reinsurance subsidiaries, the overall organization generally is able to hold lower-quality capital and lower reserves than would be required absent these transfers. For example, different regulatory requirements allow captives to finance portions of their reserves with contingent assets, such as LOCs. Contingent-form assets include lower-quality or less-liquid assets that weaken the strength of reserves.⁵⁴⁵ The disparate capital regimes applicable to primary insurers and captive reinsurers results in MetLife, and its subsidiaries in the aggregate, having less insulation to protect the company from shocks that could cause sudden losses.⁵⁴⁶ MetLife notes that it "contributed approximately [REDACTED] of cash capital to its captives between 2008 and 2012."⁵⁴⁷ (see section 3.2.2 for a discussion of the effects of MetLife's use of captives on the company's capital).

In addition, MetLife's use of capital markets instruments, collateral financing vehicles, and third-party reinsurance (i.e., retrocession) as substitutes for capital or reserves in affiliated reinsurance captives⁵⁴⁸ increases MetLife's interconnectedness with other financial institutions.⁵⁴⁹ For example, MetLife relies on LOCs, collateral financing arrangements, and surplus notes to provide equity and statutory capital funding to affiliated reinsurance captives. Some of these LOCs and other financing arrangements are with G-SIBs and other large financial companies that could face losses in the event of an insolvency of MetLife's insurance subsidiaries.⁵⁵⁰ MetLife estimates that the losses of third parties arising from these LOCs and financing arrangements in the event of the insolvency of MetLife's insurance subsidiaries would total approximately [REDACTED]⁵⁵¹

⁵⁴⁴ Captive entities are licensed by their domiciliary regulator on the basis of a particular business plan.

⁵⁴⁵ See Elise Brennenman, David (Fengchen) Du, and Cynthia Martin, "Variable Annuities – Recent Trends and the Use of Captives," Federal Reserve Bank of Boston (October 7, 2014), p. 12.

⁵⁴⁶ See section 3.2.2.

⁵⁴⁷ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-86.

⁵⁴⁸ MetLife Response to OFR Data Request, document A.15.

⁵⁴⁹ MetLife Response to OFR Data Request, document A.5.

⁵⁵⁰ MetLife Voluntary Submission, Section III, p. III-26.

⁵⁵¹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-86-VII-87.

4.2.4.5 Third-Party Reinsurance Counterparties

MetLife's reinsurance arrangements with third-party insurers increase MetLife's interconnectedness with the financial system. Third-party insurers receive reinsurance from MetLife, and third-party reinsurers provide reinsurance to MetLife. MetLife enters into agreements with third parties to transfer, assume or finance risk, such as mortality risk or single-event catastrophe exposure, based on the firm's risk appetite.⁵⁵² As shown in Table 14, [REDACTED] in total gross liability exposure is transferred primarily to [REDACTED] reinsurance counterparties. MetLife assumes [REDACTED] in net consolidated insurance liabilities from external third-party reinsurers.⁵⁵³ MetLife states that as of December 31, 2012, losses to its reinsurance counterparties would total approximately [REDACTED] if MetLife became insolvent.⁵⁵⁴ However, it is possible that the maximum exposures of its reinsurance counterparties to MetLife could be significantly higher.⁵⁵⁵ For example, some of MetLife's reinsurance transactions do not qualify as risk transfer under GAAP accounting but do qualify as risk financing transactions. Under such risk financing transactions, neither counterparty is required to hold reserves until a loss is expected or occurs. In these cases, MetLife's counterparties' gross exposure to MetLife could be higher than is reflected in their financial statements.

In addition to the affiliated reinsurance transactions with MetLife's commercial insurers, MetLife's captives also engage in transactions with other third-party reinsurers. [REDACTED]

[REDACTED]⁵⁵⁶ In addition, one of these captives, Exeter Re, also had assumed \$3.9 billion in variable annuity GLB statutory reserves of a former Japanese joint venture partner.⁵⁵⁷ MetLife provides a parental guarantee on many of the affiliated captive obligations transferred or assumed from third-party reinsurers in lieu of collateral, which exposes the affiliates' reinsurance counterparties to MetLife.⁵⁵⁸

⁵⁵² MetLife Presentation to FSOC: Reinsurance (November 19, 2013), p. 8, provides use of third-party reinsurance and appetite for risk.

⁵⁵³ MetLife Response to OFR Data Request, document A.15, p. 2.

⁵⁵⁴ MetLife Voluntary Submission, Section III, p. III-27.

⁵⁵⁵ [REDACTED]

⁵⁵⁶ MetLife Response to OFR Data Request, document A.15. See section 3.1.

⁵⁵⁷ As of December 31, 2012. Id.

⁵⁵⁸ MetLife Response to OFR Data Request, document A.15.b. [REDACTED]

Many of these transactions consequently appear to allow MetLife captives to enter into risk financing arrangements rather than traditional reinsurance arrangements through which insurance risk is transferred. Further, risk financing enables MetLife and its captives to reduce reserve collateral and capital requirements.⁵⁵⁹

[REDACTED]

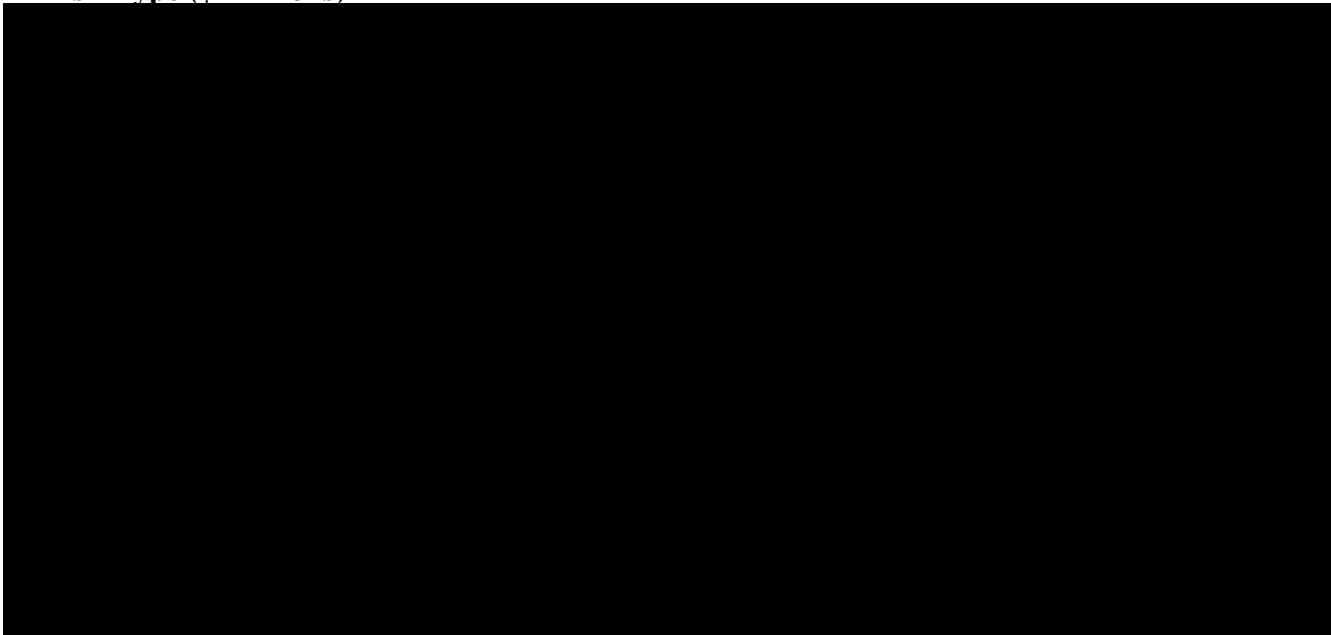
In a period of market stress, these reinsurance counterparties are exposed to spikes in MetLife's variable annuity GLBs or an insurance shock in the Closed Block. For example, a major equity market downturn would affect the GLB exposures and would be transmitted to the reinsurance counterparties of MetLife's captives in the event of material financial distress at MetLife. As a result, risk in the variable annuity GLBs could be transferred to the G-SIB reinsurers, which could result in exposures that are significantly higher than the reported exposure.

[REDACTED]

MetLife Response to OFR Data Request, document A.15. Third-party reinsurance accounted for as risk financings frees up collateral requirements for statutory reserves as well as reserve requirements for consolidated GAAP accounting purposes.

⁵⁶⁰ Id.

Table 14: MetLife Third-party Reinsurer Exposures, by Ceding Company and Risk Type (\$ Millions)



Source: Data are as of September 30, 2013. MetLife Response to OFR Data Request, document A.15.r.

4.2.4.6 Credit and Committed Facilities and LOCs

As of June 30, 2013, MetLife maintained two unsecured credit facilities totaling \$4 billion and committed facilities aggregating \$12.4 billion.⁵⁶¹ The unsecured credit facilities are used for general corporate purposes, and the committed facilities are used for collateral for certain of MetLife's affiliated reinsurance liabilities, as detailed in Table 15.⁵⁶² As of June 30, 2013, MetLife had outstanding \$8.7 billion in LOCs outstanding, some with maturities of nearly 25 years. A total of \$2.2 billion and \$6.5 billion of these LOCs were part of credit and committed facilities, respectively. These facilities and LOCs are primarily placed with large financial institutions, including several G-SIBs.⁵⁶³ If MetLife sought to access some of these facilities during a period of overall stress in the financial services industry and in a weak macroeconomic environment, other firms could also be accessing similar facilities or credit lines, thereby contributing to liquidity pressure on large financial institutions. Table 15 details the commitments of \$16.4 billion.

MetLife asserts that certain LOCs can only be drawn upon in certain circumstances that could materialize only over an extended period of time, and such circumstances are "unlikely to coincide with material financial distress at MetLife, and, therefore, should not be considered an

⁵⁶¹ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 189.

⁵⁶² Id.

⁵⁶³ MetLife Response to OFR Data Request, document A.5.

exposure for purposes of the exposure channel analysis.”⁵⁶⁴ However, these LOCs generally support MetLife’s captive reinsurance and serve as reserve funding in the event supporting assets are insufficient to fund policy obligations.⁵⁶⁵ Though a portion of these facilities cannot be used for general corporate purposes, they should not be excluded from MetLife’s aggregated potential exposure calculation. The Council does not assume a specific scenario under which the analysis is conducted, and instead evaluates a range of potential outcomes. Depending on the circumstances, MetLife may use these LOCs for their specific purpose, the funding of captive reinsurance reserves.

Table 15: Credit and Committed Facilities and LOCs (\$ Billions)

	2008	2009	2010	2011	2012	6/30/2013
Unsecured Credit Facilities						
Capacity	\$3.2	\$3.2	\$4.0	\$4.0	\$4.0	\$4.0
LOC Issuances	2.3	0.5	1.5	3.1	2.6	2.2
Drawdowns	0.1	-	-	-	-	-
Unused Commitments	0.7	2.6	2.5	0.9	1.4	1.8
Committed Facilities (for Reinsurance Liabilities)						
Capacity	11.5	12.8	12.4	12.4	12.4	12.4
LOC Issuances	4.3	4.7	5.4	5.5	5.5	6.5
Drawdowns	2.7	2.8	2.8	2.8	2.8	2.8
Unused Commitments	4.6	5.4	4.2	4.2	4.1	3.1
Total LOC Issuances	\$6.6	\$5.2	\$6.9	\$8.5	\$8.1	\$8.7

Sources: MetLife Annual Reports on Form 10-K for the years ended December 31, 2008 to 2012, pp. F-92, F-93, F-125, F-126, F-154, 358, 359, 323, respectively, and MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 189.

MetLife’s captive reinsurance activities depend on funding and loan commitments from [REDACTED] major financial institutions, which in turn exposes these institutions to MetLife’s credit and insurance risk.⁵⁶⁶ [REDACTED]

⁵⁶⁹

⁵⁶⁴ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, pp. II-38-II-39.

⁵⁶⁵ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-39.

⁵⁶⁶ MetLife Response to OFR Data Request, document A.5.

⁵⁶⁷ Table 16 also includes Collateral Financing Agreements. This funding source is not included in the calculation of MetLife LOCs.

⁵⁶⁸ MetLife Response to OFR Data Request, document A.5.

⁵⁶⁹ *Id.*; MetLife Response to OFR Data Request, document A.15. This accounts for about [REDACTED] of the life insurance industry-wide total. Estimates for the industry total vary, from \$324 billion (Moody’s Investor Services Special Comment, “The Captive Triangle: Where Life Insurers’ Reserve and Capital Requirement Disappear” (August 23, 2013)) to \$365 billion (Ralph S. J. Koijen and Motohiro Yogo, “Shadow Insurance” (April 1, 2014),

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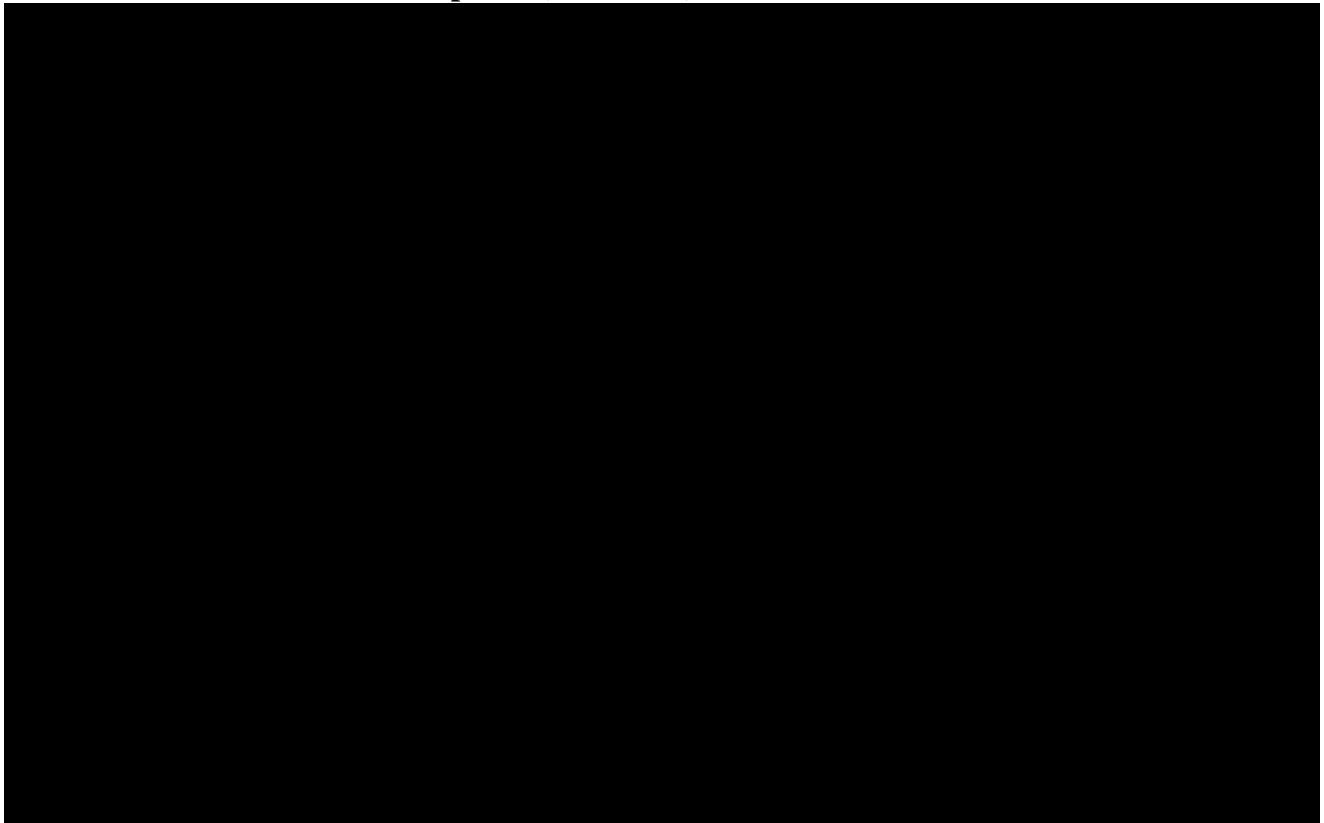
Captive reinsurance backed by LOCs has the effect of transferring insurance risk from insurance companies to financial institutions. LOC providers are exposed to both MetLife's credit risk and insurance risk; however LOC providers typically are not subject to the insurance industry risk accounting procedures or capital and reserve requirements, and therefore may not be fully insulated from insurance shocks. In the case of MetLife's transactions with non-insurer financial institutions, the insurance risk transferred is primarily mortality risk.⁵⁷⁰ However, MetLife, Inc. is often a guarantor under these LOCs, which exposes MetLife, Inc. to the liquidity and re-pricing risks associated with the LOCs and exposes the LOC providers to potential losses if MetLife were to experience material financial distress.⁵⁷¹

available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2320921; Ralph S. J. Koijen and Motohiro Yogo, "Growing Risk in the Insurance Sector," Federal Reserve Bank of Minneapolis Economic Policy Paper (March 24, 2014), available at http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=5283).

⁵⁷⁰ MetLife Response to OFR Data Request, document A.15.o.




⁵⁷¹ See Table 16; MetLife Response to OFR Data Request, document A.5.

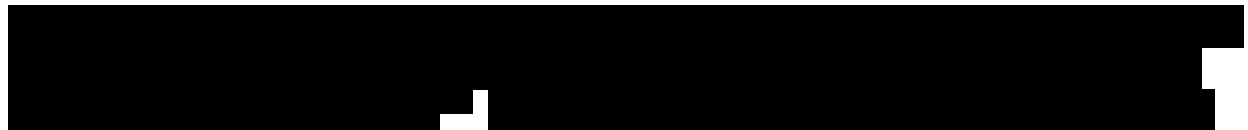
Table 16: Certain Sources of Third-party Collateral and Capital Funding for Reinsurance with Affiliated Captives (\$ Millions)



Sources: Data are as of December 31, 2012. MetLife Response to OFR Data Request, documents A.5, A.15, and A.14.i.



 ⁵⁷² While state law subjects these trusts to minimum capital requirements,  still has exposure to MetLife's credit risk and could experience losses in connection with its financing arrangement if MetLife were to experience material financial distress and could not satisfy its payment obligations to 



⁵⁷² MetLife Response to OFR Data Request, document A.15.

⁵⁷³ The cost of funding “non-economic” reserves is inversely proportional to the returns on the asset in the reinsurance trust, and the regulations governing which assets a trust can invest in appear to provide considerable flexibility. For example, the New York State Insurance Department (the predecessor to the NYDFS) had indicated that 100 percent of the trust could be invested in MBS or CMBS if the trustee itself issues MBS or CMBS. See New

[REDACTED]

[REDACTED]

4.2.4.7 *Derivatives Counterparty Exposures*

MetLife is also interconnected with major financial firms and markets through its derivatives activities. Were MetLife to experience material financial distress, its derivatives counterparties could suffer losses. Because many of these counterparties are also exposed to MetLife through other transactions, such as securities lending transactions, credit facilities, and lines of credit, if

York State Insurance Department Office of General Counsel, Opinion on Regulation 114 Trust & Commercial Mortgage-Backed Securities (January 29, 2003), available at <http://www.dfs.ny.gov/insurance/ogco2003/rg030147.htm>.

⁵⁷⁴ MetLife Response to OFR Data Request, document A.15.o. Differences in asset adequacy standards for reinsurance trusts and on-balance sheet reserves create an incentive for an insurer to invest in higher-yielding, riskier assets to decrease the expected cost of reinsurance collateral financing, which includes borrowing costs. For the assessment of the relevance of this risk, MetLife provided the list of CUSIPs (unique security identifier) and market values of individual securities in MetLife's reinsurance trust portfolios for year-ends 2010, 2011, and 2012.

[REDACTED]

MetLife Response to OFR Data Request, document A.15.o.

[REDACTED]

See Conn. Agencies Regs. § 38a-88-4 (2014), available at http://www.sots.ct.gov/sots/lib/sots/regulations/title_38a/088.pdf.

⁵⁷⁷ [REDACTED]

MetLife were to experience material financial distress, its counterparties' losses would be compounded across these various exposures. Those losses to major counterparties would be particularly threatening to financial stability if MetLife's material financial distress were to occur during a period of overall stress in the financial services industry and in a weak macroeconomic environment.

MetLife asserts that its derivatives undertakings are modest. But as shown in Table 17, MetLife's gross notional amount of derivatives outstanding as of June 30, 2013 was \$379 billion, making it one of the largest U.S. holders of derivatives and the largest holder of derivatives among U.S. insurance organizations. Quoting a passage from an OCC report, MetLife asserts that this gross notional measure is irrelevant.⁵⁷⁸ However, gross notional amount is not the only measure of the risk borne by derivatives counterparties, and this analysis also relies on a measure incorporating net negative exposure and potential future exposure to evaluate the exposures of MetLife's derivatives counterparties. Gross notional figures do provide a useful piece of data in comparing one firm's level of activity in the derivatives markets to other firms' activity levels, and they are frequently used by scholars and commentators for that purpose.⁵⁷⁹

Though JPMorgan Chase, the firm with the largest gross notional amount outstanding, had a much larger derivatives portfolio than MetLife had as of June 30, 2013, the BHCs that rank above MetLife in terms of gross notional amounts tend to intermediate derivatives markets by holding offsetting long and short positions. Thus, comparisons between BHCs and companies with different business models can be misleading. Notably, MetLife's gross notional amounts are substantially larger than those of Prudential and AIG, the other insurance companies on Table 17.

⁵⁷⁸ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, pp. II-44-II-45. MetLife cites an OCC report that states "[c]hanges in notional amounts are generally reasonable reflections of business activity, and therefore can provide insight into potential revenue and operational issues. However, the notional amount of derivatives contracts does not provide a useful measure of either market or credit risks." OCC, "Quarterly Report on Bank Trading and Derivatives Activities: First Quarter 2014," p. 9, available at <http://www.occ.gov/topics/capital-markets/financial-markets/trading/derivatives/dq114.pdf>.

⁵⁷⁹ For example, a MetLife submission acknowledges that "gross notional amounts are frequently used as a measure of market activity" and that "[o]ne measure of MetLife's derivatives activity in a systemic context is the absolute amount of open positions measured as the total gross notional amount of derivatives contracts outstanding." Christopher L. Culp and Pietro Veronesi, "Potential Systemic Implications of MetLife's Derivatives Activities" (July 20, 2014), pp. 13, 21. Most of the graphs in this submission make use of gross notional amounts. *Id.* pp. 13, 15, 22-32, 36, 38, 45.

Table 17: Largest U.S. Holders of Derivatives by Notional Amount Outstanding (\$ Billions)

	Institution	Derivatives Notional Amount
1	JPMorgan Chase	\$72,845
2	Citigroup	61,063
3	Bank of America	59,042
4	Morgan Stanley	49,396
5	Goldman Sachs	46,982
6	HSBC	5,131
7	Wells Fargo & Co.	3,917
8	Bank of New York Mellon	1,228
9	State Street	1,184
10	MetLife	379
11	PNC	369
12	Prudential	291
13	General Electric Capital Corporation	290
14	SunTrust	266
15	Northern Trust	264
16	AIG	200
17	U.S. Bancorp	111
18	TD Bank	\$110

Sources: Data are as of June 30, 2013. OCC Quarterly Report on Bank Derivatives Activities for the quarter ended June 30, 2013, p. 29, Table 2, available at <http://www.occ.gov/topics/capital-markets/financial-markets/trading/derivatives/dq213.pdf>; Quarterly Reports on Form 10-Q for the quarter ended June 30, 2013: MetLife, p. 51; AIG, p. 44; and Prudential, p. 93.

Note: This table excludes Federal National Mortgage Association and Federal Home Loan Mortgage Corp. due to different treatment of certain hedging transactions.

As of June 30, 2013, MetLife's derivatives portfolio included interest rate derivatives (68 percent of MetLife's \$379 billion gross notional amount outstanding), equity derivatives (16 percent), foreign exchange derivatives (12 percent), and credit derivatives (3 percent).⁵⁸⁰ As shown in Table 18, MetLife's derivatives portfolio increased by 91 percent between the end of 2008 and the middle of 2013, with the notional amount of equity derivatives almost tripling.⁵⁸¹

⁵⁸⁰ See Table 18; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 51.

⁵⁸¹ See Table 18.

Table 18: MetLife Gross Notional Derivatives Portfolio (\$ Billions)⁵⁸²

	2008	2009	2010	2011	2012	6/30/2013
Interest Rate Derivatives	\$144.3	\$116.1	\$147.0	\$203.7	\$230.8	\$257.6
Equity Derivatives	20.7	48.6	62.1	44.6	52.9	62.0
Foreign Currency Derivatives	25.8	24.2	34.2	28.6	38.1	46.1
Credit Derivatives	7.6	6.9	11.0	13.2	12.6	13.0
Total Derivative Notional	\$198.4	\$195.9	\$254.3	\$290.0	\$334.4	\$378.7

Sources: MetLife Annual Reports on Form 10-K for the years ended December 31, 2009 to 2012; 2009, pp. F-73, F-87, 287, 274, respectively; and MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 51. Interest rate derivatives figures include synthetic GICs (e.g., \$4.3 billion notional amount of synthetic GICs as of June 30, 2013).

MetLife uses equity derivatives and other derivatives to hedge its variable annuity guarantees, which included \$934 million of embedded derivatives as of June 30, 2013.⁵⁸³ Approximately 28 percent of MetLife's total gross notional amount of derivatives (in this case, excluding embedded derivatives) was used to hedge variable annuity guarantees.⁵⁸⁴ Market risk associated with from MetLife's variable annuity guarantees can produce counterparty exposure spikes. For six consecutive quarters beginning September 2011, the fair value of hedge assets backing MetLife's variable annuity guarantees exceeded \$3 billion.⁵⁸⁵

Approximately 97 percent of the company's derivatives positions are applied to economic hedging and 3 percent involve asset replication.⁵⁸⁶ Asset replication occurs when an insurer uses the derivatives market to replicate the characteristics of an asset that the insurer would otherwise be permitted to buy for its general account.⁵⁸⁷ MetLife's CDS protection sold (\$9.6 billion) was used almost exclusively for asset replication, while MetLife's CDS protection purchased (\$3.3 billion) was used for hedging.⁵⁸⁸ MetLife states, "MetLife writes only a minimal amount of CDS protection—125 times less than the average U.S. G-SIB."⁵⁸⁹ Total exposure of CDS protection sold, as measured by notional amount outstanding, was concentrated

⁵⁸² MetLife completed its acquisition of ALICO from AIG in late 2010. The derivatives portfolio figures in Table 18 have not been adjusted to eliminate the increase in MetLife's size due to this acquisition.

⁵⁸³ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 182.

In some instances, GAAP accounts for variable annuity GLB liabilities as derivatives which are bifurcated from host insurance contracts. As of June 30, 2013, 91 percent (\$934 million) of \$1,025 million of embedded derivatives related to variable annuities with guarantees.

⁵⁸⁴ MetLife Response to OFR Data Request, document A.12, pp. 18-19.

⁵⁸⁵ MetLife Response to OFR Data Request, document A.12.b.

⁵⁸⁶ MetLife Voluntary Submission, Section III, pp. III-17-III-18; MetLife Response to OFR Data Requests A.11.g-l, document k, p. 9.

⁵⁸⁷ MetLife Voluntary Submission, Section III, p. III-17.

⁵⁸⁸ MetLife Voluntary Submission, Section III, p. III-77; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 51; MetLife Response to OFR Data Request, documents A.1.c, A.2, and A.11.k.

⁵⁸⁹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-94.

in two MetLife entities, MLIC and MICC, that had, respectively, 70 percent and 19 percent of MetLife's total CDS protection sold.⁵⁹⁰

However, although MetLife's CDS activity was much smaller than the amounts of protection sold and purchased by major BHCs (Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase and Morgan Stanley), BHCs typically take offsetting long and short positions in the course of intermediating markets,⁵⁹¹ whereas MetLife's CDS protection sold was a directional long-credit exposure.⁵⁹² This important distinction makes direct comparisons of CDS protection sold misleading. Instead, the net CDS notional amount of credit protection sold (or purchased) should be used to compare MetLife's credit derivative exposure to the BHCs' exposures.^{593, 594} The net CDS protection sold by MetLife (\$9.6 billion) is almost half of the net credit protection sold by Morgan Stanley (\$20.1 billion), while other major holders of credit derivatives (Bank of America, Citigroup, Goldman Sachs, and JPMorgan Chase) are net buyers of credit protection, with net CDS protection purchased ranging from \$6.7 billion to \$92.7 billion.

A total of [REDACTED] of MetLife's net CDS protection sold was in CDS indexes (investment grade or high yield), and about [REDACTED] was in CDS index tranches (junior senior or super senior).⁵⁹⁵ Because the CDX index reflects credit risk for a basket of names, rather than a single name, the CDX spread is sensitive to the overall credit risk in the economy.⁵⁹⁶ Hence, MetLife's CDS written portfolio could be affected by a market-wide credit-risk increase, creating exposures for MetLife's counterparties. Such exposures are concentrated among a relatively small number of MetLife's counterparties. [REDACTED]

⁵⁹⁰ MetLife Response to OFR Data Request, document A.11.k. Although MetLife has transitioned a significant percentage of its written CDX Index positions to central clearing since June 2013, it also sells protection on CDX index tranches and other tranching CDS index products that are non-centrally cleared OTC derivatives. See footnote 598 for a broader view on recent regulatory changes in mandatory clearing of certain OTC derivatives.

⁵⁹¹ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 51. Data on CDS gross notional protection purchased and sold are from the Federal Reserve regulatory reporting forms FR Y9-C, *Consolidated Financial Statements for Holding Companies*, filed by each BHC.

⁵⁹² MetLife Response to OFR Data Request, document A.11.g.

⁵⁹³ The net notional amount of CDS protection sold is calculated as a difference between the gross notional amount of CDS protection sold and the gross notional amount of CDS protection bought. The sensitivity of the CDS portfolios of major broker-dealers to an across-the-board change in spreads is fundamentally related to the difference between CDS protection sold and CDS protection bought. Data on CDS gross notional amount protection purchased and sold are from the Federal Reserve regulatory reporting forms FR Y9-C, *Consolidated Financial Statements for Holding Companies*, filed by the relevant BHC.

⁵⁹⁴ MetLife's net CDS notional amount of credit protection sold of \$9.6 billion is based on offsets reported by MetLife. See OFR Data Requests document A.2.

⁵⁹⁵ MetLife Response to OFR Data Request, document A.2.

⁵⁹⁶ MetLife states that "[c]hanges in credit spreads for these types of financial entities typically would not directly affect the CDX IG Index." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, pp. II-48-II-49. Because, for example, the CDX.NA.IG.23 index contains 21 financial entities (about one-sixth of all names in the index), the index depends both directly and indirectly on the condition of the financial services industry. The on-the-run CDX.NA.IG index spreads have a correlation with the financial sub-index CDX.NA.IG.FIN spreads of about 95 percent in the sample spanning March 2007 to December 2012.

Table 19: Top 20 MetLife Derivatives Counterparties

Sources: Derivatives notional amounts are as of June 30, 2013. MetLife Response to OFR Data Request, documents A.1.c. and A.1.d. PFEs and Shareholders' Equity data are as of December 31, 2012. MetLife Voluntary Submission, Section III, p. III-21.

The exposure of derivatives counterparties to MetLife can be measured as the sum of the net negative exposure (NNE) (which is net of cash collateral) and the potential future exposure (PFE).⁶⁰³ While the NNE is a measure of current exposure, the PFE is a measure of future credit exposure (related to changes in position valuations before replacement after a counterparty's default) and is calculated with a given replacement horizon and a confidence level.⁶⁰⁴ The NNE (net of cash collateral) of MetLife's derivatives for its top 20 counterparties was [REDACTED] as of June 30, 2013.⁶⁰⁵ MetLife's total PFE for its top 20 counterparties was [REDACTED] G-SIBs accounted for [REDACTED] of this amount.^{606, 607} Measured as the sum of the NNE and the PFE, the exposure of derivative counterparties to MetLife was \$3.3 billion.^{608, 609}

⁶⁰³ In the derivatives liabilities assessment of outstanding amounts in Table 6, Table 8, and Appendix C, the industry convention for the liability (i.e., the sum of net negative exposure (NNE) and potential future exposure (PFE)) is used, instead of gross notional amounts. The use of risk-oriented figures in this instance recognizes the unique product structure that uses the gross notional amount to notate, or calculate, the cash flows and exposures, rather than the gross notional amount being the outstanding liability. The PFE addresses a 10-day close out period, and thus incorporates some distress.

⁶⁰⁴ MetLife's PFEs are calculated under the assumption of a 10-day horizon and at a 99 percent confidence level. MetLife Voluntary Submission, Section III, p. III-20.

⁶⁰⁵ MetLife Response to OFR Data Request, document A.1.d.

⁶⁰⁶ See Table 19.

These exposures to MetLife are subject to certain mitigants. MetLife states that its derivatives activities occur almost exclusively within highly regulated insurance entities and are subject to strict regulatory supervisions and limitation.⁶¹⁰ In addition, MetLife's non-centrally cleared OTC derivatives transactions typically require a daily exchange of variation margin (subject to minimum transfer amounts and contractual credit support annex thresholds).⁶¹¹ While variation margin is calculated and exchanged daily to mitigate current exposure, it does not mitigate risk in volatile markets due to future credit exposure. MetLife, like many major financial institutions, does not currently exchange initial margin for non-centrally cleared OTC derivatives transactions. Initial margin provides additional protection from adverse changes in the portfolio value after a counterparty's default. MetLife's counterparties could be exposed to the risk of losses if MetLife were unable to continue posting collateral after an insolvency event, but this risk is limited to the amount of time it takes its counterparties to close out positions.

4.2.4.8 *Securities Lending*

MetLife's material financial distress could cause losses to the counterparties to MetLife's approximately \$30 billion in securities lending transactions if MetLife has insufficient liquidity to repay the cash collateral.^{612, 613, 614} In addition, a significant portion of MetLife's securities

⁶⁰⁷ As stated in Culp and Veronesi, "Potential Systemic Implications of MetLife's Derivative Activities" (July 20, 2014), p. 43: "We [i.e., Culp and Veronesi] have not reviewed the distributions of derivatives prices in MetLife's year-end 2012 portfolio to assess whether these assumptions [i.e., assumptions on MetLife's derivative portfolio that assess how conservative the sum of individual PFEs is] hold or not." Thus, many of MetLife's derivative positions with individual counterparties may be positively correlated. Further, if MetLife's PFE measure underestimates skewness and kurtosis of portfolio return distributions (portfolio distribution characteristics that control the extent of losses under the assumed confidence level of 99 percent), the losses may be higher than measured by MetLife's reported PFEs.

⁶⁰⁸ See Table 19.

⁶⁰⁹ MetLife's submission "Potential Systemic Implications of MetLife's Derivative Activities," by Christopher L. Culp and Pietro Veronesi (July 20, 2014), is not directly relevant to this analysis. This analysis has been conducted under the First Determination Standard, but the Culp and Veronesi analysis submitted by MetLife reviews MetLife's derivative activities under the Second Determination Standard. At the same time, this analysis uses an approach very similar to the approach used in the MetLife submission. MetLife's submission evaluates "total credit exposure," which Culp and Veronesi define as the sum of netted fair value and potential future exposure, to measure counterparty exposure to MetLife. Similarly, this analysis evaluates exposure by summing net negative exposure (NNE), net of cash collateral, and potential future exposure (PFE). MetLife's submission finds MetLife's derivatives activities to be generally modest in isolation. However, the derivatives exposures, in conjunction with exposures through other products, increase exposures to MetLife and the company's interconnectedness with the U.S. financial system, and in the event of MetLife's material financial distress, could have broad negative impacts.

⁶¹⁰ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-41.

⁶¹¹ MetLife Presentation to FSOC: MetLife Investments (November 1, 2013), p. 21.

⁶¹² See Table 20. As noted in the table, MetLife's securities lending transactions may involve residential mortgage-backed securities (RMBS).

⁶¹³ MetLife's 2013 annual report states: "Should the Need Arise, We May Have Difficulty Selling Certain Holdings in Our Investment Portfolio or in Our Securities Lending Program in a Timely Manner and Realizing Full Value Give Their Illiquid Nature If we are required to return significant amounts of cash collateral under our securities lending program or otherwise need significant amounts of cash on short notice and we are forced to sell securities, we may have difficulty selling such collateral that is invested in securities in a timely manner, be forced

lending counterparties are G-SIBs or top-25 U.S. BHCs whose interconnectedness with the broader financial system could amplify the effect of any losses.⁶¹⁵

[REDACTED]

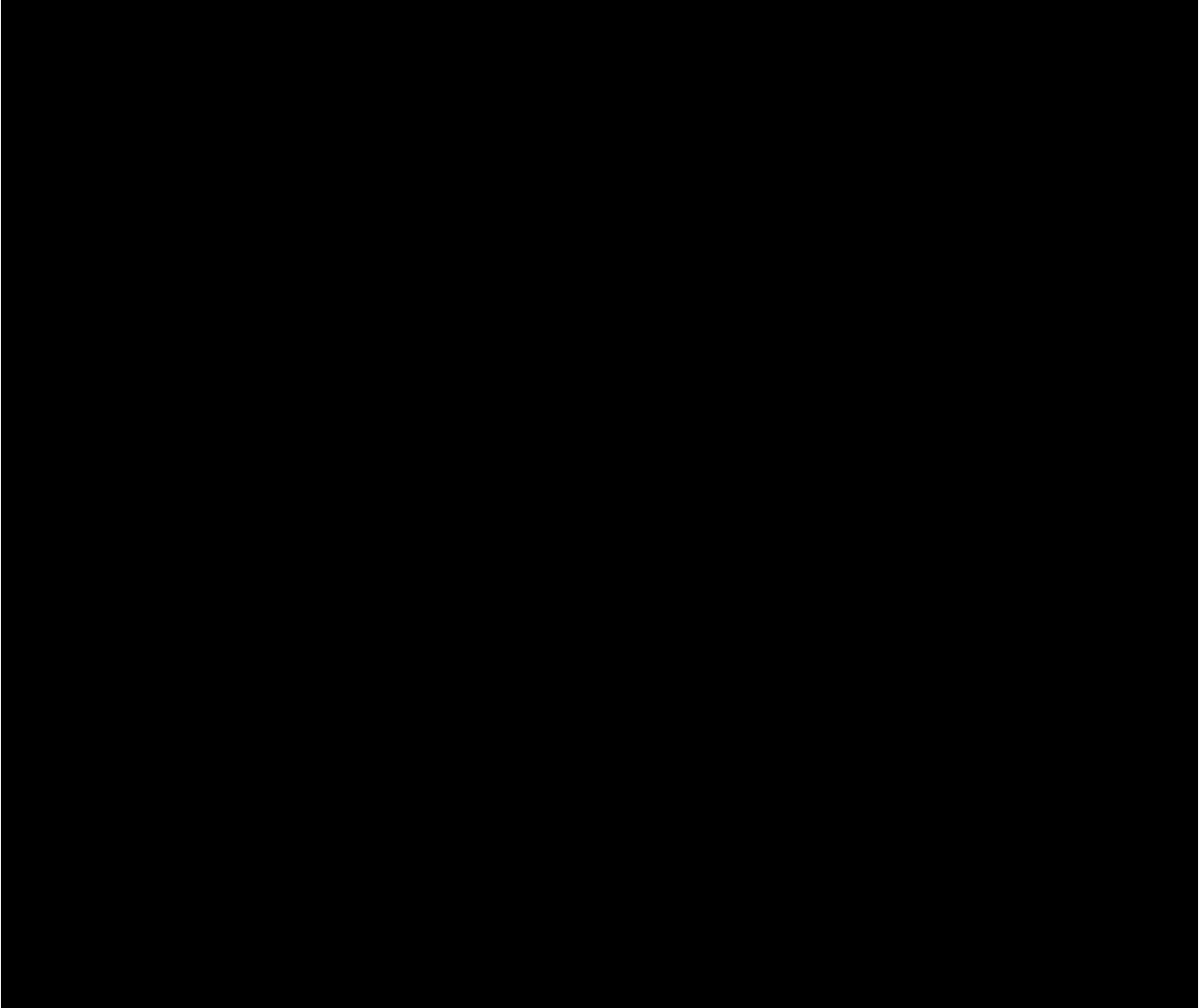
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to sell securities in a volatile or illiquid market for less than we otherwise would have been able to realize under normal market conditions, or both.” MetLife Annual Report on Form 10-K for the year ending December 31, 2013, p. 44.

⁶¹⁴ MetLife states that this approximately \$30 billion securities lending amount overstates the losses MetLife’s counterparties could experience. MetLife estimates the exposure of its counterparties as \$1.2 billion. While available collateral may mitigate some of the risks created by these activities, exposures remain due to the potential for price fluctuations of the underlying collateral that would need to be liquidated in order for counterparties to minimize potential losses.

⁶¹⁵ See Appendix C; MetLife Response to OFR Data Request, document A.8.b.ii.

⁶¹⁶ Id.

Table 20: MetLife Cash Collateral Liability by Lent Security Type (\$ Millions)


Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, document A.8.b.ii.

MetLife argues that securities lending does not pose risks to financial stability, but these securities lending transactions could pose a risk of loss to MetLife's counterparties if MetLife were to experience material financial distress. As discussed in section 3.2.1.2, MetLife typically lends securities in exchange for cash collateral representing 102 percent of the value of the securities.⁶¹⁷ Each loan is marked to market daily, and borrowers must deliver additional collateral when the aggregate fair market value of collateral held by MetLife is less than 100 percent of the fair market value of the lent securities.⁶¹⁸ MetLife, in turn, reinvests the cash

⁶¹⁷ MetLife Response to OFR Data Request, document A.8, p. 2.

⁶¹⁸ Loans of securities issued by entities organized in the United States carry a margin percentage of 102 percent, while loans of securities issued by entities organized outside the United States carry a margin percentage of 105 percent. In addition, the securities lending program in Japan is based on a collateralization level of 100 percent or

collateral.⁶¹⁹ A securities-lending counterparty to MetLife typically has the option to return a security at any time and receive the full amount of the collateral pledged by the counterparty, subject to any breakage fee that may apply and the consent of MetLife.

MetLife contends that its securities lending contracts cannot be terminated early without MetLife's consent and thus the Council's concerns about unanticipated liquidity event from early termination of securities lending contracts are unwarranted.⁶²⁰ MetLife's contention is not supported by the terms of MetLife's master securities loan agreements provided to the Council.⁶²¹

MetLife reinvests the cash collateral in securities, including in MBS and ABS, which are less liquid than cash and U.S. Treasury securities; therefore, it is possible that MetLife may not have sufficient collateral liquidity to meet a demand by one or more counterparties, particularly if MetLife were to experience material financial distress and several counterparties were to demand their cash collateral in rapid succession,⁶²² thereby exacerbating the potential for counterparty losses.

If MetLife were to experience material financial distress, its securities lending counterparties, particularly those counterparties holding lower-quality securities (compared with Treasury securities), could have an incentive to close out transactions as quickly as possible in order to withdraw cash collateral and reduce exposure to MetLife or to the borrowed securities. In addition, to avoid market concerns regarding their own financial condition, counterparties and other institutional customers may have an incentive to reduce exposures and disclose the limited extent to which they have a financial relationship with the firm in material financial distress. As described in section 3.3, MetLife's experience during the 2008-2009 financial crisis demonstrates that securities borrowers, particularly those holding relatively illiquid securities, may close out their transactions during times of financial stress. During the financial crisis, MetLife's securities borrowers returned approximately [REDACTED] of the less-liquid securities,

higher, rather than 102 percent. See MetLife Response to OFR Data Request, document A.8, p. 3; see also MetLife Response to OFR Data Request, document A.8.i-1 (Supplemental Request Response), p. 5.

⁶¹⁹ MetLife Response to OFR Data Request, document A.8, p. 2.

⁶²⁰ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-98-VII-99.

⁶²¹ MetLife provided the Council with copies of all 19 of its securities lending agreements.

⁶²² MetLife Response to OFR Data Request, document A.9, p. 2.

but retained virtually all U.S. government securities that had been borrowed.⁶²³ MetLife currently lends a larger proportion of U.S. government securities. As of June 30, 2013, approximately 88 percent of securities lent were U.S. Treasury securities or agency securities; the remaining 12 percent were investment-grade corporate bonds or RMBS.⁶²⁴ In addition, MetLife states that it invests cash collateral in high-quality securities.⁶²⁵ While this mitigates the risks created by these activities, exposures remain due to the potential for price and market fluctuations.

If MetLife could not return the cash collateral or some portion thereof, its counterparties may be forced to liquidate the borrowed securities, which could result in losses to the counterparty, although such losses would likely be much less in the case of U.S. government or similarly high-quality securities. Counterparty losses would be the difference between the liquidation value of the borrowed securities and the cash collateral pledged to MetLife.⁶²⁶ MetLife states that under its securities lending policy, this difference is always less than 2 percent of the market value of the securities borrowed.⁶²⁷ However, in a volatile market, the borrowed securities may lose value rapidly before the counterparty's sale of those securities, in which case the counterparty could lose more than the 2 percent difference, depending on the amount of collateral last posted by the counterparty and the price at which the counterparty is ultimately able to sell the borrowed security.⁶²⁸

In addition, if MetLife were to experience material financial distress and experienced liquidity demands in connection with its securities lending activities at the same time that it was experiencing liquidity demands in connection with other capital markets and insurance activities, there could be a greater risk of losses for its securities lending counterparties.

4.2.4.9 Repurchase and Reverse Repurchase Agreement Transactions

MetLife engages in repurchase transactions primarily to earn a return on invested assets. Transactions are overcollateralized, at levels reflecting the securities' risks.⁶²⁹ The custodian marks to market the positions on a daily basis and transfers the appropriate margin amounts.⁶³⁰

⁶²³ MetLife Voluntary Submission, Section III, p. III-25.

⁶²⁴ MetLife Response to OFR Data Request, document A.8.b.ii.

⁶²⁵ MetLife Response to OFR Data Request, document A.8, p. 2.

⁶²⁶ Securities lending exposures are included in leverage ratios and the MetLife total exposure in Table 8.

⁶²⁷ MetLife Voluntary Submission, Section III, p. III-78.

⁶²⁸ *Id.*

⁶²⁹ MetLife Response to OFR Data Request, document A.8, p. 3.

⁶³⁰ *Id.* at p. 4. MetLife's repurchase and reverse repurchase transactions use the industry standard Master Repurchase Agreement, and the custodial undertaking in connection with Master Repurchase Agreement for tri-party repurchase agreements.

As shown in Table 21, MetLife had total outstanding repurchase agreements of \$1.4 billion as of June 30, 2013, with four G-SIBs.⁶³¹ Those large financial intermediaries could suffer losses if MetLife were to experience material financial distress and fail to honor its obligations under these agreements. MetLife asserts that this exposure is overstated, due to the overcollateralization of these transactions (see Table 21). However, as discussed in section 4.2.5, in periods of financial stress and in a weak macroeconomic environment, these transactions could expose counterparties to potential losses arising from market fluctuations.

Table 21: Repurchase Transactions by Counterparty and Collateral Type

Counterparty	Collateral Type	Haircut (Percent)	Amount (\$millions)
	Investment Grade Corporate	110%	\$500
	Non-Agency RMBS/CMBS	110 to 130	400
	Non-Agency RMBS/CMBS	110 to 135	400
	Investment Grade Corporate	107	100
Repurchase Investment Transactions Outstanding			\$1,400

Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, document A.8.b.

4.2.4.10 Credit Default Swaps with MetLife as Reference Entity

In addition to engaging in derivatives transactions as a counterparty, as described in section 4.2.4.7, MetLife also is a reference entity on CDS contracts traded by other CDS market participants. As of June 30, 2013, the combined net notional exposures to the marketplace on MetLife referenced in CDS totaled \$7.1 billion, as shown in Table 8.⁶³² MetLife was a reference entity for \$26.2 billion in gross notional amount of single-name CDS contracts, for a net notional amount of \$3.7 billion.⁶³³ When compared to the largest BHCs and other nonbank financial companies, MetLife's single-name CDS net notional amount outstanding was one of the highest net notional outstanding amounts among reference entities.⁶³⁴ In addition, MetLife was one of the reference entities for credit derivatives indices (including the index CDX.NA.IG). MetLife represented approximately \$3.4 billion of the total net notional amount of the credit derivatives indices.⁶³⁵ A declared credit event in the MetLife name could lead to payouts by entities that sold CDS protection on MetLife. MetLife states that "the capital market exposure [due to MetLife's status as a reference entity on CDS contracts] would in fact be zero, because CDS

⁶³¹ MetLife Response to OFR Data Request, document A.8.b.

⁶³² See Table 8 and Appendix C for further details.

⁶³³ As of June 28, 2013. Based on information provided by the Trade Information Warehouse; see also Table 6.

⁶³⁴ MetLife ranks seventh on the basis of net notional CDS outstanding, behind General Electric Capital Corporation (\$7.4 billion), Berkshire Hathaway Inc. (\$6.2 billion), Deutsche Bank (\$4.2 billion), Barclays Bank (\$3.9 billion), JPMorgan Chase & Co. (\$3.8 billion), and Bank of America Corporation (\$3.7 billion). As of June 28, 2013. Based on information provided by the Trade Information Warehouse; see also Table 6.

⁶³⁵ ISDA SwapsInfo, Total Net Notional Outstanding for CDX.NA.IG series 1-20, June 30, 2013 at isda.com. MetLife represents approximately 1/125th of the index.

merely transfers an exposure to MetLife from one counterparty to another.”⁶³⁶ However, MetLife’s proposed approach underestimates exposure. CDS contracts with MetLife as a reference entity in which protection buyers do not hold MetLife’s securities create a new exposure to MetLife, rather than merely transferring risk between counterparties.

4.2.4.11 Equity Investors

Exposures to MetLife arising from its outstanding equity securities do not appear to be a significant direct source of risk to U.S. financial stability. MetLife has common stock and two series of preferred stock outstanding.⁶³⁷ The market capitalization of MetLife’s common shares was approximately \$50 billion as of June 30, 2013.⁶³⁸ MetLife’s 2014 proxy statement reported that only beneficiaries of the MetLife Policyholder Trust and BlackRock have reported to the SEC beneficial ownership of more than 5 percent of MetLife’s common shares.⁶³⁹

4.2.5 Methodological Differences in Exposure Calculations

MetLife asserts that several aspects of the Council’s calculations of market participants’ exposures to MetLife are inaccurate.⁶⁴⁰ Section 4 and Appendix C of this analysis provides estimates of the total exposures of counterparties, investors, and other market participants to MetLife arising from various activities engaged in by MetLife. Importantly, these figures are not estimates of those market participants’ expected losses if MetLife were to experience material financial distress. Rather, they are measurements of market participants’ levels of exposure to MetLife, which are relevant to assess the potential for MetLife’s material financial distress to pose a threat to U.S. financial stability through the exposure transmission channel. These exposure estimates are relevant because, among other things, they assist in an analysis of the company’s interconnectedness and a comparison of exposures to MetLife with exposures to other financial institutions.

While this analysis estimates the aggregate capital markets exposure to MetLife at \$183 billion, MetLife asserts that the figure is \$90 billion.⁶⁴¹ Further, the Council estimated G-SIB and G-SII exposures to MetLife at \$52 billion; however, MetLife contends that the figure is only \$13 billion.⁶⁴² Notwithstanding these broad ranges, even exposures at the lower ends of these estimates are substantial and could lead the company’s material financial distress to pose a threat

⁶³⁶ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-101-VII-102.

⁶³⁷ As of June 30, 2013. MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, pp. 190-191.

⁶³⁸ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5; data downloaded from a Bloomberg terminal as of June 30, 2013.

⁶³⁹ MetLife Proxy Statement on Schedule 14A (March 25, 2014), p. 82; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 219.

⁶⁴⁰ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section I, pp. I-8-I-9.

⁶⁴¹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-26.

⁶⁴² *Id.* at p. 6.

to U.S. financial stability. Following are explanations of the primary differences between the exposure estimates of the Council and MetLife.

First, MetLife contends that several exposures are overestimated because they should be reduced by an aggregate of \$48.7 billion to take into account the collateralization of the relevant obligations, including:

- (1) \$48.9 billion of exposures from FAs and FABS,⁶⁴³ which MetLife argues should exclude the collateralized exposures of \$15.0 billion for the FHLBs and \$2.8 billion for Farmer Mac;⁶⁴⁴
- (2) \$3.3 billion of derivatives exposures, which MetLife argues overstates the exposures by \$1.6 billion (including \$0.4 billion with respect to exposures of G-SIBs and G-SIIs) because the exposures have been netted of cash collateral but not of securities collateral;⁶⁴⁵
- (3) \$31.5 billion of exposures from securities lending and repurchase agreement transactions, which MetLife argues overstates the exposures by \$30.3 billion (including an overstatement of \$25.7 billion with respect to exposures of G-SIBs and G-SIIs) due to the fact that if MetLife fails to return cash to its counterparties, those counterparties will be able to retain the securities under the transactions.⁶⁴⁶

While collateralization of exposures serves as a mitigant to direct losses, this analysis evaluates gross exposures, specifically gross of securities collateral, because even fully collateralized exposures can result in negative externalities. For example, if MetLife's counterparties liquidated their significant amount of collateral during a period of overall stress in the financial services industry, these liquidations could place downward pressure on the prices of the assets involved, potentially spreading financial distress to other market participants that hold assets of the same class. Because collateralization of an exposure reduces the danger that financial distress will spread through the exposure transmission channel only by increasing the danger that it will spread through the asset liquidation channel, gross exposure provides a more useful measure of the potential for MetLife's material financial distress to be transmitted to other market participants.

Second, MetLife states that certain exposures should be reduced to reflect expected recovery rates. In particular, MetLife states that exposures from funding agreement-backed transactions should be \$4.6 billion, rather than \$33.3 billion (the level of these exposures before the

⁶⁴³ The total exposure from FAs and FABS, as detailed in Table 8, includes FABNs (\$24.6 billion), Obligations Outstanding in FAs to FHLB (\$15.0 billion), FABCP (\$6.0 billion), Farmer Mac (\$2.8 billion), and Other FAs (\$0.5 billion).

⁶⁴⁴ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-31.

⁶⁴⁵ *Id.* at pp. II-8, II-43-II-44.

⁶⁴⁶ MetLife states that the derivatives exposure, "when adjusted for collateral...drops to \$1.2 billion." *Id.* at pp. II-7, II-50-II-53.

application of any recovery rates), to account for historically high recovery rates on policyholder liabilities in insurance insolvencies due to the classification of these transactions as policyholder liabilities that are senior to unsecured debt.⁶⁴⁷ Similarly, MetLife states that estimated exposures of G-SIBs and G-SIIs should be reduced by \$4 billion to account for typical recovery rates.⁶⁴⁸ However, total exposures to MetLife can be used to evaluate the company's interconnectedness and to compare exposures to MetLife with exposures to other financial institutions; the exposure estimates are not estimates of market participants' expected losses. Further, because no failure of an insurance organization of MetLife's size, scope, and complexity has ever occurred, historical recovery rates may not accurately predict recoveries for market participants exposed to MetLife. This is particularly true in light of MetLife's use of institutional insurance liabilities such as FABS in volumes well in excess of state guaranty fund limits. MetLife also differs from insurers that have failed in the past in its extensive use of arrangements with captive reinsurers, which reduces risk-based capital requirements for MetLife's insurance subsidiaries and raises the possibility that recovery rates would be lower than has been the experience with failed insurance companies that did not make extensive use of captive reinsurers. Finally, as discussed elsewhere in section 4.2, recovery rates are not relevant to an investor whose focus is on the market liquidity (and value) of its holdings of MetLife debt securities (such as an MMF that holds FABS and must maintain a stable NAV); in this situation the negative effects of the investor's exposure to the material financial distress of MetLife can be realized through even a small drop in the value of MetLife's debt securities and before any payment default by MetLife. Therefore, this analysis identifies the exposures while citing mitigants that could potentially reduce or eliminate losses resulting from particular exposures.

Third, MetLife asserts that exposures of the FHLBs and Farmer Mac should not be viewed as capital markets exposures.⁶⁴⁹ However, as discussed in section 3.2.1.3, the FHLBs and Farmer Mac are important financial intermediaries with exposures to MetLife's operating entities that are significant on an absolute and relative basis.⁶⁵⁰

Fourth, MetLife states that the Council overstates its \$16.4 billion estimate of exposures from unsecured credit lines and committed facilities by \$10.8 billion because it includes the full amount of committed LOCs even though MetLife would have the right to draw on the LOCs only under certain circumstances.⁶⁵¹ MetLife states that this results in an overstatement of G-

⁶⁴⁷ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-31.

⁶⁴⁸ *Id.* at p. II-8.

⁶⁴⁹ *Id.* at p. II-31.

⁶⁵⁰ See Table 2, Table 3, and Table 8. MLIC represents 15 percent of all advances from the FHLB of NY (second only to Citibank), and MLIC and MICC together represent 19.6 percent of Farmer Mac's total advances. In total, the FHLBs have \$15.0 billion of exposure to MetLife and Farmer Mac has \$2.8 billion of exposure to MetLife.

⁶⁵¹

SIB and G-SII exposure by \$7.1 billion.⁶⁵² However, LOCs are relevant to the evaluation of capital markets exposures to MetLife even if they are available only to provide back-up liquidity, because these LOCs create additional capital market participant exposures to MetLife.

Fifth, MetLife argues for the exclusion of the \$7.1 billion of CDS for which MetLife is the reference entity.⁶⁵³ MetLife states that the CDS does not create new exposures to MetLife but merely transfers such exposures from one party to another.⁶⁵⁴ However, while a party with a pre-existing exposure to MetLife could use CDS for hedging purposes by transferring the exposure to a counterparty, parties with no exposure to MetLife could also use CDS to create such an exposure for speculative purposes. In general, available data do not identify the extent to which outstanding CDS for which MetLife is the reference entity are being used for hedging or speculative purposes. Additionally, MetLife argues that the Council should exclude \$3.4 billion of the total \$7.1 billion CDS exposure that is attributable to MetLife's inclusion in CDS indices because these indices also include 124 other companies.⁶⁵⁵ However, although MetLife represents only a fraction of the indices, the \$3.4 billion exposure from these indices that is attributable to MetLife is a significant amount and is properly included.

Sixth, MetLife states that the exposures of G-SIBs and G-SIIs should be reduced by \$10.4 billion to eliminate exposures that MetLife attributes to the clients of G-SIB and G-SII asset management businesses.⁶⁵⁶ As discussed above in connection with Table 12, available data do not enable the Council or MetLife to determine whether an entity is holding a particular security for its own account or for an asset management client, so a precise estimate of G-SIB and G-SII exposures is impossible. Despite this uncertainty, estimates are now shown excluding these holdings, likely underestimating the total exposures of G-SIBs and G-SIIs.

Seventh, MetLife contends that the Council underestimated the exposures attributable to insurance and reinsurance policies by \$1.3 billion.⁶⁵⁷ Although either approach could be acceptable, these exposures are viewed herein as insurance policy exposures, rather than capital markets exposures, resulting in a lower estimate of MetLife's capital markets exposures.

4.2.6 Aggregate Exposures and the Risk of Contagion

As noted above, the negative effects resulting from the material financial distress or failure of a large, interconnected financial firm such as MetLife are not limited to the amount of direct losses

⁶⁵² MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-8.

⁶⁵³ *Id.* at p. II-53.

⁶⁵⁴ *Id.*

⁶⁵⁵ *Id.* at p. II-54.

⁶⁵⁶

[REDACTED]

⁶⁵⁷ See Appendix C.

MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-8.

suffered by any one of the firm's counterparties, creditors, and customers.⁶⁵⁸ Instead, the aggregate effect of those exposures and the potential for contagion in the event of MetLife's material financial distress must also be considered. While any individual exposure to MetLife may not be sufficiently material to create a threat to U.S. financial stability, this analysis focuses on the potential effect of such exposures in the aggregate. There are significant aggregate exposures to MetLife across the financial system, including at other insurers and banking organizations. In light of the substantial interconnectedness of MetLife with other firms and other parts of the financial system, in the event of MetLife's material financial distress there could be market uncertainty regarding the extent of potential losses at other financial institutions or the scale of potential disruptions in important funding and other markets. This type of uncertainty can lead market participants to pull back from a range of firms and markets, in order to reduce exposures, thereby increasing the potential for destabilization.⁶⁵⁹ Multiple defaults are not required to cause contagion; instead, contagion can result when relatively modest direct, individual losses cause financial institutions with widely dispersed exposures to actively manage their balance sheets in a way that destabilizes markets.⁶⁶⁰ In this manner, the significant aggregate exposures to MetLife contribute to the potential for MetLife's material financial distress to cause or exacerbate contagion. There is mixed evidence of prior contagion in the U.S. insurance industry, but there is no precedent for the failure of an insurance organization like MetLife. Because the historical examples involve much smaller and simpler insurers, even a conclusion that those examples did not lead to contagion—as MetLife argues—would have limited applicability to the analysis of the potential effects of MetLife's material financial distress.

MetLife's size and market prominence increase the potential for MetLife's material financial distress to cause or exacerbate contagion. MetLife is the largest publicly traded U.S. insurance organization based on total assets⁶⁶¹ and holds approximately 10 percent of total admitted assets (on a statutory basis) in the U.S. life insurance industry.⁶⁶² Additionally, MetLife is a market

⁶⁵⁸ See Prasanna Gai, Andrew Haldane, and Sujit Kapadia, "Complexity, concentration and contagion," *Journal of Monetary Economics* vol. 58 (July 2010).

⁶⁵⁹ See Ricardo J. Caballero and Alp Simsek, "Fire Sales in a Model of Complexity," Massachusetts Institute of Technology Department of Economics Working Paper 09-28 (April 2011), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1496592.

⁶⁶⁰ See Tobias Adrian and Hyun Song Shin, "Liquidity and financial contagion," *Banque de France Financial Stability Review* number 11 (February 2008), available at <http://www.princeton.edu/~hsshin/www/BdFFSR.pdf>. This paper notes that because exposures were widely dispersed and small relative to the capital of individual financial institutions, "the conventional wisdom in policy circles up to the summer of 2007 was that the subprime exposure was too small to lead to widespread problems in the financial system."

⁶⁶¹ Best's Review, "Top 75 North American Public Insurers Ranked by 2013 Total Assets" (July 2014), p. 46.

⁶⁶² As of year-end 2013, on a statutory basis, MetLife had \$585 billion total admitted assets related to life insurance compared to a total of \$5.8 trillion in total admitted assets for the U.S. life insurance industry. MetLife statutory assets based on information provided by SNL Financial. U.S. life insurance industry statutory assets based on "Annual Report on the Insurance Industry," Federal Insurance Office, U.S. Department of the Treasury (September

leader in the U.S. life insurance industry, with a market share of life insurance products of approximately 16.6 percent.⁶⁶³ Institutional and individual contract holders and policyholders with the ability to surrender or withdraw their contracts early may seek to do so. In addition, material financial distress at the largest U.S. life insurer could lead to an increase in withdrawals at other insurance companies. Further, MetLife's material financial distress could lead investors to withdraw their funding from other significant financial intermediaries, out of fear that those firms could also experience distress.⁶⁶⁴ These actions could lead to a reduction in the provision of credit and a reduction in financial markets activities by market participants seeking to reduce exposures to other financial firms, which could impair financial intermediation and financial market functioning. Notably, the avoidance of contagion effects was an important concern before the intervention that helped to prevent the potentially disorderly failure of AIG in the fall of 2008.⁶⁶⁵

One potential source of contagion is MetLife's interconnectedness with other market participants as a result of its significant capital markets activities. Market participants may not have sufficient information to assess their counterparties' exposures to MetLife. Moreover, during a period of overall stress in the financial services industry, there could be increased difficulty distinguishing between healthy and unhealthy firms.⁶⁶⁶ In light of such uncertainty, market participants may choose to engage in protective behavior, such as reducing exposures to counterparties and customers, or pulling back from certain activities to increase liquidity in anticipation of an unmeasurable potential shock.⁶⁶⁷ In general, the more interconnected a firm

2014), p. 8, available at http://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/2014_Annual_Report.pdf.

⁶⁶³ As of year-end 2012, more than 1,000 life insurance companies were in business in the United States, offering more than \$615 billion of life insurance protection through individual policies and group certificates. See Table 45.

⁶⁶⁴ See Hal Scott, "Interconnectedness and Contagion," Financial Panics and the Crisis of 2008 (November 20, 2012), available at <http://ssrn.com/abstract=2178475>; see also Scott G. Alvarez, General Counsel, Board of Governors, "Remarks at the American Enterprise Institute Conference on Professor Hal Scott's Paper on Interconnectedness and Contagion" (February 8, 2013), available at http://www.aei.org/files/2013/02/08/-scott-alvarez-remarks_163346998313.pdf.

⁶⁶⁵ In written testimony provided to the Congressional Oversight Panel, Thomas Baxter, General Counsel and Executive Vice President of the FRBNY, stated, "AIG's role as one of the world's largest and storied insurance companies meant that its failure likely would have had a contagion effect, causing damage as it spread throughout the insurance industry. Policyholders would be hurt. Municipalities, who were already reeling from a lack of financing options for their building projects, would have seen their financial protection disappear. Workers whose 401(k) plans had purchased \$40 billion of insurance from AIG against the risk that their stable value funds would decline in value would see that insurance disappear. Pension plans that had placed funds in AIG guaranteed investment contracts, or GICs, which function much like deposits in a bank, would have experienced significant losses, losses that would be passed along to retirees or to others whose aspirations to be retirees would surely have been changed." See Testimony of Thomas C. Baxter, Jr., General Counsel and Executive Vice President, FRBNY, (May 26, 2010), available at http://www.newyorkfed.org/newsevents/speeches/2010/bax_dah100526.html.

⁶⁶⁶ See Congressional Research Service, "What Is Systemic Risk? Does It Apply to Recent JP Morgan Losses?" (May 24, 2012), p. 4.

⁶⁶⁷ See Ricardo J. Caballero, "Macroeconomics After the Crisis: Time to Deal with the Pretense-of-Knowledge Syndrome," Journal of Economic Perspectives volume 24, issue 4 (2010), pp. 85-102.

(including through capital markets exposures), the greater the potential effect of counterparty and market uncertainty regarding the firm. Because MetLife has significant interconnections with other financial firms, in the event of its material financial distress, other large and leveraged institutions may reduce their overall exposures to their counterparties out of fear that those counterparties could sustain losses as a result of the perception that those firms may have significant exposures to MetLife. This pullback behavior could result in a contraction of the provision of credit, and a reduction in financial activities conducted, by other financial firms and markets.

As discussed in section 4.3.5.1, if there were a run on MetLife's liabilities, state insurance commissioners may impose temporary stays on policyholder withdrawals and surrenders from the general account (except in situations where a policyholder faces a hardship), to limit outflows and conduct a more orderly receivership of a life insurance company.⁶⁶⁸ In MetLife's case, state insurance regulators could apply a stay to the \$142 billion of withdrawable life insurance liabilities⁶⁶⁹ to benefit other payments to policyholders. Because MetLife's insurance subsidiaries serve millions of life insurance, annuity, and retirement customers, invoking a suspension on surrenders or withdrawals of MetLife's benefit or claims-paying activity on such a large number of policyholders and contract holders could undermine confidence in the broader life insurance industry and spread uncertainty to the customers of other insurance companies with similar products. Such a crisis of confidence could spread from retail policyholders and contract holders to counterparties, investors, and other financial market participants. Although the use of this authority would be intended to calm policyholders, it could spread anxiety among policy and contract holders and undermine confidence in the broader life insurance industry, particularly during a period of financial stress and macroeconomic weakness and in light of the size and scope of MetLife's insurance activities.

MetLife states that there is no evidence of an insurer's failure causing policyholder contagion to other insurers or systemic consequences to the broader insurance industry.⁶⁷⁰ However, there are historical examples of increased policyholder withdrawals at unrelated institutions when a major insurer experienced material financial distress. In particular, during the late 1980s, a number of U.S. life insurance companies reacted to higher interest rates by investing heavily in high-yield

⁶⁶⁸ See NAIC, Insurer Receivership Model Act, Section 108 (October 2007), available at <http://www.naic.org/store/free/MDL-555.pdf>. Section 108A of the Receivership Model Act provides that the state court handling the insurance receivership may issue orders as necessary, including stays. Section 108C of the Receivership Model Act provides that the commencement of a receivership proceeding operates as a stay. See also discussion of RBC ratios in section 5.

⁶⁶⁹ See Table 24. MetLife Voluntary Submission, Section IV, pp. IV-8-IV-9; MetLife Voluntary Submission, Section IV, Appendix A, p. 48; MetLife Response to OFR Data Request, document B.7.f; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

⁶⁷⁰ MetLife Voluntary Submission, Section IV, p. IV-33.

assets to cover the high rates paid to policyholders.⁶⁷¹ When Executive Life announced a significant loss on its bond portfolio in early 1990, its policyholders withdrew a total of \$4 billion in that year. As stated in GAO testimony to Congress, the subsequent takeover of Executive Life by regulators spurred policyholder runs at two unrelated institutions.⁶⁷² First Capital experienced, among other things, a significant decline in new business during 1990.⁶⁷³ While MetLife argues that pullbacks from these two unrelated institutions occurred due to concerns about those firms' investments in the same assets that contributed to Executive Life's failure,⁶⁷⁴ a similar type of concern could arise, on a much larger scale, in the context of MetLife's material financial distress.

The largest U.S. insurance company failures involved assets of less than \$15 billion and fewer than 500,000 policyholders, while MetLife has total consolidated assets of \$816 billion and 90 million policyholders.⁶⁷⁵ Executive Life was an institution with \$13 billion in total assets,⁶⁷⁶ and there could be a substantially larger market response driven by the behavior of policyholders at other significant life insurance companies if an insurance organization with the size, scope, and interconnectedness of MetLife were to experience material financial distress during a period of overall stress in the financial services industry and in a weak macroeconomic environment.⁶⁷⁷

⁶⁷¹ MetLife Voluntary Submission, Section IV, pp. IV-17, IV-25, IV-32; see Richard L. Fogel, "Insurer Failures: Regulators Failed to Respond in Timely and Forceful Manner in Four Large Life Insurer Failures," GAO/T-GGD-92-43 (September 9, 1992), p. 2, available at <http://www.gao.gov/assets/110/104752.pdf>.

⁶⁷² In testimony to Congress in 1992 regarding the findings of a GAO review, the Assistant Comptroller General stated, "According to regulators, the April 1991 takeovers of Executive Life and Executive Life of New York spurred policyholder runs on junk bond laden First Capital and Fidelity Bankers." Richard L. Fogel, "Insurer Failures: Regulators Failed to Respond in Timely and Forceful Manner in Four Large Life Insurer Failures," GAO/T-GGD-92-43 (September 9, 1992), p. 6, available at <http://www.gao.gov/assets/110/104752.pdf>.

⁶⁷³ See Harry DeAngelo, Linda DeAngelo, and Stuart C. Gilson, "Perceptions and the Politics of Finance: Junk Bonds and the Regulatory Seizure of First Capital Life," *Journal of Financial Economics* volume 41 (1996), p. 481 ("While FE's troubles did not engender a dramatic increase in surrenders at FCLIC, the firm did experience a substantial decline in new business during 1990. For the parent company, premiums received fell from \$2.7 billion in 1989 to \$1.3 billion in 1990, a 52% decline. Consistent with a market-anticipated decline in new business, FCH's share price fell roughly 50% in January 1990.").

⁶⁷⁴ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-60.

⁶⁷⁵ MetLife Voluntary Submission, Section IV, Appendix A, p. 4; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5; MetLife Voluntary Submission, Section III, p. III-74; MetLife Voluntary Submission, Section IV, p. IV-34-IV-38. Of MetLife's 90 million customers, 40 million are non-U.S. customers. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-22.

⁶⁷⁶ MetLife Voluntary Submission, Section IV, Appendix B, p. 16; GAO, "Insurer Failures: Regulators Failed to Respond in Timely and Forceful Manner in Four Large Life Insurer Failures," GAO/T-GGD-92-43 (September 9, 1992), p. 1, available at <http://www.gao.gov/assets/110/104752.pdf>.

⁶⁷⁷ One analysis of the contagion effects on other insurers of announcements by First Executive in January 1990 of a write-down in its bond portfolio, and by Travelers in October 1990 of losses on its CRE portfolio, concluded that "the primary significance of the write-down announcements to the market was their anticipated effect on policyholders' behavior [at other insurers]." George Fenn and Rebel Cole, "Announcements of Asset-Quality Problems and Contagion Effects in the Life Insurance Industry," *Journal of Financial Economics* volume 35, issue 2 (1994), p. 195; see also MetLife Voluntary Submission, Section IV, p. IV-36.

MetLife commissioned Oliver Wyman to conduct a study of the impact of past insurer failures on other insurance companies (the Oliver Wyman Contagion Study).⁶⁷⁸ Among other things, the study seeks to measure the contagion transmitted by policyholders to “peer insurers,” which are defined as other insurers of the same size that operated in the same market (the same state or region, in the case of U.S. insurers) during the time certain life insurers failed. The analysis is based on the largest insurer failures in the United States, Canada, the United Kingdom, and Japan since 1990.⁶⁷⁹ The study concludes that “[t]here is no evidence that ‘policyholder contagion’ occurred between the failed insurers in our study and other insurers” and “[t]here is no evidence that the failure of one insurer results in ‘policyholder contagion’ to another insurer.”⁶⁸⁰

The Oliver Wyman conclusions have limited value for several reasons. First, there is no historical precedent for the failure of an insurance organization of the size, scope, and complexity of MetLife. For example, the assets of the three largest U.S. insurers included in the Oliver Wyman Contagion Study combined (approximately \$38 billion)⁶⁸¹ total less than 10 percent of MetLife’s general account assets as of June 30, 2013 (\$570 billion),⁶⁸² significantly limiting any predictive value for policyholder behavior at other U.S. insurers if MetLife were to experience material financial distress.

For example, MetLife states that “[t]he failure of Confederation Life in Canada was a very similar set of facts [to a potential failure of MetLife], smaller scale.”⁶⁸³ However, the failure of Canada’s fourth-largest life insurer, with total assets of \$14 billion (\$22 billion in 2014 dollars⁶⁸⁴), of which \$6 billion (\$10 billion in 2014 dollars⁶⁸⁵) was located in the United States,⁶⁸⁶ is not necessarily an indication of the potential effects of the material financial distress of MetLife, which is the largest U.S. insurer, with \$816 billion⁶⁸⁷ in assets. In addition, there are significant differences between the Canadian and U.S. financial systems and insurance regulatory approaches, although regulators in Georgia and Michigan were involved in Confederation Life’s resolution.⁶⁸⁸

⁶⁷⁸ MetLife Voluntary Submission, Section IV, Appendix B, p. 3.

⁶⁷⁹ *Id.* at p. 13.

⁶⁸⁰ *Id.* at pp. 9, 13.

⁶⁸¹ *Id.* at p. 4.

⁶⁸² The \$570 billion figure includes total balance sheet assets excluding separate accounts. MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

⁶⁸³ Transcript of MetLife Oral Hearing, Statement of John Hele, Chief Financial Officer, MetLife (November 3, 2014), p. 118.

⁶⁸⁴ Bureau of Labor Statistics, CPI Inflation Calculator (accessed November 11, 2014), available at http://www.bls.gov/data/inflation_calculator.htm.

⁶⁸⁵ *Id.*

⁶⁸⁶ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section II, p. II-64; MetLife Voluntary Submission, Section IV, Appendix B, p. 38.

⁶⁸⁷ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

⁶⁸⁸ For example, Canada has a national insurance regulator that obtained a court order that prohibited any insurer operating in Canada from encouraging Confederation policyholders to cancel, surrender or terminate policies, and

In addition, the Oliver Wyman Contagion Study's reliance on regional examples for conclusions regarding asset sales by a firm of MetLife's scope and scale is inapt. For example, the comparisons in the Oliver Wyman Contagion Study were selected based in part on the states in which the insurers were headquartered or collected a certain amount of their premiums (and the study excluded certain insurer failures).⁶⁸⁹ The scope and scale of MetLife's products and customer reach define it as a truly national firm not focused on or centered in any one state or region. The impact of material financial distress at MetLife could affect markets and insurers throughout the United States, not just those with headquarters in the same region.

Further, the Oliver Wyman Contagion Study contains possible examples of policyholder contagion, albeit at low levels. Oliver Wyman's conclusion that there was no evidence of policyholder contagion in the failures studied was based on a multi-pronged test created by Oliver Wyman. Specifically, Oliver Wyman stated that contagion was not present unless a peer insurance company was headquartered in the same state or region as the failed insurance company and experienced a simultaneous decline in new business and an increase in surrender or lapse rates outside of normal business variation.⁶⁹⁰ This strictly constructed formula allowed Oliver Wyman to conclude that there was no evidence of policyholder contagion. The data provided by Oliver Wyman, however, contain an example of what could be possible policyholder contagion. In the case of GALIC, both Jackson National Life and Reliance Life Insurance Company showed increases in surrender and lapse ratios from 1998 to 1999 (the year of GALIC's failure).⁶⁹¹ From 1998 to 1999, Jackson National Life experienced not only a small increase in surrender and lapse ratios (from 10 percent to 12 percent), but also experienced a decline in new business issued (from 13 percent to 11 percent).⁶⁹² These increases in surrender and lapse ratios and decline in new business may be within a range of normal business variation or may be evidence of limited contagion. This example illustrates the difficulty of drawing definitive conclusions regarding the existence of contagion arising from the historical failures of a limited number of small insurance companies.

The historical examples are imprecise, due to myriad changes in the life insurance industry and its regulation since the early 1990s, as well as the fact that the licensed insurance companies involved were far smaller than those currently operated by MetLife. The absence of a past incident of undisputed insurance industry contagion that posed a threat to U.S. financial stability is not evidence that such contagion would not occur in the unprecedented event of the failure of MetLife—a company that is highly interconnected with the financial system, with significant counterparty exposures counterparties, and with extensive capital markets activities.

Canada has a national policy guarantee system that offers, in some key areas, higher levels of protection, such as guaranteeing at least 85 percent of total account value.

⁶⁸⁹ MetLife Voluntary Submission, Section IV, Appendix B, pp. 21, 28.

⁶⁹⁰ Oliver Wyman, "Response to FSOC's written discussion questions" (July 11, 2014), pp. 4-5.

⁶⁹¹ MetLife Voluntary Submission, Section IV, Appendix B, p. 35.

⁶⁹² Id.

4.3 Asset Liquidation Transmission Channel

A nonbank financial company holds assets that, if forced to liquidate, would cause a fall in asset prices and thereby significantly disrupt trading or funding in key markets or cause significant losses or funding problems for other firms with similar holdings.

4.3.1 Overview

The second channel identified by the Council as an avenue by which a nonbank financial company could transmit material financial distress is the asset liquidation channel. A nonbank financial company could transmit the negative effects of its material financial distress if it holds a large amount of assets that, if liquidated quickly, could significantly disrupt the operation of key markets or cause significant losses or funding problems for other firms with similar holdings. During a period of overall stress in the financial services industry and in a weak macroeconomic environment, deterioration in asset prices or market functioning could pressure other financial firms to sell their holdings of affected assets in order to maintain adequate capital and liquidity. This, in turn, could produce a cycle of asset sales that could lead to further market disruptions.

The broader market implications of asset liquidation depend on factors including the size and composition of the asset portfolio liquidated; any fire-sale discount, which depends on the risk and liquidity of the assets; and the extent to which other financial market participants may be forced or incentivized to sell similar assets. All other things being equal, the liquidation of larger or less-liquid asset portfolios poses a greater risk of disrupting financial markets than does the liquidation of smaller or more-liquid asset portfolios. In addition, asset sales over a relatively short period of time that lead to larger price discounts would be more likely to disrupt financial markets than asset liquidations over a longer period of time that lead to smaller discounts. Further, more-leveraged firms may be forced to liquidate more assets in a shorter time than less-leveraged firms. Finally, sales of assets that are widely held or that are commonly used as collateral by large financial intermediaries in critical funding markets, would generally be more disruptive than sales of assets that are held or used less widely.

In the event of material financial distress, MetLife could be forced to liquidate assets to meet its obligations to counterparties, contract holders, policyholders, and others. Such liquidation could affect asset prices and market functioning. The negative impacts of such sales could be exacerbated as a result of the company's need to maintain appropriate levels of leverage and capital. MetLife's ability to meet these demands without a forced liquidation of assets at fire-sale prices would depend on a range of factors, including the liquidity characteristics of its asset portfolio and the extent to which those assets are encumbered. While the potential sources of liquidity strain listed above may not be realized simultaneously, the impact of a rapid increase in liquidity demand from a combination of those sources on MetLife—and, in turn, on the financial markets more broadly—could be significant.

There are two primary sources of potential liquidity strains that could cause or contribute to a forced asset liquidation by MetLife: institutional and capital markets products, and insurance-related liabilities. MetLife's material financial distress could result in a forced liquidation of assets in order to meet near-term liabilities arising from these products.

First, if MetLife were to experience material financial distress, it could be subject to early termination of, or the inability to roll over, its institutional products. In particular, actions by institutional counterparties to reduce exposures to MetLife could cause the company to be unable to roll over a portion of its approximately \$30 billion of outstanding FABS,⁶⁹³ or to be forced to sell assets in response to early returns of securities borrowed in connection with its approximately \$30 billion securities lending program.⁶⁹⁴

In MetLife's securities lending program, the insurance subsidiaries lend securities to third parties in exchange for cash collateral. A portion of the highly liquid securities lent by MetLife are funded by proceeds from FABS. MetLife typically receives cash equal to at least 102 percent of the fair market value of the lent security. MetLife uses the cash collateral it receives to purchase securities that often are less liquid and higher-yielding than the lent securities and have longer maturities than the duration of the underlying securities loans. In the event of MetLife's material financial distress, its counterparties could close out their transactions by returning the borrowed securities to MetLife in order to recoup the cash collateral. This maturity mismatch results in liquidity risk for MetLife. In addition, the FABS-related securities lending is subject to potential rollover risk from FABS investors as well as potential runs by securities borrowers that could force MetLife to rapidly sell a substantial volume of relatively illiquid assets at discount prices.

Second, another potential source of liquidity strains that could also cause or contribute to a forced asset liquidation by MetLife is the portion of the company's retail insurance and annuity products that can be surrendered or withdrawn for cash. Although MetLife states that many of its liabilities are relatively long-term,⁶⁹⁵ the majority of these liabilities can be surrendered or withdrawn for cash value and therefore can become, in effect, short-term liabilities. Over 50 percent of MetLife's \$275 billion in U.S. general account insurance liabilities are subject to early withdrawal, \$50 billion of which may be withdrawn with little or no penalty.⁶⁹⁶ Furthermore, [REDACTED] of the associated cash surrender value of these liabilities is generally payable within seven days.⁶⁹⁷ In lieu of surrenders, policyholders can also request

⁶⁹³ FABS have maturity schedules or expected benefit payout patterns that range from 12 months or less to six or more years. MetLife Response to OFR Data Request, document A.6_CFO_2of3.

⁶⁹⁴ See Table 20.

⁶⁹⁵ MetLife Voluntary Submission, Section III, p. III-79.

⁶⁹⁶ See Table 24 and Table 25.

⁶⁹⁷ See Table 25.

liquidity through policy loans against an aggregate liability amount of \$116 billion.⁶⁹⁸ In addition, over 80 percent of MetLife's \$246 billion of qualifying separate account liabilities can be withdrawn or transferred, although separate account contract holders generally have stronger disincentives to surrender than general account policyholders.⁶⁹⁹ Upon requests for early withdrawal or surrender of some portion of these products, an insurer may find it necessary to liquidate securities in its investment portfolio to generate the cash required to meet those requests.

The risk of disruptive asset liquidations could be exacerbated as a result of all or some combination of the liquidity events described above occurring simultaneously or in rapid succession. Institutional investors and counterparties can experience a rapid loss of confidence in a common counterparty or asset class resulting in an unplanned and unexpected retreat from that counterparty or asset class. If MetLife were to experience material financial distress, more than one segment of MetLife's clients and counterparties with the ability to withdraw cash or assets under the terms of their contracts could do so. For example, if it were known that one or more of MetLife's significant securities lending counterparties had moved to close out their transactions or otherwise reduce exposure to MetLife, MetLife's other capital markets counterparties and certain policyholders could decide to take similar protective actions.⁷⁰⁰

Policyholders have a number of contractual and other disincentives to early withdrawal, including surrender charges, tax penalties, and the loss of insurance coverage or product guarantees;⁷⁰¹ however, these disincentives could serve as less of a deterrent if MetLife's ability to meet its obligations were in doubt. Some policyholders may opt for partial surrenders or policy loans to reduce the impact of the contractual disincentives while still withdrawing available cash from their policies. Further, surrenders and policy loan rates could increase if policyholders feared that stays were likely to be imposed either by MetLife's insurance subsidiaries or by their state insurance regulators. State courts could impose stays during the receivership process, or stays could be imposed by the relevant regulator at the regulator's discretion.⁷⁰² The ability of state insurance regulators to impose stays is an important feature of the regulatory system. However, the imposition of a stay on discretionary withdrawals could

⁶⁹⁸ The amount of \$116 billion represents the global maximum aggregate policy liability amount with available policy loan features. [REDACTED]

[REDACTED] MetLife Response to OFR Data Request, document B.8; MetLife Response to OFR Data Request, 2013.11.12_-Liability_cash_outflow_model_(PROTECTED).

⁶⁹⁹ MetLife Voluntary Submission, Section III, p. III-38; see Table 28.

⁷⁰⁰ For example, the Oliver Wyman study detailed the failure of GALIC, whose failure resulted from a liquidity crisis that was prompted by solvency concerns and a ratings downgrade. MetLife Voluntary Submission, Section IV, Appendix B, pp. 5, 13.

⁷⁰¹ MetLife Voluntary Submission, Section IV, Appendix A, p. 127.

⁷⁰² See section 5.2 for a discussion of regulatory stays.

cause a loss of confidence, particularly if other insurers are simultaneously experiencing some level of financial distress. Beyond the direct effect of MetLife's asset liquidation on the financial markets, a run on MetLife necessitating significant asset liquidations could spark a loss of confidence in the broader insurance industry, potentially leading to runs at other major insurers. Runs on a market leader may be highly visible, and therefore, asset liquidations that are the result of such a run may be more likely to spill over to other insurance companies.

At the same time, while MetLife's insurance company subsidiaries have the contractual right to defer payouts for up to six months on the immediately payable cash surrender values associated with many of their products, the subsidiaries could have disincentives to invoke this option because of the negative signal that such action could send to counterparties, policyholders, and investors.⁷⁰³ Such a deferral could exacerbate concern about MetLife's financial condition, potentially leading to a further increase in surrender activity for those contracts that have not been deferred. In addition, this action could cause significant concern about access to funds at other insurance companies with similar asset and product profiles, especially in a time of overall stress in the financial services industry, thereby contributing to strain on other market participants.

Liquidity difficulties could be created or amplified by a downgrade of the credit rating of MetLife, Inc. or its largest insurance subsidiaries.⁷⁰⁴ Because some of MetLife's operating debt transactions include broad financial condition provisions, or can otherwise be terminated on short notice, a negative change in MetLife's credit profile could be a catalyst for the acceleration of certain liabilities or requests for increased collateral to support existing obligations. A credit rating downgrade or material adverse change in MetLife's financial condition could also prevent the company from issuing or rolling over certain debt obligations (e.g., FABNs) where the contractual arrangements allow the intermediating securities dealers to not settle new issuances under certain credit conditions.⁷⁰⁵ MetLife's annual report states that "[d]owngrades in our financial strength could have a material adverse effect on our financial condition and results of operations in many ways, including...materially increasing the number or amount of policy surrenders and withdrawals."⁷⁰⁶ Credit rating downgrades could lead MetLife's capital markets counterparties, contract holders, and policyholders to reduce exposures to MetLife and thus

⁷⁰³ MetLife strongly disagrees that it would be concerned with the effect of negative signals when reacting to an extreme scenario. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-113. Regardless of whether MetLife takes signals into consideration, there is still the potential for negative market impacts and contagion because of MetLife's actions.

⁷⁰⁴ MetLife Response to OFR Data Request, document D.2.h.

⁷⁰⁵ *Id.*

⁷⁰⁶ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 50; see also MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 50. MetLife CEO Steven Kandarian affirmed the importance of credit ratings to MetLife in the company's oral hearing. Transcript of MetLife Oral Hearing, Statement of Steven Kandarian, CEO MetLife (November 3, 2014), pp. 82-83.

increase MetLife's need for liquidity. The reduction in liquidity could, in turn, further weaken the company's financial condition.

MetLife has a substantial portfolio of highly liquid assets; however, it may not be sufficient to avoid sales of less-liquid assets in order to meet increased liquidity demands. [REDACTED]

[REDACTED].⁷⁰⁷ MetLife may be unable to quickly sell those liquid assets and may be required to sell a larger volume of less-liquid assets. A substantial portion of MetLife's assets often support multiple purposes⁷⁰⁸ and may affect multiple aspects of the company's operations. The multiple purposes of these assets could reduce MetLife's ability to sell its relatively liquid assets first, which could reduce the company's ability to liquidate assets in a manner that minimizes the negative price effects of those asset sales.

A forced liquidation could be made more likely because of, and exacerbated by, the scale and composition of MetLife's leverage.⁷⁰⁹ MetLife's relatively high operating debt⁷¹⁰ results in relatively high total leverage (the sum of financial and operating leverage). MetLife's use of operating leverage, such as lending liquid securities for cash collateral that is invested in less-liquid assets, could aggravate the liquidity pressure on MetLife in the event of its material financial distress.

The severity of the disruption caused by a forced liquidation of MetLife's assets could be amplified by the fact that the investment portfolios of many other large financial intermediaries are also composed of similar assets, which could cause significant losses for those firms. The resulting erosion of capital and potential de-leveraging by market participants could result in asset fire sales that could disrupt financial market functioning and that could ultimately damage the broader economy.

As of June 30, 2013, MetLife had approximately \$500 billion of general account invested assets (including cash and cash equivalents).⁷¹¹ MetLife has substantial holdings of various relatively illiquid assets, such as fixed-income corporate securities and ABS that are widely held by large financial intermediaries. Markets for these relatively illiquid assets could be more susceptible to severe disruptions if MetLife were to liquidate its holdings of those assets. For example,

⁷⁰⁷ See Table 31.

⁷⁰⁸ For example, the same U.S. Treasury security may be an admitted asset that is used to support capital and reserve requirements despite having been lent out in a securities loan transaction.

⁷⁰⁹ MetLife asserts that the Council's statements regarding liquidity strains were "vague and speculative" and "without support." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-3. However, while this introductory section 4.3.1 provides an overview of this analysis, section 4.3 provides extensive support for the conclusions regarding this issue.

⁷¹⁰ MetLife's operating debt includes securities lending, FHLB borrowings, GICs, and FAs. See Table 35.

⁷¹¹ See Table 30.

MetLife's ██████████⁷¹² of U.S. and foreign corporate fixed income securities represent the two largest categories of MetLife's assets, and its holding of each asset category represented over ██████████ of ADTV in those respective markets.⁷¹³ In addition, as of June 30, 2013, MetLife's general account assets invested in ABS represented over ██████████ of the market's ADTV. In a period of overall stress in the financial services industry and in a weak macroeconomic environment, liquidity in these markets could dry up; the size of these portfolios could make it difficult for MetLife to liquidate its assets at non-fire sale prices if needed, and a forced liquidation could put significant pressure on market prices, further impairing the company's ability to meet its obligations while causing significant losses for other firms with similar holdings. Price dislocations in these debt markets could cause significant disruptions in the availability of funding for the broader economy.

MetLife commissioned Oliver Wyman to analyze the asset and liability positions of MetLife's U.S. entities in several distress scenarios to determine whether elevated surrenders by policyholders and other liability payment demands⁷¹⁴ could force MetLife to rapidly liquidate assets in quantities large enough to cause a meaningful disruption in any asset market.⁷¹⁵ Oliver Wyman and MetLife concluded that there is no reasonable basis or evidentiary support for concluding that material financial distress at MetLife could trigger policyholder surrenders or other liability liquidity demands that would result in asset sales that could have systemic effects.

However, the Oliver Wyman model indicates in two different ways that asset sales arising from MetLife's material financial distress could have significant effects on key financial markets. First, Oliver Wyman made a number of assumptions about key variables, to which the model is highly sensitive. Several of these assumptions result in a significant underestimation of the potential effects of MetLife's assets sales. While there may be certain scenarios in which MetLife's asset liquidation would not disrupt key markets, there is a wide range of plausible alternative assumptions with respect to several of the key variables. The application of assumptions for these key variables that are different from—but no less plausible than—Oliver Wyman's generates price impacts that could have significant effects on debt markets, particularly in the context of material financial distress at MetLife and overall stress in the financial services industry. The extent of these potential effects shows that MetLife's materials financial distress could pose a threat to U.S. financial stability through the asset liquidation transmission channel. Second, even accepting Oliver Wyman's assumptions, some of the price impacts generated in the Oliver Wyman analysis could be large enough to significantly disrupt

⁷¹² See Table 30.

⁷¹³ MetLife Response to OFR Data Request, document B.3_market_analysis.

⁷¹⁴ As discussed further below, the other liability payment demands in the Oliver Wyman analysis are based largely on the result of outflows related to contractual run-off at scheduled maturities (including some long-dated putable GICs) but do not include discretionary actions by counterparties (e.g., early termination of securities loan transactions or certain contractually allowable increases in collateral haircuts under lending arrangements).

⁷¹⁵ MetLife Voluntary Submission, Section IV, p. IV-i.

key securities funding markets, such as the repurchase agreement market. Thus, even taken on its own terms, the Oliver Wyman analysis shows that asset liquidations by MetLife could disrupt key financial markets.

In summary, the negative effects of MetLife's material financial distress could be transmitted to other financial firms and markets through the asset liquidation channel, which could in turn cause a material impairment of financial intermediation or financial market functioning that would be sufficiently severe to inflict significant damage on the broader economy.

4.3.2 Rollover and Run Risks of MetLife's Funding Agreement-Backed Securities Program

4.3.2.1 *Overview*

MetLife's spread margin business model relies on two highly rated insurance subsidiaries, MLIC and MICC, to raise funds by issuing FAs to an SPV, funded by the issuance of FABS to institutional investors.⁷¹⁶ Cash proceeds from the FABS are passed through the SPVs to the operating insurance companies that issued the FAs.⁷¹⁷ Payments of principal and interest on these debt securities are secured by the uncollateralized FAs issued to the SPVs.⁷¹⁸ MetLife seeks to earn a spread by investing a portion of its proceeds in higher-yielding assets.⁷¹⁹ MetLife also seeks to earn a spread by investing a portion of its proceeds from these instruments in highly liquid U.S. Treasury securities and agency securities. The company then lends those securities, typically against 102 percent cash collateral, to securities borrowers.⁷²⁰ The cash collateral is, in turn, reinvested in less-liquid, higher-yielding securities with maturities beyond the duration of

⁷¹⁶ MetLife issues two broad types of FABS: FABNs and FABCP. The maturity of FABNs matches the maturity of the underlying FA, while FABCP have shorter maturity than the underlying FA. However, FABNs may also include different types of investor put options. For example, extendible FABNs can be extended by investors at regular time intervals (usually a month or a quarter) until a pre-determined final maturity date. See section 3.2.1.1 and section 4.2.4.3.

⁷¹⁷ The arrangement may involve a currency swap if the FABS are issued in a different currency than the FAs. See A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), pp. 2-3, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>.

⁷¹⁸ Because the FAs backing the FABS are insurance products, FABS funding is not included in traditional financial leverage calculations. The FAs themselves are not secured by collateral, but the claims under FAs typically rank *pari passu* with the claims of policyholders of the insurance company issuers, although this condition depends on the relevant state law. Therefore, claims on FAs might be in a superior position to the claims of general creditors of the insurance company issuers with respect to payments of principal and interest. The A.M. Best methodology for rating FABNs states, "Notes issued under a standard FABS program will receive debt ratings that are the same as the [issuer credit rating] of the sponsoring insurance company (and also of the program)." See A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), pp. 1-3, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>.

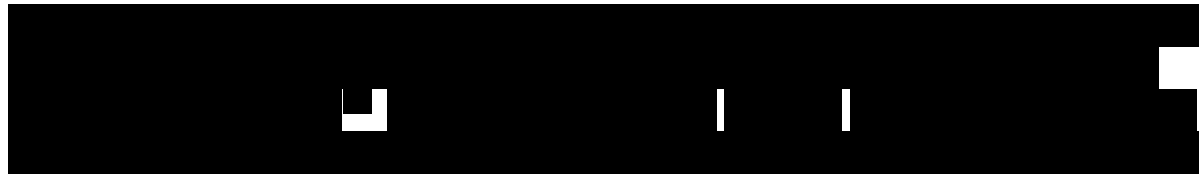
⁷¹⁹ MetLife Response to OFR Data Request, document A.8.i.ii.1. Overview and document A.8.i.ii.1. CUSIP List; MICC 2012 Annual Statement, Schedule D; MICC 2013Q2 Quarterly Statement, Schedule D; MLIC 2012 Annual Statement, Schedule D; MLIC 2013Q2 Quarterly Statement, Schedule D.

⁷²⁰ *Id.*

the underlying securities loans.⁷²¹ This business model is subject to potential rollover risk from FABS investors or runs by securities borrowers that could force MetLife to rapidly sell a substantial volume of relatively illiquid assets at discount prices.

4.3.2.2 Spread Margin Business Using FABNs⁷²²

MetLife earns a spread directly and indirectly using FABN funding. MICC and MLIC issue FAs to a special-purpose trust that issues FABNs in U.S. dollars or foreign currencies.⁷²³ MetLife earns a spread directly by investing a portion of the proceeds from the FABN in mortgages, syndicated loans, and higher-yielding securities (corporate bonds and private-label ABS).⁷²⁴ MetLife also invests a portion of FABN proceeds in highly liquid U.S. Treasury securities and agency ABS (mostly mortgages).⁷²⁵ As described in section 4.3.3, MetLife earns a spread indirectly from these liquid securities against typically 102 percent cash collateral to securities borrowers.⁷²⁶ MetLife then reinvests the cash collateral in higher-yielding securities, including a large fraction of corporate bonds and private-label ABS.^{727, 728}



⁷²¹ Almost half of the \$18.6 billion in assets purchased with securities lending cash collateral are non-government securities. This includes \$1.3 billion in RMBS, \$1.3 billion in CMBS, \$2.1 billion in other loan-backed and structured securities, and \$5.2 billion in industrial and miscellaneous securities issued by unaffiliated issuers (all numbers are fair value amounts). MLIC 2012 Annual Statement, Schedule DL, Part 2.

⁷²² This subsection focuses on FABNs (which account for about 80 percent of MetLife's FABS) using detailed securities-level data from MetLife Response to OFR Data Request, document A.8; MLIC 2012 Annual Statement, Schedule D; MLIC 2013Q2 Quarterly Statement, Schedule D; MICC 2012 Annual Statement, Schedule D; MICC 2013Q2 Quarterly Statement, Schedule D; and data downloaded from a Bloomberg terminal as of June 12, 2014. While similar securities-level details about MetLife's FABCP program are not currently available, it appears that MetLife's spread margin business using FABCP is broadly similar to the FABN business.

⁷²³ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 9.

⁷²⁴ MetLife states that ABS and all corporate securities represent less than [REDACTED] and [REDACTED] of reinvestment assets, respectively. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-119.

⁷²⁵ MetLife Response to OFR Data Request, document A.8.i.ii.1_Overview and document A.8.i.ii.1_CUSIP List; MLIC 2012 Annual Statement, Schedule D; MLIC 2013Q2 Quarterly Statement, Schedule D; MICC 2012 Annual Statement, Schedule D; MICC 2013Q2 Quarterly Statement, Schedule D.

⁷²⁶ MetLife Response to OFR Data Request, document A.8_response. See section 4.3.3 for a description of MetLife's reinvestment assets related to the FABN activities.

⁷²⁷ MLIC Statutory Filing, Schedule DL, Part 2, for the year ended December 31, 2012.

⁷²⁸ MetLife's indirect spread margin business likely minimizes capital charges at the sponsoring insurer because the lent securities (i.e., the agency ABS and U.S. Treasury securities) remain on the FABNs-sponsoring insurer's balance sheet, increasing its capital. Moreover, the insurer can also pledge its FABNs-funded agency MBS as collateral to an FHLB, increasing its access to relatively inexpensive funding to invest in additional higher-yielding securities.

⁷²⁹ See Table 22.

⁷³⁰ Id.

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Table 22: Assets Funded with Proceeds of FABNs (Combined MLIC and MICC)
(\$ Millions)

Source: MetLife Response to OFR Data Request, document A.8.i.ii.1._Overview.

MetLife states that its spread margin business is limited and low risk,⁷³³ but this investment structure exposes MetLife to liquidity risk, which could contribute to asset liquidation at fire-sale prices. If MetLife were to experience material financial distress, a downgrade of MLIC or MICC's debt ratings could prevent MetLife from rolling over its FABNs and FABCP.⁷³⁴ The liquidity strain that MetLife could face if it were unable to roll over FABNs and FABCP in the event of its material financial distress could be exacerbated if MetLife were also facing liquidity demands from other sources, such as demands from its securities borrowers for a return of their cash collateral.⁷³⁵ Further, with respect to securities purchased with FABN proceeds that were then lent, MetLife also would need to return 102 percent of the lent asset value in cash. However, as described previously, MetLife typically invests at least some portion of the cash collateral received in less-liquid assets that may have to be sold in order to return the cash

⁷³¹ MetLife Response to OFR Data Request, document A.8.i.ii.1._Overview and document A.8.i.ii.1._CUSIP List; MLIC 2012 Annual Statement, Schedule D; MLIC 2013Q2 Quarterly Statement, Schedule D; MICC 2012 Annual Statement, Schedule D; MICC 2013Q2 Quarterly Statement, Schedule D.

⁷³² Id.

⁷³³ Transcript of MetLife Oral Hearing, Statement of Steven Kandarian, CEO, MetLife (November 3, 2014), p. 70.

⁷³⁴

collateral. Hence, MetLife could face a liquidity shortfall that could force it to liquidate a significant amount of assets at discount prices.⁷³⁶

4.3.2.3 *Estimated Rollover and Run Risk of MetLife's FABS Programs*

Over the first six months of 2013, approximately \$31 billion of MetLife's FABNs and FABCP matured or were subject to renewal by MetLife's investors (including amounts that rolled over multiple times within that period).^{737, 738} If MetLife were to experience material financial distress, MetLife could be unable to roll over some or all of those securities.⁷³⁹ In addition to this possible liquidity strain, it is possible that MetLife could experience additional liquidity demand from other sources, such as MetLife's securities lending counterparties, which may attempt to close out their transactions with MetLife. In that event, based on data from the same six-month period, MetLife would also have to meet demand for the return of approximately [REDACTED] in cash collateral from its securities borrowers if they were to attempt to close out their transactions.⁷⁴⁰

MetLife's spread margin business has grown since 2008, thus increasing potential liquidity demands on MetLife in the scenario described above. The maximum amount of MetLife's FABCP and FABNs maturing in a given month increased steadily from \$3.4 billion in 2008 to \$5.3 billion in 2013.⁷⁴¹ This increase reflects the doubling in FABCP outstanding between 2008

⁷³⁶ An analysis conducted by FRBNY staff found that in normal market conditions, the amount that can be liquidated in one day without an adverse impact on market prices is \$250 million for corporate bonds and \$125 million for ABS. While the FRBNY analysis does not measure the size of the price impacts, it shows that such impacts and market participants' actions with respect to the potential of such impacts begin at relatively modest amounts of asset sales. See Brian Begalle, Antoine Martin, James McAndrews, and Susan McLaughlin, "The Risk of Fire Sales in the Tri-Party Repo Market," FRBNY Staff Reports, Staff Report No. 616 (2013), p. 16, available at http://www.newyorkfed.org/research/staff_reports/sr616.html. See also section 4.3.2.3 for information about rollover risk of MetLife's FABS programs.

⁷³⁷ Over the first six months of 2013, the \$31 billion of FABS rollovers comprised approximately \$4.5 billion of maturing FABNs, \$13 billion of maturing FABCP (including issuances that rolled multiple times during the period), and \$2.3 billion of extendible FABNs outstanding that were extended by investors monthly, on average, during the period. MetLife Response to OFR Data Request, document A.19.e, and data downloaded from a Bloomberg terminal as of March 20, 2014.

⁷³⁸ MetLife states that the Council's consideration of this aggregate amount including securities that rolled over twice within this period is misleading. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-6. However, measures of rollover risk necessarily include both the level of borrowing during a given time interval and the frequency at which debt needs to be rolled during that interval. See Viral Acharya, Douglas Gale, and Tanju Yorulmazer, "Rollover Risk and Market Freezes," Journal of Finance volume 66 (2011), pp. 1177-1209. As a result, different time periods yield different measures of rollover risk. This first measure of rollover risk uses a six-month time interval. Other measures of rollover risk, provided in Table 23, use a one-month time interval and are also broken down by FABN and FABCP. For the amount of FABN and FABCP that matured once during the first six months of 2013, see footnote 737.

⁷³⁹ MetLife states that the Council's asset liquidation analysis should consider the volume of securities that could mature "during the time that MetLife was in distress." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-6. Section 4.3.2.3 addresses that issue with respect to the company's FABS.

⁷⁴⁰ See Table 22.

⁷⁴¹ See Table 23.

and 2013,⁷⁴² and the new issuance of shorter-maturity FABNs between 2009 and 2012⁷⁴³ (the average maturity of new issuances decreased from five years to two years from 2004 to 2012).⁷⁴⁴ Moreover, extendible FABNs outstanding increased from \$1.8 billion at the end of 2011 to approximately \$2.25 billion in the first half of 2013.⁷⁴⁵

⁷⁴⁶ MetLife notes that its spread margin business “is managed such that liabilities are closely matched with corresponding assets in a dedicated reinvestment portfolio,” and MetLife “consistently ensures that it maintains sufficient liquid assets in its reinvestment portfolio to satisfy any of these underlying liabilities that contain surrender or put options or that have short-term maturities.”⁷⁴⁷ However, MetLife could be unable to roll over a larger amount of these instruments and face increased liquidity demand from other sources, such as its securities lending counterparties or policyholders with early surrender or withdrawal rights, in the event of the company’s material financial distress and related credit rating downgrades. MetLife presented a different calculation methodology when estimating its rollover and run risk associated with its FABS programs, counting only the amount that may be refinanced at one time, for a total of \$13 billion. While that provides an accurate assessment of the amount of such instruments outstanding at any time, the figures in this analysis also reflect the frequency with which the outstanding amount is refinanced over a given timeframe, which provides additional insight into MetLife’s funding needs over the specified timeframe.

Table 23: Estimated FABNs and FABCP Rollover Risk (\$ Billions)

Year	Maximum FABNs Maturing Monthly	Maximum FABCP Maturing Monthly	Maximum Monthly Rollover*
2008	\$1.61	\$1.79	\$3.41
2009	1.35	3.07	3.69
2010	2.12	2.73	4.85
2011	2.05	3.96	4.90
2012	1.15	3.81	3.81
2013	\$2.75	\$3.49	\$5.34

Source: Council estimates from data downloaded from a Bloomberg terminal as of March 20, 2014; MetLife Response to OFR Data Request, document A.19.e.

Note: (*) This column is a lower bound estimate because it does not include the amount of FABNs with investor put options. For example, MetLife also had more than \$2 billion in extendible FABNs outstanding with monthly extension during 2013. See Figure 7 for information about MetLife’s putable and extendible FABNs outstanding.

⁷⁴² See Figure 8.

⁷⁴³ See Figure 7.

⁷⁴⁴ See Figure 11.

⁷⁴⁵ See Figure 7.

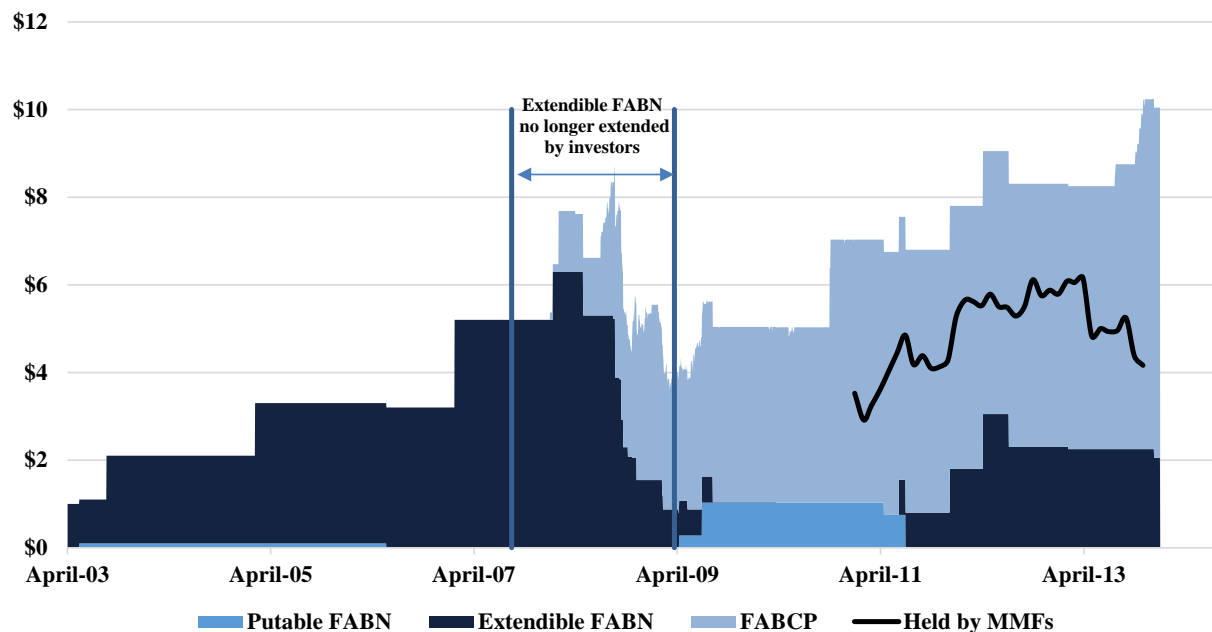
⁷⁴⁶ See Table 22.

⁷⁴⁷ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-7.

The experience of MetLife and other life insurers during the recent financial crisis demonstrates that access to liquidity through the FABN markets can be limited during times of strain in the financial markets. For example, between June and December 2007, more than \$15 billion out of approximately \$21 billion of industry-wide extendible FABNs outstanding were not extended by investors.⁷⁴⁸ More than \$4 billion of the extendible FABNs issued by MetLife were not extended.⁷⁴⁹

While MetLife did not lose access entirely to the FA markets during the financial crisis, MetLife accessed the FA markets through the issuance of FA-related instruments with less favorable terms than those issued by MetLife prior to the crisis. For example, in late 2007, MetLife established its FABCP program, increasing its short-term FABCP issuance to \$4 billion in the last quarter of 2008, when its extendible FABNs were maturing.⁷⁵⁰ This shorter-term FABCP has greater rollover risk than longer-term instruments. In addition, MetLife issued approximately \$1 billion of FABNs with an investor put option unfavorable to MetLife in 2009 when its remaining \$1 billion in extendible FABNs was set to mature.⁷⁵¹

Figure 7: MetLife Short-term FABS Outstanding (\$ Billions)



⁷⁴⁸ Data downloaded from a Bloomberg terminal as of March 20, 2014. MetLife was the largest issuer of extendible FABNs at the beginning of 2007. Other extendible FABNs that were not extended between mid-2007 and mid-2008 included notes issued by Allstate, Hartford, Jackson National, Monumental, Genworth, New York Life, Pacific Life, and Nationwide.

⁷⁴⁹ See Figure 7.

⁷⁵⁰ Data downloaded from a Bloomberg terminal as of March 20, 2014. See Figure 7.

⁷⁵¹ See Figure 7; see also Fitch Ratings Special Report: “U.S. Funding Agreement-Backed Note Market Update: Tepid Since 2009” (December 10, 2013); FT Alphaville, “‘Unprecedented Stress’ for US life insurers” (April 2009), available at <http://ftalphaville.ft.com/2009/04/16/54759/unprecedented-stress-for-us-life-insurers>.

Sources: FABN data downloaded from a Bloomberg terminal as of March 20, 2014. FABCP data are from Moody's Investors Service, "Beagle Funding LLC, ABCP Program Review" (November 2007 and April 2008) and MetLife Response to OFR Data Request, document A.19.e. MMF holdings data are from SEC Form N-MFP.

As discussed in section 4.2.4.8, MetLife experienced a \$20 billion decline in cash collateral in connection with its securities lending business in 2008.⁷⁵² In addition, investors did not extend any of MetLife's extendible FABNs (more than \$4 billion) between August 2007 and October 2008.⁷⁵³ Around the same time, MetLife raised liquidity by accessing various federal government crisis response programs. In particular, MetLife accessed the Federal Reserve Term Auction Facility 19 times for a total of \$17.6 billion in 28-day loans and \$1.3 billion in 84-day loans during 2008 and 2009,⁷⁵⁴ issued \$397 million through the FDIC's TLGP in March 2009, and increased its FAs issued to the New York FHLB from \$4.6 billion as of the end of 2007 to \$15.2 billion as of the end of 2008 (see section 3.3).⁷⁵⁵ Additionally, MetLife borrowed \$1.6 billion by issuing FABCP to the Board of Governors' CPFF.⁷⁵⁶ MetLife states that its use of these programs reflected a business decision to take advantage of certain programs to lower its funding cost rather than any specific funding or liquidity needs.⁷⁵⁷

Importantly, MetLife has noted that it was not experiencing material financial distress during the crisis. If MetLife were to experience such distress, its ability to access liquidity through the FABN and FABCP markets could be limited even further, particularly during a time of overall stress in the financial services industry.

⁷⁵² MetLife Annual Report on Form 10-K for the year ended December 31, 2009, p. 154.

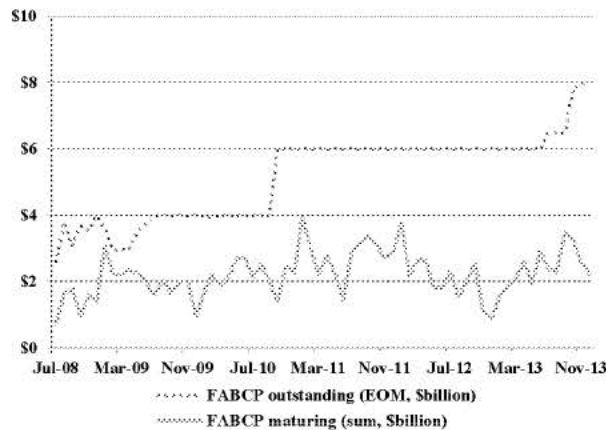
⁷⁵³ Data downloaded from a Bloomberg terminal as of March 20, 2014.

⁷⁵⁴ Board of Governors, Term Auction Facility (August 2013), available at http://www.federalreserve.gov/newsevents/reform_taf.htm.

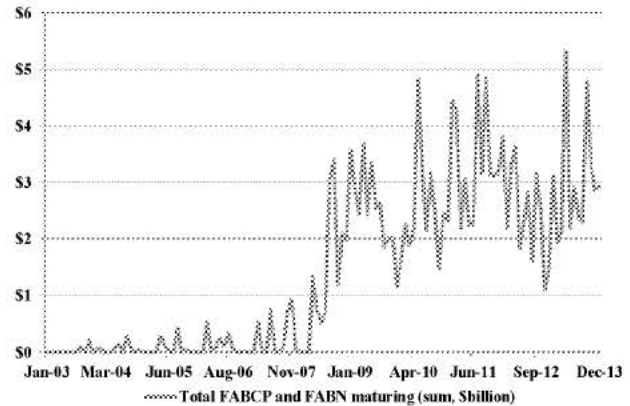
⁷⁵⁵ See section 3.3; MetLife Annual Report on Form 10-K for the year ended December 31, 2009, pp. 18, 134; MetLife Annual Report on Form 10-K for the year ended December 31, 2007, pp. 138-139.

⁷⁵⁶ Board of Governors, "Commercial Paper Funding Facility" (August 2013), available at http://www.federalreserve.gov/newsevents/reform_cpff.htm.

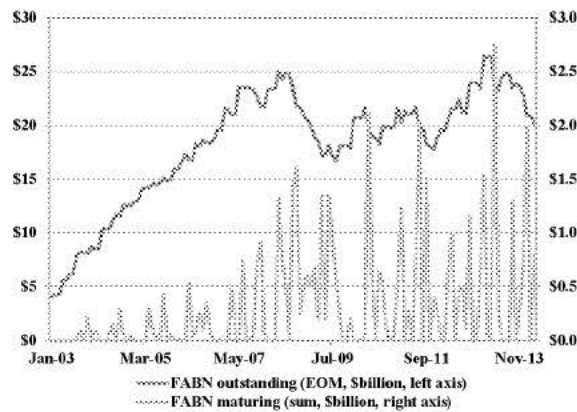
⁷⁵⁷ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-53, VII-123.

PRIVILEGED AND CONFIDENTIAL**Figure 8: FABCP Outstanding and Maturing**

Source: MetLife Response to OFR Data Request, document A.19.

Figure 9: Maturing FABCP and FABNs

Source: Data downloaded from a Bloomberg terminal as of March 20, 2014; MetLife Response to OFR Data Request, document A.19. Amount maturing does not include non-maturing FABNs with investor put options. See Figure 7 for more information about MetLife's puttable and extendible FABNs outstanding.

Figure 10: FABNs Outstanding and Maturing

Source: Data downloaded from a Bloomberg terminal as of March 20, 2014. Amount maturing does not include non-maturing FABNs with investor put options. See Figure 7 for more information about MetLife's puttable and extendible FABNs outstanding.

Figure 11: Weighted Average Maturity of FABNs New Issues

Source: Data downloaded from a Bloomberg terminal as of March 20, 2014.

4.3.3 Securities Lending

MetLife's material financial distress could cause losses to market participants if MetLife's securities lending counterparties attempt to close out financing transactions in order to withdraw cash collateral while the company remains solvent. MetLife operates a securities lending program of [REDACTED] approximately \$30 billion [REDACTED], in which its insurance subsidiaries lend securities they own to third parties in exchange for cash

collateral.⁷⁵⁸ At the origination of each securities lending transaction, MetLife typically receives cash equal to at least 102 percent of the fair market value of the lent security.⁷⁵⁹ As described below, MetLife uses the cash collateral it receives to purchase securities that may be less liquid than the lent securities and have longer maturities than the underlying securities loans. This maturity mismatch results in liquidity risk for MetLife.

During ordinary times, when a counterparty returns a security or declines to renew financing, MetLife typically can meet the resulting liquidity demand by entering into another securities lending transaction or using liquidity from the general accounts of its insurance subsidiaries. Under normal financial market conditions, MetLife also could liquidate the securities in which it has reinvested the securities lending cash collateral in order to return the cash collateral to the counterparty. In turn, MetLife would receive its lent securities from its counterparties.

However, if MetLife were to experience material financial distress, its securities lending counterparties could become concerned about MetLife's ability to return their cash collateral. Approximately 88 percent of the securities lent by MetLife are U.S. government and agency securities, whose liquidity helps to protect counterparties; however, the majority of MetLife's securities lending counterparties also borrow at the same time (and under the same agreements) less-liquid investment grade corporate or RMBS securities from MetLife.⁷⁶⁰ MetLife's counterparties could respond to MetLife's material financial distress by voluntarily closing out their transactions by returning the borrowed securities to MetLife in order to recoup the cash collateral.

MetLife asserts that the Council has fundamentally mischaracterized MetLife's securities lending liabilities, including the ability of its counterparties to unilaterally terminate transactions which could result in liquidity concerns.⁷⁶¹ However, as discussed in section 4.2.4.8, [REDACTED]

⁷⁵⁸ [REDACTED]

Loans of securities issued by entities organized in the United States carry a margin percentage of 102 percent, while loans of securities issued by entities organized outside the United States carry a margin percentage of 105 percent. The securities lending program in Japan is based on a collateralization level of 100 percent or higher, rather than 102 percent. See MetLife Response to OFR Data Request, document A.8, p. 3; see also MetLife Response to OFR Data Request, document A.8.i-1 (Supplemental Request Response), p. 5.

⁷⁶⁰ As of June 30, 2013. MetLife Response to OFR Data Request, document A.8.b.ii.

⁷⁶¹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-8.

██████████ In addition, over 75 percent of MetLife's securities lending positions are term loans, which typically have maturities spread over approximately 90 days (with the average term being 30 days);⁷⁶² as a result, even terminations pursuant to the scheduled maturities could exacerbate liquidity pressures on MetLife.

MetLife states that a counterparty "would not have an incentive to close out its transaction early" due to a "flight to quality."⁷⁶³ While MetLife's decision to lend high-quality U.S. government securities may mitigate the risk that counterparties could return borrowed securities early if MetLife were to experience material financial distress, in the event of MetLife's material financial distress, any flight to quality may incentivize counterparties to reduce exposures to MetLife, and counterparties may return these securities to recover their cash collateral even though they may be subject to "breakage fees" for doing so. Thus, the company could transmit material financial distress to other market participants as a result of a rapid liquidation of invested collateral to produce the necessary liquidity to return cash collateral to its securities lending counterparties.

Liquidity risk also could arise if the time required for MetLife to sell the reinvested securities exceeds the original or accelerated term of the securities lending transaction. Indeed, if MetLife were to experience material financial distress and many of its securities lending counterparties sought to close out their transactions simultaneously, MetLife would have a narrow window of time in which to meet the liquidity demand.⁷⁶⁴ The average loan maturity in MetLife's securities lending portfolio is ██████████⁷⁶⁵ Over the course of approximately 90 days, virtually all of MetLife's approximately \$30 billion of securities lent could be returned in exchange for the cash collateral.⁷⁶⁶

Approximately \$7 billion of MetLife's securities lending agreements allow the counterparty to return the lent security the following business day. In order to manage this potential immediate liquidity need, MetLife invested \$6.6 billion of the cash collateral in U.S. Treasury and agency securities, which would be sold to satisfy any cash requirements due to the termination of securities lending agreements.⁷⁶⁷

⁷⁶² MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-8; MetLife Response to OFR Data Request, document A.8.i.i.

⁷⁶³ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, pp. III-8-III-9.

⁷⁶⁴ MetLife states that the scenario described here does not constitute a "narrow window of time." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-10. However, the liquidation of the securities lent over 90 days, with the average loan maturity being ██████████, contributes a significant amount to the overall volume of assets (described elsewhere in section 4.3) the company could be seeking to liquidate in the event of its material financial distress.

⁷⁶⁵ MetLife Response to OFR Data Request, document A.10, p. 1.

⁷⁶⁶ MetLife Response to OFR Data Request, document A.9, p. 3.

⁷⁶⁷ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 192.

These liquidity demands could be further compounded if many counterparties sought to close out transactions within a short period of time. A run on MetLife's securities lending program also could be part of a broader run on the firm, driven by MetLife's material financial distress and a belief that there are first-mover advantages to unwinding securities lending transactions before the firm's available liquidity is depleted. MetLife describes a similar risk in its annual report: "If we are required to return significant amounts of cash collateral under our securities lending program or otherwise need significant amounts of cash on short notice and we are forced to sell securities, we may have difficulty selling such collateral that is invested in securities in a timely manner, be forced to sell securities in a volatile or illiquid market for less than we otherwise would have been able to realize under normal market conditions, or both."⁷⁶⁸

MetLife could be unable to meet the increased liquidity demand by entering into other securities lending transactions or seeking liquidity from its insurance subsidiaries if those subsidiaries are experiencing material financial distress. Thus, MetLife could be forced to engage in a fire sale of the assets in which it has reinvested cash collateral, the majority of which are relatively illiquid. As of June 30, 2013, approximately 51 percent of MetLife's reinvested cash collateral was invested in assets (including non-agency RMBS, CMBS, ABS, corporates, and other non-government securities) other than cash and short-term investments and government and agency securities.⁷⁶⁹ During a period of broader market stress, MetLife could be forced to sell less-liquid assets at fire-sale prices, which could impose downward pressure on market prices, thus further impairing the company's ability to meet its obligations and potentially causing balance sheet losses for other firms with similar holdings.

MetLife notes that risks associated with its securities lending activities are mitigated by existing regulatory scrutiny of the program, particularly by the NYDFS, and "strict internal policy requirements," including liquidity risk coverage requirements.⁷⁷⁰ These factors reduce the risks created by MetLife's securities lending activities, but in the event of material financial distress at MetLife, the counterparty reactions described above could nonetheless cause these activities to contribute to significant asset liquidation pressure on MetLife.

AIG's experience during the financial crisis of 2008-2009 illustrates the potential for this dynamic to occur on news or rumors of a major life insurance organization's distress; however, there are important differences between MetLife and AIG.⁷⁷¹ Prior to and during 2008, AIG

⁷⁶⁸ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 44.

⁷⁶⁹ MetLife Response to OFR Data Request, document A.9.

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⁷⁷¹ For example, MetLife states that AIG managed its program using a centralized internal agent that was not an insurance company, whereas "each of MetLife's insurance companies maintains direct privity of contract with its

operated a securities lending program in which it lent securities in exchange for cash collateral, which it used to purchase a portfolio of RMBS, which declined in value substantially leading up to the financial crisis.⁷⁷² When its securities lending counterparties attempted to terminate their transactions with AIG, as a result of AIG's deteriorating financial condition, AIG was unable to immediately dispose of the illiquid and price-depressed RMBS to repay its securities lending counterparties without realizing substantial losses.⁷⁷³ As a result, AIG was required to supply cash from its own resources to repay the securities borrowing counterparties.⁷⁷⁴ This liquidity need led to the Board of Governors' approval of a liquidity facility to allow the company to return the cash collateral to those counterparties.⁷⁷⁵

Although MetLife did not experience the same level of financial distress as AIG during the financial crisis, MetLife also experienced an increase in counterparty demand for the return of collateral tied to its securities lending activities.⁷⁷⁶ During this time period, MetLife borrowers in the securities lending program returned approximately [REDACTED] of the less-liquid securities, but retained virtually all U.S. government securities that had been borrowed.⁷⁷⁷ To avoid losses resulting from the sale of the illiquid securities in which MetLife had invested using the counterparties' cash collateral, MetLife exchanged liquid assets from its general account with illiquid assets from its cash collateral reinvestment portfolio in the amounts of \$11.3 billion in the fourth quarter of 2008 and \$3.7 billion in the first quarter of 2009 to pay counterparties returning borrowed securities.⁷⁷⁸ While MetLife asserts that this liquidity exchange represents "a liquidity benefit from MetLife's operating structure," rather than a negative;⁷⁷⁹ this type of liquidity exchange transfers liquidity risk from its securities lending business to its general account asset base and could thereby increase the potential need to liquidate assets to satisfy the company's obligations.

loan counterparties." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-11.

⁷⁷² See "American International Group," Hearing Before the Senate Committee on Banking, Housing, and Urban Affairs, 111th Congress (2009), (testimony of Donald L. Kohn, Vice Chairman, Board of Governors), available at <http://www.federalreserve.gov/newsevents/testimony/kohn20090305a.htm>.

⁷⁷³ Id.

⁷⁷⁴ Id.

⁷⁷⁵ Id.

⁷⁷⁶ See Transcript of MetLife fourth-quarter 2008 earnings conference call, statement of MetLife Executive Vice President and Chief Investment Officer Steven A. Kandarian (February 4, 2009), p. 3.

⁷⁷⁷ MetLife Voluntary Submission, Section III, p. III-25.

⁷⁷⁸ MetLife Response to OFR Data Request, document A.8.f, p. 1; see also MetLife Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, p. 138; MetLife Annual Report on Form 10-K for the year ended December 31, 2008, pp. 139-140.

⁷⁷⁹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-127.

4.3.4 Third-party Asset Management



While MetLife's debt and equity holders have no claims on its third-party assets under management, there is reputational risk to this business from distress emanating from other parts of the company. The third-party asset management business appears to be transferrable, which could mitigate risk to the broader U.S. financial system. However, if the transfer of this business were to take weeks or months, rapid withdrawal requests could lead to asset liquidations by the owners of the assets, and the effects of that liquidation could exacerbate the negative effects of any asset liquidation by MetLife as described elsewhere in this section 4.3. The effect that withdrawals of funds could have on the financial system depends on the mix of assets under management and the degree to which these assets are transferred to or reinvested with other asset managers in a timely manner.

4.3.5 Liquidation Risks Related to MetLife's Insurance-Related Liabilities

4.3.5.1 *Overview*

As described in section 3.2.3, a life insurance company's invested assets are generally held in two different types of accounts: the general account and one or more separate accounts. The general account consists of assets and liabilities of the insurance company that are not allocated to separate accounts.⁷⁸³ The separate account consists of funds held by a life insurance company that are maintained separately from the insurer's general assets.⁷⁸⁴ General account assets are subject to claims by the insurer's creditors in the event the insurer becomes insolvent. By contrast, the income, gains and losses from separate account assets are credited to or charged against the account without regard to the other income, gains or losses of the insurer. Therefore, non-guaranteed separate account liabilities are not generally exposed to the insurer's credit risk.

⁷⁸⁰ As of June 30, 2013. MetLife Response to OFR Data Request, document B.6, p. 1.

⁷⁸¹ *Id.* at p. 4.

⁷⁸² MetLife Response to OFR Data Request, document B.6, p. 5.

⁷⁸³ Separate account assets are a significant part of MetLife's business model. The company has \$246 billion in separate account assets and an equivalent amount of separate account liabilities. *See* sections 3.2.3 and 4.3.5.6.

⁷⁸⁴ *See* NAIC Glossary of Insurance Terms, (accessed November 16, 2014), available at http://www.naic.org/consumer_glossary.htm#S.

However, due to the significant amounts of separate account obligations supported by general account guarantees, as described in section 3.2.4, holders of separate account contracts may be exposed to the insurer's credit risk.

If MetLife were to experience material financial distress, a rapid withdrawal of certain insurance-related liabilities, such as policy withdrawals or loans against outstanding policies, could force the company to liquidate assets to meet the demand. A key consideration of the potential for transmission of financial distress through the asset liquidation channel is the liquidity characteristics of an insurance company's general account insurance liabilities, which vary by the type of insurance product and its features. Some insurance products, such as term life insurance policies, are pure insurance protection products that do not accumulate cash value that a policyholder can withdraw. In contrast, other life insurance and annuity products, such as fixed deferred annuities, build cash value over time that, in some cases, may be fully or partially withdrawn by the policyholder with little or no penalty. MetLife also offers deposit-type contracts, such as total control accounts, that are immediately available to a beneficiary upon request. Although these accounts have similarities to deposit contracts, they are not bank accounts and are not insured by the FDIC.⁷⁸⁵

While these generic distinctions between types of products are useful, the liquidity profile of general account life insurance liabilities depends on many factors, including a product's actual contractual claim or benefit features (e.g., a waiting period may be involved before a contract holder may elect an action); the degree to which the liabilities associated with that product are covered by state guaranty funds; the potential tax consequences of an early withdrawal; the liquidity needs of the contract holder; and the condition of the issuing insurer and the broader financial system.

As of June 30, 2013, MetLife had approximately \$341 billion of U.S. general account liabilities.⁷⁸⁶ These liabilities represented a mix of reserves for future policy benefits on insurance contracts, annuitized contract payments, account balances on retained asset accounts and other products, and payables for accrued dividends. The insurance liabilities have various withdrawal characteristics. Of the \$275 billion of U.S. general account insurance liabilities, \$142 billion may be surrendered or withdrawn for approximately \$125 billion after accounting for surrender charges.⁷⁸⁷ Approximately \$133 billion of general account liabilities have no

⁷⁸⁵ Total control accounts are settlement options for the payment of claims in which MetLife guarantees the total amount of the account plus a minimum annual effective interest rate. The interest rates range from 0.5 percent to 3.0 percent, and MetLife states that it is more advantageous for the accountholder to keep the account rather than using the lump sum approach. See MetLife, "MetLife's Total Control Account at a Glance-8/6/10," available at <https://www.metlife.com/assets/cao/pr/TCAataGlance.pdf>.

⁷⁸⁶ This amount includes corporate debt, corporate expenses, securities lending, and other non-insurance liabilities. MetLife Voluntary Submission, Section IV, pp. IV-8-IV-9.

⁷⁸⁷ See Table 24.

policyholder option for discretionary surrender or withdrawal,⁷⁸⁸ although this amount includes products that may have short durations to maturity or be otherwise accelerable, and therefore may be subject to liquidity risk. Table 24 shows MetLife's total U.S. general account insurance liabilities and the related total cash surrender value.

Table 24: Balance Sheet Insurance Liabilities and Cash Surrender Values of U.S. General Account Insurance Liabilities (\$ Billions)

Total U.S. General Account Insurance Liabilities	\$275
Liabilities With No Surrender Value	133
Total U.S. General Account Insurance Liabilities with Cash Surrender Value	142
Surrender Charges / Forgone Benefits	(17)
Total Cash Surrender Value of U.S. General Account Insurance Liabilities	\$125

Sources: Data are as of June 30, 2013. MetLife Voluntary Submission, Section IV, pp. IV-8-IV-9; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5; MetLife Voluntary Submission, Section IV, Appendix A, p. 48; MetLife Response to OFR Data Request, document B.7.f.; and MetLife Response to OFR Data Request, document B.6. If values were computed using data from MetLife's Voluntary Submission Section IV, total U.S. general account insurance liabilities with cash surrender value as of June 30, 2013, would be \$144 billion due to the inclusion of \$1.2 billion of UK pension closeouts.

4.3.5.2 U.S. Insurance General Account Liabilities

Table 25 details the withdrawal features of the \$142 billion of MetLife's U.S. general account insurance liabilities that can be surrendered or withdrawn. It includes products that have account balances, such as life insurance and annuities, stable value products, and other retirement products with cash values.

⁷⁸⁸ MetLife Voluntary Submission, Section IV, p. IV-9.

Table 25: Cash Surrender Characteristics of U.S. General Account Insurance Liabilities (\$ Billions)

	Liability Value	Cash Surrender Value

Sources: Data are as of June 30, 2013. MetLife Voluntary Submission, Section IV, pp. IV-8-IV-9; MetLife Voluntary Submission, Section IV, Appendix A, p. 48; and MetLife Response to OFR Data Request, document B.7.f.

[REDACTED]

[REDACTED]

Although a liquidity event leading to significant asset liquidation could occur over a time period in excess of seven days, this analysis describes liabilities that can be

⁷⁸⁹ Most of these liabilities are for retail products that have high cash surrender values compared to the associated general account liabilities. MetLife Voluntary Submission, Section III, p. III-41. For example, MetLife's

[REDACTED]

⁷⁹⁰ MetLife Voluntary Submission, Section III, p. III-41.

⁷⁹¹ See Table 25.

surrendered within seven days based on information provided by MetLife to illustrate the maximum potential, based on contractual rights, for a significant volume of surrenders. This analysis does not assume or rely on a scenario in which all of the liabilities that could potentially be surrendered would in fact be surrendered within seven days.

A number of contractual, operational, and logistical impediments could slow the company's payments on the immediately payable policies well beyond seven days. Subject to applicable laws and regulations, state regulators could impose pre-receivership stays, and state courts could impose stays during the receivership process.⁷⁹² MetLife notes that the authority of insurance supervisors to seek a rehabilitation plan and place a moratorium on policy loans and cash surrenders could significantly extend the time for cash payouts and reduce the potential for a liquidity event.⁷⁹³ MetLife also states that the placement of a stay on discretionary withdrawals generally has halted runs on failing life insurers in receivership, limiting the need for fire sales of assets and allowing time for the receivership process to unwind the company in an orderly manner.⁷⁹⁴ As examples, MetLife cites Executive Life and Mutual Benefit,⁷⁹⁵ each of which had less than \$15 billion in assets. While stays stopped any runs on these insurers, imposing a stay on withdrawals from a life insurer the size, scope, and complexity of MetLife's insurance company subsidiaries could cause policyholders at other insurers to lose confidence in the insurance industry and seek to withdraw their funds from other life insurers, particularly during a period of financial stress and macroeconomic weakness.⁷⁹⁶ Such withdrawals could force asset liquidations by other insurers.

Contractual and other disincentives typically act as a deterrent to policyholder surrender and withdrawal behavior. In addition, with respect to certain products, surrender charges expire after a period of time. For example, MetLife states that variable life insurance products "typically impose surrender charges based on a percentage of the policy face amount for the first ten years after policy issuance."⁷⁹⁷ However, in the event of a company's material financial distress, these disincentives may be overridden by a policyholder's desire for perceived safety and liquidity with financial products offered by another insurance company, a bank, or another type of financial institution, especially where there is no meaningful surrender penalty. Furthermore, in stressed economic periods, policyholders could disregard certain disincentives in place to discourage surrenders or other withdrawals, particularly if the policyholders have lost confidence in the company due to its material financial distress. Therefore, state insurance commissioners

⁷⁹² In addition, most life insurance and annuity contracts also allow for the company itself to halt discretionary withdrawal payments for a period of up to six months. See Table 25.

⁷⁹³ MetLife Voluntary Submission, Section V, p. V-29.

⁷⁹⁴ MetLife Voluntary Submission, Section IV, pp. IV-35-IV-40; MetLife Voluntary Submission, Section IV, Appendix B, p. 8.

⁷⁹⁵ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-32; MetLife Voluntary Submission, Section IV, pp. IV-34-IV-35.

⁷⁹⁶ See section 4.2.6.

⁷⁹⁷ MetLife Voluntary Submission, Section II, p. II-7.

may need to use their authority, including placing a temporary stay on policyholder withdrawals and surrenders (except in situations where a policyholder faces a hardship), to limit outflows from the general account and conduct a more orderly liquidation of a life insurance company.⁷⁹⁸ In MetLife's case, state insurance regulators could apply a stay to the \$142 billion of withdrawable life insurance liabilities⁷⁹⁹ to benefit other payments to policyholders. A stay imposed by a state insurance commissioner would delay the payment of insurance and annuity benefits and cash surrenders to policyholders and contract holders (notwithstanding certain hardship exceptions) even if those payments are fully or partially covered by applicable state GAs. The GAs could not be used to respond to a rapid outflow of MetLife policyholder liabilities leading up to a receivership, because they cannot be accessed prior to a court-ordered liquidation.

Additionally, MetLife has noted that its insurance company subsidiaries have the contractual right to defer payouts on most of its [REDACTED] of immediately payable cash surrender value for up to six months from the time of each individual withdrawal request.⁸⁰⁰ In particular, the company notes that it has a contractual right to defer payments for six months on approximately two-thirds of its general account retail deferred annuities (as represented by the cash surrender value on these annuities) and nearly all of its universal life and whole life policies.⁸⁰¹ While the company could exercise such deferrals, and such deferrals could slow its asset liquidation, MetLife could have strong disincentives to invoke this option, and there could be significant negative consequences if the company took that action. This action, if taken at a time when the company is experiencing material financial distress but has not been placed into liquidation, could send a negative signal to counterparties, policyholders, and investors, thereby creating significant concern and market uncertainty about the current health and future of MetLife and resulting in negative effects for the broader industry. MetLife acknowledges that the invocation of this contractual right would be a significant and unprecedented action by the company.⁸⁰² Actions to restrict customer access to withdrawable policies could cause significant concern about access to funds at other insurance companies with similar asset and product profiles, especially in a time of broad financial market stress.

In the event of a large-scale withdrawal by policyholders and contract holders, MetLife could be forced to liquidate invested assets to satisfy the demand for immediately payable or deferred cash

⁷⁹⁸ See NAIC, Insurer Receivership Model Act, Section 108 (October 2007), available at <http://www.naic.org/store/free/MDL-555.pdf>. Section 108A of the Receivership Model Act provides that the state court handling the insurance receivership may issue orders as necessary, including stays. Section 108C of the Receivership Model Act provides that the commencement of a receivership proceeding operates as a stay.

⁷⁹⁹ See Table 24. MetLife Voluntary Submission, Section IV, pp. IV-8-IV-9; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5; MetLife Voluntary Submission, Section IV, Appendix A, p. 48; MetLife Response to OFR Data Request, document B.7.f.

⁸⁰⁰ MetLife Voluntary Submission, Section III, pp. III-41, III-81.

⁸⁰¹ MetLife Voluntary Submission, Section IV, p. IV-7.

⁸⁰² MetLife Voluntary Submission, Section III, p. III-81.

surrender values. Table 26 provides an approximation of a liquidity stress model, which estimates a firm's overall liquidity. The model assigns liquidity values to assets and liabilities on a 30-day and 12-month basis, ascribing the highest liquidity values to the most liquid assets and liabilities. MetLife had \$134 billion⁸⁰³ of stressed liabilities over the long- and short-term, which was one of the largest amounts among the life insurance companies analyzed. This analysis estimates that MetLife would have \$43 billion⁸⁰⁴ of stressed liabilities over a 30-day stressed scenario and \$80 billion⁸⁰⁵ of liquidity outflow over a one-year stress scenario. In order to meet its obligations, MetLife could sell its available invested assets, including fixed-income corporate securities and ABS.

Table 26: Life Insurance Liquidity Stress Test – Peer Comparisons

	<u>Assets (\$ Billions)</u>			<u>Liabilities (\$ Billions)</u>			<u>Stress Ratio</u>	
	Short Term	Long Term	Total Modeled	Short Term	Long Term	Total Modeled	Short Term (%)	Long Term (%)
MetLife	\$125.4	\$152.5	\$243.9	\$43.3	\$80.2	\$134.4	290%	190%
Prudential	88.6	109.1	164.3	37.7	69.5	124.5	235	157
AIG	96.6	117.5	162.5	56.1	90.3	138.7	172	130
TIAA-CREF	133.2	155.4	217.1	27.3	39.9	54.3	488	389
New York Life	84.0	102.5	153.9	42.6	76.0	143.0	197	135
Hartford	19.8	23.7	33.1	4.9	11.8	15.4	404	201
Northwestern Mutual	83.7	101.9	149.1	30.4	71.4	158.2	275	143
Lincoln National	46.5	58.9	80.9	24.0	43.8	75.7	193	134
ING Groep N.V.	44.3	54.4	77.2	26.2	41.7	63.3	169	131
AEGON NV	41.4	50.0	69.8	11.8	22.2	41.2	351	225
AXA	\$20.8	\$25.6	\$36.6	\$12.2	\$22.0	\$39.0	171%	116%

Sources: Data are as of December 31, 2013, from statutory filings aggregated using SNL Financial, A.M. Best, and Council calculations. Based on calculations of A.M. Best Company, Inc., "A.M. Best Liquidity Model for U.S. Life Insurers" (August 1, 2013), pp. 1-5, available at <http://www3.ambest.com/ambv/ratingmethodology/OpenPDF.aspx?rc=197655>.

MetLife provided an analysis conducted by Oliver Wyman that assessed its potential cash outflow under four liquidity stress scenarios of increasing severity⁸⁰⁶ and the impact of its asset sales to meet the liquidity demand under each scenario. The Oliver Wyman model assumes between [REDACTED] in liability outflows from MetLife over a six-month period.⁸⁰⁷ Liability outflow assumptions and specific contractual features contribute to a large range of potential outcomes in modeling the potential outflows. The broad range of potential stressed outflows indicate both the difficulty in assessing what MetLife's liquidity needs may be and also

⁸⁰³ See Table 26.

⁸⁰⁴ Id.

⁸⁰⁵ Id.

⁸⁰⁶ See section 4.3.9 for a description of the four liquidity stress scenarios.

⁸⁰⁷ MetLife Voluntary Submission, Section IV, Appendix A, pp. 57, 75; see section 4.3.9 for additional information regarding the Oliver Wyman model.

the broad range of potential scenarios, especially in a period of broader financial market stress. Table 27 outlines the various potential MetLife liability surrender amounts for each scenario modeled by Oliver Wyman.

Table 27: Cumulative Net Cash Outflows by Scenario and Timeframe (\$ Billions)

Scenario 1	Scenario 2	Scenario 3	Scenario 4
	<i>Going concern,</i>	<i>High distress,</i>	<i>High distress,</i>
		<i>recognizing</i>	<i>disregarding</i>
<i>Going concern</i>	<i>extreme</i>	<i>empirical evidence</i>	<i>empirical evidence</i>

Source: Data are based on *pro forma* projections as of June 30, 2013. MetLife Voluntary Submission, Section IV, Appendix A, p. 9.

4.3.5.3 *Disincentives to General Account Surrenders*

MetLife cites a variety of disincentives to general account surrenders that could mitigate the risk of large-scale withdrawals and, accordingly, severe liquidity stress; however, such disincentives may be less meaningful when a company is in material financial distress.⁸⁰⁸ MetLife states that it is unlike traditional financial intermediaries that bring together borrowers and lenders and engage in maturity transformation.⁸⁰⁹ Rather, MetLife's business is driven by liabilities, the overwhelming majority of which are related to insurance policies and products with long-term, predictable cash flows based on actuarial forecasts for policy claims.⁸¹⁰ Similarly, the NYDFS, while acknowledging that many life insurance products allow policyholders to access a certain amount of immediate cash value, indicates that life insurers are much less prone to run risk than are banks.⁸¹¹ MetLife also states that while some policies allow customers to surrender early, the economic and other disincentives to doing so make such surrender very unlikely, both conceptually and as a matter of historical experience.⁸¹² MetLife further notes that retail

⁸⁰⁸ MetLife states that the Council "fails to properly consider the substantial disincentives to surrender that policyholders would face." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-14. Policyholder disincentives to surrender are primarily addressed in this section and sections 4.2.3.3, 4.3.1, 4.3.5.1, 4.3.5.5, 4.3.5.6, 4.3.5.8 and 4.3.9.4.

⁸⁰⁹ MetLife Voluntary Submission, Section III, p. III-79.

⁸¹⁰ *Id.*

⁸¹¹ Letter from Benjamin M. Lawsky, Superintendent, NYDFS, to Financial Stability Oversight Council (July 30, 2014), pp.1-2, available at <http://www.dfs.ny.gov/about/press2014/pr140730-MetLife-FSOC-letter.pdf>.

⁸¹² MetLife Voluntary Submission, Section III, p. III-79.

policyholders have historically submitted withdrawal requests at a slower pace and in smaller numbers than institutional contract holders in stressed market conditions.⁸¹³

In particular, MetLife points out various disincentives for early surrenders, including surrender charges, tax penalties, and the loss of insurance coverage or product guarantees.⁸¹⁴ MetLife also states that the cash surrender value is typically less than the face amount of a policy (i.e., the notional benefit that would be payable upon the maturation of the policy), which could serve as a disincentive for early surrenders.⁸¹⁵ However, a comparison of the cash surrender value to a notional benefit, particularly one payable upon the death of the policyholder, may not be appropriate in certain circumstances. In particular, such a comparison does not necessarily consider the time value of money or the payment of premiums that policyholders would need to continue to make in order to maintain their policies.⁸¹⁶ Additionally, a significant amount of policy types for which the company typically would pay surrender requests within seven days in normal circumstances, irrespective of contractual requirements, are contracts that have no death benefit or are contracts (such as whole life policies) that accrue a cash value over time. Therefore, a comparison of the cash surrender value to the associated liabilities may be instructive. As of June 30, 2013, for liabilities with cash surrender values that are immediately payable (within seven days), policyholders could receive cash surrender values of [REDACTED] on [REDACTED] of liabilities.⁸¹⁷

Surrender penalties vary by product.⁸¹⁸ The surrender structure for annuities depends on the age of the contract, with surrender penalties declining over time, and the surrender penalties for life products are predicated on the age of the contract and policyholder characteristics.⁸¹⁹ As noted above, the difference between the total liability amount and a product's cash surrender amount (inclusive of applicable surrender charges) for many types of these policies is very small. For

⁸¹³ MetLife Voluntary Submission, Section III, p. III--40. Among its examples, MetLife notes that in 2008, institutional investors withdrew funds from MMFs more quickly than retail investors. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, pp. III-15-III-16.

⁸¹⁴ MetLife Voluntary Submission, Section IV, Appendix A, p. 127.

⁸¹⁵ MetLife Voluntary Submission, Section IV, p. IV-6.

⁸¹⁶ Because early surrender amounts on many of these policies are based on market values, are subject to market-based adjustments, or are subject to early surrender penalties, the cash surrender values in a declining market environment are likely to be lower than in a stable or improving market environment. A declining market environment also will increase further the difference between the guaranteed value and the cash surrender value for those products where the cash surrender value is based on market values.

⁸¹⁷ See Table 25.

⁸¹⁸ MetLife Voluntary Submission, Section IV, Appendix A, p. 48.

⁸¹⁹ Id. at p. 128. [REDACTED]

[REDACTED] Id.

example, retail deferred annuity holders would receive [REDACTED]

⁸²⁰

Depending on the circumstances, the unknown costs of retaining a policy could be larger than the known costs incurred by surrendering a policy. For example, if policyholders have doubts about MetLife's ability to meet its obligations due to the company's material financial distress, policyholders would need to weigh the certainty of return of cash value (inclusive of any applicable charges) against an uncertain and contingent future benefit that would require many policyholders to continue making premium payments to a company in material financial distress. In order to make this comparison, retail policyholders would be required to estimate the probability and amount of recovery they could expect to receive from their insurers experiencing material financial distress. This estimation would be challenging, due to the lack of precedent for the failure of an insurer with the size, scope, and complexity of MetLife's insurance company subsidiaries. As policyholders evaluate their options, including the variable costs associated with surrender charges for each product, retaining a policy is not a costless alternative.

Another disincentive for early withdrawal cited by MetLife is the potential tax penalties that a policyholder would incur upon the surrender of a life insurance policy or an annuity contract held in a tax-qualified account.⁸²¹ In the event of a surrender (before the age of 59 ½ years old), annuity contract holders and retirement plan participants generally are subject to a 10 percent penalty on the taxable portion of any amount withdrawn.⁸²² However, unlike annuities, life insurance products that accumulate cash value (e.g., whole life or universal life) are not subject to the 10 percent tax penalty and offer various withdrawal options that mitigate the ordinary income tax disincentives on withdrawal. Withdrawals and other distributions from life insurance products (as opposed to annuities) are generally treated first as a tax-free recovery of basis and then as taxable income. Policyholders may have the ability to avoid certain income tax disincentives through partial cash value surrenders up to the policyholders' tax basis (e.g., typically paid-in premium less withdrawals). Moreover, policyholders may be able to withdraw an even larger portion of the cash value of a policy by taking a partial cash value surrender up to the policy's tax basis and then policy loans thereafter. MetLife markets this "tax-free" withdrawal strategy across various insurance products that accumulate cash value.⁸²³ In

⁸²⁰ MetLife Voluntary Submission, Section III, p. III-41; MetLife Voluntary Submission, Section IV, Appendix A, p. 48. MetLife notes that the difference between cash surrender value and the associated recorded liability is 20 percent or more for certain products. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-21.

⁸²¹ MetLife Voluntary Submission, Section IV, Appendix A, p. 127.

⁸²² *Id.* at p. 129.

⁸²³ For example, MetLife marketing material states that cash value life insurance can "Provide a smart way to save through its cash value. This is money that can be used for college, emergencies or during retirement without tax implications." See MetLife, "Life Insurance as an Asset," (2012), available at <https://www.metlife.com/assets/ib/retirement/campaign/ml-life-insurance-asset.pdf>;" see also MetLife,

addition, policyholders can avoid tax consequences if they transfer their life insurance or tax-qualified annuity contract to another qualified plan, although this decision may increase the time for the surrender process.⁸²⁴

An additional disincentive identified by MetLife is the loss of insurance coverage or the loss of equivalent product guarantees. MetLife states that the replacement of insurance coverage or product guarantees may be difficult, costly, or impossible. With respect to insurance coverage with an underwriting component, in cases where, for example, the policyholder's health has diminished or credit has deteriorated, a policyholder may become uninsurable or may have to pay substantially higher premium rates.^{825, 826} However, loss of coverage is only an operative disincentive in those cases in which policyholders immediately look to purchase replacement policies upon surrender. Many life insurance and annuity products are purchased not only to pay death benefits in the event of the death of the insured, but also as a long-term investment vehicle to accumulate assets for savings or retirement. If policyholders were to lose confidence in the ability of MetLife's insurers to satisfy their obligations, they may prefer to bear the costs of surrendering their policies instead of risking potentially larger losses. Moreover, if policyholders wanted to keep their life insurance policies in effect, they could take out policy loans, which could also subject MetLife to a liquidity strain. It is also important to note that replacing insurance coverage is only a disincentive for insurance products with an underwriting component and is not relevant for MetLife's products without an underwriting component.

MetLife also states that before making a decision to surrender a policy, "the substantial majority of policyholders would consult their licensed insurance agents, who would provide advice on whether the policyholder should surrender or retain the policy."⁸²⁷ Such consultations could affect whether some policyholders surrender their policies, but the incentives described above could nonetheless lead a significant number of policyholders to surrender in the context of MetLife's material financial distress.

Some of MetLife's products offer a minimum guaranteed rate of return (e.g., a minimum crediting rate). Therefore, if interest rates decrease in a distressed macroeconomic environment, the policyholder may not be able to obtain a new policy elsewhere with an equivalent or better rate of return.⁸²⁸ The company states that a policyholder should compare the loss associated with

"Understanding the Potential Tax Advantages of Life Insurance" (2014), available at https://www.metlife.com/assets/ib/insurance/life/newlookonlife/12051903_TaxFlyer.pdf.

⁸²⁴ MetLife Voluntary Submission, Section IV, Appendix A, p. 129.

⁸²⁵ MetLife Voluntary Submission, Section IV, pp. IV-6-IV-7; MetLife Voluntary Submission, Section IV, Appendix A, p. 130.

⁸²⁶ MetLife notes that this disincentive would be relevant even if a policyholder is able to transfer an insurance policy to another insurer (e.g., through a tax-free exchange under section 1035 of the Internal Revenue Code) because that exchange would require the policy to be re-underwritten.

⁸²⁷ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-21.

⁸²⁸ MetLife Voluntary Submission, Section IV, Appendix A, p. 131.

forfeiting the guarantee and the expected loss that could be incurred if the firm fails.⁸²⁹ However, policyholders could view a guarantee being provided by a company in material financial distress as less attractive, which could result in certain policyholders' forfeiting products with guarantees.

In summary, these disincentives may be less compelling in certain circumstances, because insurance coverage or product guarantees may be less valuable when provided by a company experiencing material financial distress, particularly if the coverage or guarantees are not, or are only partially, covered by state guaranty funds. If MetLife experienced material financial distress, policyholders could lose confidence in MetLife's ability to fulfill its obligations and could be willing to bear the costs associated with early surrenders and withdrawals, in order to receive cash.

In addition, the National Opinion Research Center (NORC) at the University of Chicago conducted a study, designed in consultation with MetLife,⁸³⁰ of consumer views on life insurers experiencing certain forms of financial distress. The survey focuses on how respondents would expect to behave in situations involving financial distress⁸³¹ of their own or another annuity or cash value life insurance (CVLI) provider. To conduct this research, NORC undertook a four-stage approach: (1) qualitative research (14 individual interviews and 8 focus groups in New York and Dallas); (2) quantitative survey development; (3) quantitative research involving a cross-sectional survey of 2,128 U.S. households composed of 915 cash value life owners, 793 annuity owners, and 420 non-owners; and (4) analysis and reporting provided in the NORC Final Report.⁸³²

The study finds, among other things, that "[a] large majority of owners indicated they would keep their policy even if the issuer experiences financial distress," "there is a low probability of contagion" across life insurers, and "there is a low probability of cash value funds leaving the life insurance industry."⁸³³ The study's lead conclusion is that "[t]he long-term purpose for owning cash value life/annuities and the positive attitudes on financial strength and reliability of

⁸²⁹ MetLife Voluntary Submission, Section IV, Appendix A, p. 132.

⁸³⁰ NORC, "Consumer View on Life Insurers Experiencing Financial Distress" (June 20, 2014) (NORC Final Report). The analytic plan was the result of an interactive process between MetLife and NORC. An initial report was developed and delivered to MetLife on May 30, 2014. Feedback was provided and additional analyses were conducted to further explore the research questions. NORC Final Report, p. 9.

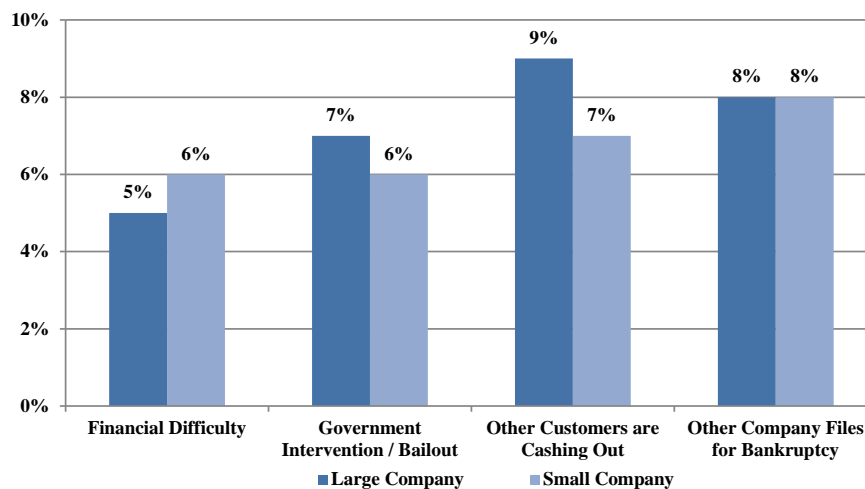
⁸³¹ For the purposes of the NORC survey, the scenarios indicative of a financial company or insurer in financial distress were: "experiencing financial difficulty (e.g., lost money in consecutive quarters)," "experiences government intervention or a bailout," "[c]ustomers of your company are cashing out," and "[y]our company files for bankruptcy." *Id.* at p. 3.

⁸³² *Id.*

⁸³³ *Id.* at p. 4.

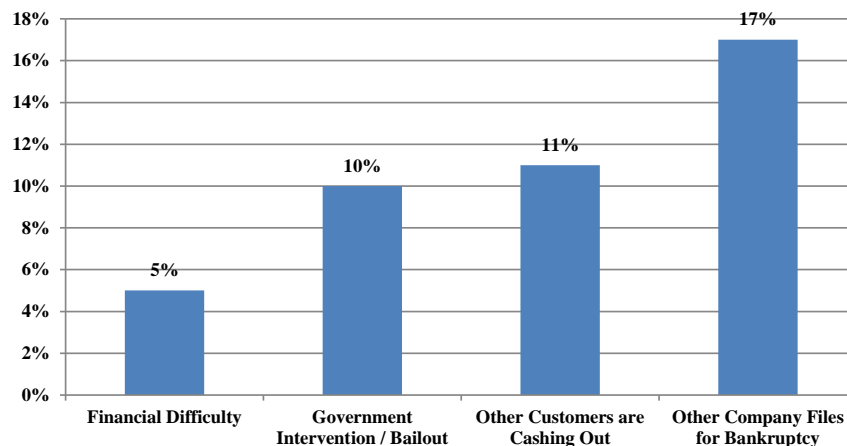
the issuer explain why owners are very likely to keep their policies even when the issuer experiences financial distress.”⁸³⁴ Below are certain findings of the survey:

Figure 12: Percentage of owners who would cash out because of financial distress at another large or small insurer



Source: NORC, “Consumer View on Life Insurers Experiencing Financial Distress” (June 20, 2014) (NORC Slides), p. 7.

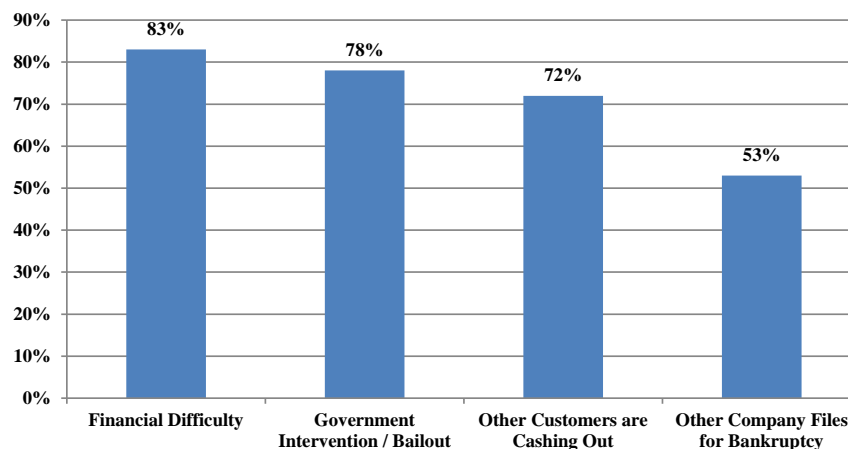
Figure 13: Percentage of owners who would cash out and not buy replacement policy if the issuer were to experience financial distress



Source: NORC Slides, p. 8.

⁸³⁴ NORC Final Report, p.4. The lead conclusion implies that a respondent’s stated intention not to withdraw her annuity or CVLI policy is driven in part by the respondent’s current positive attitude regarding her issuer’s financial strength. However, this positive attitude is less likely to remain stable at the point of the issuer’s material financial distress.

Figure 14: Percentage of owners who would keep policy if the issuer experiences financial distress



Source: NORC Slides, p. 6.

While the NORC research may reflect respondents' current views or characteristics, the general analytical plan (i.e., descriptive and bivariate analyses), the survey methodology, and the limited results provided indicate that the study cannot be used for predictive analysis of future behavior for the respondent group or the broader policyholder population.⁸³⁵ The limitations on the predictive ability of the NORC survey data are consistent with the acknowledged difficulties of using cross-sectional (i.e., one point in time) survey data to accurately forecast future behavior, particularly when the imagined future environment is distant, variable, or significantly different from the respondents' current environment,⁸³⁶ or when validity testing is limited by a lack of relevant experience data.⁸³⁷ The predictive accuracy of behavioral intentions decreases with the actual or perceived length of time between the stated intention and the subsequent behavior. The longer the time horizon, the more likely intentions will change due to any number of reasons (e.g., new information when behavior is determined, unforeseen household stress events).⁸³⁸ Forming an accurate intention today of a future behavior requires the respondent to take some assessment of those factors that would be guiding the respondent's decision-making at that time,⁸³⁹ such as the probability of MetLife's material financial distress, the potential for suffering

⁸³⁵ Predictive analysis would be an analysis that allows for probabilistic forecasts of future behavior, based on the relationships among multiple factors that drive decisions-making for such future behavior, while descriptive models would identify relationships between, for example, a respondent's characteristic and stated behavioral intention, without assessing the likelihood of the respondent behaving in the future as previously intended.

⁸³⁶ See M. Fishbein and I. Ajzen, "Belief, attitude, intention, and behavior: An introduction to theory and research," Reading, MA: Addison-Wesley (1975); see also Paschal Sheeran, "Intention—Behavior Relations: A Conceptual and Empirical Review," *European Review of Social Psychology* volume 12, issue 1 (2002), pp. 1-36.

⁸³⁷ See Vicki G. Morwitz, "Methods for Forecasting from Intentions Data," in "Principles of Forecasting: A Handbook for Researchers and Practitioners," Scott Armstrong, ed., Kluwer Academic Publishers (2001), pp. 33-56.

⁸³⁸ See M. Fishbein and I. Ajzen, "Belief, attitude, intention, and behavior: An introduction to theory and research," Reading, MA: Addison-Wesley (1975).

⁸³⁹ See I. Ajzen, "The theory of planned behavior," *Organizational Behavior and Human Decision Processes* volume 50, issue 2 (1991), pp. 179-211.

losses as result of inaction, or the ease or difficulty of cashing out. It can be difficult for individual consumers to establish well-formed intentions with respect to a distant and variable future event, particularly in the case of a negative tail event.^{840, 841} Further, very little relevant experience data exists for policyholder behavior, especially for newer products such as variable annuities with living benefits, that shows how policyholder behavior might shift in different economic conditions and more extreme tail events.⁸⁴² The data used in the NORC research is inadequate to forecast the future behavior of an annuity or CVLI policyholder upon the failure of their insurer or other insurers offering similar policies, and the survey results have limited applicability in determining the likely actions of annuity or CVLI policyholders in the event of MetLife's material financial distress.⁸⁴³

In response to the discussion of the NORC survey in the Council's analysis, NORC offers two arguments in defense of the relevance of its survey results for the purposes of the Council's analysis. First, NORC states that "[i]n the majority of research examining consumer behavior, specifically behavior related to undesirable financial contexts, survey data is the preferred method of examination. As a prime example, NORC collects the Survey of Consumer Finances (SCF) for the Federal Reserve Board." However, this analysis does not take issue with the value of consumer surveys generally, but rather the use of a survey of stated intentions as the primary basis for predicting future behavior in circumstances in which accurate or stable intentions may be difficult for respondents to form at the time of the survey (e.g., when the imagined future environment is distant, variable, or significantly different from the respondents' current environment). In contrast, the SCF is primarily based on the respondents' past and present financial conditions; and unlike the survey performed for MetLife, the SCF does not require speculation about future conditions over which the respondent has little control or predictive information. Second, NORC states that "nearly two-thirds of CVLI/annuity owners would call their agent/advisor or their insurer in a financial distress situation." NORC asserts that this

⁸⁴⁰ See M. Fishbein & I. Ajzen, "Belief, attitude, intention, and behavior: An introduction to theory and research," Reading, MA: Addison-Wesley (1975).

⁸⁴¹ "If utility measurement occurs sometime before a natural commitment point, a subject's view may be that preferences decided 'now' are not real commitments and that the horizon to commitment and the outcome horizon seem distant. If so, he or she may not engage in the same sort of mental activities to produce responses as when the commitment point looms near during final criterion deliberations. The subject may avoid discomforting activities, such as imagining adverse outcomes, considering many outcomes, or recognizing fine distinctions, if the commitment point does not seem imminent. This can affect the utilities data obtained from the measurements." See Peter Wright and Mary Ann Kriewall, "State-of-mind effects on the accuracy with which utility functions predict marketplace choice," *Journal of Marketing Research* volume 17, number 3 (Aug. 1980), pp. 227-293.

⁸⁴² See Society of Actuaries, "A 2014 Report, Modeling of Policyholder Behavior for Life Insurance and Annuity Products, A Survey and Literature Review" (2014), pp. 10, 12, 28, available at <https://www.soa.org/Research/Research-Projects/Life-Insurance/research-2014-modeling-policy.aspx>.

⁸⁴³ MetLife argues that the Council "wrongfully discards" the findings of the NORC study "without offering evidence in support of its own position." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, pp. III-17-III-18. The analysis does not discard or dismiss the NORC study, but identifies weaknesses in the study, and the remainder of section 4.3 analyzes the potential risks arising from asset liquidation by MetLife.

preference for obtaining advice further supports the “strong indication that consumers would not seek to immediately to cash out in situations where their insurer experienced financial distress.”⁸⁴⁴ However, this finding, even if reliable, does not contradict this analysis. The question of whether a policyholder will “immediately” withdraw their funds, or seek more information before withdrawing their funds, is a distinction that on its own does not offer a view as to the ultimate actions of policyholders in the event of MetLife’s material financial distress. The act of seeking advice is not an indication that policyholders will not withdraw some or all of their cash value from MetLife. As noted above, such consultations could affect whether some policyholders surrender their policies, but the incentives to surrender could nonetheless lead a significant number of policyholders to surrender in the context of MetLife’s material financial distress. Furthermore, as discussed in section 4.3.5.5, some policyholders may opt for partial surrenders or policy loans to reduce the impact of the contractual disincentives for full surrenders while still withdrawing available cash from their policies. By surveying respondents’ intentions to “cash out” policies because of financial difficulty at the issuing company, without providing the respondent with other generally available and less punitive options for withdrawing cash value (e.g., partial withdrawals or policy loans), the survey potentially results in an understatement of those policyholders whose stated intention would be to withdraw cash value from their policy in the event that the issuer was in material financial distress.

4.3.5.4 Surrender Experience During Weak Macroeconomic Environments

MetLife provided detailed information regarding the experience of Metropolitan Life Insurance Company of America, the predecessor of MLIC, during the Great Depression. MetLife states that MLIC, a mutual insurer at the time, “experienced a modest increase in liquidity demands from policyholders, honored all policy obligations, and expanded its balance sheet.”⁸⁴⁵ MetLife states that at MLIC’s peak in 1930, MLIC insured one in five people in the United States and Canadian markets. The majority of policies sold by MetLife during that period were industrial life policies sold to working-class families and individuals. While during this period the surrender rate for MLIC reached a high of 8 percent, MLIC honored all requests for surrenders, and had sufficient income to pay all requests without having to sell any securities held in its portfolio.⁸⁴⁶ Thus, MetLife argues that it did not experience material financial distress during the Great Depression. However, under the First Determination Standard, MetLife’s material financial distress is assumed and the Council evaluates whether such distress could pose a threat to the financial stability of the United States.

⁸⁴⁴ This finding also indicates that upon the material financial distress of its issuer roughly 35 to 41 percent of the policyholders would either “cash out of the policy/contract,” “find information on the internet,” or “take no action” with respect to the policy. However, NORC and MetLife did not provide the allocation of responses among these options. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Appendix, p. 2.

⁸⁴⁵ MetLife Presentation to FSOC (March 11, 2014), p. 16.

⁸⁴⁶ *Id.* at pp. 19-20.

With respect to the financial crisis of 2008-2009, MetLife states that while it “experienced a small increase in surrenders in some products during the financial crisis, other products, such as retail variable annuities, experienced a decline in surrenders during the same period because of the increased value of the embedded guarantees during this period of market stress.”⁸⁴⁷

However, MetLife argues that it did not experience material financial distress in 2008 and 2009; in that case, the surrender experience of its life insurance subsidiaries during 2008 and 2009 may not be representative of the surrenders that could occur if MetLife were to experience material financial distress in a period of overall stress in the financial services industry and a weak macroeconomic environment. As discussed above, if MetLife were to experience material financial distress, policyholders may have an increased incentive to surrender their policies for fear that MetLife may not be able to meet its obligations. As a result, MetLife may have to liquidate a large volume of assets quickly, which could impair financial markets more broadly.

In contrast to MetLife, AIG saw significant increases in surrenders after it was downgraded by S&P in September 2008.^{848, 849} For AIG Domestic Retirement Services, surrender rates on all products were almost twice as high in the fourth quarter of 2008—after the government intervention that helped to prevent AIG’s potentially disorderly failure—as in the fourth quarter of 2007.⁸⁵⁰ AIG experienced significant increases in surrender rates in other business units as well.⁸⁵¹ The experience of AIG underscores the potential for increased surrender rates in response to concerns about an insurance company parent’s financial strength.

⁸⁴⁷ MetLife Voluntary Submission, Section III, p. III-42. Over the 2008 and 2009 time period, the maximum annualized surrender rate in the group total control account products was [REDACTED]; the minimum annualized surrender rate was approximately [REDACTED] in retail term life and whole life products. While the [REDACTED] maximum annualized surrender rate in the group total control account products was unusually high compared to other product classes, other products also experienced elevated surrender rates over the 2008 and 2009 period.

⁸⁴⁸ See AIG, Financial Supplement for the quarter ended December 31, 2008, p. 30.

⁸⁴⁹ The time period for the dataset began as AIG’s distress necessitated significant government support. See Wall Street Journal, “U.S. to Take Over AIG in \$85 Billion Bailout; Central Banks Inject Cash as Credit Dries Up” (September 16, 2008), available at <http://online.wsj.com/news/articles/SB122156561931242905>.

⁸⁵⁰ Annualized surrender rates for group retirement products in the fourth quarter of 2008 were 16.1 percent, compared to 8.7 percent in the fourth quarter of 2007. For individual fixed annuities and individual variable annuities, the rates in the fourth quarter of 2008 were 35.8 percent and 20.3 percent, compared to 15.4 percent and 12.9 percent, respectively, in the fourth quarter of 2007. See AIG Financial Supplement for the quarter ended December 31, 2008, p. 30.

⁸⁵¹ For example, the following was stated in AIG’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008: “AIG parent’s liquidity issues have affected certain operations through higher surrender activity, particularly in the U.S. domestic retirement service’s fixed annuity business and foreign investment-oriented and retirement service’s products in Japan and Asia. For Japan and Korea, surrenders are expected to continue to be higher than historic averages in the next quarter and possibly beyond due to the suspension of sales by some banks, equity market volatility and elevated levels of surrenders. While surrender levels have declined from their peaks in mid-September, they are still higher than historic levels and AIG expects them to remain at these higher than historic levels until the uncertainties relating to AIG are resolved.” AIG Quarterly Report on Form 10-Q for the quarter ended September 30, 2008, p. 54.

[REDACTED]

Data from the NAIC based on insurance company statutory filings show that, for general account liabilities, aggregate industry life and annuity surrenders, as a percentage of net policy reserves, were actually slightly lower in 2008 (15.3 percent) and 2009 (11.2 percent) than in 2007 (16.1 percent).⁸⁵⁵ The decline in the surrender rate may have been due, in part, to the general decline in interest rates over the same period, as well as the effect of a declining stock market on variable annuities.⁸⁵⁶ MetLife notes that there may have been other causes of the downward trend in aggregate surrenders over this period;⁸⁵⁷ however, there was significant variation across the largest institutions, as some experienced increased surrenders. The data on deposit contracts show a significant increase in aggregate surrender activity; as is the case with the life and annuity data; however, there is significant variation across individual companies.⁸⁵⁸ It is also important to note that, for deposit contracts, this data source does not distinguish between surrenders and maturities.

⁸⁵² [REDACTED]

⁸⁵⁴ SNL Financial.

⁸⁵⁵ Data are from the NAIC, based on insurance company statutory filings.

⁸⁵⁶ GAO, "Insurance Markets -Impacts of and Regulatory Response to the 2007-2009 Financial Crisis," GAO-13-583 (June 2013), pp. 22-23. The GAO report states "Because interest rates dropped during the crisis, variable annuities with guarantees purchased before the crisis were 'in the money,' meaning that the policyholders' account values were significantly less than the promised benefits on their accounts, so the policyholders were being credited with the guaranteed minimum instead of the lower rates actually being earned. Thus, policyholders were more likely to stay in their variable annuities during the crisis because they were able to obtain higher returns than they could obtain on other financial products."

⁸⁵⁷ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-26.

⁸⁵⁸ Deposit-type contract surrenders and maturities for the industry increased from \$121 billion in 2007 to \$168 billion in 2008 and \$186 billion in 2009. The reason for this increase is uncertain.

4.3.5.5 Policy Loans

MetLife could face additional liquidity strain through the loan features of its contracts, which give policyholders the ability to access cash using the insurance contracts as collateral. A sudden increase in loan requests by policyholders when the company is experiencing material financial distress could result in liquidity strain. As required under state laws, life insurance products that accrue a cash value (e.g., universal and whole life insurance policies) offer policyholders loans against their outstanding policies.⁸⁵⁹ Policy loans allow policyholders to borrow from the company using the cash value of their life insurance contract as collateral. Policy loans thereby offer policyholders the ability to access the full cash value of their policies in a manner that may not trigger the most significant disincentives associated with a full or partial surrender of their policies (such as income taxes or loss of benefits). Further, if policyholders have lost confidence in the ability of MetLife to perform on future payment obligations due to the company's material financial distress, disincentives such as being charged interest on their loan or the potential for early lapse may be secondary to the incentive to quickly reduce exposure to MetLife. Policy loans may be an attractive first alternative to surrenders or used in combination with partial surrenders for policyholders that want to avoid the immediate consequences of an early surrender.

As of June 30, 2013, MetLife had \$11.8 billion of policy loans outstanding, \$4.7 billion of which were in its Closed Block business and \$1.7 billion of which were associated with its international businesses.⁸⁶⁰ As of the same date, MetLife estimated that policyholders had a contractual right to access liquidity against an aggregate policyholder liability amount of \$116 billion⁸⁶¹ through policy loans.⁸⁶²

MetLife's historical loan balances as a percentage of the total amount available for withdrawal from applicable sources were approximately [REDACTED] each year from 2008 through June 30, 2013.⁸⁶³ MetLife provided various scenario analyses to help demonstrate different levels of surrenders, which would be affected by the severity of idiosyncratic or broader financial distress

⁸⁵⁹ See, e.g., 18 Del. C. 2911(a) (2014); Ohio Rev. Code Ann. 3915.05(G) (West 2014); N.J. Stat. Ann. 17B:25-8 (West 2014); N.Y. Ins. Law 3203(8)(A) (McKinney 2014); S.C. Code Ann. 38-63-220(l) (2014).

⁸⁶⁰ MetLife Response to OFR Data Request, document B.8.

⁸⁶¹ The amount of \$116 billion represents the global maximum aggregate policy liability amount with available policy loan features. [REDACTED]

[REDACTED] MetLife Response to OFR Data Request, document B.8; MetLife Response to OFR Data Request, 2013.11.12_-_Liability_cash_outflow_model_(PROTECTED).⁸⁶² MetLife Response to OFR Data Request, document B.8; MetLife Response to OFR Data Request, 2013.11.12_-_Liability_cash_outflow_model_(PROTECTED). MetLife Response to OFR Data Request, document B.8.

⁸⁶² MetLife Response to OFR Data Request, document B.8; MetLife Response to OFR Data Request, 2013.11.12_-_Liability_cash_outflow_model_(PROTECTED). MetLife Response to OFR Data Request, document B.8.

⁸⁶³ MetLife Voluntary Submission, Section III, p. III-40.

experienced. In Scenario 3, MetLife modeled an additional [REDACTED] of policy loan outflows of the borrowing capacity of Americas region policies that are capable of being withdrawn,⁸⁶⁴ which would be significantly above the company's experience in 2008-2009⁸⁶⁵ but does not reflect the full extent to which policyholders could borrow against their policies.⁸⁶⁶

Depending on the product, the interest rate for a policy loan may be set at a fixed rate, variable rate, or composite rate. [REDACTED]

[REDACTED]⁸⁶⁷.

There are, however, several mitigants to consider with respect to policy loans. State regulators may, subject to approval by state courts, impose temporary moratoriums on policy loans. In addition, there are limits on the amount of policy loans a policyholder may take out on relevant contracts. Further, MetLife has the right to defer policy loans for six months.⁸⁶⁸ While some products include more stringent limits, the general limit is based on the cash value plus an adjustment to reflect the amount that would grow with interest at the policy loan rate. Policyholders are not required to make loan payments, but missed interest payments accrue to the loan balance. A life insurer can terminate a policy if the policy's cash value is not sufficient to support principal and accrued interest on an outstanding loan.

4.3.5.6 *Separate Account Liabilities*

If MetLife were to experience material financial distress, contract holders could surrender or withdraw their separate account products, resulting in the sale of the assets held in the contracts at then-current market value. As of June 30, 2013, MetLife had approximately \$246 billion of qualifying separate account liabilities.⁸⁶⁹ Retail deferred variable annuities and stable value products, respectively \$149 billion and \$42.3 billion in total account values, represented most of MetLife's qualifying separate accounts.⁸⁷⁰ Across the product types, separate account assets were primarily invested in underlying funds that are registered as investment companies under the 1940 Act (e.g., mutual funds).^{871, 872} Other investments included agency securities, RMBS,

⁸⁶⁴ This amount was approximately [REDACTED] MetLife Response to OFR Data Request, 2013.11.12 - Liability_cash_outflow_model_(PROTECTED).

⁸⁶⁵ In 2008-2009, MetLife experienced a [REDACTED] net change in its outstanding policy loans. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-141.

⁸⁶⁶ MetLife Voluntary Submission, Section IV, Appendix A, p. 116.

⁸⁶⁷ MetLife Response to OFR Data Request, document B.8. [REDACTED]

⁸⁶⁸ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-141.

⁸⁶⁹ MetLife Voluntary Submission, Section III, p. III-38.

⁸⁷⁰ MetLife Voluntary Submission, Section IV, Appendix A, p. 48.

⁸⁷¹ MetLife Response to OFR Data Request, document B.6, p. 2.

⁸⁷² [REDACTED] Id. at pp. 2, 3; see also section 1.3.1.2.

U.S. corporate bonds, foreign government securities, foreign corporate securities, ABS, CMBS, and state and local bonds.⁸⁷³

The majority of MetLife's \$246 billion of separate account liabilities can be surrendered at or near market value and therefore could pose asset liquidation risk.⁸⁷⁴ Table 28 illustrates the potential surrenderability of MetLife's separate account liabilities, including [REDACTED] of separate account liabilities that can be surrendered within seven days for a cash surrender value of [REDACTED].⁸⁷⁵ Separate account contract holders generally are entitled to receive the market value of their separate account assets minus any applicable surrender fees.

Separate account contract holders generally have less incentive, and stronger disincentives, to surrender than general account policyholders. Non-guaranteed separate account liabilities are not generally directly exposed to the insurer's credit risk because they are insulated from claims of creditors of the insurance company.

Table 28: Total U.S. Separate Account Liabilities Subject to Surrender or Early Withdrawal (\$ Billions)

	Liability Value	Cash Surrender Value
[REDACTED]		

Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, documents B.7.f, B.7.m.

[REDACTED]

With separate account products, the contract holder, not the insurance company, retains most of the investment risk. MetLife's equity and debt holders do not have any claim to separate account assets in the event of MetLife's insolvency, because these assets are beneficially owned by

⁸⁷³ MetLife Response to OFR Data Request, document B.6, p. 2.

⁸⁷⁴ MetLife Voluntary Submission, Section IV, Appendix A, p. 48.

⁸⁷⁵ MetLife Response to OFR Data Request, document B.7.f.

MetLife customers.⁸⁷⁶ For these reasons, MetLife asserts that the assets held in its contract holders' separate accounts are not at risk from any distress experienced at the holding company or at the subsidiaries of MetLife.⁸⁷⁷ If a state insurance commissioner were, in a receivership, to impose a moratorium on policyholder withdrawals and surrenders, it is unlikely that the moratorium would be applicable to separate account liabilities. Further, some of the U.S. separate account liabilities are less likely to be withdrawn or surrendered than others; for example, [REDACTED] of the U.S. pensions separate account products have no withdrawal rights.⁸⁷⁸

MetLife notes that surrender rates for variable annuities products at the Hartford Financial Services Group did not increase at a similar rate to that of the fixed annuities products during 2008.⁸⁷⁹ However, many of MetLife's separate account products carry guarantees that are backed by the creditworthiness of the underwriting MetLife insurer. Approximately [REDACTED] of MetLife's life insurers' separate account liabilities (e.g., variable annuities and stable value products) include a guarantee backed by the insurer's general account.⁸⁸⁰ As of June 30, 2013, the account value for variable annuities with a death benefit was \$151 billion, and the account value for variable annuities with a living benefit was \$88.7 billion (with some overlap between these two sets).⁸⁸¹

Separate account contract holders have disincentives, including surrender charges, loss of contractual guarantees or insurance coverage, and tax penalties, for surrendering many of these policies.⁸⁸² For example, with a variable annuity, the decline in the value of separate account assets in a weak macroeconomic environment is likely to increase the present value of the minimum benefit guarantees. The guarantee is only realized at death or annuitization (in case of

⁸⁷⁶ If insurance company subsidiaries of MetLife were to face regulatory intervention, the daily redemption of their separate accounts would still be maintained, as products issued out of separate accounts with contractual guarantees are excluded from any resolution process concerning the general account. MetLife Voluntary Submission, Section IV, Appendix A, p. 133.

⁸⁷⁷ Id. at p. 120.

⁸⁷⁸

[REDACTED] MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-38.

⁸⁷⁹ MetLife notes that the variable annuity surrender rate at The Hartford remained flat through 2008 and subsequently declined from the middle of 2009 through the end of the year, while the fixed annuity surrender rate increased from 5 percent to 11 percent during the third to fourth quarter of 2008. While Hartford is considerably smaller than MetLife (total assets of \$287 billion), and was not experiencing material financial distress, thus making the example not comparable to this analysis, this is an example in which separate account holders react and decide to exercise surrender provisions at a slower pace than general account holders. MetLife Voluntary Submission, Section IV, Appendix B, p. 62.

⁸⁸⁰ MetLife Voluntary Submission, Section III, p. III-39.

⁸⁸¹ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 24.

⁸⁸² MetLife Voluntary Submission, Section IV, Appendix A, p. 127. Oliver Wyman, Analysis of Market Impact of a Liquidity Crisis – Focus on Variable Annuities (July 22, 2014), p. 6.

income benefit), and effectively dissolves at zero value upon a termination or surrender of the product. The increase in the value of the guarantee would create a disincentive for a contract holder to surrender a policy. Further, MetLife states that a substantial portion of the value of the guarantees, “historically no less than 90% on average,” would be recovered in a MetLife insolvency, indicating that account holders would have a strong disincentive to surrender.⁸⁸³ MetLife also stated that withdrawals from separate account COLI/BOLI policies are highly unlikely because separate accounts are insulated from outside claimants; have strong tax disincentives for withdrawals, including the potential for additional taxes or penalties; and are subject to contractual restrictions from third-party wrap providers.⁸⁸⁴ However, in the event of MetLife’s material financial distress, this disincentive may be overcome by a contract holder’s desire for perceived safety and liquidity associated with a product. Contract holders may factor in the cost of maintaining the guarantee and may discount the likelihood of guaranteed payments being made due to the material financial distress of an insurance company, as well as uncertainty about assumption of separate account liabilities by another insurer in the event of the material financial distress of the issuing insurer.

Separate account products could also potentially be transferred to another insurance company through the sale of a MetLife subsidiary or of particular blocks of MetLife’s business. Such transfers could mitigate the impact of withdrawals and associated asset liquidations.⁸⁸⁵ However, in a period of overall stress in the financial services industry and in a weak macroeconomic environment, such transfers may not be possible, or may not be completed quickly. From the perspective of an assuming insurance company, the attractiveness of the various books of business will depend on the economics of the guaranteed benefits, particularly whether they are “in the money” or “out of the money.” Therefore, there may be only a limited number of carriers (if any) willing to assume the guaranteed business, and those that are willing may demand steep discounts.

Hence, if MetLife were to experience material financial distress, particularly in the context of a period of overall stress in the financial services industry and in a weak macroeconomic environment, MetLife’s separate account contract holders could decide to surrender their separate account products.

⁸⁸³ MetLife Materials Contesting the Proposed Determination (October 16, 2014), p. III-36. As discussed in section 4.2.5, historical averages may not be applicable in the event of an insolvency of an insurance organization with the size, scope, and interconnectedness of MetLife.

⁸⁸⁴ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-37.

⁸⁸⁵ Section 22(e) of the Investment Company Act generally prohibits the suspension of redemptions of redeemable securities by investment companies for more than seven days, thereby providing a seven-day window for the payment of proceeds on registered separate account products. However, sections 22(e)(2) and (e)(3) provide certain exemptions from this requirement that may be available to an insurer upon request to and with approval from the SEC.

4.3.5.7 *Synthetic GICs*

Synthetic GICs are investment-only wraps that provide an insurer's client retirement plans with a minimum interest rate guarantee on their investments. As of June 30, 2013, MetLife's notional value of synthetic GICs was \$4.3 billion.⁸⁸⁶ The underlying assets wrapped by MetLife are owned by the participating retirement plan and are held in a trust. Typically, contract holders may terminate synthetic GICs at any time; however, there may be an advance notice period required in the contract. If a contract is terminated, the contract holder ceases to pay fees and is entitled to the assets held in the associated trust. Depending on the contract, contract holders may be entitled to receive book value as of the termination date, paid over a period of time. In certain circumstances, MetLife's insurers would still provide "last dollar coverage," which requires the companies to make a payment when the assets held in trust are completely exhausted and insufficient to pay a guaranteed benefit.⁸⁸⁷ In the context of MetLife's material financial distress, MetLife's asset sales arising from defaults on assets backing the synthetic GIC portfolio could contribute to disruptions caused by sales at other large, leveraged institutions, particularly during a period of overall stress in the financial services industry and in a weak macroeconomic environment.

4.3.5.8 *International Insurance Liabilities*

Rapid withdrawals and surrenders of MetLife's international insurance liabilities could result in the forced liquidation of assets denominated in foreign currencies, which may result in additional liquidity strain if the company were to experience material financial distress. As of June 30, 2013, MetLife had \$106 billion of international insurance liabilities, mostly in Japan, Korea, Mexico, and the United Kingdom.⁸⁸⁸ MetLife's international life insurance, annuity, and other products function in part as savings vehicles that allow policyholders to access cash surrender value within a short period of time (see Table 29). The total cash surrender value minus any applicable surrender charges on MetLife's international insurance liabilities was \$96 billion, or about 91 percent of the total contract liabilities, as of June 30, 2013.⁸⁸⁹ Depending on the policy or contract, policyholders or contract holders may have various disincentives to surrender, including the loss of hard-to-replace insurance coverage, the loss of minimum crediting rates or other contractual guarantees, and market value adjustments.⁸⁹⁰ However, as described elsewhere in this analysis, these types of disincentives may be less of a deterrent in the event of material financial distress at the relevant company.

⁸⁸⁶ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 51.

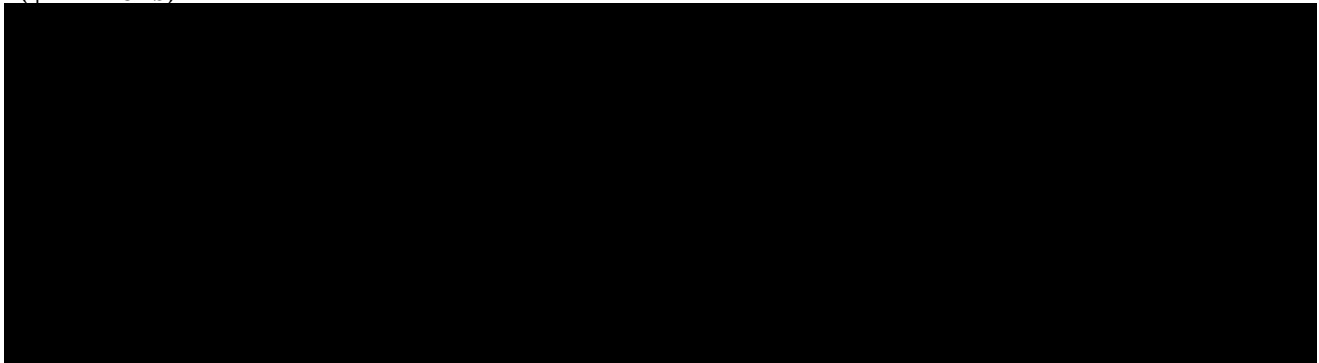
⁸⁸⁷ See section 3.2.1 for information regarding the terms of Met Managed GICs.

⁸⁸⁸ MetLife Response to OFR Data Request, document B.7.

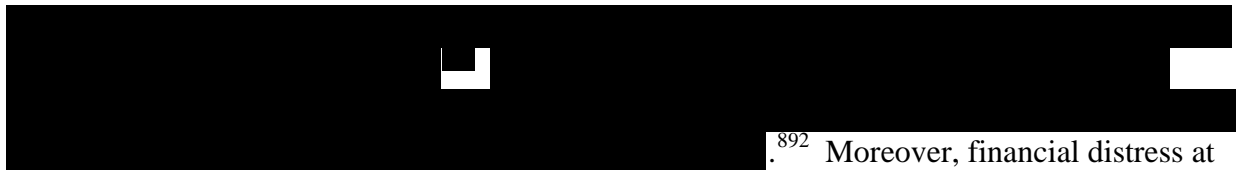
⁸⁸⁹ Id.

⁸⁹⁰ MetLife Voluntary Submission, Section IV, p. IV-6.

Table 29: Withdrawal Features of MetLife's International Insurance Liabilities
 (\$ Millions)



Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, document B.7.xls.

.⁸⁹² Moreover, financial distress at one or more of MetLife's foreign subsidiaries could increase financial strain on MetLife, Inc., which could limit its ability to provide support to U.S. subsidiaries.

4.3.6 Investment Portfolio

The broader market implications of asset liquidation depend on a number of factors, including the size and composition of the liquidated asset portfolio; any fire-sale discount, which depends on the risk and liquidity of the assets; and the extent to which other financial market participants may be forced or incentivized to sell similar assets. Accordingly, all other things being equal, the liquidation of larger or less-liquid asset portfolios poses greater risk of disrupting financial markets than the liquidation of smaller or more-liquid asset portfolios. In addition, fire sales of assets that are widely held, or commonly used as collateral in critical funding markets by large financial intermediaries, would generally have a greater impact on market function than fire sales of assets that are held or used more narrowly.

As shown in Table 30, MetLife had approximately \$500 billion in general account invested assets (including cash and cash equivalents) and approximately \$246 billion in separate account invested assets as of June 30, 2013,⁸⁹³ which included fixed income, equity, cash, and derivatives in its general account and separately managed accounts. Not all of these on-balance sheet assets face the same liquidation risk in the event of material financial distress at MetLife. MetLife's

⁸⁹¹ MetLife Response to OFR Data Request, document B.7.

⁸⁹² Id.

⁸⁹³ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

general account assets are predominantly composed of fixed-income securities, including U.S. corporate bonds, as well as U.S. Treasury and agency securities and foreign government securities.⁸⁹⁴ MetLife's largest asset concentration is U.S. corporate securities, which represents [REDACTED] of its general account assets.⁸⁹⁵ In addition to the U.S. securities, MetLife holds a substantial amount of foreign securities, including general account investments of [REDACTED] of foreign government securities and [REDACTED] of foreign corporate securities.⁸⁹⁶ These foreign securities generally support foreign currency-denominated liabilities in MetLife's foreign subsidiaries.

⁸⁹⁴ MetLife Response to OFR Data Request, document B.3.

⁸⁹⁵ Id.

⁸⁹⁶ Id.

Table 30: MetLife On-Balance Sheet Holdings by Asset Class (\$ Billions)

	Separate Account Investments	General Account Investments	Total On-Balance Sheet Holdings
Total	\$245.6	\$500.4	\$746.0

Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, document B.3.

MetLife states that it invests in long-term assets to minimize liquidity risk and maturity mismatches, while having over 20 percent of its assets in the traditionally most liquid asset classes, but more than \$64 billion of MetLife's assets, including a large proportion of its most-liquid securities, are restricted until the liability is repaid and may not be readily available for immediate sale.⁸⁹⁷ As shown in Table 31, as of December 31, 2013, more than [REDACTED] of MetLife's general account holdings of U.S. Treasury and agency securities were encumbered or otherwise restricted.⁸⁹⁸ These restricted assets support a range of funding and capital markets activities engaged in by MetLife, including securities lending, FHLB borrowings, and other collateral financing transactions. In the event of material financial distress, MetLife could be incentivized or forced (due to encumbered assets) to initially sell a portion of its less-

⁸⁹⁷ See Table 31.

⁸⁹⁸ MetLife Response to OFR Data Request, documents B.3.e and B.3.d; MetLife Annual Report on Form 10-K for the year ended December 31, 2013, pp. 181, 235, 265.

liquid asset portfolio, accepting larger pricing discounts relative to the pricing discount of its sales of more-liquid assets, thus creating a larger risk of impacting broader markets. Factors such as encumbered assets and first-mover advantages could lead to a variety of different decisions by MetLife regarding the order in which to liquidate assets. The liquidity analysis developed by Oliver Wyman (see section 4.3.9) does not factor in the encumbrance of assets and instead assumes MetLife first sells highly liquid assets to satisfy increased near-term liabilities before liquidating other, more thinly traded assets, such as corporate bonds and ABS. Additionally, MetLife states that due to overcollateralization by MetLife of its FHLB and Farmer Mac FA liabilities, if these FAs were closed out, it would free approximately \$3 billion of excess collateral that would be available to satisfy policyholder withdrawals.⁸⁹⁹

Table 31: Composition of MetLife's Restricted General Account Assets

Asset Investments Category	Holdings (\$millions)	Restricted Assets⁹⁰⁰ (\$millions)	Restricted Assets as a Percent of Holdings
U.S. Treasury and Agency Securities	\$45,123		
U.S. Corporates	106,469		
Foreign Debt Securities	117,589		
RMBS	35,055		
CMBS	16,550		
ABS	15,571		
State and Political Subdivision Securities	13,830		
Equities	3,402		
Mortgage Loans	57,706		
Fair Value Option & Trading Securities	17,423		
Freestanding Derivatives	8,595		
Total Investments Asset Categories	437,313		
Cash & Cash Equivalents	7,585		
Total Investment Assets including Cash and Equivalents	444,898		
Total Assets	\$885,296		
		64,104	14.4
		\$64,104	7.2%

Sources: Data are as of December 31, 2013. MetLife Response to OFR Data Request, documents B.3.e and B.3.d; MetLife Annual Report on Form 10-K for the year ended December 31, 2013, pp. 181, 235, 265.

In the event of MetLife's material financial distress, large-scale withdrawals could necessitate a rapid liquidation of a significant portion of invested general account assets, which could cause significant disruptions in the financial markets. The negative effects of a liquidation of a

⁸⁹⁹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-148.

⁹⁰⁰ Figures are shown on a GAAP-only basis. Total restricted assets are equal to \$64.5 billion rather than \$64.1 billion on a blended GAAP and statutory basis (less than a 1 percent difference). MetLife provided the asset composition breakout for restricted assets on a statutory basis for MLIC and MICC and a GAAP basis for all other entities in the consolidated group. MetLife also provide an aggregate GAAP reconciliation. See MetLife Response to OFR Data Request, document B.3.e.

significant portion of MetLife's invested assets on the broader market may be aggravated during a period of overall stress in the financial services industry and in a weak macroeconomic environment, when liquidity dries up and price swings can be magnified. The magnitude of distress that could spread from a liquidation of assets by MetLife could be amplified further by the fact that other large insurance companies have similar investment portfolios. MetLife states that there are differences between SAP and GAAP accounting to consider when analyzing the impact of this liquidation and disruption. However, the price impacts will affect the GAAP financial statements of other publicly traded insurance companies. Asset price declines resulting from a rapid asset liquidation by MetLife could cause significant losses or funding problems for these other firms.

The impact of asset liquidation by MetLife depends on the types of assets being liquidated and the financial market conditions prevailing at the time of sale. The liquidity of a given asset class can be measured in part by its daily trading volume. If forced asset liquidations of certain assets were necessary, comparing the volume of MetLife's holdings of those assets compared to the total size of those markets, measured in terms of outstanding balances and trading volumes, can help estimate the potential impact on those markets. Sales of a portfolio composed of relatively illiquid assets or that comprises a large share of a broad asset class could create significant disruptions in those markets. Table 33 outlines MetLife's on-balance sheet holdings as a percentage of the total market 901

The portfolio concentrations do not appear to comprise a disproportionately large share of any individual market. However, market liquidity and the price impact of large trades vary considerably across markets and issues. Accordingly, liquidating assets in a weak macroeconomic environment may affect asset prices, even when a company seeks to sell assets accounting for only a small percentage of the overall market.

MetLife's fixed income portfolio as of December 31, 2012, included more below-investment grade bonds than the life insurance industry average.⁹⁰² Approximately 65 percent of MetLife's portfolio holdings were rated A- or higher as compared to 63 percent for the entire life insurance industry, and 24 percent of MetLife's portfolio carried BBB ratings compared to 31 percent for the entire life insurance industry. However, MetLife's exposure to below-investment grade bonds (at 11 percent of total bonds) was above the 6 percent life insurance industry average.⁹⁰³ The C1 RBC charge, used to assess credit risk, is [REDACTED] for MetLife and 1.2 percent for the

⁹⁰¹ [REDACTED]

⁹⁰² Life insurance industry averages were calculated using data supplied by NAIC Capital Markets Bureau research and SNL Financial.

⁹⁰³ SNL Financial.

life insurance industry. MetLife also held a significant amount of underlying fund securities, especially in its separate accounts. [REDACTED]

[REDACTED].⁹⁰⁵ Total U.S. corporate debt securities outstanding at mid-year 2013 was \$7.2 trillion and MetLife's corporate bond holdings of [REDACTED] constituted [REDACTED] of the total market.⁹⁰⁶ MetLife's portfolio of corporate debt constituted about [REDACTED] of MetLife's managed assets.⁹⁰⁷ MetLife has indicated that this corporate bond portfolio included [REDACTED] of financial companies' senior and subordinated debt, with the debt of banks (including G-SIBs) representing [REDACTED] or [REDACTED], of that amount.⁹⁰⁸ Because of its relative illiquidity and interconnectedness with the financial system, this portfolio composition could accentuate the negative strains on MetLife's asset valuations and create a feedback loop to the broader capital markets during a time of overall stress in the financial services industry.

Table 32: MetLife Holdings of Financial Companies' Senior and Subordinated Debt

	Fair Value (\$millions)	Percentage of Total
[REDACTED]		

Sources: Data are as of June 30, 2013. MetLife Responses to OFR Data Requests, documents A.1.b.iv and A.1.b.v.

As of June 30, 2013, MetLife's general account assets invested in ABS⁹⁰⁹ represented only 3 percent of its total general account investments and less than 1 percent of the total market; however, these holdings represented over [REDACTED] of the market's ADTV.⁹¹⁰ Such holdings, along with ABS held in MetLife's separate accounts, would represent over [REDACTED] of average

⁹⁰⁴ MetLife Response to OFR Data Request, document B.3.

⁹⁰⁵ See Table 33.

⁹⁰⁶ Securities Industry and Financial Markets Association (SIFMA), "U.S. Bond Market Issuance and Outstanding" (Second Quarter 2013), available at <http://www.sifma.org/research/statistics.aspx>. As of June 30, 2013. MetLife Presentation to FSOC: MetLife Investments (November 1, 2013), p. 10.

⁹⁰⁷ As of June 30, 2013. MetLife Presentation to FSOC: MetLife Investments (November 1, 2013), p. 9.

⁹⁰⁸ See Table 32.

⁹⁰⁹ Excludes RMBS and CMBS. MetLife Response to OFR Data Request, document B.3_market_analysis.

⁹¹⁰ MetLife Response to OFR Data Request, document B.3.

trading volume.⁹¹¹ Similarly, the company's general account holdings of CMBS accounted for only 4 percent of its portfolio and less than 3 percent of the entire CMBS market, but represented over [REDACTED] of average trading volume.⁹¹² U.S. and foreign corporate fixed income securities were the top two largest holding categories, accounting for [REDACTED] of MetLife's total general account investments, respectively.⁹¹³ These holdings each represented over [REDACTED] of average trading volume of their respective markets.⁹¹⁴

Table 33: MetLife Holdings as a Percentage of the Total Market

	General Account Investments (Percent)	Separate Account Investments (Percent)	
U.S. Treasury and agency securities	0.4%	0.2%	
Foreign government securities	0.3	0.0	
State and political subdivision securities	0.4	0.0	
U.S. corporate securities	1.2	0.1	
Foreign corporate securities	1.2	0.1	
Mutual funds	<0.1	0.5	
Equities	0.0	0.1	
ABS*	0.7	0.1	
RMBS	0.4	0.2	
CMBS	2.7	0.3	
Commercial mortgage loans	0.3	-	
U.S. residential mortgage loans	<0.1	-	
Real estate and real estate joint ventures	0.1	-	

Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, document B.3.

Note: (*) Includes all ABS except RMBS and CMBS.

The size of MetLife's holdings of various asset classes in relation to the total size of those markets, measured in both outstanding balances and trading volume, is an important factor in the potential transmission of stress. Additionally, when factoring in potentially lower trading volumes that could occur if liquidity contracts during a time of overall stress in the financial services industry and a weak macroeconomic environment, the ratios of MetLife's portfolio size to trading volume could rise dramatically from these levels. This could compound the difficulties of a forced liquidation of assets. Such liquidation could further pressure market prices and impair the company's ability to meet its obligations while at the same time causing

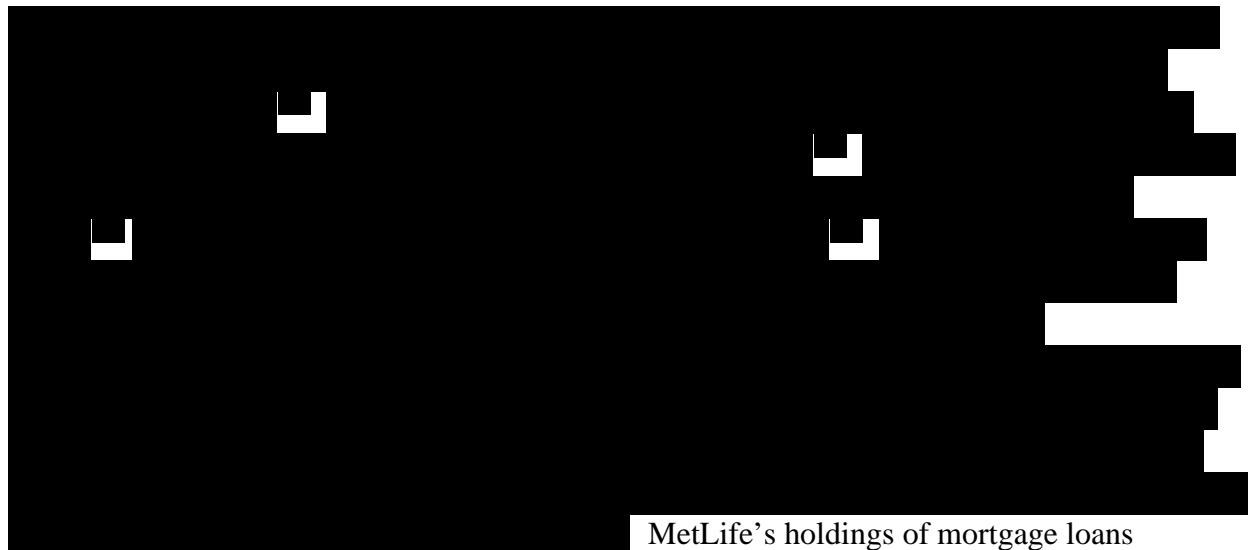
⁹¹¹ See Table 33. [REDACTED]

⁹¹² Id.

⁹¹³ MetLife Response to OFR Data Request, document B.3.

⁹¹⁴ Id.

losses or funding problems for other firms with similar holdings. Potential price effects resulting from MetLife's liquidation would depend in part on the timing of surrenders and other liquidity needs as well as the amount and types of assets the company might sell. If MetLife were forced to liquidate assets in the ABS and U.S. corporate fixed income securities markets, such liquidation could represent a significant percentage of the total activity in these markets and could potentially impact these markets or other market participants that hold similar assets. A majority of MetLife's U.S. corporate bond portfolio consists of BBB bonds (41 percent of the portfolio) and below-investment grade bonds (13 percent of the portfolio),⁹¹⁵ which would generally be less liquid than higher-quality securities in a period of overall stress in the financial services industry and in a weak macroeconomic environment.



MetLife's holdings of mortgage loans (residential and commercial), real estate and real estate joint ventures, other limited partnership interests, and other investments totaled approximately \$80 billion and accounted for approximately 16 percent of total investments and cash as of June 30, 2013.⁹²⁰ MetLife would be expected to seek to avoid selling these assets in all but the late stages of a forced liquidation.

⁹¹⁵ As of June 30, 2013. MetLife Response to OFR Data Request, document B.3.b.

⁹¹⁶ Id.

⁹¹⁷ Id.

⁹¹⁸ MetLife Response to OFR Data Request, document B.3.b.i. Based on the combined assets of MetLife Inc.'s SNL Life Group and NAIC annual statement data, 37 percent were NAIC1 (AAA-A equivalent), 43 percent were NAIC2 (BBB equivalent), and 20 percent were below-investment grade securities. As of December 31, 2013. SNL Financial. Data prepared on the basis of SAP. SNL Life Group aggregation contains MetLife's U.S. life insurance companies.

⁹¹⁹ MetLife Response to OFR Data Request, document B.3.b.i.

⁹²⁰ MetLife Response to OFR Data Request, document B.3.

Appendix D describes a supplemental analysis of the relative impact of negative shocks to the equity or assets of certain financial institutions on other financial institutions.⁹²¹ The analysis attempts to assess the relative price effect of a fire sale on the balance sheet of other firms holding the same or similar assets. As shown in Appendix D, depending on the parameters considered, MetLife produces a fire-sale effect that generally places it among the top 10 financial institutions.⁹²²

4.3.7 Financial Leverage

MetLife uses financial leverage in the operation of its businesses. This leverage could amplify the scale and scope of any asset liquidation caused by MetLife's material financial distress. In general, a firm's counterparties and creditors tend to require an organization to hold a certain amount of capital. Firms with more leverage that become distressed will deplete their capital more quickly and thus be forced to sell more assets, or stop writing new policies, in order to lower their leverage. The effect of leverage is further amplified by the presence of short-duration (including FABCP) and credit-sensitive liabilities because these counterparties and creditors are more capable of reducing their exposure to the firm following a shock.⁹²³

MetLife employs more financial leverage than most of its peer life insurance companies. Table 34 compares MetLife's financial leverage with its life peer group for the period ended June 30, 2013. With financial debt of \$26 billion and a financial debt-to-equity ratio of 0.43, MetLife reports the second-highest debt level and financial leverage among its life insurance peers (following Prudential at 0.98x). With the exception of Prudential and Lincoln National (0.42x), MetLife's financial leverage is considerably higher than its peers, which have a median of 0.26x.⁹²⁴

Since 2008, MetLife's GAAP-reported financial debt has increased by 23 percent, from \$21.3 billion as of December 31, 2008, to \$26.1 billion as of June 30, 2013.^{925, 926} As of

⁹²¹ In order to compare MetLife to other insurance companies and banks, the analysis considers the framework proposed in Robin Greenwood, Augustin Landier, and David Thesmar, "Vulnerable Banks," NBER WP 18537 (November 2012), available at <http://www.nber.org/papers/w18537>.

⁹²² This analysis excludes assets held in separate accounts by life insurance companies because policyholders, not the companies, control the decision to liquidate these assets, and because the liquidation of these assets does not affect a life insurer's leverage. To the extent that separate account policyholders surrender or withdraw their policies out of concern regarding an insurer's viability (or the state of the life insurance industry generally), the additional liquidation of separate account assets would magnify the effects summarized in this fire sale analysis.

⁹²³ MetLife states that its ratio of short-term debt to total assets is 0.27 percent, but that calculation only captures \$100 million of traditional CP issued by MetLife, Inc. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-153. MetLife considers its FABCP to be an insurance liability and not short-term debt.

⁹²⁴ See Table 34.

⁹²⁵ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5; MetLife Annual Report on Form 10-K for the year ended December 31, 2008, p. F-2.

December 31, 2012, MetLife's financial debt is composed of short-term debt (\$100 million), long-term debt (\$16.5 billion), collateral financing arrangements relating primarily to support for intercompany reinsurance associated with statutory reserves (\$4.2 billion), junior subordinated debt (\$3.2 billion),⁹²⁷ and long-term debt relating to commercial mortgage loans held by consolidated securitization entities (\$2.6 billion).⁹²⁸ The majority of MetLife's financial debt contractual maturities are intermediate to longer-term,⁹²⁹ and issued by MetLife, Inc. or assumed by the parent company from subsidiaries.⁹³⁰

MetLife's mixture of financial debt has changed since 2008, with an increase in the proportion of long-term debt (from 46 percent to 63 percent) and a significant reduction in CP (from \$2.4 billion to \$100 million).⁹³¹ This reduction in financial leverage has been accompanied by an increase in operating leverage, as described in section 4.3.8.⁹³² Within the same period, financial leverage has declined sharply, from 0.89x to 0.43x, but most of this decline is explained by increases in unrealized investment gains and losses reported in accumulated other comprehensive income.⁹³³

⁹²⁶ During the same time period, equity excluding AOCI increased approximately 42 percent. MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5; MetLife Annual Report on Form 10-K for the year ended December 31, 2008, p. F-2.

⁹²⁷ MetLife Annual Report on Form 10-K for the year ended December 31, 2012, p. 188.

⁹²⁸ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, pp. 5, 39.

⁹²⁹ MetLife Response to OFR Data Request, document B.5.b_Financial Leverage_Follow_2of2, which includes senior debt and remarketed equity units accounted for as senior debt, VIEs, junior subordinated debt, and collateral financing. Stated maturities were provided.

⁹³⁰ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, pp. 160, 196. For the period ended June 30, 2013, MetLife, Inc. (parent only) reported \$23.4 billion in financial debt compared to MetLife's consolidated financial debt of \$26.1 billion. MetLife Annual Report on Form 10-Q for the year ended December 31, 2013, p. 392. In 2012, affiliated reinsurance captive Exeter Re transferred \$2 billion in surplus senior notes, payable to insurance affiliates, to MetLife, Inc.

⁹³¹ As of December 31, 2008 and December 31, 2012. SNL Financial. Data prepared on the basis of GAAP. At year-end 2008, MetLife, Inc. had \$0.7 billion of commercial paper outstanding, and MetLife Short Term Funding LLC, a FABCP conduit, had \$1.7 billion of commercial paper outstanding supported by the Federal Reserve's Commercial Paper Funding Facility. See MetLife Annual Report on Form 10-K for the year ended December 31, 2008, pp. 23, F-91.

⁹³² Importantly, rating agencies may distinguish certain forms of operating leverage from financial leverage on basis of the borrower's intended use of the proceeds. See A.M. Best, "Perspective On Operating Leverage" (January 17, 2012), available at <http://www3.ambest.com/ambv/ratingmethodology/OpenPDF.aspx?rc=192451>.

⁹³³ As of December 31, 2008 and December 31, 2012. SNL Financial. Data prepared on the basis of GAAP.

Table 34: MetLife Financial Leverage: Debt and Equity Relative to U.S. Peers⁹³⁴

Company	Financial Debt (\$millions)	Total Equity (\$millions)	Financial Debt/ Total Equity
Prudential	\$35,356	\$35,908	0.98
MetLife	26,066	60,408	0.43
Lincoln National	5,556	13,317	0.42
Principal Financial	2,754	9,409	0.29
Voya Financial	3,404	14,647	0.23
Manulife Financial	8,451	36,693	0.23
New York Life*	5,212	31,604	0.16
AXA Equitable	\$1,371	\$15,091	0.09
Mean			0.36
Median			0.26

Sources: All data are as of June 30, 2013, except for New York Life Insurance Company data that are as of December 31, 2012. New York Life Insurance Company and Subsidiaries Consolidated Financial Statements for the year ended December 31, 2012, prepared on the basis of GAAP, p. 2. ING U.S. Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5. Manulife Financial Quarterly Report to Shareholders for the quarter ended June 30, 2013, p. 11. Prudential, MetLife, Lincoln National, Principal Financial, and AXA Equitable data are as of June 30, 2013, from SNL Financial, prepared on the basis of GAAP.

In addition to the direct financial debt, MetLife, Inc. provides capital support for transactions connected to financial debt obligations. For example, MetLife entered into collateral financing arrangements with financial institution counterparties to provide statutory reserve support. As of June 30, 2013, the outstanding balance was \$4.9 billion.⁹³⁵

4.3.8 Operating Leverage

Life insurance firms like MetLife often assume various forms of operating leverage, using secured borrowings, securities lending, and funding agreements, to provide alternative sources of liquidity or operating income. FAs and FABS are deposit contracts that differ from other life insurance products in that they do not incorporate risk from the death or disability of policyholders (mortality or morbidity risk). Instead, FAs and FABS are more comparable to financial or investment instruments issued by other financial institutions than to insurance contracts. In addition, many of these deposit contracts are credit-sensitive and relatively short-duration investment products that depend on institutional investor demand. In the event of

⁹³⁴ The peer group selection process used for the preparation of Table 34 involved a survey of the universe of active and publicly listed international life insurance groups as potential candidates. The peer group selection criteria included minimum asset size, revenue distribution, product mix, and life insurance emphasis. Each potential peer group candidate was tested against the following metrics, and those meeting the thresholds were deemed members of the MetLife peer group for purposes of this analysis: (1) assets greater than \$175 billion; (2) majority of revenue derived in the United States; and (3) product mix similar to MetLife.

⁹³⁵ As of December 31, 2012, surplus notes outstanding equaled \$0.7 billion. MetLife Annual Report on Form 10-K for the year ended December 31, 2012, p. 320. As of June 30, 2013, collateral financing debt equaled \$4.2 billion. MetLife Response to Follow-Up OFR Data Request, B.5.b_Financial__Leverage_Follow_2of2.xlsx.

material financial distress at MetLife, investor demand for MetLife's FAs and FABS could decrease as a result of investor concern regarding the company's ability to fulfill its obligations on the instruments, which could reduce MetLife's liquidity particularly in periods of broader market distress.

MetLife has significant operating debt compared to its peers. MetLife's operating leverage is largely related to its institutional investment products. As illustrated in Table 35, as of June 30, 2013, MetLife's operating leverage ratio of 1.4x was driven largely by liabilities from its securities lending activities (\$30.1 billion), FHLB borrowings (\$15 billion), general account traditional GICs (\$6.8 billion),⁹³⁶ and FAs (\$33.4 billion).⁹³⁷ [REDACTED]

[REDACTED].⁹³⁸ Additionally, while credit ratings should not be given undue weight, MetLife's level of operating leverage ranks relatively high under the methodology used by Fitch, which reflects a life insurer's exposure to institutional investment products and other operating debt. Under Fitch's Total Financing and Commitments methodology, MetLife's consolidated ratio of 1.95x was classified in the "well above average" category (i.e., 1.5x or above) and also ranked above the 0.97x average ratio for other large stock life insurers evaluated. Fitch's methodology includes both traditional financial debt and all sources of operating debt, while the Moody's methodology focuses on financial debt. While Moody's has de-emphasized the use of thresholds in its rating methodology for institutional investment products in recent years due to changes in the marketplace, the rating agency does acknowledge the liquidity risk associated with institutional products that have optionality and rollover risk at maturity. In addition, Moody's has highlighted the potential asset liability matching risk from plain vanilla FAs with no optionality.

The degree of liquidity risk for MetLife in connection with various operating debt activities varies depending on the product type and features. Products with relatively short maturities and those that allow an investor to put the operating debt liability back to an insurer and recoup its investment in short order tend to expose MetLife to greater liquidity risk.⁹³⁹ For example, as of June 30, 2013, [REDACTED]

⁹³⁶ General account traditional GICs (\$6.8 billion) used in the calculation of MetLife's total operating debt are based on MICC's SAP statement as of December 31, 2012, whereas the MetLife GIC amount used in Table 1 (\$5.4 billion) was provided by MetLife as of June 30, 2013.

⁹³⁷ MetLife leads U.S. life insurance organizations in FAs, securities lending, and FHLB borrowing activities. See Fitch Ratings, Special Report, "U.S. Funding Agreement Backed Note Market Update: Tepid Market Since 2009" (December 10, 2013); Fitch Ratings, Special Report, "The Federal Home Loan Bank System: Its Role in the Life Insurance Industry" (June 12, 2013).

⁹³⁸ MetLife Response to OFR Data Request, document B.5.

⁹³⁹ Investors may have the ability to put FAs back to the insurer, presenting liquidity challenges, particularly in periods of market stress. As of June 30, 2013, MetLife has indicated that it has [REDACTED] of puttable FAs that are subject to [REDACTED] put options. See MetLife Response to OFR Data Request, document b.7.f_US_CFO w product splits.xlsx.

■.⁹⁴⁰ The life insurance industry has experienced significant losses attributable to risky operating debt activities. In 1999, a run occurred on short-term putable FAs at the U.S. life insurer General American Life Insurance Company (GALIC, now owned by MetLife).⁹⁴¹

While certain operating debt activities may be considered low risk during normal market conditions, the risks posed by these activities can be amplified during periods of financial stress. For example, securities lending may be considered a relatively low-risk operating debt activity by market participants. Yet during the recent financial crisis, securities lending programs at a number of large U.S. life insurers experienced significant liquidity stress.⁹⁴² MetLife—one of the industry leaders in the securities lending business—experienced substantial cash outflows during the fourth quarter of 2008.⁹⁴³

Table 35: MetLife Operating Leverage Details Relative to U.S. Peers (\$ Millions)

Company	Securities Lending	FHLB Borrowing	GICs	FAs	Total Op. Debt	Total Equity	Operating Debt / Total Equity
Principal Financial	\$0	\$1,882	\$9,917	\$8,057	\$19,856	\$9,409	2.1
MetLife	30,081	15,000	6,844	33,350	85,275	60,408	1.4
New York Life	971	1,351	11,398	9,794	23,514	31,604	0.7
Voya Financial	377	2,865	2,467	1,043	6,752	14,647	0.5
Prudential	5,707	1,947	3,772	1,846	13,272	35,908	0.4
Lincoln National	177	250	0	629	1,056	13,317	0.1
Manulife Financial	1,852	0	0	434	2,286	36,693	0.1
AXA Equitable	\$0	\$0	\$0	\$0	\$0	\$15,091	0.0
Mean							0.7
Median							0.4

Source: Except as indicated below, data are as of June 30, 2013. SNL Financial. Data prepared on the basis of GAAP (excluding total operating debt).

⁹⁴⁰ See MetLife Response to OFR Data Request, document A.6_CFO_2of3.

⁹⁴¹ ■ MetLife Response to OFR Data Request, document B.5_Leverage_Operating_3of5.xlsx. In the early 1990s, three large U.S. life insurers offered institutional GIC products and subsequently resulted in receivership actions by state insurance regulators, mostly due to risky investments linked to the funding activity. Executive Life (1991), Mutual Benefit Life Insurance Company (1991), and the U.S. branch of Canadian insurer Confederation Life Insurance Company (1994) defaulted on institutional GIC obligations. MetLife Voluntary Submission, Section IV, pp. IV-34-IV-39.

⁹⁴² Fitch stated that “some life insurers have material liquidity exposures tied to businesses dependent on institutional funding, securities lending activities, products with ratings triggers, and within products such as deferred annuities, in which deposits can be withdrawn at the discretion of the policyholder (albeit typically with a surrender penalty).” See Fitch Ratings, News Release, “Fitch Sees Mounting Pressure on Insurance Ratings Globally” (October 16, 2008).

⁹⁴³ See MetLife Response to OFR Data Request, document A.8.f, in which MetLife disclosed that to avoid losses from the sale of the illiquid securities in which MetLife had invested using the counterparties’ cash collateral, MetLife exchanged liquid assets from its general account with illiquid assets from its cash collateral reinvestment portfolio in the amounts of \$11.3 billion and \$3.7 billion in the fourth quarter of 2008 and the first quarter 2009, respectively.

Additional sources for the components of operating debt:

Securities Lending: For all firms listed in Table 35, Quarterly Reports on Form 10-Q for the quarter ended June 30, 2013, were used, except for (1) New York Life, whose source is New York Life Insurance Company and Subsidiaries Consolidated Financial Statements for the year ended 2012, prepared on the basis of GAAP, p. 2 (collateral received on securities lending), and (2) Manulife Financial, whose source is Manulife Financial's Second Quarter Report to Shareholders for the six months ended June 30, 2013, p. 48 (converted to U.S. dollars using the exchange rate of 0.9506 on June 30, 2013).

FHLB Borrowings: For all firms listed in Table 35, Quarterly Reports on Form 10-Q for the quarter ended June 30, 2013, were used, except for (1) New York Life, whose source is New York Life Insurance Company and Subsidiaries Consolidated Financial Statements for year ended 2012, prepared on the basis of GAAP, p. 42.

GICs: Data prepared on the basis of SAP. For all firms, Statutory Filings for the year ended December 31, 2012, Exhibit 7 - Deposit Type Contracts were used.

FAs: Principal Financial's Financial Supplement for the quarter ended June 30, 2013, p. 32 (Principal Financial's FA amount is a reserve); MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 189; Prudential Annual Report on Form 10-K for the year ended December 31, 2012, p. 260; New York Life Insurance Company and Subsidiaries Consolidated Financial Statements for the year ended, prepared on the basis of GAAP, 2012, p. 42; ING U.S. Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 174; Lincoln National Life Insurance Company, data prepared on the basis of SAP, Statutory Filing for the year ended December 31, 2012, pp. 19, 29; John Hancock Life Insurance Company (USA) (a Manulife Financial subsidiary), Statutory Filing for the quarter ended June 30, 2013, prepared on the basis of SAP, pp. 7, 10, Notes to Financial Statements (GICs and funding agreements); AXA Equitable Life Insurance Company Quarterly Report on Form 10-K for the quarter ended December 31, 2013, pp. 7-47.

In summary, MetLife has a significant amount of operating debt, totaling \$85.3 billion, which contributes to its high total leverage. MetLife's operating debt, combined with the potential for off-balance sheet affiliated captive exposures to convert to funded exposures, could increase the risk that MetLife could have to liquidate assets at fire-sale prices. MetLife's operating leverage is further increased by the multiple uses of the same general account assets to support the regulatory capital levels of its commercial insurance companies, captive reinsurance companies, and other income-generating activities. If MetLife were to experience material financial distress, MetLife could be forced to liquidate assets to restore capital. Moreover, financial institution counterparties to MetLife's significant operating debt activities are more likely to be sensitive to changes in credit ratings than individual policyholders. Because some of MetLife's operating debt transactions include broad financial condition provisions, or can otherwise be terminated on short notice, a negative change in MetLife's credit profile could be a catalyst for the acceleration of certain liabilities or requests for increased collateral to support existing obligations. A credit rating downgrade or material adverse change in MetLife's financial condition could also prevent the company from issuing or rolling over certain debt obligations (e.g., FABNs) where the contractual arrangements allow the intermediating securities dealers to not settle new issuances under certain credit conditions.⁹⁴⁴

⁹⁴⁴ MetLife Response to OFR Data Request, document D.2.h.

As shown in Table 36, MetLife's combination of a higher-than-average financial leverage ratio and high operating leverage ratio results in a total leverage ratio (i.e., the sum of financial and operating leverage) that, at 1.8x, is higher than all but one of its peers. MetLife's high total leverage reflects its significant capital markets activities and liquidity risks. Its high leverage could amplify the scale and accelerate the pace of asset liquidation by MetLife if it were forced to liquidate assets to meet increased liquidity demands.⁹⁴⁵

Table 36: MetLife Leverage: Total Debt and Equity Relative to U.S. Peers (\$ Millions)

Company	Financial Debt (\$millions)	Operating Debt (\$millions)	Total Equity (\$millions)	Total Debt / Total Equity
Principal Financial	\$2,754	\$19,856	9,409	2.4
MetLife	26,066	85,275	60,408	1.8
Prudential	35,356	13,272	\$35,908	1.4
New York Life	5,212	23,514	31,604	0.9
Voya Financial	3,404	6,752	14,647	0.7
Lincoln National	5,556	1,056	13,317	0.5
Manulife Financial	8,451	2,286	36,693	0.3
AXA Equitable	\$1,371	\$0	\$15,091	0.1
Mean				1.0
Median				0.8

Source: Prudential, MetLife, Lincoln National, Manulife Financial, Principal Financial, and AXA Equitable data are as of June 30, 2013. SNL Financial. Data prepared on the basis of GAAP. New York Life Insurance Company and Subsidiaries Consolidated Financial Statements for the year ended December 31, 2012, prepared on the basis of GAAP, p. 2. ING data are from U.S. Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5. Manulife Financial data are as of June 30, 2013, shown in U.S. dollars and converted from Canadian dollars based on the Canadian dollar/U.S. dollar exchange rate of 0.9512. See footnote 934 for an explanation of the peer group selection process. See Table 35 for operating debt.

4.3.9 Oliver Wyman “Analysis of Market Impact of a Liquidity Crisis”

4.3.9.1 *Oliver Wyman’s Analytical Approach*

MetLife commissioned Oliver Wyman to analyze the asset and liability positions of MetLife’s U.S. entities in several distress scenarios to determine whether elevated surrenders by policyholders and other liability payment demands⁹⁴⁶ could force MetLife to rapidly liquidate assets in quantities large enough to cause a meaningful disruption in any asset market.⁹⁴⁷ Oliver

⁹⁴⁵ Rating agencies use financial leverage analytical tools and metrics which include operating debt for rating consideration. Moody’s Investors Service, Rating Methodology: “Global Life Insurers,” (December 19, 2013), p. 23; Fitch Ratings, Special Report: “Total Financing and Commitment Ratio (TFC) for Insurance Organizations,” (May 21, 2010), p. 1.

⁹⁴⁶ As discussed further below, the other liability payment demands in the Oliver Wyman analysis are based largely on the result of outflows related to contractual run-off at scheduled maturities (including some long-dated putable GICs) but do not include discretionary actions by counterparties (e.g., early termination of securities loan transactions or certain contractually allowable increases in collateral haircuts under lending arrangements).

⁹⁴⁷ MetLife Voluntary Submission, Section IV, p. IV-i.

Wyman and MetLife concluded that there is no reasonable basis or evidentiary support for concluding that material financial distress at MetLife could trigger policyholder surrenders or other liability liquidity demands that would result in asset sales that could have systemic effects.⁹⁴⁸

The Oliver Wyman analysis tested the potential market price impact of forced asset sales by MetLife arising from liquidity needs over a 180-day period of stress under four scenarios of increasing severity.⁹⁴⁹ The severity of each consecutive scenario's assumptions on a number of variables increases sequentially. These variables include surrender rates, timing of surrenders, asset haircuts, new business activity, and MetLife's financial condition. For all four scenarios, the credit spreads assumed were consistent with 2008 levels.⁹⁵⁰ Table 37 highlights the key assumptions used in each scenario. Oliver Wyman and MetLife conclude that MetLife could undergo extremely severe stress periods without engaging in asset sales that could threaten U.S. financial stability.

Notwithstanding the conclusions that Oliver Wyman and MetLife draw from the analysis, the Oliver Wyman model indicates in two different ways that asset sales arising from MetLife's material financial distress could have significant effects on key financial markets.

First, in performing its analysis, Oliver Wyman made a number of assumptions about key variables, to which the model is highly sensitive. Although MetLife states that the key assumptions underlying the Oliver Wyman analysis are conservative,⁹⁵¹ several of the modeled assumptions result in a significant underestimation of the potential effects of MetLife's assets sales. Consistent with the assumptions used by Oliver Wyman, there may be certain scenarios in which MetLife's asset liquidation would not disrupt key markets. However, there is a wide range of plausible alternative assumptions with respect to several of the key variables. The application of assumptions for these key variables that are different from—but no less plausible than—Oliver Wyman's, generates price impacts that could have significant effects on debt markets, particularly in the context of material financial distress at MetLife and overall stress in the financial services industry. As discussed above in section 4.3, the broader market implications of asset liquidation depend on factors including the size and composition of the asset portfolio liquidated; the length of time over which the assets are liquidated; any fire-sale discount, which depends on the risk and liquidity of the assets; and the extent to which other financial market participants may be forced or incentivized to sell similar assets. In addition, fire sales of assets that are widely held, or commonly used as collateral in critical funding markets by

⁹⁴⁸ MetLife Voluntary Submission, Section IV, p. IV-1.

⁹⁴⁹ *Id.* at p. IV-11.

⁹⁵⁰ MetLife Voluntary Submission, Section IV, Appendix A, p. 10.

⁹⁵¹ *See, e.g.,* MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, pp. III-7, III-12, III-24, III-25, III-26, III-28, III-29, III-42, III-45, III-46, III-49, III-56, III-58, III-59, III-60, III-64, III-66.

large financial intermediaries, would generally have a greater impact on market function than fire sales of assets that are held or used less widely.

For example, when Oliver Wyman's Scenario Three is modified to assume that policyholder surrenders would be concentrated in a one-month period rather than being spread out over 180 days, the predicted negative price impact on agency MBS rose from [REDACTED] to [REDACTED], and the impact on non-agency MBS rose from [REDACTED] to [REDACTED]. Similarly, when Scenario Three is modified to remove Oliver Wyman's assumption that MetLife would limit price impacts by restricting its sales from each asset class to a certain percentage of that asset class's trading volume, the predicted negative price impact on ABS rose from [REDACTED] to [REDACTED], and the impact on non-agency MBS rose from [REDACTED] to [REDACTED]. The extent of these potential effects shows the potential for MetLife's material financial distress to pose a threat to U.S. financial stability through the asset liquidation transmission channel.

Second, even accepting Oliver Wyman's assumptions, some of the price impacts generated in Scenarios Three and Four could disrupt markets for these assets, such as the repurchase agreement market. Thus, even taken on its own terms, the Oliver Wyman analysis shows that asset liquidations by MetLife could disrupt key financial markets.

In addition, for the reasons discussed below, Oliver Wyman's conclusion that "MetLife has sufficient saleable assets to meet any of the assumed levels of policyholder surrenders and other liability payment demands without causing any meaningful disruption in any relevant asset market"⁹⁵² is inappropriately definitive in light of various assumptions that skew the results of the baseline analysis toward the underestimation of the potential effects of MetLife's asset sales.

⁹⁵² MetLife Voluntary Submission, Section IV, p. IV-32.

Table 37: MetLife – Oliver Wyman Liquidity Scenario Analysis Overview

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
	Going concern	Going concern, extreme	High distress, recognizing empirical evidence	High distress, disregard empirical evidence
Market Environment	Global financial crisis	Global financial crisis	Global financial crisis	Global financial crisis
Interest Rates	Global financial crisis	Global financial crisis	No change	No change
Additional MetLife-specific events	None	Idiosyncratic losses	Idiosyncratic losses / brink of insolvency	Idiosyncratic losses / brink of insolvency
Basis for surrender assumptions	2008 – 2009 MetLife /Industry experience	Surrenders, lapses and loans at rates above 2008/2009	Failed insurer / Incentive for surrender	Theoretical maximum surrender
Timing of surrender election	2008 – 2009 MetLife /Industry experience	2008 – 2009 MetLife /Industry experience	Elapsed time for policyholder reaction	Immediate
Exercise of deferment option	None	None	None	Yes
Regulatory intervention	None	None	None	None
New business & recurring premium	Yes	Yes (limited)	None	None

Source: MetLife Voluntary Submission, Section IV, Appendix A, p. 5.

4.3.9.2 Overview of Scenario Analysis

Oliver Wyman's first two scenarios are substantially similar to those that MetLife uses in assessing its liquidity as part of its ongoing risk management practices.⁹⁵³ These two scenarios assume that MetLife is solvent. While that assumption may be plausible in certain situations, the Council's analysis focuses on Scenarios Three and Four, which align more closely with the company's material financial distress, consistent with the First Determination Standard.

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Scenarios One and Two assume that MetLife will continue to conduct new business during the 180-day period of stress, albeit at reduced levels.⁹⁵⁴

The Third and Fourth Scenarios, which are considered in detail below, model heightened surrenders and liquidity needs. MetLife views the assumptions in these scenarios as implausible and indicates that these scenarios were developed solely to address concerns of the Council that it believes were reflected in the bases for the Council's final determinations regarding AIG and Prudential.⁹⁵⁵ MetLife concludes that even under the Third and Fourth Scenarios, MetLife would have sufficient liquid assets to meet increased liquidity needs and that its sale of assets would not have a disruptive effect on asset markets.⁹⁵⁶

Table 38 shows data from Oliver Wyman's liquidity analysis and summarizes MetLife's general and separate account liabilities, which were used as the basis for calculating MetLife's potential liquidity needs in the four scenarios. MetLife organized its liabilities based on the contractual terms of surrender. The general account cash surrender values for applicable policies are presented net of non-withdrawable amounts and any applicable surrender charges.⁹⁵⁷ For products without cash surrender values, contract terms (e.g., maturity dates) determine the timing and amount of payments.⁹⁵⁸

⁹⁵⁴ MetLife Voluntary Submission, Section IV, p. IV-12.

⁹⁵⁵ Id. at p. IV-13. "The surrender levels assumed in Scenarios 3 and 4 are empirically unsupported In fact, Scenario 3 and Scenario 4 are so extreme that they are predicated on hypothesized general account policyholder surrenders at levels not only far in excess of MetLife's (and the broader insurance industry's) historical experience, but also inconsistent with the history of regulatory intervention by state insurance authorities, the extensive history of retail and institutional policyholders' behavior patterns, and other overwhelming historical evidence." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-2.

⁹⁵⁶ MetLife Voluntary Submission, Section IV, p. IV-13.

⁹⁵⁷ MetLife Voluntary Submission, Section IV, Appendix A, p. 48.

⁹⁵⁸ Id. at p. 47.

Table 38: MetLife Liability Profile (\$ Billions)

	GA Liabilities	GA Liability Cash Values	Separate Account Liabilities
Surrenderable Liabilities			
Contractual Payments			

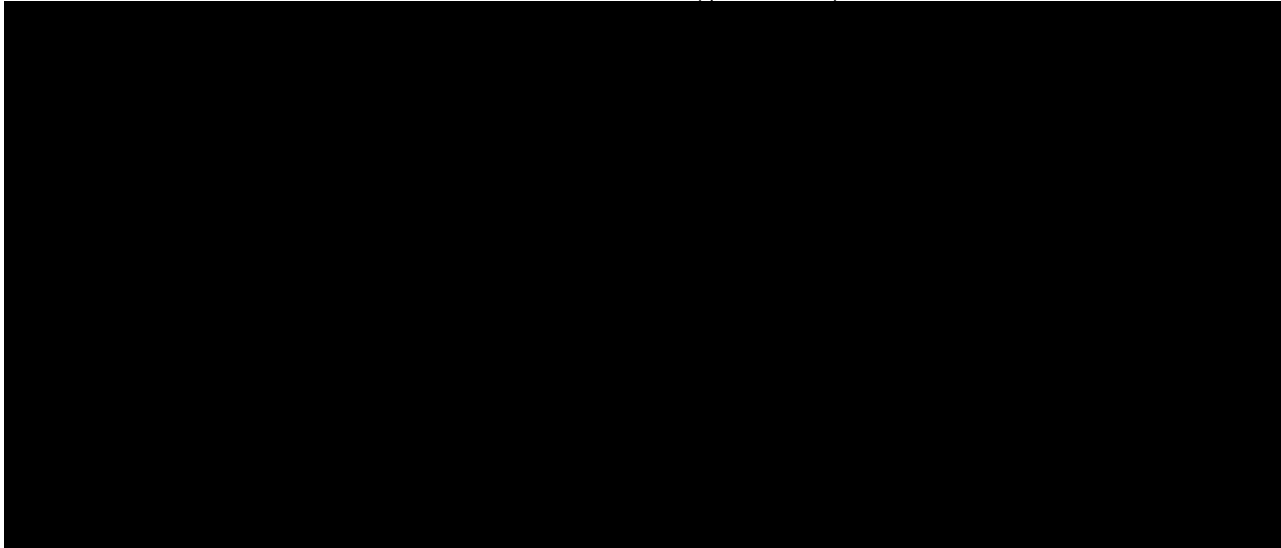
Source: Data as of June 30, 2013. MetLife Voluntary Submission, Section IV, Appendix A, p. 48.

All four scenarios assume that MetLife will order its asset sales to minimize realized losses and market impact for each asset class.⁹⁵⁹ As such, short-term investments, U.S. government obligations, and agency-guaranteed MBS are sold first in each scenario.⁹⁶⁰

Table 39 lists MetLife's general account assets and their corresponding market value as of June 30, 2013. The cash generated from selling assets depicted in each scenario reflects the stated market value of the sold assets after applying two incremental haircuts to reflect Oliver Wyman's assumptions of price declines resulting from a stressed market environment and then MetLife's fire-sale impact on that asset class.

⁹⁵⁹ MetLife Voluntary Submission, Section IV, p. IV-20.

⁹⁶⁰ Id.

Table 39: MetLife General Account Asset Profile (\$ Billions)


Source: Data are as of June 30, 2013. MetLife Voluntary Submission, Section IV, Appendix A, p. 58.

Scenario Analysis—Scenario Three: High Distress, Recognizing Empirical Evidence

Scenario Three is substantially more severe across a number of assumptions than Scenarios One and Two.⁹⁶¹ It assumes that MetLife would cease generating new business during the 180-day period.⁹⁶² As such, inflows from new policies or contracts would not be available to address liquidity needs. In this scenario, MetLife would be on the brink of insolvency; the scenario assumes that state regulators do not intervene to support MetLife, which leads Oliver Wyman to further assume that the RBC levels of MetLife's insurance companies hover just above the levels at which mandatory intervention would be triggered.⁹⁶³ However, as discussed below in section 4.3.9.6, Oliver Wyman's asset sale model does not incorporate the assumed constraint that assets will be liquidated in an order that does not decrease RBC levels to the point at which insurance regulators would be compelled to intervene. Therefore, the model allows MetLife to sell its most liquid assets first, without adjusting the quantity and mix of assets sold in order to maintain RBC ratios above the applicable trigger levels. Under Scenario Three, asset values decline more than they did during the 2008-2009 financial crisis due to the assumption that, unlike in that crisis,

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⁹⁶² MetLife Voluntary Submission, Section IV, p. IV-13.

⁹⁶³ Id.

interest rates have not decreased. Scenario Three also assumes that MetLife would not exercise its contractual ability to defer payments.⁹⁶⁴

Scenario Three assumes a 100 percent surrender rate for the surrenderable liabilities related to stable value products, Global GICs, and capital markets investment products (which amount to an aggregate liability of [REDACTED]) and a 50 percent surrender rate for retail deferred fixed annuities and retail deferred variable annuities (which amount to an aggregate liability of [REDACTED]) over a 180-day period.⁹⁶⁵ The timing of the surrenders within the 180-period is significant for the price effect of the necessary asset liquidations and Scenario Three assumes that roughly [REDACTED] of the surrenders for these products would occur in the period from the 31st to the 90th day.⁹⁶⁶ These assumptions related to the timing and the level of retail life insurance surrenders are based in large part on an analysis of six case studies of historical insurer failures since 1990.⁹⁶⁷ Finally, the run-off of the [REDACTED] remainder of the stable value products, Global GICs, and capital markets investment products is addressed only by scheduled maturities.

Based on these surrender assumptions, the analysis concludes that MetLife would experience a net outflow of [REDACTED] (Table 40), which reflects policyholder surrenders and other payment demands over a 180-day period.⁹⁶⁸ This [REDACTED] figure is made up of approximately [REDACTED] in general account policyholder surrenders and [REDACTED] in contractual payments.⁹⁶⁹

MetLife states that it would expect to meet the hypothetical net outflows associated with Scenario Three with maturing securities held in its portfolio, the liquidation of short-term investments, and the sale of liquid portfolio assets.⁹⁷⁰ By contrast to Scenarios One and Two, in Scenario Three, MetLife would be unable to meet outflows by only selling U.S. government securities and agency-guaranteed MBS; it would accordingly be forced to also sell less-liquid assets, including investment-grade publicly traded corporate bonds, investment-grade privately

⁹⁶⁴ MetLife Voluntary Submission, Section IV, p. IV-14.

⁹⁶⁵ MetLife Voluntary Submission, Section IV, Appendix A, p. 68.

⁹⁶⁶ MetLife Voluntary Submission, Section IV, p. IV-24. Oliver Wyman, Liability Cash Outflow Model.

⁹⁶⁷ [REDACTED]

⁹⁶⁸ MetLife Voluntary Submission, Section IV, p. IV-24.

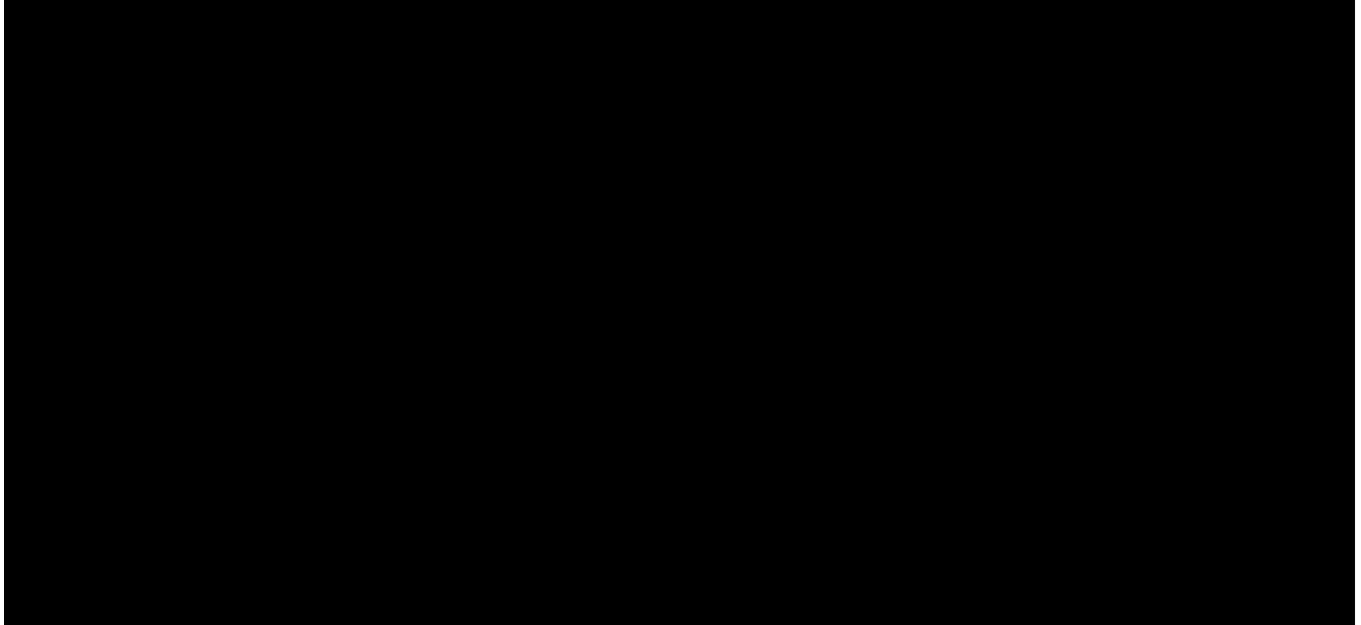
⁹⁶⁹ This assumes the cessation of MetLife's securities lending, including the lending of U.S. government securities.

⁹⁷⁰ Id.

⁹⁷⁰ Id. at p. IV-25.

placed corporate debt, and non-agency-guaranteed MBS.⁹⁷¹ Table 40 shows the general account asset sales by asset type and illustrates the time horizon over which they would be sold.

Table 40: Scenario Three General Account Asset Sales by Timeframe (\$ Billions)



Source: MetLife Voluntary Submission, Section IV, p. IV-25.

MetLife states that the sales of the various assets outlined above would all occur in markets in which significant trading takes place, and that the discounts assumed with respect to the asset market values would make all sales achievable at the price, volume, and demand levels it assumes. MetLife concludes that asset sales in Scenario Three would not result in a market disruption for any asset class.⁹⁷²

Scenario Analysis—Scenario Four: High Distress, Disregarding Empirical Evidence

Scenario Four, the most distressed scenario, assumes the theoretical maximum surrender of all eligible contracts. MetLife characterizes the surrender assumptions under the Fourth Scenario as not empirically justifiable and wholly implausible.

Scenario Four has a number of similar assumptions to those in Scenario Three: MetLife would cease generating new business during the time period; there would be no regulatory intervention, because its insurers' RBC ratios would remain slightly above levels mandating regulatory action;⁹⁷³ and asset values would be lower than during the 2008-2009 financial crisis.⁹⁷⁴ The last

⁹⁷¹ MetLife Voluntary Submission, Section IV, p. IV-25.

⁹⁷² *Id.* at p. IV-26.

⁹⁷³ *Id.* at p. IV-13.

⁹⁷⁴ *Id.* at pp. IV-11- IV-12.

assumption is based on the assumption that interest rates will not decrease, although rates did decrease during the 2008-2009 financial crisis.⁹⁷⁵

Scenario Four also differs in certain respects from Scenario Three. In particular, it assumes the immediate exercise of the maximum amount of surrenders possible by general account holders as well as the maximum payable amount of accelerable liabilities, although MetLife asserts that this assumption is implausible.⁹⁷⁶ Also, this scenario assumes that MetLife would exercise its contractual right to defer payouts for up to six months on a substantial amount of general account policies,⁹⁷⁷ something MetLife acknowledges would be a significant and unprecedented action for the company.⁹⁷⁸

Based on these assumptions, the analysis predicts that there would be a net outflow of [REDACTED] (see Table 41), which reflects the maximum amount of general account policyholder surrenders and other payment demands over a 180-day period.⁹⁷⁹ The outflow includes approximately [REDACTED] in general account policyholder surrenders and [REDACTED] in contractual payments.⁹⁸⁰ Scenario Four does not assume increased separate account surrender activity and other potential liquidity demands related to the early termination of securities lending transactions. MetLife would expect to meet the net outflows in Scenario Four with maturing securities held in the portfolio, the liquidation of short-term investments, and the sale of liquid portfolio assets. As in Scenario Three, these portfolio assets include prime publicly traded corporate bonds, prime private corporate debt, and non-agency-guaranteed MBS.⁹⁸¹ Table 41 shows the general account asset sales by asset type and illustrates the timeframe over which they would be sold.

⁹⁷⁵ MetLife Voluntary Submission, Section IV, pp. IV-11- IV-12.

⁹⁷⁶ Id. at p. IV-16.

⁹⁷⁷ Id. Under this scenario, MetLife would exercise its contractual right to defer payments on a wide variety of products, including most retail deferred annuities and nearly all whole life insurance and universal life insurance policies.

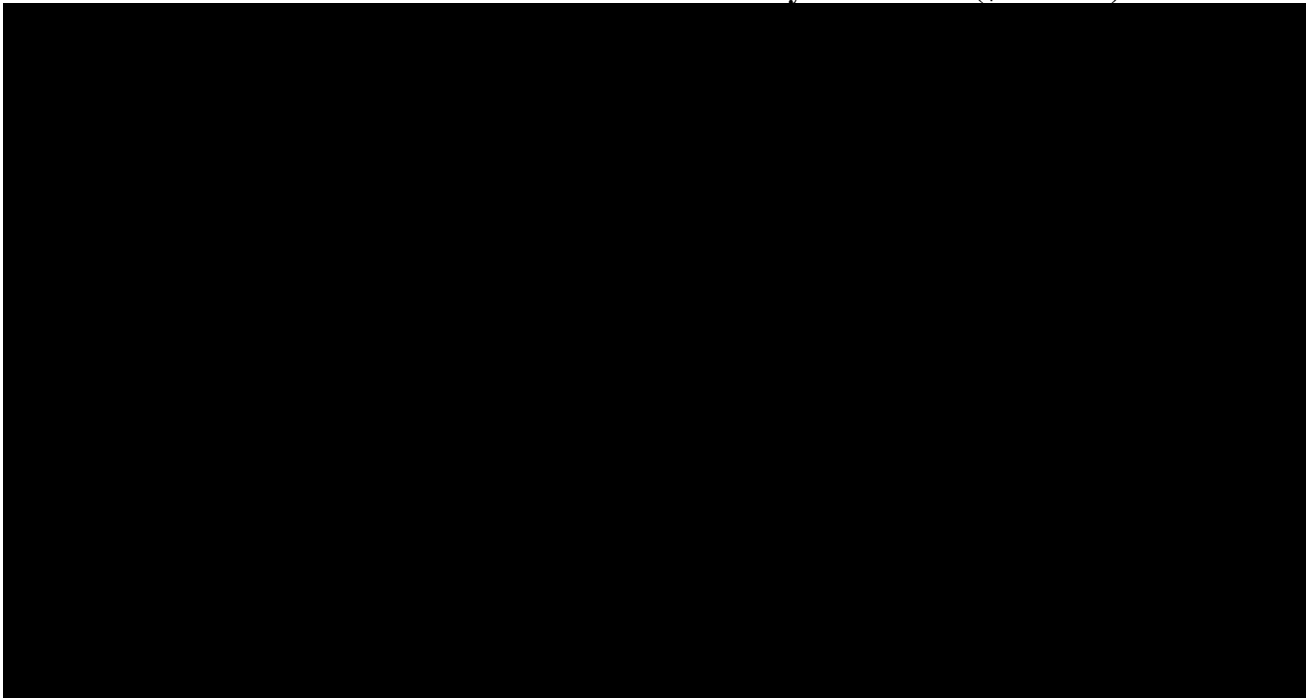
⁹⁷⁸ MetLife Voluntary Submission, Section III, p. III-81. Consistent with this assumption, the company stated that it “would invoke deferral provisions” if it were required to liquidate assets in the manner described in Scenario Four. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-29.

⁹⁷⁹ MetLife Voluntary Submission, Section IV, p. IV-27.

⁹⁸⁰ This includes the cessation of MetLife’s securities lending, including the lending of U.S. government securities.

Id.

⁹⁸¹ Id. at pp. IV-27- IV-28.

Table 41: Scenario Four General Account Asset Sales by Timeframe (\$ Billions)


Source: MetLife Voluntary Submission, Section IV, p. IV-28.

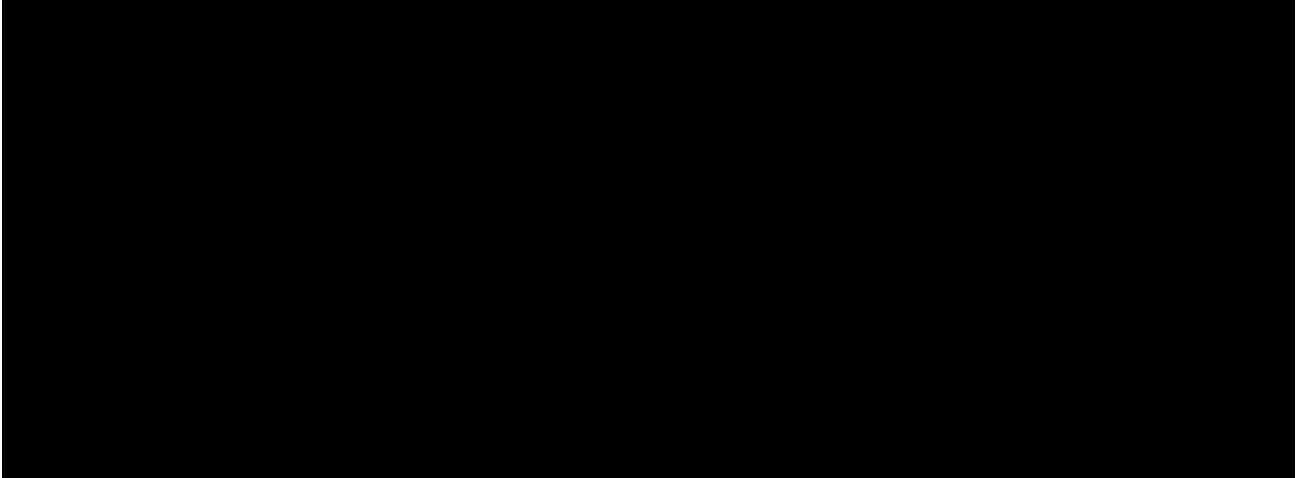
MetLife states that with the invocation of its contractual right to defer surrender payments on certain contracts, it would have “sufficient readily saleable assets” to meet the level of surrenders in this scenario.⁹⁸²

As set forth in Table 42, Oliver Wyman concludes, “MetLife has sufficient saleable assets to meet any of the assumed levels of policyholder surrenders and other liability payment demands without causing any meaningful disruption in any relevant asset market.”⁹⁸³ In particular, the analysis concludes that MetLife’s asset sales would affect asset values by no more than [REDACTED] for any asset class.⁹⁸⁴

⁹⁸² MetLife Voluntary Submission, Section IV, p. IV-28.

⁹⁸³ Id. at p. IV-32.

⁹⁸⁴ Id. at p. IV-29.

Table 42: Negative Asset Price Impact of MetLife Sales by Scenario and Asset Class


Source: MetLife Voluntary Submission, Section IV, Appendix A, p. 35.

4.3.9.3 Review of Oliver Wyman Analysis

The Oliver Wyman analysis incorporates findings from several case studies on failed and distressed insurers as well as MetLife and industry historical experience. Oliver Wyman and MetLife conclude that MetLife's asset sales would not have a significant impact on asset prices for any asset class. However, as described below, Oliver Wyman's estimated negative asset price impacts under Scenarios Three and Four are significant enough to potentially have a disruptive effect on critical funding markets, particularly during a period of overall stress in the financial sector.

Furthermore, the Oliver Wyman analysis makes a number of assumptions and other analytical choices that could influence the resulting estimates of negative asset price impacts, including assumptions regarding liability surrender rates and timing, the types of assets sold to meet liquidity needs, the order and timing of the asset sales, and the volume of demand for the assets being sold. Adjustments to one or more of these underlying assumptions could have a meaningful effect on the market impact of the asset sales, and it is necessary to consider a wider range of plausible assumptions in order to understand the potential impact of MetLife's material financial distress. The following discussion analyzes several assumptions that underlie the Oliver Wyman analysis.

To better understand the sensitivity of the Oliver Wyman analysis to certain modeled assumptions, the Council performed certain analyses based on the model provided by MetLife.⁹⁸⁵

⁹⁸⁵ In this analysis, an iterative approach to determine asset sales was used. Based on the required cash outflows cited in "2013.11.12_-_Liability_cash_outflow_model_(PROTECTED).xlsx," provided by Oliver Wyman, this analysis contemplates the sale of assets in discrete amounts until the required outflows are met. To identify which assets to sell, this analysis selects only assets that have a positive market value and whose current volume is less than a certain percentage of the trading volume for that period. Of these assets, this analysis contemplates the sale

These analyses illustrate that the price impacts predicted by Oliver Wyman's model increase substantially when Oliver Wyman's assumptions are replaced with other plausible assumptions. Specifically, the Council evaluated the effects of three of Oliver Wyman's assumptions: (1) the timing of liquidity demands (and MetLife's asset liquidations in response to those demands) within the model's 180-day stress period; (2) the assumption that MetLife's counterparties would not take certain contractually permissible discretionary actions—[REDACTED]—that would accelerate the liquidity demands on MetLife; and (3) how MetLife would order its asset liquidations. The Council also considered how encumbrances on some of MetLife's more-liquid assets could affect the model's results. Although MetLife argues that Oliver Wyman's decision not to take asset encumbrances into account had only a modest effect on the model's results,⁹⁸⁶ that effect would be magnified if MetLife's securities lending or derivatives counterparties close out transactions early. In addition, the Council analyzed Oliver Wyman's assumptions about asset price elasticity. The findings are discussed in the following sections.

While testing the assumptions described above, this analysis leaves in place all of Oliver Wyman's other assumptions, a number of which are conservative. Among these are the assumptions that interest rates would not decline (as they did during the financial crisis), that MetLife would be unable to write new business during the stress period as a source of additional income, that prevailing market conditions would be those of the recent financial crisis, and that MetLife would not draw on committed credit facilities to meet liquidity needs.⁹⁸⁷ This analysis also assumes, as did Oliver Wyman, that MetLife would not liquidate certain highly illiquid assets (such as whole loans and real estate holdings) to meet liquidity demands.⁹⁸⁸ The assumption that MetLife would not sell such assets in response to material financial distress is reasonable because the assets' illiquidity would make it difficult for MetLife to liquidate them quickly without accepting a substantial liquidity discount.

Several further attributes of the following analysis deserve mention here. First, the analysis does not rely on Oliver Wyman's Scenario Four or its assumption that all general account policyholders would surrender their policies. Second, while the analysis discusses the price impacts that could result if MetLife sold its assets in reverse order of liquidity (that is, beginning with the least liquid), it does not rely on an assumption that MetLife would in fact do so, and it also provides average effects to illustrate the price effects of a range of different sale orders. These examples are included to indicate the range of possible alternatives. Third, similarly, this analysis does not rely on any single scenario based on a particular set of assumptions; rather, it

of the asset that will yield the highest percentage of book value after applying both a base haircut, based on market conditions, and a "liquidity haircut" as defined in Oliver Wyman's analysis. This process repeats until the assumed outflows in all periods are met.

⁹⁸⁶ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, pp. III-59-III-62.

⁹⁸⁷ MetLife Voluntary Submission, Section IV, Appendix A, pp. 3, 5.

⁹⁸⁸ *Id.* at p. 10.

considers the range of potential outcomes based on plausible adjustments to relevant parameters. Finally, the analysis does not rely on surrenders by separate account policyholders as a significant driver of asset sales; while Oliver Wyman's assumption that no increase in such surrenders would occur due to MetLife distress⁹⁸⁹ may not be plausible in all circumstances, general account surrenders would likely be more substantial.

4.3.9.4 Policyholder Surrenders and Time Periods

Oliver Wyman's scenarios measure the potential scale, scope, and impact of policyholder surrenders and asset sales over a six-month time period. The assumptions regarding the speed and severity of these surrenders are important drivers of the scenarios' outcomes. While it is possible that MetLife could experience material financial distress and elevated surrenders over the course of six months or more, the company also could experience surrenders over a shorter time horizon and in greater amounts than assumed by Oliver Wyman. Indeed, recent history reveals that apparently stable large financial companies can enter into material financial distress in substantially less than six months.⁹⁹⁰ As set forth below, material deviation from the surrender speeds (i.e., the surrender rate or time period in which the surrender is made) that are assumed in the Oliver Wyman scenarios would have a substantial impact on the amount of asset sales required to meet surrenders and, consequently, on the sales' effects on asset prices.

As shown in Table 43, if MetLife were to experience the same level of policyholder surrenders over shorter periods of time than under Scenario Three,⁹⁹¹ MetLife would have to liquidate a greater amount of assets during each earlier time period. As discussed in section 4.3.5, of MetLife's \$275 billion in U.S. general account insurance liabilities as of June 30, 2013,⁹⁹² \$142 billion is subject to early withdrawal for an aggregate cash surrender value of \$125 billion.⁹⁹³ While this analysis does not assume or rely on a scenario in which all of the liabilities that could potentially be surrendered would in fact be surrendered within seven days, the analysis illustrates the potential effect, based on contractual rights, of surrenders that occur at a more rapid pace than envisioned by Oliver Wyman. Further, a sudden increase in loan requests by policyholders could result in increased liquidity strain at the company, which could increase

⁹⁸⁹ MetLife Voluntary Submission, Section IV, p. IV-10.

⁹⁹⁰ See Federal Reserve Bank of St. Louis, "The Financial Crisis: A Timeline of Events and Policy Actions" (accessed December 3, 2014), available at <http://timeline.stlouisfed.org/index.cfm?p=timeline>.

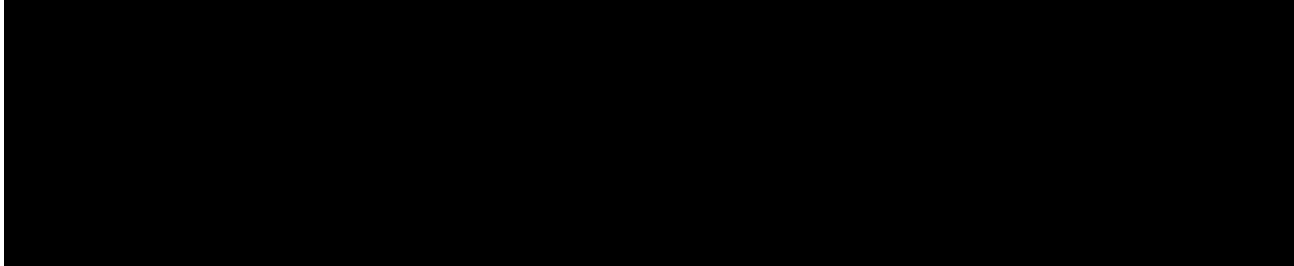
⁹⁹¹ To construct the outflows reflected in Table 43, only the policyholder surrenders or transfers were adjusted. For each period shorter than the six-month baseline period, the policyholder surrender or transfer outflows in the last period were evenly distributed among each of the earlier periods.

⁹⁹² See Table 24.

⁹⁹³ See Table 25.

the need to liquidate assets, but sales attributable to loan requests are not included in these figures in Scenario Three.⁹⁹⁴

Table 43: Scenario Three, Same Level of Policyholder Surrenders Over Shorter Time Periods (\$ Billions)



Source: MetLife Voluntary Submission, Section IV, Appendix A, p. 224; MetLife Voluntary Submission, Section IV, p. IV-24; Oliver Wyman model; Council analysis.⁹⁹⁵

Approximately [REDACTED] of MetLife's total surrenderable general account insurance product liabilities relate to products sold to retail customers (such as whole life, retail annuities, and individual universal life).⁹⁹⁶ MetLife states that retail policyholders historically have reacted to adverse market events less rapidly and in lesser numbers than institutional customers.⁹⁹⁷ This is due, in part, to retail customers' lack of expectation of liquidity and the presence of contractual surrender disincentives.⁹⁹⁸ However, it is possible that the implications or severity of MetLife's material financial distress could differ in some ways from other insurers that have experienced distress or failure. The following discussion further evaluates the assumptions related to the timing of contractual surrenders and related liquidity outflows embedded in the Oliver Wyman analysis.

⁹⁹⁴ An increase in policy loans is not applicable under Scenario 4, which assumes all consumers have surrendered their policies and therefore have no cash value to borrow against. See MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-170.

⁹⁹⁵ These simulations are similar to the base case but modify the cash outflow schedule. In these simulations, insurance liabilities are assumed to run off at an accelerated rate. Insurance liabilities are defined here as universal life/variable universal life, whole life, retained asset accounts, retail deferred annuities, group universal life/variable life, and COLI/BOLI. All other liabilities are assumed to roll off as in the Oliver Wyman analysis. The window of redemptions is reduced to one of three months, one month, and two weeks. For periods outside of the assumed window, the outflows are summed and proportionally distributed over the included periods. For example, for a one-month timeframe, outflows from both the 31-90 and the 91-180 day windows are distributed over the 0-7 day, 8-14 day, and 15-30 day windows proportionally to the number of days in each window (longer windows will include more outflows). This approach is consistent with Oliver Wyman's approach in allocating surrenders and policy loans. The model uses these modified outflows and runs the same analysis as in the base case.

⁹⁹⁶ See Table 38.

⁹⁹⁷ MetLife Voluntary Submission, Section IV, p. IV-5.

⁹⁹⁸ See section 4.3.5.3 for a discussion of policyholder surrender disincentives; see also MetLife Voluntary Submission, Section IV, pp. IV-5- IV-6.

Reliance on Historical Consumer Expectations Regarding Liquidity

MetLife's product features, product stages, or product marketing may have changed the liquidity expectations of retail policyholders since the times of the past failures that were evaluated. Retail insurance and annuity products have been marketed by MetLife and other life insurance companies as financial assets with guaranteed liquidity and other features that allow policyholders to access the funds in times of need.⁹⁹⁹ This may increase customers' expectation of liquidity. Currently, little relevant data is available to test the validity of assumptions regarding policyholder behavior with respect to these newer product features, particularly in the case of a company experiencing material financial distress during a period of overall stress in the financial services industry and in a weak macroeconomic environment.¹⁰⁰⁰

This analysis illustrates that changes to fundamental assumptions underlying the Oliver Wyman analysis, such as the contracts that are surrendered and the time period over which surrenders would occur, significantly affect the results of the exercise.

Reliance on Historical Examples of Surrender Rates

Oliver Wyman used historical examples of insurer failures to help calibrate various assumptions, most notably the speed of surrenders based on product type.¹⁰⁰¹ However, because no insurer approaching the size, scope and complexity of one of MetLife's largest insurance subsidiaries has failed, this approach may understate the potential impact of MetLife's material financial distress. For example, among other historical examples, Oliver Wyman used one of the largest U.S insurance company failures, the 1991 failure of Executive Life, which failed after losses on its investment portfolio and policyholder surrenders, to calibrate the speed of surrenders of various product types. But MetLife is the largest life insurance organization in the United States¹⁰⁰² and has nearly 65 times the assets of Executive Life.¹⁰⁰³ In the year prior to its failure, Executive Life had \$13 billion in assets and was the 33rd largest life insurer in the United States.¹⁰⁰⁴ The failure of MLIC alone would be more than 20 times the size of Executive

⁹⁹⁹ For example, MetLife marketing material states that cash value life insurance can "Provide a smart way to save through its cash value. This is money that can be used for college, emergencies or during retirement without tax implications." See MetLife, "Life Insurance as an Asset," (2012), available at <https://www.metlife.com/assets/ib/retirement/campaign/ml-life-insurance-asset.pdf>.

¹⁰⁰⁰ See Society of Actuaries, "Modeling of Policyholder Behavior for Life Insurance and Annuity Products: A Survey and Literature Review" (2014), pp. 12, 28, available at <https://www.soa.org/Research/Research-Projects/Life-Insurance/research-2014-modeling-policy.aspx>.

¹⁰⁰¹ MetLife Voluntary Submission, Section IV, pp. IV-13- IV-14.

¹⁰⁰² As of December 31, 2012. Based on total assets under SAP. See ACLI 2013 Life Insurers Fact Book, available at https://www.acli.com/Tools/Industry%20Facts/Life%20Insurers%20Fact%20Book/Documents/Life_Insurers_Fact_Book_2013_All.pdf.

¹⁰⁰³ As of June 30, 2013. SNL Financial, based on data prepared on the basis of GAAP.

¹⁰⁰⁴ MetLife Voluntary Submission, Section IV, p. IV-36. See "The Collapse of Executive Life Insurance Co. and its Impact on Policyholders," Hearing before the House Committee on Government Reform, 107th Congress (2002).

Life,¹⁰⁰⁵ and a MetLife, Inc. failure would be the largest bankruptcy in U.S. history.¹⁰⁰⁶ The size, scope, and complexity of MetLife's largest insurance subsidiaries are far greater than those of Executive Life and the other historical examples, so the speed of surrenders of MetLife's products could be faster than those experienced by Executive Life and other smaller insurers in light of the potential for panic to ensue on news of MetLife's material financial distress.

Invocation of Contractual Rights to Defer

In the most severe scenario (Scenario Four), Oliver Wyman assumes that MetLife would invoke its contractual right to defer payout on many of its immediately payable cash surrender amounts for up to six months.¹⁰⁰⁷ As discussed above, MetLife notes that approximately two-thirds of its general account retail deferred annuities (as represented by the cash surrender value on these annuities) and nearly all of its universal life and whole life policies have contractual provisions that allow MetLife to defer payments for six months.¹⁰⁰⁸ Given the significant amount of MetLife's general account policies that have such contractual provisions,¹⁰⁰⁹ the invocation of these provisions could reduce significantly the payouts on life and annuity contracts and, therefore, slow asset liquidation.

As described in section 4.3.5.2, MetLife could have strong disincentives to invoke this option. Furthermore, while using this contractual right may slow MetLife's cash outflows, it would not happen in a vacuum. Actions by MetLife to restrict customer access to withdrawable policies could cause significant concern about access to funds at other insurance companies with similar asset and product profiles, especially in a time of broad financial market stress, thereby accelerating overall market stress. This potential contagion effect was not included in Oliver Wyman's analysis of market impact within Scenario Four, but it could materially exacerbate market weakness and affect market volumes and price impacts in the event of asset sales.

4.3.9.5 Exclusion of Products and Accounts from the Analysis

Separate Account Liabilities

MetLife's \$246 billion of separate account liabilities¹⁰¹⁰ could pose additional asset liquidation risk, because the vast majority of these liabilities can be surrendered at or near market value. The Oliver Wyman analysis anticipates no increases in separate account contract surrenders because the surrender of a separate account contract would mean the forfeiture of any contractual

¹⁰⁰⁵ MLIC of the State of New York, Statutory Filing for the quarter ended June 30, 2013, p. 2, available at http://investor.metlife.com/phoenix.zhtml?c=121171&p=irol-statutory_MLIC; MetLife Voluntary Submission, Section IV, Appendix B, p. 4.

¹⁰⁰⁶ UCLA LoPucki Bankruptcy Research Database, accessed on May 9, 2013.

¹⁰⁰⁷ MetLife Voluntary Submission, Section IV, Appendix A, p. 5.

¹⁰⁰⁸ MetLife Voluntary Submission, Section IV, p. IV-7.

¹⁰⁰⁹ MetLife Voluntary Submission, Section III, p. III-81.

¹⁰¹⁰ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

guarantee.¹⁰¹¹ While separate account surrenders would not generally be expected to have a significant impact on the asset liquidation analysis, these surrenders could add additional liquidity pressure at a time when the company would be facing material financial distress. Furthermore, contractual guarantees likely would be perceived as less valuable when provided by a company in material financial distress. Indeed, the forfeiture of any contractual guarantee could be overridden by a desire for perceived safety and liquidity with financial products offered by another insurance company, a bank, or another type of financial institution. In stressed economic periods, policyholders may disregard certain disincentives in place to discourage surrenders or other withdrawals, particularly if the policyholders have lost confidence in MetLife due to its material financial distress.

In particular, under all four scenarios, Oliver Wyman assumes that retail deferred variable annuity policyholders, representing approximately \$19 billion in general account liabilities and \$149 billion in separate account liabilities, would not fully surrender their policies for cash value.¹⁰¹² Typically, variable annuity policyholders can invest in fixed interest options (general account) and securities portfolio options (separate account).¹⁰¹³ The policyholders' accumulated value is equal to the sum of amounts invested in the general account (including any accumulated minimum interest earned) and the current value of the investments of the separate account, minus withdrawals. The contract owner assumes the investment risk for all funds in the separate account, while the insurer assumes the risk for all funds in the general account. Rather than surrender the policies for cash value, policyholders are assumed by Oliver Wyman to transfer their general account (i.e., a fixed cash value account) funds to a separate account to avoid surrender charges and the immediate loss of related future guarantees.¹⁰¹⁴ In contrast, the full surrender of a policyholder's annuity contract would result in the withdrawal of the policyholder's fixed account value as well as the market value of the separate account investments.

According to the Oliver Wyman analysis, a policyholder's choice to transfer funds, rather than surrender a separate account variable annuity product, would reflect the "best economic interest of the policyholder."¹⁰¹⁵ However, as discussed in section 4.3.5.3, policyholders' decisions can be affected by a range of factors (e.g., loss aversion, financial need, cognitive biases), and are not necessarily based solely on an accurate maximization of the present value of their policies.¹⁰¹⁶

¹⁰¹¹ MetLife Voluntary Submission, Section IV, p. IV-10.

¹⁰¹² *Id.* at p. IV-8.

¹⁰¹³ MetLife states that "there are many variable annuity contracts that have both a general account value (a.k.a. the fixed account value) and a separate account value." MetLife Response to OFR Data Request, document B.7.m.ii. The company did not provide a quantitative measure regarding this statement.

¹⁰¹⁴ MetLife Voluntary Submission, Section IV, Appendix A, pp. 119-121.

¹⁰¹⁵ *Id.* at p. 121.

¹⁰¹⁶ See also Society of Actuaries, "Modeling of Policyholder Behavior for Life Insurance and Annuity Products: A Survey and Literature Review" (2014), pp. 12, 28, available at <https://www.soa.org/Research/Research-Projects/Life-Insurance/research-2014-modeling-policy.aspx>.

On the basis of Oliver Wyman's policyholder behavior assumption, Scenarios Three and Four reflect asset sales resulting from surrenders between 50 and 100 percent of the \$19 billion in general account liabilities, but do not reflect the asset sales that could result from a corresponding increase in surrenders of the \$149 billion of separate account liabilities covered by the same policies.^{1017, 1018}

In addition, as of June 30, 2013, there was \$42.3 billion of MetLife's separate account stable value product, Met Managed GICs, outstanding. However, Oliver Wyman's Scenarios Three and Four do not contemplate any surrender of these products, although some general account stable value products [REDACTED] are assumed to be surrendered.¹⁰¹⁹ Including some or all of these amounts would increase the volume of the potential asset sale by MetLife. These assumptions reduce the overall assets that would have to be sold and the resulting estimated price impacts under the baseline analysis.¹⁰²⁰

Policyholder Surrenders and Other Liability Outflows Combined in Scenario Three

Under all four scenarios, Oliver Wyman's analysis also assumes that non-policyholder contractual liabilities, such as securities lending agreements, FABS, and FHLB lending arrangements, will run off based on their scheduled maturities without any contractually allowable discretionary action by the counterparty to further limit its credit exposure to MetLife.¹⁰²¹ Examples of such discretionary actions include the early close-out of a portion of MetLife's approximately \$30 billion in securities lending transactions or additional collateral requests by the FHLBs for MetLife to maintain its nearly \$15 billion in FHLB borrowings.¹⁰²² This assumption allows Oliver Wyman to conclude that liabilities would flow out in a more orderly manner than may be the case if other liquidity demands on MetLife were assumed. Furthermore, this assumption is inconsistent with the experience of MetLife during the recent financial crisis, when it experienced early returns of securities loans even though it was not

¹⁰¹⁷ Even accepting the policyholder assumption applied, the analysis does not consider that surrender decisions may depend on the cost basis of the policy at the time of surrender. In some instances, a small loss at the time of surrender may reduce the reluctance to withdraw, since losses may be tax deductible and the 10 percent early withdrawal tax penalty avoided for those under the age of 59½ because it is only applied to gains. A policyholder attempting to minimize the loss of invested principal rather than maximize future value may have incentives to surrender the policy despite the forfeiture of a guarantee with future applicability.

¹⁰¹⁸ MetLife Voluntary Submission, Section IV, pp. IV-10, IV-16-17, IV-27.

¹⁰¹⁹ MetLife Voluntary Submission, Section IV, Appendix A, pp. 48, 51, 68, 74.

¹⁰²⁰ The analysis assumes no increase in separate account policy surrender rates from the pre-distress period. MetLife Voluntary Submission, Section IV, p. IV-10. However, it does include ordinary-course separate account liability surrender rates of 10 percent for retail annuities, 15 percent for individual variable universal life insurance, group variable universal life insurance, and COLI/BOLI. MetLife Voluntary Submission, Section IV, Appendix A, p. 68.

¹⁰²¹ MetLife Voluntary Submission, Section IV, Appendix A, p. 148.

¹⁰²² See Table 1.

perceived to be in material financial distress.¹⁰²³ The liquidity demands on MetLife in connection with its non-policyholder contractual liabilities may be greater if the company were to experience material financial distress. Increased liquidity demands could lead to increased asset sales and more significant negative price effects in the markets for the assets sold.

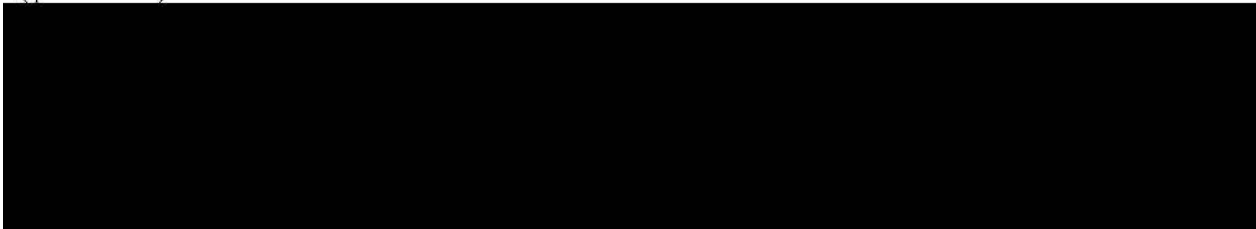
To illustrate the increased outflows that could result when all products that could be surrendered are accelerated, including certain non-policyholder liabilities, this analysis compresses the time period of outflows from six months (as in the Oliver Wyman baseline) to three months, one month, and two weeks, while maintaining all other aspects of the Oliver Wyman model.¹⁰²⁴ As illustrated below in Table 44 and Figure 15, compressing the time period during which asset sales would occur would have a significant effect on the resulting negative price impacts, even when the assumptions regarding sales order and trading volume constraints reflected in the baseline model are maintained and without taking into consideration additional potential outflows arising from discretionary putbacks on FAs and separate account products.

For example, under Scenario Three, compressing surrenderable liability outflows from a six-month (180-day) period to a three-month (90-day) period significantly increases the negative price effect on private corporates. When sales are further compressed to one month, nearly all asset classes demonstrated large spikes in the resulting negative asset price impact. For example, as illustrated in Figure 15, the negative price impact on non-agency MBS [REDACTED] from [REDACTED] to [REDACTED] and the impact on agency MBS rises from just [REDACTED] in MetLife's baseline to [REDACTED] in the one-month scenario.

¹⁰²³ During 2008 and 2009, MetLife lent a greater volume of non-U.S. government securities as part of its securities lending activities. During that time, MetLife's borrowers in its securities lending program returned approximately [REDACTED] of the less-liquid securities, but retained virtually all U.S. government securities that had been borrowed. MetLife was able to return required collateral without any meaningful impact on its liquidity position. MetLife Voluntary Submission, Section III, p. III-25.

¹⁰²⁴ In its liability cash outflow model, Oliver Wyman categorizes liabilities into two liquidity groups, the first containing the more-liquid liabilities, such as annuities and retained asset accounts, and the second containing illiquid liabilities, such as instruments with contractual maturities. Liabilities in the second category, with the exception of securities lending (because counterparties could accelerate payment of the liabilities by paying a potential breakage fee) and policy loans (which, even maintaining the assumed amounts, could be drawn more quickly than Oliver Wyman assumed) were considered to be non-accelerable and continued to mature as Oliver Wyman originally assumed. The first category, securities lending liabilities, and policy loans were then accelerated. MetLife Voluntary Submission, Section IV, Appendix A, pp. 47-48.

Table 44: Cash Outflows under Alternative Sales Time Periods, Scenario Three
 (\$ Billions)^{1025, 1026}



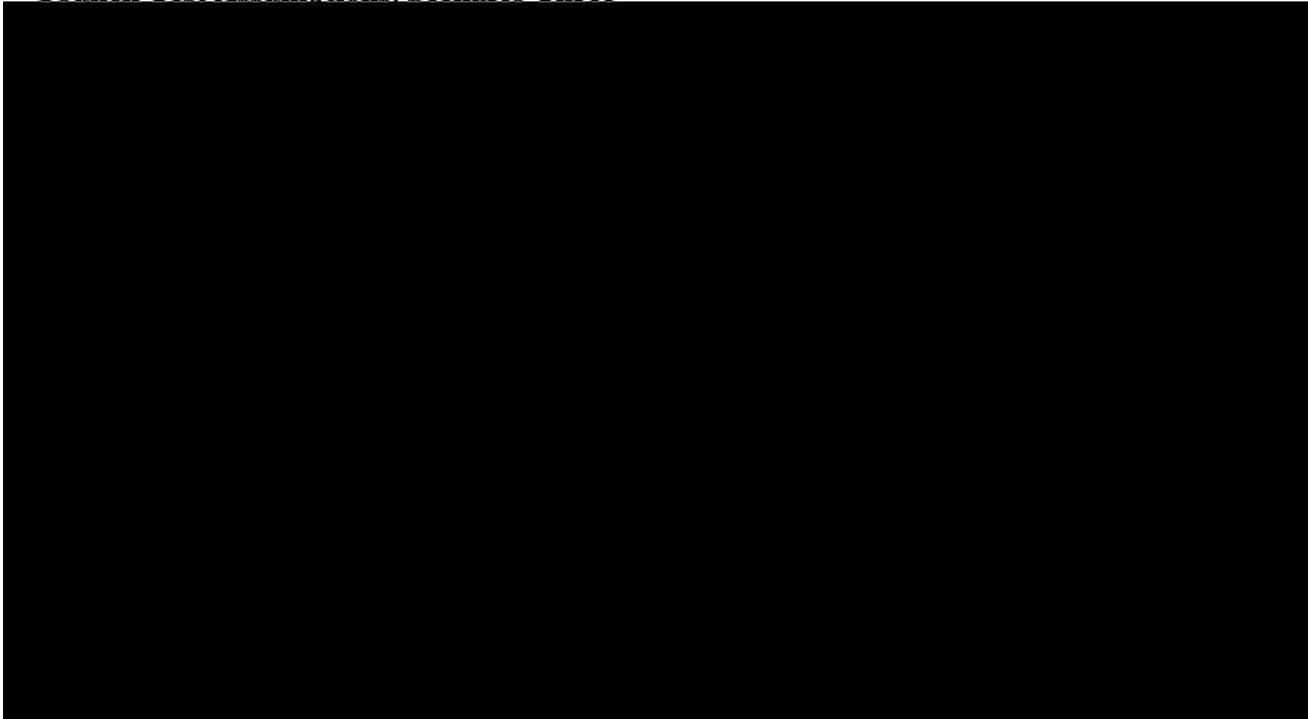
Sources: MetLife Voluntary Submission, Section IV, Appendix A, p. 70; Oliver Wyman, “2013.11.12_-Liability_cash_outflow_model_(PROTECTED).xlsx”; Council analysis.



¹⁰²⁵ These simulations are similar to the base case but modify the cash outflow schedule. In these simulations, all liabilities are assumed to run off at an accelerated rate. The window of redemptions is reduced to one of three months, one month, and two weeks. For periods outside of the assumed window, all liabilities are summed and evenly distributed over the included periods. For example, for a one-month timeframe, runnable policy liabilities from both the 31-90 and the 91-180 day windows are evenly distributed over the 0-7 day, 8-14 day, and 15-30 day windows. The model uses these modified outflows and runs the same analysis as in the base case. The simulations do not include additional discretionary outflows, such as discretionary putbacks on FAs, securities lending, and separate account products, that were not included in the base case.

¹⁰²⁶ Figures in this table are calculated using an assumption that liabilities with contractual maturities are not accelerated.

Figure 15: Maximum Negative Price Impact under MetLife Baseline Assumptions and Council Test Assumptions, Scenario Three¹⁰²⁷



Source: Council analysis.

4.3.9.6 *Ordering and Volume of Asset Liquidation*

Oliver Wyman's scenarios use a set of assumptions that result in MetLife effectively selling its most liquid assets first in order to meet policyholder surrenders and other estimated liability outflows.¹⁰²⁸ These assumptions likely result in a meaningful underestimation of the negative price effects that could result from MetLife's asset sales.

First, the Oliver Wyman analysis assumes that MetLife is on the brink of insolvency, with RBC ratios and other requirements maintained just above the level at which state regulatory authorities would be legally obligated to intervene (e.g., mandatory control level RBC, which is 70 percent

¹⁰²⁷

MetLife Voluntary Submission, Section IV, Appendix A, pp. 58, 64, 70, 76. Oliver Wyman's model of asset sales iteratively "sells" assets in \$5 million blocks until the assumed cash outflows for the period are met. MetLife Voluntary Submission, Section IV, Appendix A, p. 157. Each period represents a new "problem" for the model to solve. To determine which assets to sell, the model finds the asset that will receive the highest fraction of book value after applying market haircuts, from a stressed macroeconomic environment, and liquidity haircuts (i.e., fire sale discounts), subject to two constraints: the remaining value of that asset class in MetLife's book must be positive, and MetLife's sales cannot represent more than a certain percentage of the trading volume in that period. MetLife Voluntary Submission, Section IV, p. IV-20; MetLife Voluntary Submission, Section IV, Appendix A, pp. 151-157.

or less of its authorized control level RBC).¹⁰²⁹ According to MetLife, any assumption of additional stress would result in further deterioration of MetLife's RBC and trigger mandatory regulatory intervention.¹⁰³⁰ However, Oliver Wyman's asset sale model does not reflect the assumed constraint that assets will be liquidated in an order that does not compel insurance regulators to intervene. The model therefore allows MetLife to sell its most liquid assets first, without adjusting the quantity and mix of assets sold in order to maintain RBC ratios above the applicable trigger levels. MetLife notes that, in reality, if the company were attempting to remain above the trigger levels, it would sell a mix of assets across a number of asset classes rather than proceed with sales of assets in order from most liquid to least liquid.¹⁰³¹ This aspect of Oliver Wyman's model has the effect of understating the overall price impacts.

Second, the Oliver Wyman model incorporates a constraint that restricts the sale of a class of assets to a certain percentage of the trading volume for that asset class in each period.¹⁰³² Oliver Wyman and MetLife did not provide a basis for the specific constraints chosen, and the trading volume constraint likely results in the underestimation of the resulting asset price impacts. For example, under Scenario Three, removing the trading volume constraint increases the magnitude of the negative asset price impact on non-agency MBS, from [REDACTED] to [REDACTED]. The negative price effect on ABS increases from [REDACTED] to [REDACTED].

Third, MetLife states that the model's assumed asset sale order reflects an attempt to meet liquidity demand while producing the least realized losses from the assets sold, which calls for more-liquid assets to be sold first.¹⁰³³ However, in the event of a significant market disruption, there could be a meaningful first-mover advantage to selling less-liquid assets first. For example, markets for less-liquid assets, such as private and public corporate bonds and ABS, could be prone to disruption in the event that a forced seller, such as MetLife, liquidated a large portion of its portfolio of those assets. Selling pressures related to sales by MetLife and other market participants could increase the pricing discounts that MetLife would need to accept to sell its less-liquid assets. Given these potential discounts, in some circumstances MetLife may be incentivized to sell its less-liquid assets first and to hold U.S. government securities and agency MBS, which tend to increase in value during a period of market turmoil. In this case, MetLife could minimize pricing discounts on its less-liquid assets and maximize the value of its most-liquid assets by selling its less-liquid assets first.

¹⁰²⁹ MetLife Voluntary Submission, Section IV, p. IV-13.

¹⁰³⁰ *Id.* at pp. IV-13, IV-28.

¹⁰³¹ MetLife Voluntary Submission, Section IV, p. IV-20.

¹⁰³² For Scenarios One, Two, and Three, the trading volume constraint is 5 percent of all estimated sales in each time period, and for Scenario Four, it is 10 percent. For this analysis, the market share constraint is set to 100 percent (200 percent when the order of sales is reversed), which effectively makes the constraint non-binding for all assets. Further modifications to the cash outflows and sales order, as detailed above, were also applied. *Id.* at p. IV-19.

¹⁰³³ *Id.* at p. IV-20.

Because Oliver Wyman's assumption that the most-liquid assets would be sold first represents one end of the spectrum (i.e., asset sales in order of descending liquidity profile), to show the other end of the spectrum, this analysis reverses the order of asset sales (i.e., asset sales in order of ascending liquidity profile). Reversing the order of asset sales results in asset price impacts under the model for each asset class that are at least as large as the baseline results reflected in Table 42 and results in meaningful increases in impacts for some asset classes. For example, in Scenario Three, the reverse asset sales approach results in modeled price impacts on private corporates [REDACTED] from roughly [REDACTED] to [REDACTED] and in price impacts on both CMBS and municipal bonds increasing from [REDACTED] to roughly [REDACTED] (see Figure 15).¹⁰³⁴

Although there is a theoretical incentive to sell less-liquid assets first to gain a first-mover advantage, this analysis does not rely on an assumption that MetLife would in fact sell its assets in reverse order of liquidity. Instead, this analysis discusses that endpoint of the spectrum to illustrate an alternative to the endpoint picked by Oliver Wyman. Between these two points are a range of potential orders in which MetLife could decide to sell its assets, based on various circumstances, to meet the modeled liquidity demands and simultaneously maintain an RBC ratio and other regulatory requirements above the applicable trigger levels.¹⁰³⁵ As MetLife acknowledged, "In reality, MetLife would typically sell a mix of assets across a number of classes to comply with capital management guidelines and investment restrictions."¹⁰³⁶ Consideration of the range of potential sales orders helps evaluate the range of potential effects of MetLife's material financial distress.

To model the effects of orders of sales between the spectrum's two extremes, a Monte Carlo simulation was used, which attempts to determine average values for the spectrum by creating a large number of potential liquidation scenarios and then averaging the resultant price effects.¹⁰³⁷ For the least-liquid asset classes (CMBS, non-agency MBS, ABS, and private corporates), the average price effects were identical to those produced when the sales were conducted in reverse order (that is, from least liquid to most liquid). There were reductions in the price effects on more-liquid classes such as U.S. Treasury securities and agency and municipal securities. In general, however, the average effects of asset sales in these randomized trials were much more

¹⁰³⁴ The reverse ordering modifies Oliver Wyman's analysis by selling the asset with the smallest fraction of book value, rather than selling the asset that will receive the largest fraction of book value. The rest of the simulation proceeds in similar fashion to the Oliver Wyman approach, making no further assumptions on the speed of withdrawals.

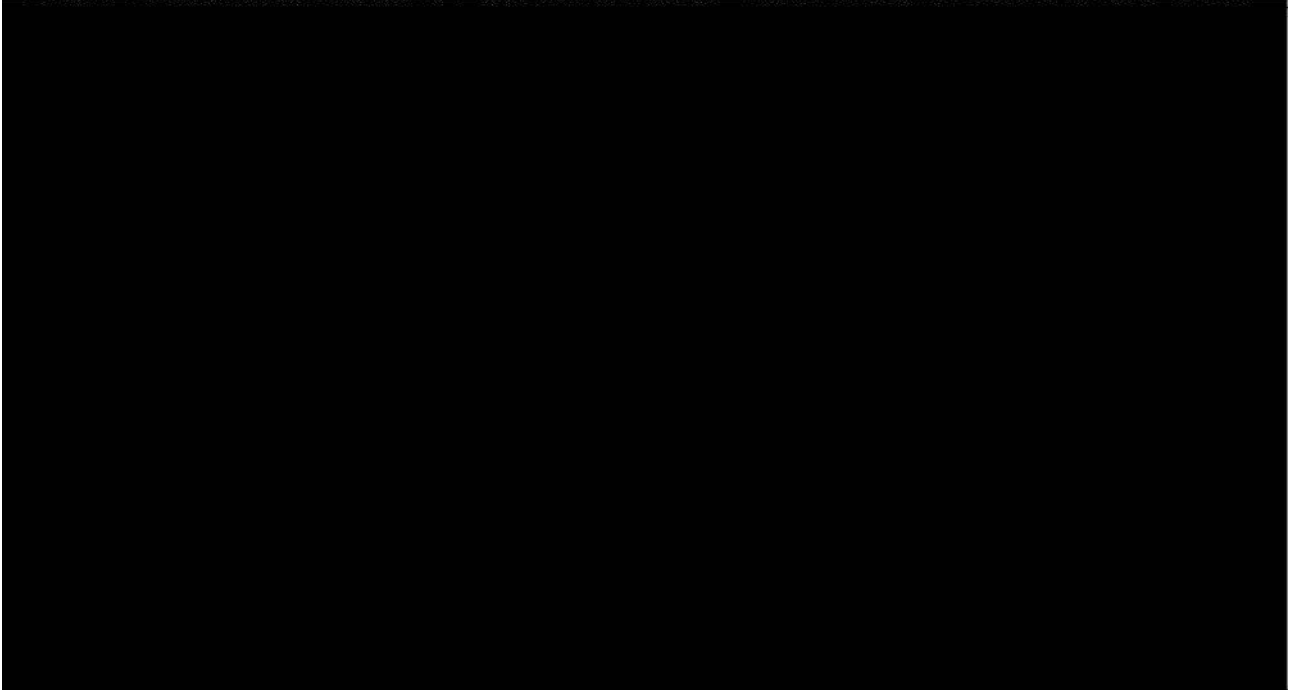
¹⁰³⁵ The Oliver Wyman model does not include sales of MetLife's most-illiquid asset classes. For consistency, the reverse ordering test is constrained to those asset classes sold in the Oliver Wyman analysis. MetLife Voluntary Submission, Section IV, Appendix A, pp. 74-76.

¹⁰³⁶ MetLife Voluntary Submission, Section IV, p. IV-20.

¹⁰³⁷ This exercise simulates asset sales in a completely randomized fashion using identical assumptions to Oliver Wyman's original Scenario 3. This exercise was repeated 500 times to generate a large sample of possible liquidation scenarios and price effects. These results were then averaged to approximate the mean effect over all possible sales orders. The estimates did not materially change when smaller sample sizes were examined.

similar to the price effects produced when the order of sales was reversed than to the effects produced by the order of sales posited by MetLife. These results are shown in Figure 16.

Figure 16: Maximum Negative Price Impact Under Various Sales Orders, Scenario Three



Source: Council analysis.

This exercise also revealed the extent of the effects of Oliver Wyman's volume constraint on the price impacts. Across all simulations, the maximum price impact exhibited by the least-liquid asset classes (CMBS, non-agency MBS, ABS, and private corporates) was constant. This indicates that regardless of the order of sales, the volume constraint is nearly always binding and acts to reduce the price impact of those asset classes. When the constraint is relaxed, those asset classes exhibit substantially larger price impacts. For example, the price effects on ABS yielded by the Monte Carlo simulation increases by over [REDACTED] when the constraint is relaxed. For private-label corporate bonds, relaxing the constraint on the Monte Carlo simulation increases the price impact by over [REDACTED] relative to the constrained Monte Carlo simulation and by almost [REDACTED] relative to Oliver Wyman's original Scenario 3 analysis.

4.3.9.7 *Asset Encumbrance*

More than \$64.5 billion of MetLife's assets, including its most liquid securities, are restricted and may not be readily available for immediate sale.¹⁰³⁸ These assets, while owned by MetLife or its subsidiaries, are subject to legal claim under a range of internal and external agreements including securities lending agreements, FHLB FAs, reinsurance agreements, collateral trusts,

¹⁰³⁸ MetLife Response to OFR Data Request, document B.3.e.

and other collateral pledge agreements.¹⁰³⁹ Oliver Wyman's baseline analysis does not adequately account for these restrictions. [REDACTED]

[REDACTED] As such, these securities are unavailable for immediate sale by MetLife. Over 75 percent of MetLife's securities lending positions are term loans, which typically have maturities spread over approximately 90 days (with the average term being 30 days).¹⁰⁴³ As illustrated above, small deviations in Oliver Wyman's stylized outflow assumptions could result in early time period outflows that quickly exceed the amount of unencumbered U.S. Treasury securities. [REDACTED]

[REDACTED] To the extent that MetLife's most liquid assets are encumbered, MetLife would need to sell less-liquid assets to support surrender payments and other liquidity needs. As discussed above, the sale of less-liquid assets could result in more significant negative price effects than the sale of more-liquid assets.

4.3.9.8 Pricing Elasticity (Volume Elasticity Scalar)

There is no established methodology for predicting how increased sales of an asset will affect the market price of that asset.¹⁰⁴⁵ Oliver Wyman developed a methodology for making such predictions that predicts the price effect of additional sales volume through the application of an "elasticity scalar."¹⁰⁴⁶ The elasticity scalar is a number that represents the change in asset prices as a proportion of the additional volume of asset sales in the market contributed by MetLife. To calculate its elasticity scalars, Oliver Wyman considered the following market factors: asset structure and transparency, asset quality and duration, market infrastructure, buyer diversity, and buyer flexibility to reallocate investments. Oliver Wyman then verified the resulting scalars

¹⁰³⁹ MetLife Response to OFR Data Request, B.3.d.xls and B.3.e.xls.

¹⁰⁴⁰ [REDACTED]

¹⁰⁴¹ [REDACTED]

[REDACTED] MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, pp. III-8, III-60.

¹⁰⁴⁴ MetLife Response to OFR Data Request, documents B.3.d and B.3.e.

¹⁰⁴⁵ See Brian Begalle, Antoine Martin, James McAndrews and Susan McLaughlin, "The Risk of Fire Sales in the Tri-Party Repo Market," Federal Reserve Bank of New York Staff Reports number 616 (May 2013), available at http://www.newyorkfed.org/research/staff_reports/sr616.html, which notes "there is no standard way to estimate this price impact statistically and thus evaluate the risk of fire sales."

¹⁰⁴⁶ See MetLife Voluntary Submission, Section IV, Appendix A, pp. 23, 169-189 (Sub-Appendix G.2).

empirically by using historical data that spanned the financial crisis, including periods in which other market participants faced stress. Oliver Wyman applied its methodology to estimate the price impact of forced asset sales by MetLife for U.S. Treasury securities, agency RMBS, public corporates, CMBS, non-agency RMBS, municipal bonds, ABS, and private corporates.¹⁰⁴⁷

According to Oliver Wyman, the purpose of its verification process was to ensure that the values used would be more conservative (that is, would result in more adverse outcomes) than those that had been empirically observed. However, as implemented, Oliver Wyman's procedure dismisses all observations that would imply a price elasticity of less than negative one (-1).¹⁰⁴⁸ Its justification for doing so rests on the assumption that buyers come to the market seeking to purchase at least a certain dollar amount of assets, and that the arrival of a distressed seller such as MetLife would not affect this dollar demand for assets. Thus, at worst, additional sales volume would depress prices at a one-to-one rate: 1 percent increase in sales volume would result in, at most, a 1 percent decline in prices.

Such an assumption might be appropriate for perishable commodities, but for financial assets it is optimistic rather than conservative. The price that investors are willing to pay for an asset today depends heavily on their expectations about future price movements. If investors become aware of the existence of a distressed seller, they may avoid or delay purchasing the relevant financial asset or, indeed, may attempt to front-run the distressed seller by dumping their holdings of that asset before the distressed seller can do so.

The FRBNY has set out an alternative measure of the capacity of financial markets to accept exogenous or forced sales, which is based on estimates provided by market participants and FRBNY staff. By this alternative measure, even the volumes of corporate bonds (combining public and private) sold under Oliver Wyman's baseline assumptions could have a material and adverse impact on asset prices in debt markets.¹⁰⁴⁹

¹⁰⁴⁷ Data for 2008 to 2009 are available and used for public corporate bonds, private placement corporate debt, and municipal bonds; only data beginning in 2011 are available for ABS, CMBS, and non-agency guaranteed MBS. See MetLife Voluntary Submission, Section IV, Appendix A, p. 23. For public and private corporate bonds, ADTV is based on quarterly volumes; the one-month minimum average trading volume is assumed to equal the three-month minimum. *Id.* at p. 159.

¹⁰⁴⁸ MetLife asserts that its methodology "could have resulted in an elasticity scalar of -1," but explains that for certain reasons its approach eliminates all such observations. According to MetLife, "the methodology used by Oliver Wyman to validate the conservatism of the elasticity scalars did not dismiss observations based on the estimate of the scalar (which would diminish the usefulness of a historical validation). Rather, the Oliver Wyman methodology acknowledges that historical observations with limited or no movement in trading volume may generate unreasonable estimates of the elasticity scalars due to exogenous factors that also affect price (such as asset class fundamentals, the economic environment, and investor sentiment). To remove this potential noise effect, the methodology limited the historical sample to observations with meaningful volume movements." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section III, p. III-66.

¹⁰⁴⁹ For example, the FRBNY analysis states that, under normal market conditions, the amount that can be liquidated in one day without an adverse impact on market prices is \$500 million for equities, \$250 million for corporate bonds, \$125 million for ABS, and less than \$8 billion for U.S. Treasury securities and strips, agency debt, agency

In conclusion, while there is no established methodology for estimating the effects of increased sales on asset prices, the procedure used by Oliver Wyman likely underestimates these effects.

4.3.9.9 Oliver Wyman's Conclusion Regarding the Effects of Asset Liquidation on Market Liquidity

The foregoing discussion demonstrates that Oliver Wyman's assumptions likely underestimated the price effects that MetLife's asset sales could have. But even if Oliver Wyman's results are accepted without any modifications, they suggest that a sale of MetLife's assets could have negative price impacts large enough to significantly disrupt securities funding markets, such as the repo market. Even accepting all of the assumptions in Oliver Wyman's model, Scenario Three shows that asset sales by MetLife could disrupt key financial markets.

As a general matter, financial institutions fund the purchase of debt instruments by either raising equity capital or borrowing. A common practice of large institutions is to borrow funds using repurchase agreements. In this type of transaction, the borrower's equity capital finances only the difference between the debt instrument's price and its collateral value—the margin or haircut.¹⁰⁵⁰ While these types of highly leveraged positions are at the center of debt markets and can be riskless in normal times, small changes in price volatility and margins during periods of financial stress can have large effects on market liquidity.

In particular, traders may become more reluctant to take on positions in high-margin debt instruments when raising funds is difficult. Reduced trading volume decreases the market liquidity for these debt instruments, leading to higher price volatility. Lower market liquidity also increases the risk of financing a trade, which is likely to lead lenders to increase repurchase agreement margins. Thus, the effect of small changes in price volatility can be greatly amplified by a feedback effect between margin and market condition as traders are forced to de-leverage and exit markets.¹⁰⁵¹

To illustrate the above, consider a hedge fund seeking to finance the purchase of highly rated ABS with a 3 percent haircut using a bilateral repurchase agreement with an investment bank. Assume that the hedge fund starts with \$3 in equity capital, allowing it to fund \$100 of ABS by contributing its \$3 and borrowing \$97 from the investment bank. If the price of ABS falls by 2.5 percent (for instance, as a result of large-scale sales by a holder of those securities), the hedge

MBS, and CMO. See Brian Begalle, Antoine Martin, James McAndrews and Susan McLaughlin, "The Risk of Fire Sales in the Tri-Party Repo Market," FRBNY Staff Reports number 616 (2013), pp. 15-16, available at http://www.newyorkfed.org/research/staff_reports/sr616.html.

¹⁰⁵⁰ See Arvind Krishnamurthy, Stefan Nagel, and Dmitry Orlov, "Sizing Up Repo," *Journal of Finance* (forthcoming); Gary Gorton and Andrew Metrick, "Securitized Banking and the Run on Repo," *Journal of Financial Economics* (2012).

¹⁰⁵¹ See Markus Brunnermeier and Lasse Heje Pedersen, "Market Liquidity and Funding Liquidity," *Review of Financial Studies* volume 22 (2009), available at <http://scholar.princeton.edu/markus/publications/market-Liquidity-And-Funding-Liquidity>.

fund's equity capital drops to \$0.50. Moreover, the investment bank is likely to respond to the increase in ABS price volatility by increasing the haircut, for example to 5 percent, to compensate for an increase in counterparty risk. As a result, the hedge fund would only be able to fund a maximum of \$10 in ABS with its \$0.50 of equity capital. Finally, the resulting decrease in repurchase agreement transactions would reduce the market liquidity for ABS, which would further decrease the price of ABS, creating a self-reinforcing cycle.

Scenario Three of the Oliver Wyman study estimates that the price impact of a rapid asset sale of MetLife's holdings of non-agency MBS and ABS would be [REDACTED] and [REDACTED] respectively.¹⁰⁵² [REDACTED]

[REDACTED]¹⁰⁵⁴ Margins on non-agency ABS would be expected to rise following this increase in price volatility, forcing additional exits and de-leveraging by other market participants. While the repo market for ABS is smaller than it was before the crisis, MetLife's rapid liquidation of ABS could disrupt these markets due to the company's relatively large holdings of these less-liquid instruments.¹⁰⁵⁵ During a period of overall stress in the financial services industry and in a weak macroeconomic environment, the effect of higher price volatility and margin could decrease liquidity in the repurchase agreement market or other securities financing markets sufficiently to significantly disrupt these key markets.¹⁰⁵⁶

¹⁰⁵² MetLife/Oliver Wyman Presentation to FSOC: Analysis of Market Consequences of Severe Financial Distress (February 26, 2014), p. 30.

¹⁰⁵³ [REDACTED]

¹⁰⁵⁴ [REDACTED]

¹⁰⁵⁵ For instance, in late 2008, repo margins on non-subprime-related structured asset classes reached a maximum of 20 percent, while repo margins on subprime-related structured asset classes eventually reached 100 percent. See Gary Gorton and Andrew Metrick, "Haircut," Federal Reserve Bank of St. Louis Review (2010), p. 7, available at <http://research.stlouisfed.org/publications/review/article/8510>.

4.4 Critical Function or Service Transmission Channel

A nonbank financial company is no longer able or willing to provide a critical function or service that is relied upon by market participants and for which there are no ready substitutes.

4.4.1 Overview and Key Considerations

The third channel that the Council has identified as most likely to facilitate the transmission of the negative effects of a nonbank financial company's material financial distress is the critical function or service channel. A nonbank financial company may no longer be able or willing to provide a critical function or service that is relied upon by market participants or customers and for which there are no ready substitutes.

MetLife is a leading participant in a number of markets, but few of these markets are highly concentrated or lack competitors. For example, although MetLife is a leader in several core insurance product markets (including term life, whole life (retail), disability, property and casualty, universal life, and retail annuities), most of those markets appear relatively unconcentrated, with potential substitute providers. MetLife is also a CRE lender, but its market share is small relative to the broader market.¹⁰⁵⁷ Furthermore, while certain other markets in which MetLife is a significant participant are more concentrated and potentially less substitutable, such as the corporate benefit funding market,¹⁰⁵⁸ it does not appear that those markets, on their own, are sufficiently large or interconnected with the broader financial system such that the negative effects to those markets of material financial distress at MetLife would be likely to pose a threat to U.S. financial stability. Nevertheless, there could be additional transmission of stress through this transmission channel, particularly in a weak macroeconomic environment and if there were broader pullbacks across the industry in certain of MetLife's core businesses.

MetLife states that under an applicable metric, the Herfindahl-Hirschman Index (HHI), the company's core operations in the life insurance, accident and health insurance, and retail property and casualty insurance lines of business operate in markets that the Department of Justice would classify as being "unconcentrated." The HHIs for these markets are indicative of the presence of a number of competitors, some of whom may be able to absorb some or all of MetLife's business in the event of the company's material financial distress. HHIs can be helpful in assessing the market concentration of MetLife's core business operations, particularly as it relates to the pricing power of firms in a market, which is why the HHI is used generally in the context of antitrust analysis of prospective mergers. However, the HHI is significantly less informative about certain market characteristics, such as supplier capacity and customers'

¹⁰⁵⁷ As of June 30, 2013, MetLife held 1.9 percent of the commercial mortgage market. See footnote 1071.

¹⁰⁵⁸ MetLife Supplemental Response to OFR Data Request, document C.4.

switching costs, which are important determinants of how easily customers could receive services from MetLife's competitors if MetLife were to experience distress.

4.4.2 Core Insurance Products

4.4.2.1 U.S. Life Insurance Industry and Products

MetLife's market share and the number of competitors in the core insurance markets in which MetLife is a key player are factors to consider in determining the degree of potential disruption or harm to markets that could occur if MetLife were to exit certain core insurance markets. As described in Table 45, MetLife is a market leader in the U.S. life insurance industry, with a market share of life insurance products of approximately 16.6 percent.¹⁰⁵⁹

Table 45: Life and Health Insurance Groups by 2012 U.S. Life Insurance Lines Direct Premiums Written

Insurance Group	Direct Premiums Written (\$ billions)	Share of Total (%)
MetLife ¹⁰⁶⁰	\$102.3	16.6%
Prudential	85.9	13.9
Jackson National Life Group	24.2	3.9
New York Life	24.0	3.9
ING Group N.V.	23.5	3.8
Lincoln National	21.0	3.4
Manulife Financial	21.0	3.4
Massachusetts Mutual Life Insurance Co.	20.8	3.4
AEGON NV	19.7	3.2
Principal Financial	18.3	3.0
Combined Top 10	360.7	58.6
Combined Top 25	506.1	82.2
Combined Top 100	608.3	98.8
Total U.S. Insurance Lines	\$615.7	

Sources: "Annual Report on the Insurance Industry," Federal Insurance Office, U.S. Department of the Treasury (June 2013), Table 1, p. 10, available at <http://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/FIO%20Annual%20Report%202013.pdf>; SNL Financial (includes Life Insurance (No Annuity), Annuity Considerations, Deposit-type Contracts (State Page), and Other Considerations (State Page)).

¹⁰⁵⁹ As of year-end 2012, more than 1,000 life insurance companies were in business in the United States, offering more than \$615 billion of life insurance protection through individual policies and group certificates. Market share presented on the basis of direct premiums written, including life insurance (no annuity), annuity product considerations, deposit-type contracts, and other considerations, as of year-end 2012. See "Annual Report on the Insurance Industry," Federal Insurance Office, U.S. Department of the Treasury (June 2013), p. 10, Table 1, available at <http://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/FIO%20Annual%20Report%202013.pdf>.

¹⁰⁶⁰ MetLife cites a market share within the life insurance product line of 15.86 percent, as of December 31, 2012, as measured using direct premiums underwritten according to A.M. Best data. MetLife Voluntary Submission, Section III, p. III-28.

Because there are many providers competing on the basis of price and product features, it appears that if MetLife were to exit these markets, other participants could be in a position to absorb MetLife's book of business. However, there could be delays in the absorption of MetLife's market share by other providers and possibly disruptions in certain markets in which MetLife is a key player, particularly during a period of overall stress in the financial services industry and in a weak macroeconomic environment.

4.4.2.2 Corporate Benefit Funding

MetLife's Corporate Benefit Funding business segment includes the organization's wholesale and institutional products. The major offerings include stable value products; general account and separate account GICs; various capital markets and investment products; pension closeouts; and structured settlements.¹⁰⁶¹

Compared to the markets for MetLife's core insurance products, the features of certain corporate benefits products (e.g., U.S. risk transfer products and pension buy-outs) may inhibit substitutability because these products are designed to provide tailored funding solutions for pension plans, because potential acquirors may lack the necessary understanding of the products or may not have the necessary balance sheet to support the offerings.¹⁰⁶² MetLife argues that the practice of tailoring corporate benefits products is common throughout the insurance business and not unique to MetLife.¹⁰⁶³ Nonetheless, tailored products generally are more challenging to transfer than standard products. In addition, the corporate benefit market appears to be more concentrated than those for MetLife's core insurance and annuity products.¹⁰⁶⁴ Therefore, if MetLife were to experience material financial distress and exit these markets, there may be delays or other challenges in replacing MetLife's market share. However, it does not appear that the corporate benefit market, on its own, is sufficiently large or interconnected with the broader financial system such that the negative effects in that market of material financial distress at MetLife would be likely to pose a threat to U.S. financial stability.

¹⁰⁶¹ MetLife Voluntary Submission, Section II, pp. II-12-II-13.

¹⁰⁶² *Id.* at p. II-13.

¹⁰⁶³ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section IV, pp. IV-4-IV-5.

¹⁰⁶⁴ MetLife Response to OFR Data Request, document C.4.

Table 46: Concentration Analysis: MetLife Corporate Benefit Funding Business

Line of Business	MetLife's Market Share (Percent)	Next Significant Provider	Other Party's Market Share (Percent)
Stable Value – Separate Account GICs	65.0%	TIAA-CREF	20.7%
Stable Value – General Account GICs	26.6	Jackson National	23.6
Structured Settlements	14.0	Berkshire Hathaway	27.2
U.S. Pension Risk Transfer	40.0	Principal Financial	23.7
Institutional Income Annuities – Pension		Pacific Life	12.2%
Terminal Funding	67.0%		

Source: Data are for the six months ending June 30, 2013, for market shares of the set of peers in the market as determined by MetLife. MetLife Response to OFR Data Request, document C.4.

As reflected in Table 46,¹⁰⁶⁵ MetLife has the largest market share in four of its five corporate benefit funding business lines: separate account GICs (i.e., Met Managed GICs), general account GICs (i.e., Traditional GICs), U.S. pension risk transfer, and institutional income annuities.¹⁰⁶⁶ In addition, in three of these four corporate benefit funding product markets, MetLife appears to have both the largest market share and a dominant market position. MetLife's market share is significantly greater than that of the next significant provider—in separate account GICs (44.3 percentage points more), U.S. Pension Risk Transfer (16.3 percentage points more), and Pension Terminal Funding (54.8 percentage points more). However, as MetLife notes, the above market shares can change dramatically from quarter to quarter, particularly U.S. pension risk transfer products. MetLife notes that as of December 31, 2012, the company had a market share of 1.8 percent in the U.S. pension risk business, substantially less than the 40 percent market share as of June 30, 2013.¹⁰⁶⁷ The complexity and specialized nature of pension risk transfer transactions can result in market concentration given the relatively limited number of financial institutions with the balance sheets and expertise to conduct such a business, particularly for so-called “jumbo” transactions. While acknowledging that jumbo transactions (i.e., deals over \$5 billion) can result in market concentration, MetLife notes that such deals are rare and also that MetLife has not won any jumbo deals as of October 16, 2014.¹⁰⁶⁸

If MetLife were unable to continue to offer its corporate benefits products, its share of the market could potentially be absorbed by other market participants. However, the extent to which MetLife's corporate benefits business could be absorbed by other financial companies on similar terms could depend, among other things, on product type, similarity in pre-transfer pricing models or assumptions, reserve and capital capacity of the absorbing company, and the market

¹⁰⁶⁵ MetLife suggests all stable value product types be considered as a single group, in which case MetLife's market share in such a group would be 7 percent at year-end 2012. See MetLife Voluntary Submission, Section IV, p. IV-5.

¹⁰⁶⁶ On February 18, 2014, Rothesay Life Limited announced an acquisition of MetLife Assurance Limited (MAL), a bulk annuity pension provider with £3 billion in assets under management, which serves the U.K. and Ireland markets. This transaction closed in the second quarter of 2014. See MetLife Press Release, “Rothesay Life Limited to Acquire MetLife's UK Bulk Annuity Portfolio” (February 18, 2014). SNL Financial.

¹⁰⁶⁷ MetLife Response to OFR Data Request, document C.4.

¹⁰⁶⁸ MetLife Voluntary Submission, Section VII, p. VII-193.

environment. If a replacement contract were being sought during a period of overall stress in the financial services industry and in a weak macroeconomic environment, these products might not be easily substituted on comparable terms because the value and cost of the guarantee associated with such instruments are likely to increase in periods of declining equity markets or low interest rates. While some policyholders may surrender their policies in the event of MetLife's material financial distress, others may choose not to do so for the reasons described in section 4.3.5.3.

MetLife offers pension closeouts as part of its corporate benefit funding business.¹⁰⁶⁹ Pension closeouts are general account and separate account annuity products issued typically when a defined benefit plan is terminated. The U.S. general account pension closeouts are non-participating products with no withdrawal rights, while MetLife's U.K. closeout products contain minimal withdrawal rights, including a right to move benefits to another carrier and a one-time election at retirement to receive 25 percent of benefits in a tax-free lump-sum.¹⁰⁷⁰

¹⁰⁶⁹ MetLife Voluntary Submission, Section II, pp. II-12-II-13.

¹⁰⁷⁰ Id. at p. II-13.

Table 47: MetLife's Share of U.S. Market and Rank by Line of Business

Line of Business	Market Share (Percent)	Market Rank
Retail Annuity		
Total Annuity	6.5%	4 th
Fixed Annuity	2.2	15 th
Immediate Annuity	2.2	10 th
Variable Annuity	8.8	5 th
Retail Insurance		
Total Life	4.4	6 th
Whole Life	3.8	7 th
Term Life	5.8	5 th
Variable Life	5.7	6 th
Universal Life	4.0	5 th
Disability	6.7	7 th
Group Insurance Sales		
Group Life	14.8	1 st
Group Dental	15.7	2 nd
Group Disability	8.4	4 th
Critical Illness	5.1	6 th
Property & Casualty		
Group Accident and Health	37.0	1 st
Individual	1.3	12 th
Corporate Benefit Funding		
Stable Value – Separate Account GICs	65.0	1 st
Stable Value – Traditional GICs	26.6	1 st
Structured Settlements	14.0	3 rd
U.S. Pension Risk Transfer	40.0	1 st
Institutional Income Annuities: Terminal Funding	67.0%	1 st

Source: Data are as of June 30, 2012 for market shares of the set of peers in the market as determined by MetLife. MetLife Response to OFR Data Request, document C.4, p. 2.

4.4.3 Provision of Credit to Households, Businesses, and State and Local Governments

Section 113 of the Dodd-Frank Act requires the Council to consider the importance of a nonbank financial company as a source of credit for households, businesses, and state or local governments. MetLife supplies credit to the U.S. economy primarily through investments in the corporate debt market and in the residential, commercial, and agricultural mortgage markets. Generally, MetLife's investments represent less than 8 percent of the total investments in each of these markets.¹⁰⁷¹ CMBS constitutes the largest asset class held by MetLife, relative to the size

¹⁰⁷¹ As of June 30, 2013, MetLife held 0.6 percent of the residential mortgage market, 1.9 percent of the commercial mortgage market, and 7.2 percent of the agricultural loan market. As of June 30, 2013, the residential mortgage market was \$9.9 trillion. See Board of Governors, Mortgage Debt Outstanding (June 2014), available at

of the particular market.¹⁰⁷² As of June 30, 2013, MetLife's general account investments included a \$58.6 billion CRE loan portfolio, which included \$41.4 billion in direct CRE loans and \$17.3 billion of CMBS.¹⁰⁷³ As of June 30, 2013, MetLife's separate account investments included \$1.9 billion of CMBS.¹⁰⁷⁴ In addition, MetLife is the top insurance company in the agricultural mortgage market.¹⁰⁷⁵ As of June 30, 2013, MetLife's general account investments included a \$39.8 billion residential real estate loan portfolio, which included \$36.5 billion in RMBS and \$3.3 billion in U.S. residential mortgage loans.¹⁰⁷⁶ As of June 30, 2013, MetLife's separate account investments held \$15.1 billion of RMBS.¹⁰⁷⁷

4.4.3.1 Commercial Real Estate Loans

The market for CRE loans is competitive and fragmented. As of June 30, 2013, there was approximately \$3 trillion of CRE debt outstanding.¹⁰⁷⁸ For the same period, MetLife had a CRE portfolio of \$58.6 billion,¹⁰⁷⁹ which represented a market share of no more than 2.0 percent.¹⁰⁸⁰ MetLife provides commercial mortgage primary loan management and problem loan management;¹⁰⁸¹ however, as of June 30, 2013, MetLife was not servicing any commercial mortgage loans.¹⁰⁸² Because the CRE loan market appears to be relatively unconcentrated and there are numerous CRE loan holders, it should generally not be difficult for other firms to substitute for the lost capacity of MetLife if it exited this market.

<http://www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm>. For commercial mortgage market calculation, see footnote 1057.

¹⁰⁷² MetLife Response to OFR Data Request, document B.3.

¹⁰⁷³ MetLife's commercial mortgage holdings include CMBS of \$17.3 billion, commercial mortgage loans held for investment of \$39.1 billion, and commercial mortgage loans held by consolidated securitization entities of \$2.3 billion. MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, pp. 27, 31.

¹⁰⁷⁴ *Id.*

¹⁰⁷⁵ As of June 30, 2013, MetLife held \$12.7 billion in agricultural mortgages. MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 31. Total "farm" mortgage loans is estimated at \$177 billion as of June 30, 2013. Total "farm" mortgage loans held directly by U.S. insurers are estimated at 13.3 billion as of June 30, 2013. See Board of Governors, Mortgage Debt Outstanding (June 2014), available at <http://www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm>.

¹⁰⁷⁶ MetLife Response to OFR Data Request, document B.3.

¹⁰⁷⁷ *Id.*

¹⁰⁷⁸ Calculated as the sum of (1) nonfarm, nonresidential (\$2.2 trillion) and (2) multifamily residences (\$908 billion) mortgage debt outstanding as of June 30, 2013. See Board of Governors, Mortgage Debt Outstanding (June 2014), available at <http://www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm>.

¹⁰⁷⁹ MetLife's commercial mortgage holdings include CMBS of \$17.3 billion, commercial mortgage loans held for investment of \$39.1 billion, and commercial mortgage loans held by consolidated securitization entities of \$2.3 billion. MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, pp. 27, 31.

¹⁰⁸⁰ Calculated as the sum of (1) nonfarm, nonresidential (\$2.2 trillion) and (2) multifamily residences (\$908 billion) mortgage debt outstanding as of June 30, 2013. See Board of Governors, Mortgage Debt Outstanding (June 2014), available at <http://www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm>. This calculation excludes other financial firms, such as insurers and pension funds, so it represents an upper bound on MetLife's market share.

¹⁰⁸¹ MetLife Response to OFR Data Request, document C.2, p. 1.

¹⁰⁸² MetLife Response to OFR Data Request, document C.2.

4.4.3.2 *Agricultural Loans*

As of June 30, 2013, MetLife held \$12.7 billion in agricultural mortgages, which consisted predominantly of land loans and long-term farm loans.¹⁰⁸³ MetLife is among the top insurance companies in this market.¹⁰⁸⁴ While MetLife is an important private provider of agricultural credit (with a market share of 7.2 percent), the marketplace is dominated by government-sponsored funding (50.1 percent market share) and depository institution funding (34.1 percent market share).¹⁰⁸⁵ Because MetLife plays a modest role in the agricultural loan market compared to the market as a whole, it does not appear that it would be difficult for other firms to substitute for the lost capacity of MetLife if it exited this market.

4.4.3.3 *Provision of Credit to State and Local Governments*

Like other life insurers, MetLife's holdings of state and local government obligations are small relative to the size of its overall investment holdings and relative to the size of these markets. As of June 30, 2013, MetLife held approximately \$14.3 billion of investments in state and local government debt obligations.¹⁰⁸⁶ This represents only 0.4 percent of the estimated total outstanding municipal debt of nearly \$3.7 trillion.¹⁰⁸⁷ Additionally, as of June 30, 2013, MetLife held \$5.8 billion of investments in infrastructure projects.¹⁰⁸⁸ Table 48 details MetLife's investments in state and local government securities. MetLife does not provide insurance to infrastructure projects and state and local governments.¹⁰⁸⁹ Based on the relatively modest size of MetLife's holdings, if it were no longer able to participate as a buyer in the market for these issues or were required to liquidate its holdings, it does not appear that there would be an adverse impact on the liquidity or pricing of these securities.

¹⁰⁸³ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 31.

¹⁰⁸⁴ Total "farm" mortgage loans are estimated at \$177 billion as of June 30, 2013. Total "farm" mortgage loans held directly by U.S. insurers is estimated at \$13.3 billion as of June 30, 2013. See Board of Governors, Mortgage Debt Outstanding (June 2014), available at <http://www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm>.

¹⁰⁸⁵ As of June 30, 2013, total "farm" mortgage loans are estimated to be \$177 billion with \$88.6 billion held by federal and related agencies (50.1 percent), \$60.4 billion held by depository institutions (34.1 percent), \$13.3 billion held by U.S. insurers (7.5 percent), \$12.9 billion held by individuals and others (7.3 percent), and \$1.8 billion held by mortgage pools or trusts (1.0 percent). See Board of Governors, Mortgage Debt Outstanding (June 2014), available at <http://www.federalreserve.gov/econresdata/releases/mortoutstand/current.htm>.

¹⁰⁸⁶ MetLife Response to OFR Data Request, document C.1.

¹⁰⁸⁷ Board of Governors Statistical Release Z.1, "Financial Accounts of the United States" (June 5, 2014), p. 98, available at <http://www.federalreserve.gov/releases/z1/20140605/>.

¹⁰⁸⁸ MetLife Response to OFR Data Request, document C.1.

¹⁰⁸⁹ *Id.* at p. 1.

Table 48: Investments in State and Local Government Securities (\$ Millions)

Entity	Investment
New York City	\$791
Massachusetts	649
New York State	633
Los Angeles	538
New Jersey	499
California	394
Illinois	352
San Francisco (City and County)	278
North Texas	260
Pennsylvania	247
Chicago	244
Dallas	218
Port Authority Of New York And New Jersey	212
Denver (City and County)	\$186

Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, document A.1.b.xi.

4.4.3.4 Federal Government Contractor

Under contract with the U.S. OPM, MetLife operates and administers the Office of Federal Employees' Group Life Insurance (OFEGLI) to provide administrative and claims services to the FEGLI program.¹⁰⁹⁰ MetLife provides group life insurance coverage as specified under the Federal Employees' Group Life Insurance (FEGLI Act) Act.¹⁰⁹¹ MetLife states that "In addition, as stipulated in the FEGLI Act, MetLife reinsures a portion of the policy and retains a 90.58% quota share as of December 31, 2013."^{1092, 1093} Reinsurance obligations trigger upon exhaustion of the FEGLI's Employees Life Insurance Fund, which at fiscal year-end 2012 held approximately \$40.3 billion¹⁰⁹⁴ (approximately 10 times the program's annual claims outlays¹⁰⁹⁵). As of year-end 2012, the FEGLI program covers more than 4 million federal employees and retirees with \$826 billion of life insurance in-force.¹⁰⁹⁶ However, were MetLife

¹⁰⁹⁰ As established under the Federal Employee Group Life Insurance Act of 1954 (5 U.S.C. §§ 8701 et seq.). See U.S. OPM, "Federal Employees' Group Life Insurance (FEGLI) Program Handbook" (April 2014), p. 2, available at <http://www.opm.gov/healthcare-insurance/life-insurance/reference-materials/publications-forms/fegli-handbook/>.

¹⁰⁹¹ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-197.

¹⁰⁹² *Id.*

¹⁰⁹³ Earlier, MetLife had participated in the FEGLI program in the capacity of a reinsurer and assumed an approximately 85 percent quota share of the FEGLI program's excess-of-loss reinsurance cover. See GAO, "Federal Employees' Group Life Insurance: Retirement Benefit and Retained Asset Account Disclosures Could Be Improved," GAO-12-94 (November 2011), p. 12.

¹⁰⁹⁴ See Budget of the United States Government, Fiscal Year 2014, Appendix, p. 1171, available at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/appendix.pdf>.

¹⁰⁹⁵ See OPM Agency Financial Report Fiscal Year 2012, p. 117, available at <http://www.opm.gov/about-us/budget-performance/performance/2012-agency-financial-report.pdf>.

¹⁰⁹⁶ See Budget of the United States Government, Fiscal Year 2014, Appendix, p. 1171, available at <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/appendix.pdf>.

to cease to act as the lead servicer for the federal government's group life insurance program, it appears that other life insurers could provide comparable services. Similarly, while MetLife is a significant reinsurer for the FEGLI program, the reinsurance markets are relatively competitive, and it appears that one or more substitute providers could replace MetLife.

4.4.4 Provision of Credit to Low-Income, Minority, or Underserved Communities

MetLife provides credit to low-income, minority or underserved communities through its Social Investment Program, which supports community development ventures that do not meet the customary investment criteria of private and institutional investors.¹⁰⁹⁷ Under this program, MetLife typically offers loans with favorable rates for projects that address significant social needs.¹⁰⁹⁸ Investments are considered primarily for nonprofit organizations and their subsidiaries.¹⁰⁹⁹ In addition, investments with a clearly demonstrated social purpose in for-profit entities are considered on a case-by-case basis.¹¹⁰⁰

[REDACTED].¹¹⁰¹ In 2011, the Federal Financial Institutions Examination Council reported the total Community Reinvestment Act (CRA) Community Development Lending for 2011 totaled approximately \$47 billion.¹¹⁰²

[REDACTED]¹¹⁰³ The entire credit market for low-income, minority, or underserved communities is much larger than the CRA Community Development Lending market, further minimizing the significance of MetLife in this market.

MetLife holds residential mortgages in its portfolios, although it is unclear the extent to which these mortgages are for residences in low-income, minority, or underserved communities. As of June 30, 2013, MetLife held \$1.9 billion of total residential mortgage loans in its insurance investment portfolios.¹¹⁰⁴

MetLife plays a small role in the provision of credit for target communities, particularly compared with institutions such as the housing government-sponsored enterprises and banks. MetLife does not appear to be a major source of credit for low-income, minority, or underserved communities.

¹⁰⁹⁷ MetLife Response to OFR Data Request, document C.3, p. 1.

¹⁰⁹⁸ Id.

¹⁰⁹⁹ Id.

¹¹⁰⁰ Id.

¹¹⁰¹ Id.

¹¹⁰² Id.

¹¹⁰³ Id.

¹¹⁰⁴ MetLife Response to OFR Data Request, document A.17, p. 2.

5 EXISTING REGULATORY SCRUTINY

5.1 Consolidated Organization

MetLife was a BHC subject to consolidated supervision by the Board of Governors from 2001 until early 2013.¹¹⁰⁵ On January 11, 2013, MetLife completed the sale of the deposits of its bank's depository business, the last step in a series of divestitures of the bank's operations before MetLife could deregister as a BHC.¹¹⁰⁶ On February 14, 2013, MetLife received the required approvals from both the Board of Governors and the FDIC to deregister as a BHC and to terminate deposit insurance at its subsidiary commercial bank, MetLife Bank, respectively.¹¹⁰⁷ Consequently, MetLife is not currently subject to consolidated supervision by the Board of Governors.

As discussed in this section and as MetLife and several state insurance regulators have explained in their respective submissions to the Council, MetLife is subject to regulation under state insurance laws that "generally require MetLife's [licensed-insurer] subsidiaries to register themselves as controlled insurance companies with state regulatory authorities and to file certain periodic reports containing information relating to MetLife, Inc."¹¹⁰⁸ MetLife is not subject to consolidated supervision. If the Council were to make a final determination, then MetLife would be subject to consolidated supervision by the Board of Governors.

5.2 Insurance Company Subsidiaries

5.2.1 Regulation and Supervision of U.S. Insurance Subsidiaries

MetLife's insurance company subsidiaries are subject to supervision by regulators in all 50 U.S. states, the District of Columbia, the five U.S. territories, and numerous foreign countries.¹¹⁰⁹ MetLife's lead U.S. state insurance regulator is the NYDFS, although as of December 31, 2013, MetLife had 25 U.S. insurance subsidiaries that were regulated by 11 state insurance regulators.¹¹¹⁰ The designation of a lead state insurance regulator is not binding on the regulatory authorities of other states.¹¹¹¹

¹¹⁰⁵ MetLife had obtained approval to become a BHC through the acquisition of Grand Bank, N.A. (the predecessor institution to MetLife Bank, N.A. (MetLife Bank)) and to elect to become certified as a type of BHC, a financial holding company, by order of the Board of Governors dated February 12, 2001.

¹¹⁰⁶ MetLife Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, p. 18.

¹¹⁰⁷ *Id.*

¹¹⁰⁸ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-39.

¹¹⁰⁹ MetLife's 131 foreign subsidiaries are regulated by the regulatory authorities in those host countries. *See* section 3.1.

¹¹¹⁰ *See* section 3.1.

¹¹¹¹ Letter from Benjamin M. Lawskey, Superintendent, NYDFS, to Financial Stability Oversight Council (July 30, 2014), p. 1, available at <http://www.dfs.ny.gov/about/press2014/pr140730-MetLife-FSOC-letter.pdf>. A lead

In the United States, MetLife's insurance company subsidiaries are subject to state-based, legal entity regulation. A state insurance regulator supervises numerous aspects of a licensed entity's operations,¹¹¹² including solvency; pricing and products; investments;^{1113, 1114} reinsurance; reserves; asset-liability matching; transactions with affiliates; use of derivatives;¹¹¹⁵ and management. Under the NAIC's formal certification through the Financial Regulation Standards and Accreditation Program, regulatory authorities must demonstrate that they have adequate statutory and administrative authority to regulate an insurer's corporate and financial affairs. All 50 states, the District of Columbia, and Puerto Rico are currently accredited.¹¹¹⁶

Insurance companies are required to prepare financial data and submit quarterly and annual financial statements on the basis of SAP and to provide information describing the businesses and financial matters in which insurance entities are engaged. This legal entity-based regulatory reporting regime is used by state insurance regulators to monitor the financial health of state-

regulator is assigned to an insurer, or as in the case of MetLife to an affiliated group of insurers, by state insurance regulators, working through the NAIC.

¹¹¹² MetLife states that its "insurance subsidiaries are subject to rigorous state licensing requirements and regulatory supervision, reducing the probability that they will experience material financial distress. To offer insurance in a state, a MetLife insurance subsidiary must receive a certificate of authority or license from the state's insurance department, which requires it to meet all of the statutory criteria for licensure and subjects it to ongoing, robust supervision of its finances, its operations, and its compliance with law." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-37.

¹¹¹³ MetLife states that "state insurance laws require that the investments of MetLife's U.S. insurers meet a standard of prudence, be overseen by the board of directors of the insurer in question, satisfy diversification requirements, and not exceed exposure limits. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-40. MetLife further notes that since the 1990s, states have adopted additional investment restrictions that place considerable limits on speculative investments by insurance companies (such as junk bonds). MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-106.

¹¹¹⁴ See, e.g., NAIC Investments of Insurers Model Act (Defined Limits Version) (MDL-280); Investments of Insurers Model Act (Defined Standards Version) (MDL-283); Derivative Instruments Model Regulation (MDL-282); and Investments in Medium Grade and Lower Grade Obligations Model Regulation (MDL-340), all of which may be found at http://www.naic.org/store_model_laws.htm.

¹¹¹⁵ MetLife notes that its "derivatives activities—part of a balanced risk management strategy to hedge against interest rate, credit, and other risks arising from MetLife's insurance business—occur virtually exclusively within highly regulated insurance entities and are subject to strict regulatory supervisions and limitation." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-41. See section 4.2.4.7 for further discussion of MetLife's derivatives exposures.

¹¹¹⁶ An important feature of insurance company regulation is insurance regulator peer review. The NAIC, through its accreditation committee, periodically examines the supervisory practices of each state to determine whether it meets baseline requirements. An NAIC accreditation is intended to provide assurances to those states regulating an insurance company domiciled in another state that they can rely on the domiciliary regulator's analysis and on-site examination work. The other licensed states also perform varying levels of analysis on such an insurance company and frequently participate in the examinations to ensure that they are comfortable with analysis performed by the domiciliary state. Another aspect of regulator peer review is the NAIC's Financial Analysis Working Group (FAWG), composed of chief financial regulators from across the country, which reviews nationally significant insurers for any signs of potential financial distress. For any nationally significant insurer, the FAWG performs its own specific insurer and group analyses, provides expert opinions on follow-up information requests and regulatory actions to the lead state regulator or regulators, and monitors progress of the nationally significant insurer and the regulatory responses.

licensed insurers through quarterly and annual analyses, and full scope on-site examinations are performed at least once every five years.¹¹¹⁷ Financial examinations are generally conducted on the basis of financial information covering a period of up to five calendar years prior to the examination as-of date. While additional off-site or on-site examinations may occur, in certain cases financial examinations may not be completed and reported until considerably later than the end of the financial reporting period that is the basis of the examination.^{1118, 1119} State insurance regulators have a range of authorities. In addition to the regulator's financial analysis and examination authorities, an early intervention tool may be available to certain state insurance regulators if the state insurance regulator finds that an insurer is in hazardous financial condition.¹¹²⁰ The nature of intervention could include requiring an insurer to increase capital and surplus, requiring an insurer to file financial reports and a business plan, or a range of other corrective actions.¹¹²¹ Under the NAIC's model law, which as of July 2014, has been substantially adopted in 30 states, a state insurance commissioner may consider over 20 different quantitative and qualitative standards in determining whether an insurer is in a hazardous financial condition.¹¹²² The standards for the state insurance regulator making such a finding and the range of regulators' authorities upon such a finding provide significant regulatory discretion with respect to whether, when, and in what form a regulator would seek to intervene in the event of the material financial distress of one or more of MetLife's subsidiaries.

¹¹¹⁷ See, e.g., N.Y. Ins. Law § 139 (McKinney 2014). For any insurer deemed a troubled company, the reporting, analysis, and examinations are increased in frequency and depth.

¹¹¹⁸ The last public report on the financial examination of MLIC covered the five-year period from January 1, 2004 through December 31, 2008 and was issued on June 30, 2011. See State of New York Insurance Department Report on Financial Condition Examination of the Metropolitan Life Insurance Company (June 30, 2011), available at http://www.dfs.ny.gov/insurance/exam_rpt/65978f08.pdf.

¹¹¹⁹ On June 15, 2012, the NYDFS issued a separate public report on its market conduct examination of MLIC for the same five-year period. See New York State Department of Financial Services Report on Market Conduct Examination of the Metropolitan Life Insurance Company (June 15, 2012), available at http://www.dfs.ny.gov/insurance/exam_rpt/65978m08.pdf.

¹¹²⁰ See NAIC, Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition, July 2010, available at <http://www.naic.org/store/free/MDL-385.pdf>. MetLife also states that "[i]n New York, the regulator has special authority under N.Y. Ins. Law §§ 1310 and 1311 to issue these corrective actions if the regulator considers the insurer to have an impairment to capital (regardless of its RBC level). Connecticut and Delaware provide similar authority through their administrative supervision statutes." MetLife Voluntary Submission, Section V, pp. V-28-V-29. As discussed in footnote 67, NAIC Model Laws have an effect only to the extent that they have been adopted by relevant states.¹¹²¹ See NAIC, Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition, July 2010, available at <http://www.naic.org/store/free/MDL-385.pdf>.

¹¹²¹ See NAIC, Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition, July 2010, available at <http://www.naic.org/store/free/MDL-385.pdf>.

¹¹²² Amendments to this model regulation, which were adopted in 2008, provide additional standards for consideration by the insurance regulatory authority to determine whether the continued operation of any insurer might be deemed to be hazardous to its policyholders, creditors or the general public and also provide additional authority to issue an order requiring companies deemed to be in a hazardous financial condition to take corrective action. See *id.*

Another component of state insurance regulation is RBC, a capital measurement tool designed to help state insurance regulators detect when progressively more intense levels of intervention may be appropriate. The RBC framework involves calculation of a legal entity-level capital position using a formula specific to the insurance sector within which an insurance company operates and yields the minimum capital standard for an insurance entity.¹¹²³ The RBC framework establishes an objective standard for triggering regulatory action when an insurer's RBC ratio is reported below certain levels. The RBC framework is applied to insurers in addition to the testing for the adequacy of policy reserves. All of the jurisdictions of MetLife's principal insurance companies have adopted the RBC framework.¹¹²⁴

An insurer is required to report its RBC on an annual basis to its domiciliary state regulator.¹¹²⁵ In general, the RBC formulas account for several categories of risk, including (i) asset risk, (ii) insurance risk, (iii) interest rate risk, health credit risk and market risk, and (iv) business risk.¹¹²⁶ Factors that encompass these categories of risk are applied to items on an insurer's balance sheet, such as premiums, claims, reserves, and assets with the factors being adjusted according to an item's riskiness.¹¹²⁷ The formula produces a number referred to as the "Authorized Control Level RBC," which may be compared to an insurer's total adjusted capital (i.e., an insurer's capital and surplus based on SAP accounting with certain adjustments) to determine the capital adequacy of the insurer.¹¹²⁸ Although reported RBC ratios can be used by insurance regulators as a reference point for identifying potentially weakly capitalized company, RBC is not a total balance sheet framework, or a framework based on an integrated view of risk for an insurance organization. By design, the life insurance RBC framework intentionally excludes certain risks that are relevant for this analysis including tail risks and risks that cannot be pre-funded by capital, such as liquidity or specific operational risks.¹¹²⁹

When an insurer rapidly enters material financial distress, particularly during a period of overall stress in the financial services industry, the RBC framework might not provide sufficient time for state regulators to adequately respond because the data relating to the insurer's condition could

¹¹²³ NAIC, Risk-Based Capital (last updated November 25, 2014), available at http://www.naic.org/cipr_topics/topic_risk_based_capital.htm.

¹¹²⁴ MetLife Voluntary Submission, Section III, p. III-65. MetLife states that the standardized RBC framework is in effect in New York, Connecticut and Delaware, which are the jurisdictions in which MetLife's principal insurance subsidiaries are located (citing Del. Code Ann. tit. 18, §§ 5801-5813; N.Y. Ins. Law § 1322; Conn. Agencies Regs. §§ 38a-72-1 to -13). As of December 31, 2013, MetLife's principal insurance subsidiaries were located in New York, Connecticut, and Delaware (see section 3 for a discussion of MetLife's recent corporate activities). The RBC framework is an accreditation standard, and all 50 states, the District of Columbia, and Puerto Rico are currently accredited.

¹¹²⁵ MetLife Voluntary Submission, Section V, p. V-125.

¹¹²⁶ *Id.*

¹¹²⁷ MetLife Voluntary Submission, Section III, p. III-66.

¹¹²⁸ MetLife Voluntary Submission, Section V, p. V-125; MetLife Voluntary Submission, Section III, p. III-66.

¹¹²⁹ "Regulatory Capital Requirements for U.S. Life Insurers," prepared by Nancy Bennett, American Academy of Actuaries (June 17, 2014), available at http://www.actuary.org/files/Regulatory_Capital_Requirements_US_Life_Insurers_6-17-14.pdf.

be stale (due to the delays inherent in the requirement to file on an annual basis) and, thus, the ex-post remedial measures or sanctions, as described above, could be developed too late to conserve the assets of the insurer. Further, state laws implementing the RBC framework also provide an insurer certain due process rights (e.g., hearings to contest disputed RBC levels) that could, when exercised, prolong necessary regulatory intervention by the state insurance authority. While a state regulator may suspend the license of any insurer operating in the relevant state for reasons specified by statute, state regulators generally impose corrective action only for those entities domiciled in that state. Further, insufficient RBC is not the only factor that can be used by a state regulator to intervene when an insurance company is in financial distress. Many variables influence whether, when, and how a state regulator could intervene in the distress of an insurer with the size, scope, and complexity of one of MetLife's insurers.

MetLife also states that the RBC framework ensures that regulators will intervene promptly when an insurer approaches financial impairment.¹¹³⁰ As noted above, the RBC framework is designed to measure the minimum amount of regulatory capital for an insurer.¹¹³¹ In practice, capital levels for the successful operation of insurers are influenced by credit rating agencies that provide views on the financial strength of a corporate group for a variety of interested parties, including agents and brokers who advise clients about risk-management purchases. To receive a preferred credit rating, many insurers, including MetLife's subsidiaries, hold capital at several multiples in excess of RBC requirements.¹¹³²

The approach of a state insurance regulator to monitoring the affiliates of a state-licensed insurer (typically in a holding company structure) is indirect,¹¹³³ and is conducted through the regulation of one or more of the licensed insurers.¹¹³⁴ The domestic state insurance regulator must review and approve of any material company transactions proposed by the domiciled insurer, such as dividend payments from the insurance entity to the insurer's holding company, changes of corporate ownership and control, and transactions with affiliates, including reinsurance arrangements with captive reinsurers. Many state insurance regulators have the authority to

¹¹³⁰ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-199.

¹¹³¹ NAIC, Risk-Based Capital (last updated November 25, 2014), available at http://www.naic.org/cipr_topics/topic_risk_based_capital.htm.

¹¹³² See Table 5.

¹¹³³ Letter from Thomas B. Leonardi, Commissioner, Connecticut Insurance Department (October 24, 2014), Schedule A, p. 7 ("Group supervision is built on an indirect approach to supervision, meaning the insurance regulators have influence and power at the domestic legal entity that can significantly influence a group's management decision making.").

¹¹³⁴ MetLife states that "in coordination with the NAIC, state insurance departments have increased their focus on enterprise-wide supervision of insurance holding company systems, through the examination noted above and recent statutory changes. For example, under recent amendments to the NAIC Model Act, which have been adopted in New York, a holding company must also annually file an enterprise risk report that describes any activity, circumstance, event or series of events involving one or more affiliates of an insurer that is likely to have a material adverse effect upon the financial condition or liquidity of the insurer or its insurance holding company system." MetLife Voluntary Submission, Section III, p. III-72. (N.Y. Ins. Law § 1503(b))

compel the licensed insurer to disclose activities and risks from any of its affiliates, including non-insurance affiliates, that could pose risk to the insurer.¹¹³⁵

If a state insurance regulator determines that an insurer's affiliates pose unacceptable risks to the solvency of an insurance entity, and, by extension, policyholder interests, the regulator has the authority to protect the insurer within its jurisdiction from these unacceptable risks. This action would not prevent the depletion of capital and liquidity levels at a subsidiary insurance company's parent holding company.¹¹³⁶ Moreover, state insurance regulators generally do not have direct authority to require a non-mutual holding company of a state-licensed insurer or any non-insurance company subsidiary to take or not take actions outside of the insurer for the purpose of safety and soundness of the insurer or for the avoidance of risks from activities that could result in adverse effects on U.S. financial stability. Further, state regulators do not have any direct authority for MetLife's international insurance activities.

For U.S. domiciled insurance holding companies with operations in multiple jurisdictions, state insurance regulators may convene "supervisory colleges" on a periodic basis.¹¹³⁷ These supervisory colleges are non-public regulator forums which may meet in session on an annual or semi-annual basis. They include the state insurance regulators of the largest insurance subsidiaries in an insurance holding company system and regulators responsible for supervising insurance subsidiaries in other countries, as well as regulatory agencies that may be responsible for supervising the company's non-insurer affiliates. Both domestic and foreign supervisors may be invited to attend the supervisory colleges. While supervisory colleges may allow for state insurance regulators to monitor other parts of an insurance organization, and may enhance communications of confidential supervisory concerns across an enterprise, they are not equivalent to the supervisory and regulatory authorities to which a nonbank financial company that the Council determines shall be subject to supervision by the Board of Governors is subject, nor do they have direct supervisory authority over the holding company or its non-insurance subsidiaries.

5.2.2 State Regulation of Captive Insurance Companies

In the United States, reinsurance companies are licensed as insurers, and a state insurance regulator may grant a reinsurer a license to engage in reinsurance activities. As noted above, a captive reinsurer is an entity that reinsures insurable risk from affiliated companies with a

¹¹³⁵ MetLife states that "under recent amendments, MetLife, Inc. must also annually file an enterprise risk report with state regulators that describes activities involving one or more of its affiliates that are likely to have a material adverse effect upon the financial condition or liquidity of the Company." MetLife Voluntary Submission, Section VI p. VI-39 (citing N.Y. Ins. Law § 1501(7); Conn. Gen. Stat. § 38a-135(f); Del. Code Ann. tit. 18, § 5004(l) (West 2004)).

¹¹³⁶ Certain risks could arise from MetLife's corporate structure; see section 6.2.2 and section 6.2.4.

¹¹³⁷ See, e.g., Letter from Thomas B. Leonardi, Commissioner, Connecticut Insurance Department (October 24, 2014), p. 3.

common ultimate parent.¹¹³⁸ State regulation pertaining to captive reinsurers evolved differently from insurance regulation relative to commercial insurance underwriters. Over time, non-mutual commercial life insurance companies in the United States began to use captives domiciled onshore and offshore to reinsure insurance and annuity product reserve liabilities.

As with primary insurers, captive reinsurers are regulated by the state or country where they are domiciled. Additionally, in some cases a primary insurer's transactions with its captive reinsurers may be subject to approval by the domiciliary regulators of both the insurer and its captive reinsurer.¹¹³⁹ However, as discussed in Section 3.2.2, an opportunity for regulatory arbitrage arises because of differences in accounting and capital requirements for the primary insurer and captive reinsurer. In addition, in most instances, unlike a primary insurer, a reinsurance captive is not required to file public statutory financial statements. Generally, insurance laws applicable to captives provide that financial information shall be confidential and may not be made public by the commissioner without the consent of the captive reinsurer.¹¹⁴⁰

Significant issues remain regarding the regulation of captives by state insurance regulators. Some state insurance regulatory authorities have been working to address some of the transparency issues related to captive reinsurance transactions as well as inconsistent regulatory requirements and the potential for regulatory arbitrage.¹¹⁴¹ Among the initiatives underway are efforts to implement principles-based (rather than rules-based) reserving for certain products,^{1142, 1143} revision of accreditation standards applied to state insurance regulatory agencies to encourage uniform regulatory scrutiny of captive transactions and regulation on the order of what is applied to primary insurers; and consistent regulatory requirements for a ceding life insurer to obtain credit for reinsurance.¹¹⁴⁴ Additionally, state insurance regulatory agencies

¹¹³⁸ See section 3.2.2 for a discussion of MetLife's captive reinsurance activities.

¹¹³⁹ See, e.g., Letter from Wayne Goodwin, Commissioner, North Carolina Department of Insurance, to Financial Stability Oversight Council (October 29, 2014), p. 3; but see Letter from Benjamin M. Lawskey, Superintendent, NYDFS (July 30, 2014), p. 4, available at <http://www.dfs.ny.gov/about/press2014/pr140730-MetLife-FSOC-letter.pdf>.

¹¹⁴⁰ S.C. Code Ann. § 38-90-35 (2014); Vt. Stat. Ann. tit. 8 § 6002(c)(3) (West 2014); see also NAIC, "Captives and Special Purpose Vehicles: An NAIC White Paper" (June 6, 2013), p. 14 (finding that "filings from captives and [special purpose vehicles] made with the insurance department are considered confidential" based upon surveying 35 state insurance regulators).

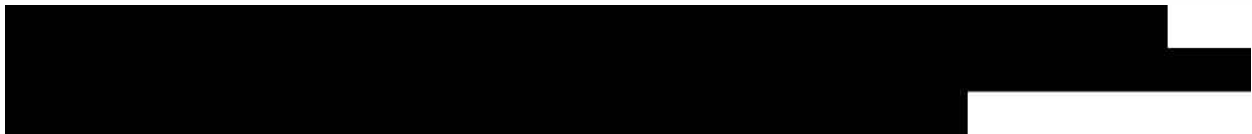
¹¹⁴¹ See Section 3.2.2.

¹¹⁴² Insurer-owned captives originally became popular to reinsure two traditional life insurance products: level premium term life insurance and universal life insurance with secondary guarantees. Life insurers state that both products have statutory liability reserve requirements that exceed the expected economic risks associated with these products. By using an affiliated captive reinsurer not subject to those requirements to assume the risks, the ceding insurance company obtains regulatory capital relief.

¹¹⁴³ A principles-based reserve valuation system would allow life insurers to "right-size" reserves based on the use of credible insurance company experience data. Some regulators propose that the implementation of principles-based reserving would reduce or eliminate the need to use captive reinsurance for the purpose of reducing reserves that are significantly higher than expected losses.

¹¹⁴⁴ The NYDFS has expressed concerns about certain initiatives (in particular, principles-based reserving) and about the progress of the work on life insurer-owned captive reinsurance vehicles at the NAIC. See Letter from

are reviewing the types of LOCs allowed as collateral to support the reserves ceded to captives. Moreover, state insurance regulators are monitoring the increasing use of affiliated captives by life insurers to reinsure other types of insurance or annuity product reserve liabilities with valuations that are volatile, cyclically sensitive, or sensitive to market risks (such as variable annuities with guaranteed living benefits). Depending on the particular circumstances of each state and its legislative calendar, it could take several years before any recommended state law changes regarding the operation of captives by life insurance companies are implemented through state insurance regulation.



5.2.3 Resolution

When an insurance entity is in financial distress, the domiciliary state insurance regulator has the authority to place the insurer in receivership and attempt to rehabilitate, conserve, or liquidate the insurer.¹¹⁴⁸ In addition, an insurance company could be subject to the resolution authorities of Title II of the Dodd-Frank Act, under which federal officials could initiate resolution.¹¹⁴⁹

Benjamin M. Lawsky, Superintendent, NYDFS, to Financial Stability Oversight Council (August 12, 2014), available at <http://www.dfs.ny.gov/about/press2014/pr140814-letter.pdf>.

¹¹⁴⁵ See MetLife Response to OFR Data Request, document A.15, p. 5.

¹¹⁴⁶ Id.

¹¹⁴⁷ Id.

¹¹⁴⁸ See discussion in section 5.2.1.

¹¹⁴⁹ Under Title II of the Dodd-Frank Act, a financial company that is an insurance company (or whose largest subsidiary is an insurance company) may be placed into receivership by the Secretary of the Treasury (in consultation with the President) upon a recommendation by the Director of the Federal Insurance Office and the Board of Governors (by an affirmative vote of at least two-thirds of its Governors), and in consultation with the FDIC. Certain findings would need to be made. See Dodd-Frank Act Title II, 12 U.S.C. §§ 5381-5394 (2012).

GAs for life insurance companies also protect policyholders of certain insurance and annuity products, up to certain state-prescribed limits. Under state laws and regulations, licensed insurers are required to be members of the various GAs in the states in which the insurers are licensed to transact insurance business. States have separate guaranty funds for (1) life and health insurance and (2) property and casualty insurance, and in some states, there are also separate guaranty funds for workers' compensation and certain other lines of business. When a state court in an insurer's state of domicile places the insurer into liquidation based on a finding of insolvency, the guaranty fund of each state where policyholders of the insolvent insurer reside is then triggered to pay covered claims of the insurer's policyholders in that state, up to a statutory limit. For life insurers, the guaranty fund may elect to work with the receiver and NOLHGA to attempt to transfer the insolvent insurer's policies to a solvent insurer. Remaining blocks of business will be maintained in the insolvent insurer's estate and run off (where no new business is underwritten but claims on existing coverage may be paid off) over time. Guaranty fund payments rank on par with claims from policyholders and ahead of unsecured creditors and certain other claimants; accordingly, guaranty funds receive a pro rata share of asset distributions in that priority class from the receiver. However, it may take a long time to fully resolve the estate of an insolvent insurer.¹¹⁵⁰

To provide funding for payments of covered claims, each state's guaranty fund may assess all licensed insurers doing business in that state and writing the lines of business written by the insolvent insurer after-the-fact.¹¹⁵¹ Such assessments are based on a percentage of each licensed insurance underwriter's annual premium, subject to an annual cap.¹¹⁵² Assessments may continue for a number of years, as necessary, to reimburse the guaranty fund for its payments of covered claims. Assessments are used to reimburse the guaranty fund for its payment of covered claims, including any deficit in funding of the transfer of a life or annuity block of business to a successor insurance underwriter. The state guaranty funds are primarily industry-funded, although some states allow insurers to claim limited state tax offsets against guaranty fund assessments, and are not backed by the full faith and credit of the states themselves, though

¹¹⁵⁰ MetLife states that "in 2010, the NAIC formed a multi-state peer support and oversight body for receiverships called the Receivership Financial Analysis Working Group (RFAWG). Although the NPD admits that RFAWG monitors nationally significant insurers, it fails to consider RFAWG's critical role in coordinating resolutions of multi-state and complex insurers." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-64.

¹¹⁵¹ See generally NAIC, Life and Health Insurance Guaranty Association Model Act, section 9 (2009), available at <http://www.naic.org/store/free/MDL-520.pdf>. According to the NAIC model law, a state guaranty association will generally notify each member insurer of its anticipated pro rata share of an authorized assessment not yet called within 180 days after the assessment is authorized. Once the assessment is called with the specific amount required, assessments are due at least 30 days after notice to the member insurers. There is an appeal process, but historically, most insurers have paid their assessments on time.

¹¹⁵² See section 4.2.3.3 for a discussion of the capacities of the various states' GAs. See footnote 486 for a discussion of the capacity of the NY Guaranty Corporation.

participation in the funds is required by state law. A federal guaranty fund does not exist for insurance policyholders.

The requisite timing for and the amount of support needed from the GAs depends on a variety of factors, including the existing assets of the insolvent insurer, the level of income generated by the assets of the insurer in receivership, and the ongoing premium inflows paid by existing policyholders into the insurer's estate, if any. Additionally, policyholder claims may develop more favorably than expected over time, decreasing claim liabilities.

The NYDFS states that the failure of MetLife and its subsidiaries would present a challenging situation for state insurance regulators and guaranty fund system, but indicates that each of MetLife's subsidiaries could be separately and orderly resolved by existing regulatory authorities.¹¹⁵³ Similarly, MetLife predicts that a resolution of its insurance subsidiaries would be orderly.¹¹⁵⁴ However, as discussed above, certain tools regulators use in resolution (such as the sale or transfer of certain blocks of business) may be difficult to effect for a company with the scale and scope of MetLife's largest insurance subsidiaries, while others (such as stays) could result in contagion. The various states' GAs—which may have insufficient capacity to handle a resolution of MetLife's insurance subsidiaries due to their size, scope, and broad national presence—are discussed in sections 4.2.3 and 4.3.5. In particular, those sections discuss the potential strain the resolution of MetLife's insurance subsidiaries could place on the GAs and how this strain could negatively affect other participants in insurance markets.

5.2.4 State Insurance Regulators' Views on Potential Council Determination

Before and after the Council's proposed determination, the insurance regulators of six states sent letters to the Council expressing their perspectives on the Council's potential determination regarding MetLife.¹¹⁵⁵

The letters received from the state insurance regulators note that MetLife is subject to regulation under state insurance laws. These letters generally highlight regulatory areas that have been considered by the Council, as addressed elsewhere herein,¹¹⁵⁶ such as the various regulatory authorities available to state insurance regulators, the ability of state insurance regulators to ensure an orderly resolution of an insurer, the effectiveness of supervisory colleges, the capacity of the GAs, the existing RBC and capital requirements, and the regulation of captives.¹¹⁵⁷ The

¹¹⁵³ CONFIDENTIAL NYDFS INFORMATION. Letter from Benjamin M. Lawsky, Superintendent, NYDFS (July 30, 2014), p. 3, available at <http://www.dfs.ny.gov/about/press2014/pr140730-MetLife-FSOC-letter.pdf>.

¹¹⁵⁴ MetLife Voluntary Submission, Section V, p. V-1.

¹¹⁵⁵ The state insurance regulators of New York, Connecticut, Delaware, California, Louisiana, and North Carolina wrote letters to the Council.

¹¹⁵⁶ See sections 5.2.1, 0, 5.2.3, and 6.2.

¹¹⁵⁷ Perspectives on the use of reinsurance captives varies by state, as noted in the various letters. For example, NYDFS opposes the current state approach to captive oversight while the North Carolina Department of Insurance

letters also state overall that the state insurance regulatory framework provides careful and coordinated supervision of large insurance companies, such as MetLife.

In particular, the Superintendent of the NYDFS, Benjamin M. Lawskey, states that the Council should take into account three factors before making a determination. Specifically, Superintendent Lawskey states that the Council should consider that: (1) MetLife does not engage in non-traditional, non-insurance activities that create appreciable systemic risk; (2) if MetLife or one or more of its insurance subsidiaries were to fail, state insurance regulators would be able to ensure an orderly resolution; and (3) MetLife is already closely and carefully regulated under state insurance regulations.¹¹⁵⁸ Superintendent Lawskey notes that the NYDFS is a leader in attempting to strengthen the state-based regulatory system, including having “raised alarms about the use of captive reinsurance arrangements and called for a national moratorium on captive transactions used to artificially lower reserve and capital requirements.”¹¹⁵⁹

Delaware Insurance Commissioner Karen Weldin Stewart asks the Council to consider certain aspects of state insurance regulation. Commissioner Stewart notes that state insurance laws require that assets supporting the liabilities of each insurance company be separated from all other assets and liabilities in the entity’s holding company structure, so that movement of capital among affiliates is restricted. She also writes that state insurance laws give regulators supervisory authority over holding companies. In addition, Commissioner Stewart expresses her belief that “captive reinsurance arrangements are an appropriate, fully disclosed, regulator-approved ‘release valve’ that allows companies to reduce excess reserves and efficiently manage capital.”¹¹⁶⁰

North Carolina Commissioner of Insurance Wayne Goodwin states that the Council should “reverse” its proposed determination regarding MetLife.¹¹⁶¹ Commissioner Goodwin states that MetLife does not engage in “any significant activities outside the insurance business.”¹¹⁶² Commissioner Goodwin also states that the Council “should not rely on recent criticisms by one or two regulators and academics of captive reinsurance arrangements” because these “concerns do not reflect the reality of captive reinsurance arrangements.”¹¹⁶³ Rather, Commissioner

solicits reinsurance captives through its website by stating: “We recognize that captives are different than traditional insurers, and we’re focused on delivering a sensible pro-business approach to regulation.”

¹¹⁵⁸ Letter from Benjamin M. Lawskey, Superintendent, NYDFS (July 30, 2014), p. 1, available at <http://www.dfs.ny.gov/about/press2014/pr140730-MetLife-FSOC-letter.pdf>.

¹¹⁵⁹ *Id.* at p. 4.

¹¹⁶⁰ Letter from Karen Weldin Stewart, Commissioner, Delaware Department of Insurance (October 13, 2014), p. 6.

¹¹⁶¹ Letter from Wayne Goodwin, Commissioner, North Carolina Department of Insurance (October 29, 2014), p. 5 (emphasis in original).

¹¹⁶² *Id.* at p. 4.

¹¹⁶³ *Id.* at p. 3; see NYDFS, “Shining a Light on Shadow Insurance” (June 2013) available at http://www.dfs.ny.gov/reportpub/shadow_insurance_report_2013.pdf.

Goodwin states, in part, “state regulators do not approve captive reinsurance transactions that would reduce reserves to below the actual required economic reserves.”¹¹⁶⁴

Louisiana’s Commissioner of Insurance James J. Donelon states that the size of a life insurer should not be seen as a potential threat to financial stability because a larger pool of insured parties facilitates diversification and risk reduction at the life insurer. He also states that the current framework of insurance regulation helped insurers avoid distress during the recent financial crisis, and that the state regulatory framework allows for coordination and collaboration among the states to address signs of financial stress.¹¹⁶⁵

In a separate letter, Commissioner Donelon notes that the RBC framework and state receivership laws require or authorize state regulators to intervene when an insurance company is facing financial distress.¹¹⁶⁶ Commissioner Donelon states that the RBC system limits the risk of an insurance company’s failure by mandating capital requirements in a preventative manner. If an insurance company continues to experience distress despite these preventative efforts, he states that regulators have a well-developed receivership system and an ability to work together to resolve insurance companies that operate in multiple jurisdictions.¹¹⁶⁷

Connecticut Insurance Commissioner Thomas Leonardi expresses concern that the Council’s proposed determination did not adequately consider the role of supervisory colleges that allow state insurance regulators to “substantially enhance[] [their] coordinated supervision at the group level.”¹¹⁶⁸ Commissioner Leonardi notes that supervisory colleges, which he describes as a “permanent platform for cooperation, coordination, and information sharing among the various regulators who oversee a large internationally active insurance company,”¹¹⁶⁹ help regulators obtain an understanding of the business activities throughout an insurance group and the risks posed to the group. Commissioner Leonardi further states that supervisory colleges allow for experienced regulators to analyze and identify risks that are “emerging beyond their borders and outside their respective jurisdictions.”¹¹⁷⁰

California Insurance Commissioner Dave Jones asserts that the “absence of any insurance company failures during the Great Recession,” coupled with the “ability of AIG’s insurance operations to fund repayment [to] the federal government, is due to certain aspects of state insurance regulation that have the effect of reducing systemic risk.”¹¹⁷¹ Commissioner Jones also writes that state insurance regulators have numerous tools with which to identify an

¹¹⁶⁴ Letter from Wayne Goodwin, Commissioner, North Carolina Department of Insurance (October 29, 2014), p. 3.

¹¹⁶⁵ Letter from James J. Donelon, Commissioner, Louisiana Department of Insurance (March 27, 2014), p. 4.

¹¹⁶⁶ Letter from James J. Donelon, Commissioner, Louisiana Department of Insurance (November 7, 2014), pp. 1-5.

¹¹⁶⁷ *Id.* at pp. 4-5.

¹¹⁶⁸ Letter from Thomas B. Leonardi, Commissioner, Connecticut Insurance Department (October 24, 2014), p. 2.

¹¹⁶⁹ *Id.* at p. 3.

¹¹⁷⁰ Letter from Thomas B. Leonardi, Commissioner, Connecticut Insurance Department (October 24, 2014), p. 3.

¹¹⁷¹ Letter from Dave Jones, Commissioner, California Department of Insurance (October 27, 2014), p. 4.

emerging hazardous financial condition at a life insurer, including assessing an insurer's use of derivatives and monitoring transactions with the insurer's affiliates,¹¹⁷² and guaranty associations have "significant assessment capacity to pay benefits" if a life insurer were to fail.

Commissioner Jones also states that state regulators have the tools to assess an insurer's use of derivatives.¹¹⁷³

The President of the National Organization of Life and Health Insurance Guaranty Associations (NOLHGA), Peter G. Gallanis, submitted two letters to the Council to provide his views on state guaranty associations. Mr. Gallanis addresses a broad range of issues in both letters. In his first letter, Mr. Gallanis states, among other things, that the current resolution system could handle the failure of one of the largest U.S. insurance companies. Mr. Gallanis makes several assumptions to support this statement, including that the failure occurs "at a time when the rest of the financial sector is operating relatively normally (perhaps with some level of macroeconomic stress, but less than in a severe financial crisis)."¹¹⁷⁴ In his second letter, Mr. Gallanis states that insurance regulators and the guaranty associations have effectively managed and coordinated the receivership of a large insurance company operating in as many as five different states.¹¹⁷⁵ Mr. Gallanis also notes that the maximum annual aggregate assessment capacity of the life and health guaranty system as of 2013 is approximately \$10.8 billion, and that if capacity were to remain level for the next 10 years the aggregate maximum financial capacity would be \$108 billion.¹¹⁷⁶ Mr. Gallanis also states that this level of capacity could, and would, adequately support the failure of one of the nation's largest insurers. To support this statement, Mr. Gallanis assumes that the "lion's share" of insolvency costs would be paid from estate funding sources, and that "significant blocks of business owned by such an entity would be transferred from the receivership to other insurers."¹¹⁷⁷

5.3 Entities and Products Registered with Securities Regulators

MetLife's subsidiaries include broker-dealers and investment advisers that are regulated by the SEC. The broker-dealers are also supervised by FINRA and state securities regulatory authorities. Broker-dealers are subject to SEC rules establishing net capital and other financial responsibility requirements as well as SEC and FINRA rules covering a wide range of sales, trading, and customer protection issues, including with respect to the sale of registered insurance and annuity contracts. The SEC's rules pertaining to investment advisers primarily address disclosure and customer protection. Hybrid insurance and investment products such as variable

¹¹⁷² Letter from Dave Jones, Commissioner, California Department of Insurance (October 27, 2014), pp. 4-5.

¹¹⁷³ *Id.* at p. 5. See Table 17 showing that MetLife has \$379 billion in notional amount of derivatives outstanding as of June 30, 2013.

¹¹⁷⁴ Letter from Peter G. Gallanis, President, NOHLGA (March 27, 2014), pp. 11-12.

¹¹⁷⁵ Letter from Peter G. Gallanis, President, NOHLGA (October 14, 2014), p. 25.

¹¹⁷⁶ *Id.* at pp. 16-19.

¹¹⁷⁷ *Id.* at pp. 14-21.

life insurance and variable annuity contracts require the filing of a prospectus with the SEC, and as such, are regulated by the SEC for appropriate disclosures, suitability, and other consumer protection features. MetLife's variable annuity contracts and variable life insurance policies are issued by separate accounts that are registered with the SEC as investment companies under the Investment Company Act of 1940.¹¹⁷⁸ In addition, the variable annuity contracts and variable life insurance policies issued by these registered separate accounts are registered with the SEC under the Securities Act of 1933.¹¹⁷⁹ Registered insurance and annuity contracts are also regulated by the state insurance and state securities regulatory authorities.¹¹⁸⁰ As registered contracts, these products may only be issued through registered broker-dealers and sold by licensed securities sales representatives associated with a registered broker-dealer.

5.4 Additional Regulatory Authorities Resulting from Council Determination

A final determination by the Council regarding MetLife would subject the company to direct, consolidated supervision by the Board of Governors.

For example, under section 161 of the Dodd-Frank Act, the Board of Governors may require a nonbank financial company to submit reports¹¹⁸¹ and may conduct examinations about the "nature of the operations and financial condition of the company and [any subsidiary of such company]."¹¹⁸²

In addition, section 163(b) of the Dodd-Frank Act requires a nonbank financial company supervised by the Board of Governors to file written notice prior to acquiring any voting shares of any company (other than an insured depository institution) that is engaged in financial activities (described in section 4(k) of the BHC Act) and that has total consolidated assets of \$10 billion or more.¹¹⁸³ Under section 163(b) the Board of Governors also must consider the extent to which such a proposal would result in greater or more concentrated risks to global or U.S. financial stability or the U.S. economy, in addition to considering the standards set forth in section 4(j) of the BHC Act.¹¹⁸⁴

Sections 165 and 166 of the Dodd-Frank Act require the Board of Governors to impose enhanced prudential standards on and require semi-annual stress testing of and the submission of a resolution plan to the Board of Governors and the FDIC providing for rapid and orderly resolution in the event of material financial distress by BHCs with total consolidated assets of

¹¹⁷⁸ Each registered separate account is generally divided into subaccounts, each of which invests in an underlying mutual fund which is itself a registered investment company under the Investment Company Act. MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 26.

¹¹⁷⁹ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 26.

¹¹⁸⁰ *Id.* at p. 43.

¹¹⁸¹ Dodd-Frank Act section 161(a)(1)-(2), 12 U.S.C. § 5361(a)(1)-(2) (2012).

¹¹⁸² Dodd-Frank Act section 161(b)(1)(A), 12 U.S.C. § 5361(b)(1)(A).

¹¹⁸³ *See* Dodd-Frank Act section 163(b), 12 U.S.C. § 5363(b).

¹¹⁸⁴ *Id.*

\$50 billion or more (large BHCs) and nonbank financial companies supervised by the Board of Governors.¹¹⁸⁵ The Board of Governors also has authority under section 165 to tailor the application of the standards, including differentiating among covered companies on an individual basis or by category.¹¹⁸⁶ When differentiating between companies for purposes of applying the standards established under section 165, the Board of Governors may consider the companies' size, capital structure, riskiness, complexity, financial activities, and any other risk-related factor the Board of Governors deems appropriate.¹¹⁸⁷

The Council and the Board of Governors would also have additional authorities with respect to MetLife if the Council were to determine that material financial distress at MetLife could pose a threat to U.S. financial stability and that MetLife shall be subject to Board of Governors supervision and enhanced prudential standards. Pursuant to section 121 of the Dodd-Frank Act, if the Board of Governors determines that a nonbank financial company that it supervises poses a grave threat to U.S. financial stability, the Board of Governors, upon an affirmative vote of the Council (by two-thirds of its voting members), could require the nonbank financial company to take certain risk-mitigating actions, such as limiting the ability of the company to merge with, acquire, consolidate with, or otherwise become affiliated with another company; restricting the company's ability to offer a financial product; and requiring the company to terminate one or more of its activities.¹¹⁸⁸ MetLife has noted that state insurance regulators "focus on the entities that they are responsible for supervising" and do not seek to "look at systemic risks across entire economies," and that the state insurance regulatory system "is not designed to serve the purposes that are set out in [the] Dodd-Frank [Act]."¹¹⁸⁹

Thus, a determination by the Council regarding MetLife would provide the Council and the Board of Governors with a broader range of tools to address potential threats to U.S. financial stability posed by MetLife than would be available if MetLife were not subject to a determination by the Council.

6 COMPLEXITY AND RESOLVABILITY

6.1 Complexity and Resolvability Background

The Council's Interpretive Guidance notes that the potential threat to U.S. financial stability posed by a nonbank financial company's material financial distress may be mitigated or

¹¹⁸⁵ In prescribing enhanced prudential standards under section 165(b)(1), the Board of Governors is required to take into account differences among BHCs covered by the rule and nonbank financial companies supervised by the Board of Governors, based on certain considerations. See Dodd-Frank Act section 165(b)(3), 12 U.S.C. § 5365(b)(3).

¹¹⁸⁶ See Dodd-Frank Act section 165(a)(2)(A), 12 U.S.C. § 5365(a)(2)(A).

¹¹⁸⁷ *Id.*

¹¹⁸⁸ See Dodd-Frank Act section 121(a), 12 U.S.C. § 5331(a).

¹¹⁸⁹ Transcript of MetLife Oral Hearing, Statement of Ricardo Anzaldúa, General Counsel, MetLife (November 3, 2014), pp. 98-99, 114.

aggravated by certain qualitative factors about the company, such as its complexity, the opacity of its operations, or its resolvability. In the Interpretive Guidance, the Council noted its intent to include an evaluation of a company's resolvability in its analysis of a nonbank financial company in connection with a proposed or final determination. "Resolvability" refers to the capability of successfully separating and liquidating, or otherwise disposing of, the company if it should fail.

The Interpretive Guidance identifies some of the factors that may be considered in analyzing a nonbank financial company's resolvability:

- The complexity of the nonbank financial company's legal, funding, and operational structure;
- Obstacles to a rapid and orderly resolution; and
- Legal entity and cross-border operations issues, including:
 - The ability to separate functions and spin off services or business lines;
 - The likelihood of preserving franchise value in a recovery or resolution, and of maintaining continuity of critical services within the existing or in a new legal entity or structure;
 - The degree of the nonbank financial company's intra-group dependency for liquidity and funding, payment operation, and risk management needs; and
 - The size and nature of the nonbank financial company's intra-group transactions.

6.2 Potential Obstacles to a Rapid and Orderly Resolution¹¹⁹⁰

MetLife is a highly complex organization with significant financial and operational interconnections operating in multiple jurisdictions with multiple regulatory authorities and resolution frameworks, which could significantly increase the obstacles to an orderly resolution. There is no precedent for the resolution of an insurance organization of the size, scope and complexity of MetLife.¹¹⁹¹ These factors could aggravate the potential that MetLife's material financial distress could pose a threat to U.S. financial stability.

MetLife's legal structure includes 359 entities in approximately 50 countries¹¹⁹² that provide services to 90 million customers globally, 50 million of which are U.S. customers.¹¹⁹³ Its

¹¹⁹⁰ It should be noted that some assets and businesses by their nature will take longer to wind down. In the context of the phrase "rapid and orderly resolution" and as applied to these assets and businesses, the term "rapid" refers to the ability to timely implement a plan for resolving the company that calms markets and participants. By design, the winding down of a failed insurer's estate may take several years to accomplish while policyholder and contract holder liabilities are paid off as they come due.

¹¹⁹¹ MetLife indicates that the three largest failures of U.S. insurance companies were General American Mutual Holding (parent of GALIC), Mutual Benefit, and Executive Life (CA and NY). These failures occurred from 1991 to 1999, and these companies had assets that ranged from \$13 to \$14 billion. MetLife Voluntary Submission, Section IV, pp. IV-34-IV-38.

¹¹⁹² CONFIDENTIAL NYDFS INFORMATION: As of December 31, 2013, MetLife, Inc. had approximately 359 subsidiaries. Seventy-six of these subsidiaries are insurance affiliates of which 25 are domestic and regulated by 11

MetLife's entities are significantly interconnected,

or deplete much of the system's capacity to cover policyholders at other firms and could result in the imposition of direct assessment liabilities on other insurers.

6.2.1 MetLife Resolvability Assessment

MetLife included an assessment of its resolvability (the Resolvability Assessment) in its Voluntary Submission.¹¹⁹⁶ MetLife argues that the Council ignored or misconstrued critical information provided in the Resolvability Assessment showing that MetLife's resolvability is a mitigant to any threat MetLife might pose to U.S. financial stability.¹¹⁹⁷ For example, MetLife suggests that the Council did not consider the statutory constructs (state, federal, and foreign) that constitute the resolution regimes applicable to MetLife and described in the Resolvability Assessment,¹¹⁹⁸ or MetLife's explanations of how these regimes would address MetLife's international operations and intercompany relationships.¹¹⁹⁹ However, the Council reviewed all information and analysis provided by MetLife and, as discussed in more detail below, concluded that due to its financial and operational interconnections and interdependencies, as well as potential complications from multiple resolution regimes, potential state GA capacity issues, and cross-border resolvability issues, MetLife's material financial distress could aggravate the potential threat that MetLife could pose to U.S. financial stability.

The Resolvability Assessment was not, as MetLife notes, a detailed resolution plan.¹²⁰⁰

However, the Resolvability Assessment did not consider, in detail, the resolvability of these entities or other entities essential to the operation of MetLife. For example, the Resolvability Assessment assumes, with only a brief discussion, the continued availability of key services and operations.¹²⁰³

¹¹⁹⁶ See MetLife Voluntary Submission, Section V.

¹¹⁹⁷ See MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V.

¹¹⁹⁸ Id. at p. V-2.

¹¹⁹⁹ Id.

¹²⁰⁰ Id. at p. V-1.

¹²⁰¹ Id. at p. V-3.

Id. at pp. V-14-V-16, V-42, V-44-V-46, V-49, V-62, V-64, V-66.

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distress at one MetLife entity to the holding company and other parts of the organization, and require resolution of numerous intercompany claims. These potential complications could pose obstacles to a rapid and orderly resolution of MetLife and aggravate the risk that MetLife's material financial distress could pose a threat to U.S. financial stability.

6.2.2.1 Funding

MetLife's liquidity is generated from various sources, including funding agreements, credit facilities and CP, while capital is provided by a variety of sources, including short-term and long-term debt and collateral financing arrangements.¹²¹¹ As of June 30, 2013, MetLife had unsecured credit facilities and committed facilities that aggregated \$4.0 billion and \$12.4 billion, respectively.¹²¹² The unsecured credit facilities are used for general corporate purposes, including reinsurance LOCs, and the committed facilities are used for collateral for certain of MetLife's affiliated reinsurance liabilities.

MetLife Funding Inc. (MetLife Funding), a subsidiary of MLIC, serves as a centralized finance unit by extending loans to MetLife, Inc., MLIC, and other affiliates through MetLife Credit Corp., another subsidiary of MLIC.¹²¹³

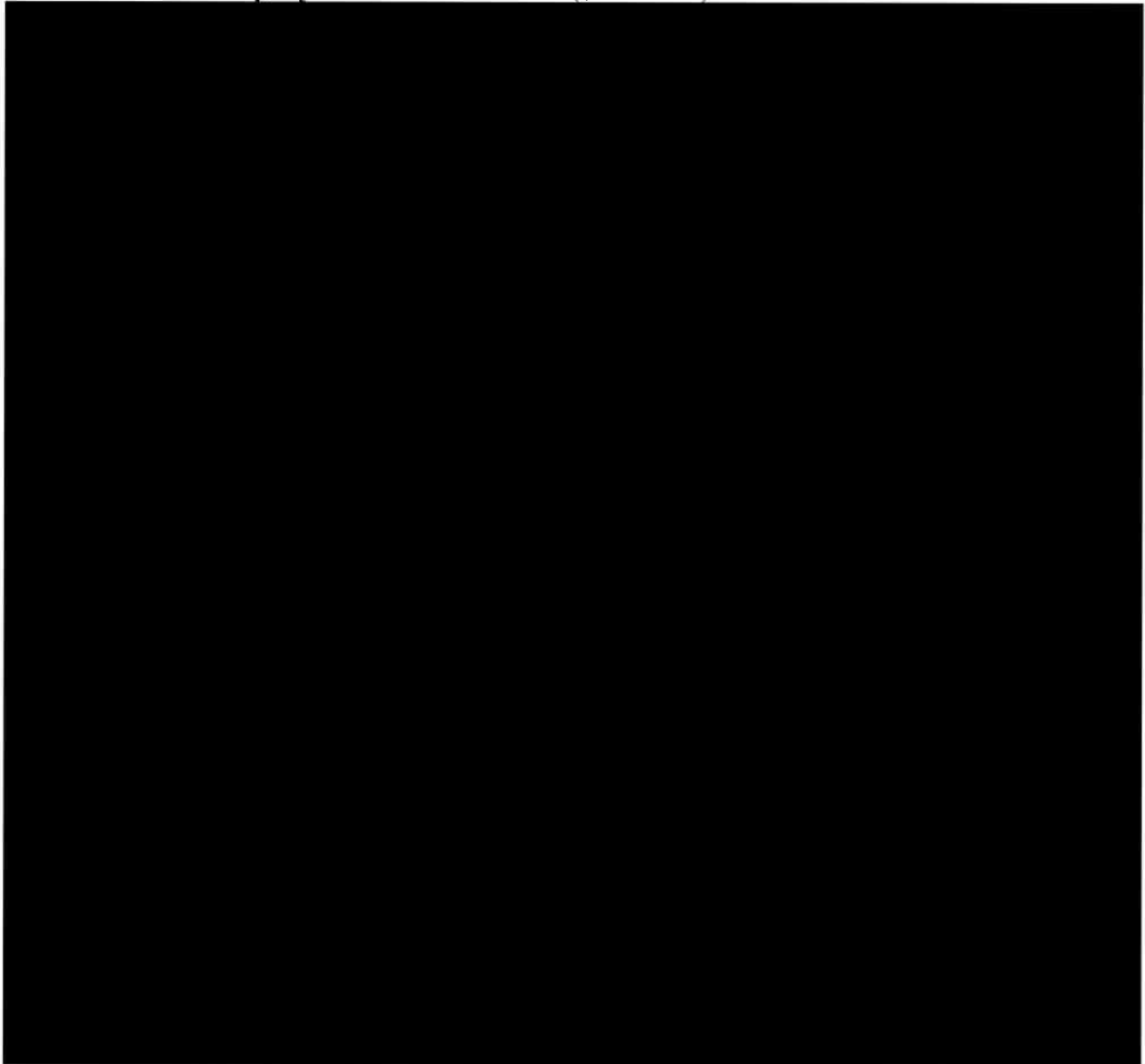
[REDACTED]

MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 188.

¹²¹² Id. at p. 189.

¹²¹³ Id. at p. 188.

Table 49: Intercompany Loan Commitments (\$ Millions)



Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, document A.14.f, pp. 1, 6-7.

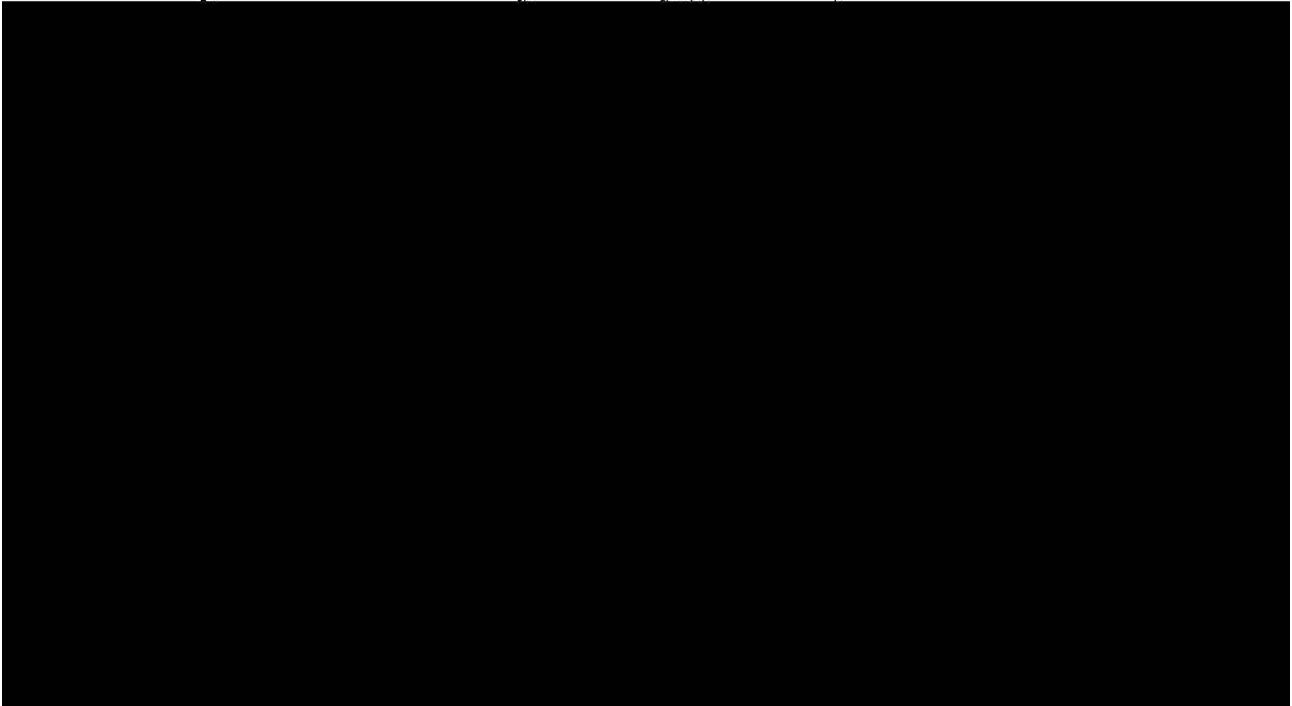


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Similarly, the existence of other intercompany liabilities could spread distress to other entities in the organization. MetLife argues that the liquidity concerns regarding MetLife Funding are “misplaced” despite its role as a financing entity within the MetLife organization because MetLife Funding “is a small, indirect subsidiary of MLIC that maintains *de minimis* balances.”¹²¹⁵ However, this objection does not consider the possible complications of multiple insolvencies within the organization triggered by a significant, unexpected drain on liquidity. With respect to other intercompany liabilities, MetLife indicates that because any claims arising from these interconnections would likely be treated as general creditor claims subordinate to policy obligations, these claims would “not constitute a threat to resolvability.”¹²¹⁶ However, if MetLife were to experience material financial distress, these intercompany liabilities could complicate the resolution of MetLife.

Table 50: Corporate Affiliate Liability Summary (\$ Millions)



Source: Data are as of June 30, 2013. MetLife Response to OFR Data Request, document D.4 (Consolidating Balance Sheet).

Note: (1) [REDACTED] is the [REDACTED] subsidiary of [REDACTED], a direct subsidiary of [REDACTED]. All other subsidiaries of [REDACTED] are included with Other Subsidiaries and Adjustments.

(2) [REDACTED] is the largest subsidiary of [REDACTED], a direct subsidiary of [REDACTED]. All other subsidiaries of [REDACTED] are included with Other Subsidiaries and Adjustments.

¹²¹⁵ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, p. V-22.

¹²¹⁶ *Id.* at p. V-20.

6.2.2.2 Capital Support Arrangements


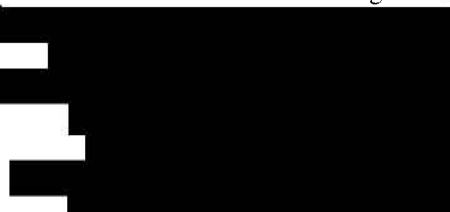
MetLife, Inc. and several of its subsidiaries, including MLIC and GALIC, are parties to certain capital and net worth maintenance or liquidity support commitments with other subsidiaries.¹²¹⁷ While MetLife argues these agreements generally require MetLife to maintain solvency levels lower than those actually maintained, they could give rise to additional financial stresses on MetLife, Inc. in times of material financial distress. MetLife anticipates that in the event that there are demands from the support arrangements, there will be sufficient liquidity and capital to meet anticipated demands.¹²¹⁸ However, these liquidity and capital demands on MetLife, Inc. or any of the committed affiliates could occur at a time when the company is facing other demands on its capital or liquidity, further contributing to any financial distress. Table 51 details the net worth or capital agreements provided by MetLife, Inc., MLIC, ALICO, and others.

Table 51: MetLife Inventory of Capital and Liquidity Support Commitments

	Commitment Type	Date	Guarantor	Beneficiary	Description of Commitments
1	Net Worth Maintenance Commitment	Dec. 2007 and Dec. 2009	MetLife, Inc.	MRV	Maintain Total Adjusted Capital in each of MRV's cells at 200 percent of authorized control level (ACL) RBC or greater.
2	Net Worth Maintenance Commitment	April 2005	MetLife, Inc.	MRSC	Maintain TAC at 100 percent of ACL RBC or greater.
3	Net Worth Maintenance Commitment	Oct. 2007	MetLife, Inc.	MRC	Maintain TAC at 200 percent of Company Action Level (CAL) RBC or greater.
4	Capital Maintenance	Dec. 2012	MetLife, Inc.	MRD	Maintain TAC at 200 percent of CAL RBC or greater.
5	Net Worth Maintenance Agreement	Dec. 2002	MetLife, Inc.	MLI-MO	Maintain capital and surplus of at least \$10 million, TAC at 150 percent CAL RBC or greater, and liquidity to timely meet obligations.
6	Net Worth Maintenance Agreement	Dec. 2002	MetLife, Inc.	FMLI	Maintain capital and surplus of at least \$10 million, TAC at 150 percent CAL RBC or greater, and liquidity to timely meet obligations.

¹²¹⁷ MetLife Response to OFR Data Request, documents A.14.a. and b., p. 1.

¹²¹⁸ MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 191.

7	Net Worth Maintenance Agreement	Jan. 2000	MLIC	GALIC	Maintain capital and surplus of at least \$10 million, TAC at 250 percent CAL RBC or greater, and liquidity to timely meet obligations 
8	Capital Maintenance Agreement	Jan. 2003	GALIC	MLI-MO	Assumption reinsure policyholder obligations if capital and surplus fall below \$10 million, or TAC falls below 180 percent CAL RBC. Entered into to support the ratings in connection with a corporate restructuring following the acquisition of GALIC.
9	Net Worth Maintenance Agreement	Aug. 1996	MLIC	NELICO	Maintain capital and surplus of at least \$10 million, TAC at 100 percent ACL RBC or greater, (or 250 percent ACL RBC if negative trend) and liquidity to timely meet obligations.
10	Net Worth Maintenance Agreement	July 2007 (Amended 2010)	MICC	MAL	
11	Net Worth Agreement	July 2012	ALICO	MEL	Maintain capital and surplus of at least the greater of (1) €14 million or (2) Solvency I capital and reserve requirement, and liquidity to timely meet obligations.
12	Tangible Net Worth Maintenance Agreement	Nov. 1984 (amended July 1985)	MLIC	MetLife Funding	Maintain tangible net worth of at least one dollar to support the ratings for a CP program with a limited amount of CP currently outstanding.

Source: MetLife Response to OFR Data Request, documents A.14.a and b., p. 1.

6.2.2.3 Direct Performance Guarantees

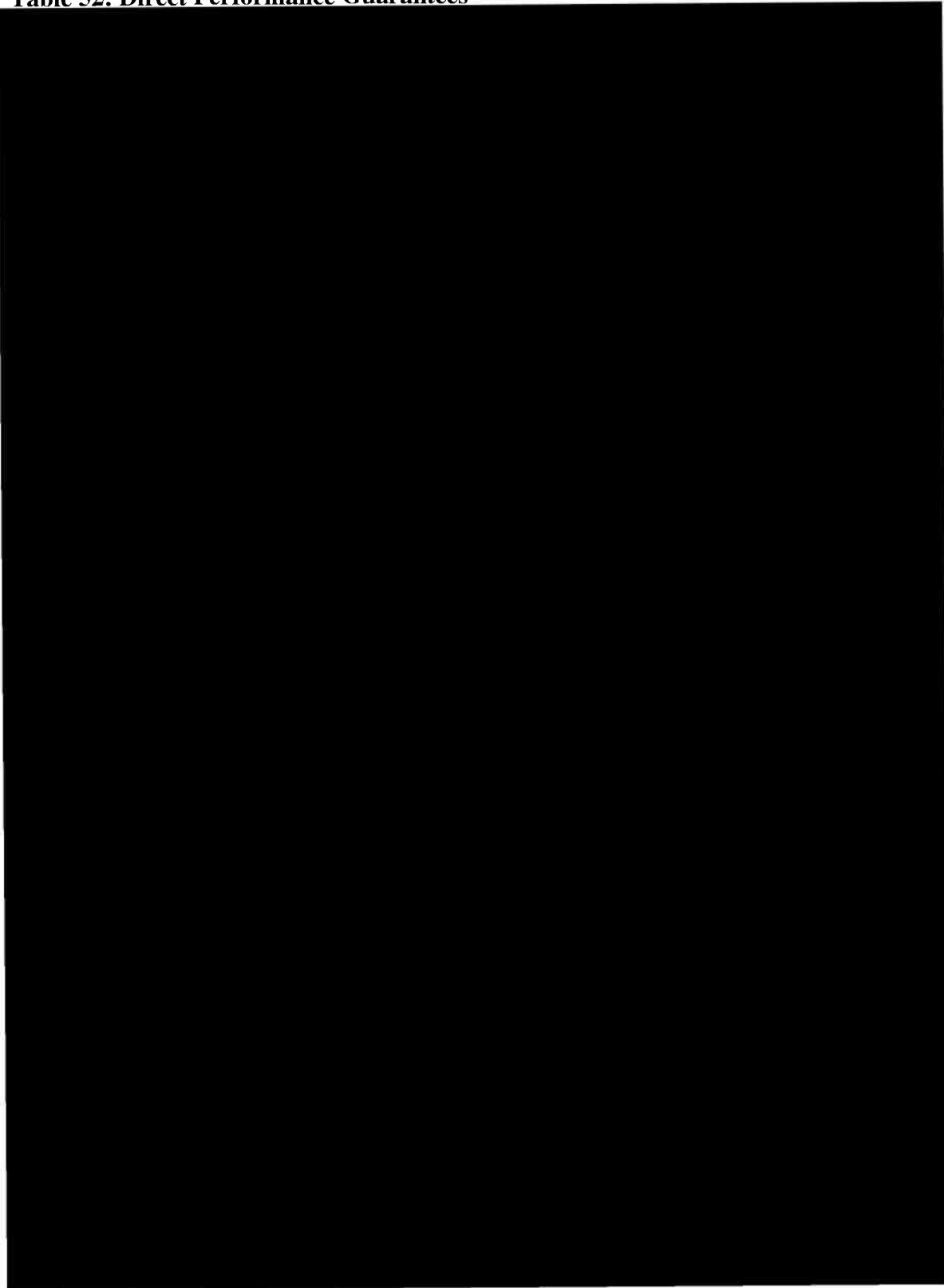
MetLife, Inc. guarantees the performance of obligations by certain affiliates (see Table 52). MetLife's support of reinsurance transactions entered into by its captive reinsurers includes (1) guarantees of letter of credit reimbursement obligations; (2) guarantees of the value of surplus notes issued to finance claims-paying obligations; (3) guarantees of obligations to make payments of premiums in retrocessions to third-party reinsurers and of its captives' obligations to pay claims on certain reinsurance liabilities assumed from affiliates and (4) a guarantee of

repayment by Exeter Re of loans from MICC and MLI-USA.¹²¹⁹ In an event of material financial distress or insolvency of MetLife, Inc., these guarantees could become ineffective, which, under certain circumstances, could transmit financial stress or possibly failure to the captive reinsurers.¹²²⁰ Alternatively, a call on these guarantees by captive reinsurers experiencing material financial distress could transmit liquidity distress to MetLife, Inc. and throughout the organization.

¹²¹⁹ MetLife Response to OFR Data Request, document A.14.c, p. 4.

¹²²⁰ MetLife argues that transmission of distress to captives is unlikely because it would require a scenario in which a letter of credit is drawn on due to a decline in the value of assets funding economic reserves. See MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, pp. V-23-V-24. However, if MetLife were to be subject to material financial distress during a period of overall stress in the financial services industry, there could be significant deterioration in asset prices across many asset classes.

Table 52: Direct Performance Guarantees



Source: MetLife Response to OFR Data Request, document A.14.c, p. 6.

6.2.2.4 *Captive Reinsurance*

MetLife's use of captive reinsurance is another source of financial interconnectedness that increases the potential for financial distress to be transmitted through the organization and poses an impediment to a rapid and orderly resolution.

[REDACTED]

Through the use of certain reinsurance arrangements, admitted assets of MetLife's operating insurance companies are used to support receivables assets of its captive reinsurers.¹²²⁵ In addition, MetLife, Inc. supports the reinsurance activities of its captives by guaranteeing the LOCs granted by third parties to its captive reinsurers. At June 30, 2013, there were \$8.7 billion of third-party LOCs to captive reinsurers supported by MetLife, Inc.¹²²⁶ In addition, MetLife, Inc. maintains certain capital levels under various net worth and capital maintenance agreements for its captive reinsurers.¹²²⁷ These obligations of support could potentially add to any liquidity strain experienced by MetLife, Inc. if it were to experience material financial distress. In the event these obligations are not met, the captive may no longer be a viable source of reinsurance to the MetLife insurers and the ceding insurance affiliate would no longer receive the benefit of reinsurance credit from the captive and could be required to increase its capital levels. MetLife's affiliated reinsurance captives are not always subject to the same statutory reserve and capital requirements as the ceding MetLife insurance entity.¹²²⁸ On a consolidated basis, MetLife may hold lower levels of capital and reserves by transferring risk to captives.¹²²⁹ As a result, if a

¹²²¹ MetLife Response to OFR Data Request, documents A.15.b, A.15.d, and A.15.i.

¹²²² MetLife Voluntary Submission, Section V, p. V-83.

¹²²³ *Id.*

¹²²⁴ MetLife Response to OFR Data Request, document A.15.b.

¹²²⁵ See section 3.2.2.

¹²²⁶ See Table 15.

¹²²⁷ MetLife Response to OFR Data Request, document A.14.c, p. 6.

¹²²⁸ See section 3.2.2.

¹²²⁹ Authorized reinsurers are licensed in the United States by state regulatory authorities to sell insurance in the same state as the primary ceding insurer, and therefore face the same capital regulations as the ceding insurer. As reinsurers that are not licensed to sell insurance to U.S. domestic insurers, unauthorized reinsurers are not subject to

captive were unavailable to absorb this risk, the ceding insurer could be required to increase its capital to meet regulatory standards.

6.2.2.5 *General and Separate Account Liabilities*

Certain MetLife products with guarantees such as variable annuities and Met Managed GICs create linkages between general and separate account liabilities where part of the product is a general account liability while the remainder is accounted for as a separate account liability.¹²³⁰ The complexity arising from resolving the MetLife products with these interconnections could be an impediment to a rapid and orderly resolution. For example, variable annuities commonly offer certain guarantees generally referred to as “riders” for payouts, withdrawals, or account values against investment losses or unexpected longevity; these guarantees include guaranteed minimum income benefits and guaranteed minimum withdrawal benefits.¹²³¹ Approximately [REDACTED] of MetLife’s life insurers’ separate account liabilities also include a guarantee backed by the general account.¹²³² General account liabilities are covered by the state GAs, and coverage amounts vary from state to state.¹²³³ According to MetLife, the general account riders would be resolved separately through termination or modification.¹²³⁴ If the general account guarantee is “out of the money” or the variable annuity and guarantee cannot be sold together, state insurance regulators could transfer only the variable annuity contract along with the underlying separate account assets to a solvent insurer in a liquidation scenario.¹²³⁵ Out-of-the-money general account guarantees would be terminated by MetLife or assumed by a solvent carrier; “in the money” general account riders that are separated from the variable annuity contracts could also be restructured and transferred to solvent carriers or a newly created special-purpose non-profit

state insurance RBC and other regulatory requirements (e.g., required actuarial asset adequacy testing). Furthermore, special purpose captive reinsurance entities are not subject to the same requirements and oversight as traditional commercial insurers or reinsurers under the U.S. solvency framework promulgated by the NAIC, which is implemented by state insurance regulators. In order to produce a reinsurance reserve credit for insurers ceding to unauthorized reinsurers, state insurance laws require ceding insurers to post eligible collateral, which could include a letter of credit from domestic bank, withheld funds, or a collateral trust, in an amount at least equal to the statutory reserve liabilities ceded. See NAIC, Credit for Reinsurance Model Law (January 2012), available at <http://www.naic.org/store/free/MDL-785.pdf>; NAIC, Credit for Reinsurance Model Regulation (January 2012), available at <http://www.naic.org/store/free/MDL-786.pdf>.

¹²³⁰ Variable annuities often include general account benefit riders for which risk charges are paid out of the separate account to the general account. The vast majority of MetLife’s in-force variable annuity riders are either guaranteed minimum income benefit riders or guaranteed minimum death benefit riders. As of June 2013, the aggregate outstanding account value of variable annuities issued by MetLife’s U.S. insurers was approximately \$166.9 billion. See MetLife Voluntary Submission, Section V, pp. V-49-V-50. Met Managed GICs integrate a market value separate account investment of indefinite maturity with a general account guarantee. MetLife had \$42.3 billion of separate account GICs outstanding as of June 30, 2013.

¹²³¹ MetLife Voluntary Submission, Section V, pp. V-49-V-50; see section 3.2.4.

¹²³² MetLife Voluntary Submission, Section III, p. III-39.

¹²³³ MetLife Voluntary Submission, Section V, p. V-9.

¹²³⁴ *Id.* at pp. V-10-V-12, V-50. See MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, pp. V-26-V-27.

¹²³⁵ *Id.* at pp. V-10-V-12, V-50.

restructuring entity (referred to by MetLife as “Newco”).¹²³⁶ Although MetLife’s suggested steps as to how these liabilities might be resolved may be plausible in some scenarios, there is no historical precedent for the insolvency of an insurer with guaranteed benefits of the type offered in today’s marketplace, much less an insurer with books of business with the size and complexity of those written by MetLife. This could result in significant policyholder losses and add to the complexity of the resolution.

6.2.2.6 *Securities Lending*

[REDACTED]

[REDACTED]¹²³⁸ MetLife also indicates that the loan transactions are qualified financial contracts (QFCs) [REDACTED] and, therefore, all related netting agreements and security agreements are preserved and enforceable.¹²³⁹ Netting would be available to a borrower that retains the lent securities.¹²⁴⁰ However, a borrower could choose to return the lent securities and seek return of its cash collateral; this could create liquidity issues if the cash had been used by [REDACTED] to purchase securities and [REDACTED] is in rehabilitation.

6.2.2.7 *Derivatives Management*

As described in section 4.2.4.7, MetLife has \$379 billion notional amount of freestanding derivatives used for hedging, asset replication, and to a limited extent, income generation.¹²⁴¹ These derivatives across [REDACTED] MetLife entities with nearly [REDACTED] counterparties are governed by nearly [REDACTED] ISDA credit support annexes (CSAs).¹²⁴²

¹²³⁶ MetLife Presentation to FSOC: MetLife Resolvability (January 27, 2014), p. 22.

¹²³⁷ [REDACTED]

¹²³⁸ MetLife Voluntary Submission, Section V, p. V-53.

¹²³⁹ *Id.*

¹²⁴⁰ *Id.*

¹²⁴¹ MetLife Response to OFR Data Request, document A.11, p. 1. MetLife Voluntary Submission, Section III, pp. III-16-III-19.

¹²⁴² MetLife Presentation to FSOC: MetLife Investments (November 1, 2013), p. 15.

MetLife does not currently make use of a derivatives conduit whose sole function is to centralize derivatives risk.¹²⁴³ Although this approach may remove one source of operational complexity (e.g., no back-to-back transactions to further complicate unwinding of positions), it could subject individual entities to collateral or margin requirements that could strain liquidity and hamper an orderly resolution. The company states that this effect would be mitigated because most of its derivatives trades fall under CSAs that require the daily posting of collateral and that even if the MetLife, Inc. cross default provision were to apply and the derivatives were terminated, this would simply be a collateral event at the subsidiary level.¹²⁴⁴

[REDACTED]

[REDACTED]

[REDACTED]

¹²⁴³ MetLife Response to OFR Data Request, document A.11.a, p. 3.

¹²⁴⁴ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, pp. VII-215-VII-216.

¹²⁴⁵ MetLife Response to OFR Data Request, document A.11.e, p. 4.

¹²⁴⁶ Based on notional amounts, a substantial portion of the MetLife's derivatives was not designated or did not qualify as part of a hedging relationship as of June 30, 2013 and December 31, 2012. MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 52.

¹²⁴⁷ MetLife Response to OFR Data Request, document A.11.g-l.k(vi), p. 11.

¹²⁴⁸ MetLife Presentation to FSOC: MetLife Investments (November 1, 2013), p. 15.

¹²⁴⁹ MetLife Response to OFR Data Request, document A.11.g.ii, p. 1.

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[REDACTED]

[REDACTED]

[REDACTED]

MetLife has a number of shared services arrangements in place.¹²⁵⁴

[REDACTED]

[REDACTED]

¹²⁵⁰ See MetLife Response to OFR Data Request, document A.11.j.

¹²⁵¹ MetLife Response to OFR Data Request, document A.11.g.ii, p. 1.

¹²⁵² Id.

¹²⁵³ Id.

¹²⁵⁴ MetLife Response to OFR Data Request, document D.7, p. 1.

¹²⁵⁵ MetLife Response to OFR Data Request, document A.14.k, pp. 1-2.

¹²⁵⁶ Id. MetLife Voluntary Submission, Section V, p. V-43.

¹²⁵⁷

[REDACTED]

¹²⁵⁸ MetLife Response to OFR Data Request, document D.7, p. 1.

¹²⁵⁹

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

¹²⁶⁰ MetLife Voluntary Submission, Section V, p. V-44; MetLife Response to OFR Data Request, document D.7.

¹²⁶¹ MetLife Voluntary Submission, Section V, pp. V-42, V-44, V-49.

¹²⁶² MetLife Response to Resolvability Follow-Up Question 1.a.iii, pp. 3-6 (April 17, 2014); see also MetLife Voluntary Submission, Section V, pp. V-40-V-45.

¹²⁶³ MetLife Response to Resolvability Follow-Up Question 1.a.iii, pp. 4-5 (April 17, 2014).

¹²⁶⁴ MetLife Voluntary Submission, Section V, p. V-19.

[REDACTED]

[REDACTED]

[REDACTED]

¹²⁶⁵ See MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, pp. V-17-V-19; MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, p. VII-222.

¹²⁶⁶ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, p. V-18.

¹²⁶⁷ Id. at p. V-17-V-19.

1269 Id.

16-110-2 GED 2-2 11-11-2015

1272 Id.

1273 Id.
Id.

¹²⁷⁴ Id. at p. 3.

1275 Id.

1276 Id.

1277 Id.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

¹²⁷⁸ MetLife Response to OFR Data Request, document A.14.k, p. 1.

¹²⁷⁹ MetLife Response to OFR Data Request, document D.7, p. 6.

¹²⁸⁰ MetLife Response to OFR Data Request, document A.14.k, p. 1; MetLife Response to OFR Data Request, document D.7, p. 6.

¹²⁸¹ MetLife Response to OFR Data Request, document D.7, p. 6.

¹²⁸² MetLife Response to Resolvability Follow-Up Question 1.b.i, pp. 6-7 (April 17, 2014).

¹²⁸³ *Id.* at p. 7.

¹²⁸⁴ *Id.* at pp. 6-7.

¹²⁸⁵ MetLife Response to OFR Data Request, document A.14.k, p. 2; MetLife Voluntary Submission, Section V, pp. V-43-V-44. See discussion in section 3.1.

¹²⁸⁶ *Id.*

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

¹²⁸⁷ MetLife Response to OFR Data Request, document A.14.k; MetLife Voluntary Submission, Section V, p. V-43.

¹²⁸⁸ MetLife Response to OFR Data Request, document D.7, p. 4.

¹²⁸⁹ Id. at pp. 4-5.

¹²⁹⁰ MetLife Response to OFR Data Request, document D.7, p. 5.

¹²⁹¹ MetLife Response to OFR Data Request, document A.14.k, p. 2.

¹²⁹² MetLife Voluntary Submission, Section V, p. V-3.

¹²⁹³ MetLife Response to OFR Data Request, document A.14.k, p. 2.

¹²⁹⁴ Id.

¹²⁹⁵ Id.

¹²⁹⁶ Id. at p. 3.

¹²⁹⁷ Id.



6.2.4 Multiple Resolution Regimes

MetLife's business activities fall under the authority of multiple state, federal, and non-U.S. regulators and resolution regimes. If MetLife were to experience material financial distress, the resolution of its U.S. insurance subsidiaries would occur under the laws of the various state regulatory authorities in which it operates, and, as discussed in more detail in section 4.2.3, would involve various state GAs. Given that applicable U.S. resolution regimes have not been tested by the resolution of an insurance organization the size, scope, and complexity of MetLife, MetLife's failure could pose significant challenges to a rapid and orderly resolution.¹³⁰⁴

In the United States, various MetLife entities would be resolved pursuant to the U.S. Bankruptcy Code, the Securities Investor Protection Act, or the insurance company resolution statutes of the states in which the particular insurance company is domiciled.¹³⁰⁵ MetLife entities domiciled

¹²⁹⁸ MetLife Response to OFR Data Request, document D.7, p. 5.

¹²⁹⁹ Id. at p. 6.

¹³⁰⁰ MetLife Response to OFR Data Request, document D.7, p. 6.

¹³⁰¹ Id.

¹³⁰² Id.

¹³⁰³ MetLife Response to OFR Data Request, document D.7, p. 6.

¹³⁰⁴ MetLife states that this analysis of the company as having multiple regulators and the Council's conclusion that MetLife should be supervised by the Board of Governors is internally inconsistent. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VI, p. VI-11. However, the fact that MetLife and its subsidiaries are subject to the jurisdiction of multiple U.S. and foreign regulators is not inconsistent with a conclusion under the Dodd-Frank Act that material financial distress at the company could pose a threat to U.S. financial stability and that it should be supervised by the Board of Governors.

¹³⁰⁵ MetLife suggests that this analysis seems to implicitly endorse the "single point of entry" approach to the resolution of insurers. MetLife states that "the SPOE is a bank-centric approach," and that "the state-based system

outside the United States would be resolved pursuant to the resolution regimes of their respective countries. While resolution authorities could cooperate when it is in the best interests of their particular resolution to do so and as applicable laws permit, the authorities might conclude that varying approaches need to be pursued, sometimes simultaneously, and any resulting conflicts could complicate and lengthen the resolution of the entire group or particular entities. Because of the interconnections in place among the insurance subsidiaries, non-insurance affiliates, and MetLife, Inc., the various receivers would have to disentangle a complex web of intercompany agreements, such as lines of credit, capital maintenance agreements, reinsurance agreements, liquidity arrangements, and shared service agreements,¹³⁰⁶ in a complicated process that could require significant time and coordination among receivers and bankruptcy courts in multiple jurisdictions.



It is also uncertain how willing or able other insurance companies might be to assume MetLife's policies in the context of a period of overall stress in the financial services industry and in a weak macroeconomic environment. The potential inability to resolve failing MetLife subsidiaries in this manner could heighten uncertainty with regard to the actions available to the receivers involved. These difficulties, coupled with the associated large administrative and legal expenses deducted from the estate assets of the various receivers, could increase the size of the insolvency, which in turn could make delays and reductions in recoveries more likely for policyholders and

of insurance insolvency is a viable and preferable alternative that would resolve MetLife's material operating insurance companies through a 'multiple point of entry' approach." MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, pp. V-12-V-13. This analysis does not endorse any particular approach to the resolution of MetLife, Inc. or one or more of its subsidiaries, but rather reflects an assessment of the complexity of MetLife's legal, funding, and operational structures and identifies the potential obstacles to their rapid and orderly resolution.

¹³⁰⁶ Such agreements are discussed more specifically in sections 6.2.2 and 6.2.3.

¹³⁰⁷ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, p. V-14.

creditors. Multiple simultaneous and potentially competing resolution proceedings could significantly increase the obstacles to a rapid and orderly resolution.

MetLife suggests that its resolution might be prevented or ameliorated by the fact that a majority of its consolidated assets, liabilities, and revenues are in its regulated insurance subsidiaries, subject to the broad array of pre-receivership tools insurance regulators have at their disposal to avoid a failure.¹³⁰⁸ MetLife also notes that once a state insurance regulator becomes aware of an impending insolvency, the regulator may move quickly to apply for a judicial order directing the rehabilitation or liquidation of an insurer,¹³⁰⁹ thereby limiting losses to individual policyholders.¹³¹⁰ MetLife suggests that in an insurance receivership, the action that calms the markets and participants is the issuance of initial injunctions stabilizing and protecting estate assets and that these injunctions are issued at the time the rehabilitation order is issued, usually within 24 hours of the regulator's initial judicial filing.¹³¹¹ As discussed in section 4.2.3.3, the use of injunctions in this manner may not calm markets and participants. For example, the establishment of a conservatorship of Executive Life Insurance Company by the California Department of Insurance increased the negative publicity received by affiliate ELNY and led to a loss of confidence by ELNY's policyholders, creditors, and the public as indicated by a dramatic increase in surrenders of ELNY insurance policies. This run on ELNY and the resulting material erosion of its assets ultimately led to the placement of ELNY into rehabilitation by the New York Superintendent of Insurance.¹³¹²

MetLife assumes that state insurance receivers will be able to transfer policies to solvent carriers.¹³¹³ However, the willingness and ability of alternate carriers to accept these policies in the context of a stressed financial services industry and in a weak macroeconomic environment, particularly given the market share of MetLife's insurance subsidiaries, is uncertain.

MetLife suggests that if a state insurance receiver were unable to sell or transfer policies, it could create a special purpose entity or "Newco" to assume these policies under a court-approved conversion plan.¹³¹⁴ MetLife anticipates that NOLHGA and the GAs would establish and control the Newco and that the Newco would assume the general account policy liabilities from a particular state insurance receiver with funding from the pertinent GAs.¹³¹⁵ The Newco would

¹³⁰⁸ MetLife Voluntary Submission, Section V, pp. V-6, V-27-V-29.

¹³⁰⁹ *Id.* at pp. V-7, V-29.

¹³¹⁰ *Id.* at p. V-37.

¹³¹¹ MetLife Materials Contesting the Proposed Determination (October 16, 2014) Section V, p. V-1.

¹³¹² See Verified Petition for Order of Liquidation and Approval of Restructuring Agreement (August 31, 2011), available at http://www.nylb.org/Documents/ELNY_VerifiedPetition.pdf.

¹³¹³ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, pp. V-10, V-29-V-31.

¹³¹⁴ See MetLife Voluntary Submission, Section V, p. V-36; MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, p. V-11.

¹³¹⁵ MetLife Voluntary Submission, Section V, p. V-36.

write no new business and would administer and service only the liabilities assumed.¹³¹⁶ General account policyholders with significant “equity” in their policies, such as cash values and account values (either stated or implied), would become policyholders of the Newco. Policies within GA limits would suffer no loss, and losses on larger policies would be spread over time.¹³¹⁷ MetLife notes that if the various states’ GAs could not fund the Newco, the state liquidation estate itself or an estate-controlled special purpose entity could serve as the restructuring vehicle with the same fundamental result.¹³¹⁸ However, this approach has never been used for an insurance organization of the size, scope, and complexity of MetLife. The same challenges and obstacles identified in this section, opacity and complexity, financial and operational interconnections and interdependencies, multiple resolution regimes, and cross-border resolution issues, would also be challenges and obstacles for the Newco.

6.2.5 State Insurance Guaranty Fund Capacity

MetLife argues that any impact of MetLife’s failure would be substantially lessened by a state insurance receivership and the GAs, which serve to pay outstanding claims of certain of the insolvent insurer’s policyholders.¹³¹⁹ However, as discussed in greater detail in section 4.2.3, the Resolvability Assessment makes several assumptions about conditions with respect to the GAs, but if those assumptions are not valid, MetLife’s resolution could become more complicated.¹³²⁰

First, the GAs have never been called upon to manage a liability portfolio of the size of one of MetLife’s largest insurance company subsidiaries. [REDACTED]

[REDACTED] Second, as the assessment capacity figures utilized by MetLife are aggregate nationwide figures,¹³²² but the actual coverage is on a state-by-state basis, there may be mismatches in individual states’ assessment capacity and coverage.¹³²³ Finally, if MetLife’s

¹³¹⁶ MetLife Voluntary Submission, Section V, p. V-36.

¹³¹⁷ *Id.* at p. V-37.

¹³¹⁸ MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, p. 11.

¹³¹⁹ As discussed in 4.2.3.1, not all products and product liabilities are covered by the state guaranty funds. MetLife states that [REDACTED] of aggregate MetLife policyholder liabilities fall within Guaranty Association limits as of June 30, 2013. MetLife Voluntary Submission, Section V, pp. V-12-V-13; MetLife Presentation to FSOC (January 27, 2014), pp. 15-16.

¹³²⁰ MetLife’s arguments regarding various states’ GAs and their capacities are addressed in sections 4.2.3.3 and 5.2.3. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section V, pp. V-4-V-10.

¹³²¹ [REDACTED]

¹³²² *Id.* at p. V-12.

¹³²³ MetLife acknowledges this possibility and that current capacity may not be adequate, noting that “...on a state-by state basis, there could be occasional shortages that could be addressed by Guaranty Association borrowings against future capacity or by the roll-forward of assessments. Furthermore, even if Guaranty Association capacity

insurance company subsidiaries were to be liquidated, unfunded insurance contract liabilities, up to the maximum limits, would be borne by the insurance industry as a whole through mandatory premium assessments.¹³²⁴ MetLife argues that the failure of one or more of MetLife's largest insurers would not materially challenge the liquidity of the various states' GAs on an ongoing basis.¹³²⁵ However, as described further in 4.2.3, such failures could exceed the available capacity of one or more GAs, or deplete much of the system's capacity to cover policyholders at other firms and could result in the imposition of direct assessment liabilities on other insurers.¹³²⁶ The effect of these challenges could prolong the period of delays for benefit and claim payments and reduce the overall payments to policyholders, further aggravating the resolution process.

6.2.6 Key Cross-Border Resolvability Issues

6.2.6.1 *Cross-Border Opacity and Complexity*

MetLife operates in approximately 50 countries,¹³²⁷ and has one of the most extensive and interconnected global operations of any insurance organization. The existence of different legal and regulatory requirements as well as different practices among jurisdictions could pose challenges to the effective resolution of cross-border insurers within MetLife.¹³²⁸ The orderly resolution of MetLife could be complicated by financial and operational interconnections that might be opaque to individual authorities responsible for the resolution of MetLife, Inc. and its subsidiaries. Without a comprehensive understanding of such interconnections, regulators or receivers for specific entities within the entire group may lack information necessary for the execution of a rapid and orderly resolution.¹³²⁹ The linkages among MetLife's entities, along with MetLife's extensive global network, could still result in significant challenges to resolving

was permanently compromised, this would not affect ultimate resolvability under existing law, but would rather increase permanent policyholder shortfalls." *Id.* at p. V-13.

¹³²⁴ As further discussed in section 4.2.3.3, many states allow insurers to offset guaranty assessments against premium tax liabilities.

¹³²⁵ *Id.*

¹³²⁶ See section 4.2.3.

¹³²⁷ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 44.

¹³²⁸ See International Association of Insurance Supervisors, "Issues Paper on Resolution of Cross-Border Insurance Legal Entities and Groups" (June 1, 2011), pp. 10-11, available at http://www.iaisweb.org/__temp/Issues_paper_on_resolution_of_cross-border_insurance_legal_entities_and_groups.pdf.

¹³²⁹ The NAIC's model acts related to insurance holding companies, which require the reporting of material affiliate transactions and is required for NAIC accreditation, could reduce this informational concern to the degree it is adopted by certain states (all 50 states and the District of Columbia are currently accredited). See generally NAIC, Insurance Holding Company System Regulatory Act, Section 5 (January 2011), pp. 440-18 - 440-23, available at <http://www.naic.org/store/free/MDL-440.pdf>; NAIC, Insurance Holding Company System Model Regulation with Reporting Forms and Instructions, Section 5 (January 2011), p. 450-3; Form D: Prior Notice of a Transaction (January 2011), pp. 450-22 - 450-26, available at <http://www.naic.org/store/free/MDL-450.pdf>. MetLife states that its regulated insurance companies represent 98 percent of its consolidated assets and that its U.S. operations contribute over 75 percent of its assets and revenues. MetLife Voluntary Submission, Section II, p. II-1. See section 3.1.

the company without aggravating the risk MetLife poses to U.S. financial system stability.¹³³⁰

Table 53: MetLife's Major Non-U.S. Jurisdictions

Source: MetLife Presentation to FSOC: Overview of MetLife (October 1, 2013), unnumbered slides 19-21.

6.2.6.2 Other Cross-Border Resolvability Issues

There is currently no global regulatory framework for the resolution of cross-border insurance companies. In particular, it appears that the authorities responsible for the resolution of MetLife's key regulated entities globally have not entered into any formal resolution cooperation framework or agreement. Any effort to achieve a coordinated resolution would require accommodations with local supervisory authorities, and cooperation among a number of home and host jurisdiction supervisory authorities and courts. As noted in section 6.2.4, authorities may cooperate as permitted by law, but each jurisdiction's requirements could lead each of these authorities to pursue separate resolutions, which could result in a restricted flow of assets between affiliates and subsidiaries. In a host country resolution, the host country regulator may take actions to ring fence assets, which would be out of the reach of U.S. regulators and creditors. Ring-fencing or seizure by one non-U.S. regulator could potentially increase the chance that additional ring-fencing might occur. Adverse effects resulting from any one country may adversely affect the liquidity and financial condition of MetLife's operations in another country. Additionally, some national resolution mechanisms (e.g., provisions that allow the transfer of assets and liabilities to a bridge institution) that could be important tools for facilitating the continuity of essential business operations might be hampered because the actions

¹³³⁰ See International Association of Insurance Supervisors, "Issues Paper on Resolution of Cross-Border Insurance Legal Entities and Groups" (June 1, 2011), p. 9, available at http://www.iaisweb.org/_temp/Issues_paper_on_resolution_of_cross-border_insurance_legal_entities_and_groups.pdf ("The resolution of insurers is complicated when they operate cross-border and/or are part of an insurance group. While financial difficulties may initially or primarily impact only one aspect of an entity's (or group's) operations, depending on the nature or severity of those difficulties, they may spread or ripple through other operations of the entity or group. For example, financial difficulties in a major business of the entity may spread to other areas of the entity or group as a result of reputational issues, diminished financial capacity or intra-group support measures.").

of the home jurisdiction will not necessarily be recognized and promptly implemented by host countries.

MetLife argues that each of the foreign insurers are separately capitalized, each entity's cash management process is separate from those of other entities such that cash is not commingled, and nearly all services are provided locally.¹³³¹ However, as discussed above, interconnections exist among MetLife entities, including non-U.S. entities.¹³³² To the extent that global operations experienced material financial distress, MetLife's entities in the United States may be compelled by intercompany agreements, such as guarantees and other capital maintenance agreements, to support the organization's foreign operations.¹³³³ Even in the absence of significant explicit guarantees or agreements, MetLife, Inc. could elect to support its foreign operations to avoid the reputational and legal consequences of permitting a subsidiary in a host jurisdiction to fail. This exposure to foreign entities may create complexity for any resolution efforts in the United States. In addition, to the extent that foreign entities are overcapitalized and foreign regulators ring fence assets within their jurisdiction, the excess capital would not be available to support MetLife's U.S. operations.

7 METLIFE'S VIEWS ON POTENTIAL COUNCIL DETERMINATION

This section summarizes certain information and conclusions contained in MetLife's Voluntary Submission and otherwise provided to the Council. This summary is not intended to be a comprehensive description of MetLife's submissions (which numbered in the thousands of pages), but instead to provide a high-level overview of certain of the statements the company has made. The materials submitted by MetLife in the course of the Council's review have been made available to all members of the Council. The analyses of and responses to the issues raised by MetLife are included elsewhere in this memorandum.

7.1 Introduction¹³³⁴

In the Voluntary Submission, MetLife argues that the facts cannot "lead to the conclusion that either MetLife's activities or its hypothetical financial distress reasonably could pose a threat to the financial stability of the United States or inflict significant damage on the broader U.S.

¹³³¹ MetLife Voluntary Submission, Section V, p. V-54.

¹³³² See, e.g., sections 6.2.2 and 6.2.3.

¹³³³ See, e.g., MetLife Voluntary Submission, Section II, pp. II-3-II-4; MetLife Response to OFR Data Request, document A.14.f, Tables D-E.

¹³³⁴ The company's arguments described in this subsection are addressed throughout this document, but are primarily discussed in sections 1.2, 2.1, and 5.4.

economy,” and so the Council should not make a determination regarding the company.¹³³⁵ MetLife states that it “is not systemic under any FSOC designation standard.”¹³³⁶

The company also argues that the enhanced prudential standards applicable to nonbank financial companies supervised by the Board of Governors are “bank-centric,” and thus would be “ill-fitting” for MetLife.¹³³⁷ MetLife states that a Council determination would make the company less competitive with other insurance companies offering similar products.¹³³⁸ The company also argues that the Council cannot predict the consequences of a determination before the Board of Governors’ implementation of the enhanced prudential standards is complete and that without a full understanding of the regulatory framework that would govern companies subject to final determinations by the Council, determinations are premature.¹³³⁹ MetLife predicts that a final determination regarding the company would have unintended consequences on the life insurance industry that are inconsistent with the Council’s mandate.¹³⁴⁰ MetLife further states that “designation of MetLife would have adverse consequences to MetLife, its customers, and the life insurance industry.”¹³⁴¹

MetLife notes that there are material structural differences between MetLife and the other nonbank financial companies subject to final determinations by the Council.¹³⁴² Additionally, in a letter dated August 6, 2014, MetLife requested that, before the Council takes any further actions on determinations under section 113 of the Dodd-Frank Act with respect to insurance companies, including MetLife, the Council (1) conduct an analysis of potential risks to financial stability posed by the insurance industry and (2) determine whether to apply an activities-based approach to the industry. The letter states that the “divergence in treatment between the asset management industry and the insurance industry indicates an absence of standards in the designation process.”

7.2 MetLife and Financial Stability¹³⁴³

MetLife states that the life insurance industry is “a source of financial stability and does not pose systemic risk.”¹³⁴⁴ MetLife describes itself as a “well-managed and financially sound traditional life insurance company with a business model that does not implicate U.S. financial stability”¹³⁴⁵

¹³³⁵ MetLife Voluntary Submission, Section I, pp. I-2-I-3.

¹³³⁶ MetLife Presentation to FSOC (April 24, 2014), p. 4.

¹³³⁷ MetLife Voluntary Submission, Section I, p. I-2.

¹³³⁸ *Id.*

¹³³⁹ MetLife Presentation to FSOC (March 11, 2014), p. 26.

¹³⁴⁰ *Id.*

¹³⁴¹ MetLife Presentation to FSOC (April 24, 2014), p. 4.

¹³⁴² MetLife Presentation to FSOC (March 11, 2014), p. 26.

¹³⁴³ The company’s arguments described in this subsection are addressed throughout this document, but are primarily discussed in sections 1.2, 2.1, 4.3.4, 5.2, and 6.2.

¹³⁴⁴ MetLife Presentation to FSOC (April 24, 2014), p. 4.

¹³⁴⁵ MetLife Presentation to FSOC (March 11, 2014), p. 23.

and notes that life insurance products generate [REDACTED] of direct premiums written.¹³⁴⁶ Accident and health insurance makes up another [REDACTED] of direct premiums written, and the remaining [REDACTED] comes from home and automobile coverage.¹³⁴⁷ MetLife states that 98 percent of its consolidated assets and 96 percent of its liabilities are in insurance companies and are thereby subject to proven and effective resolution regimes.¹³⁴⁸ MetLife states that these companies are “already subject to detailed and comprehensive insurance regulatory systems.”¹³⁴⁹ MetLife also states that it is “geographically diversified across highly competitive markets in 47 countries.”¹³⁵⁰

The company also distinguishes its business model from that of banks: while banks use short-term borrowing to fund long-term lending, insurance companies hold long-term liabilities (policies) and invest in long-term assets to fund these obligations. The company states, “Unlike banks, when insurance companies have failed, there has always been an orderly winding down of their business without impact on the wider system” MetLife states that “there is no impediment to orderly rehabilitation, liquidation, or other resolution of any MetLife entity in the event of insolvency.”¹³⁵¹

7.3 MetLife Legal Analysis¹³⁵²

In the Voluntary Submission, MetLife makes several legal arguments relating to the Council’s consideration of MetLife. MetLife argues that as a threshold matter, it is premature to make a determination regarding MetLife because the Board of Governors has not established prudential standards applicable to nonbank financial companies or implemented standards for an exemption process for such enhanced prudential standards and supervision.¹³⁵³ MetLife also argues that the Council has not standardized the determination process according to clear criteria and procedures and that the Council should not act until such criteria are established.¹³⁵⁴

Further, MetLife argues that the Council has not fully analyzed or given appropriate deference to the state regulation of insurance companies including guaranty funds. MetLife states that the Dodd-Frank Act requires the Council, the Federal Insurance Office within the Treasury Department, and the Board of Governors to consider the adequacy of state regulation and consult with state regulators to evaluate whether a determination is necessary.¹³⁵⁵ The company also

¹³⁴⁶ MetLife Voluntary Submission, Section I, p. I-4.

¹³⁴⁷ Id.

¹³⁴⁸ MetLife Presentation to FSOC (March 11, 2014), p. 25.

¹³⁴⁹ MetLife Voluntary Submission, Section I, p. I-4

¹³⁵⁰ MetLife Presentation to FSOC (April 24, 2014), p. 6.

¹³⁵¹ MetLife Voluntary Submission, Section I, pp. I-4-I-5.

¹³⁵² The company’s arguments described in this subsection are addressed throughout this document, but are primarily discussed in sections 1.2, 2.1, 2.2, and 5.2.1.

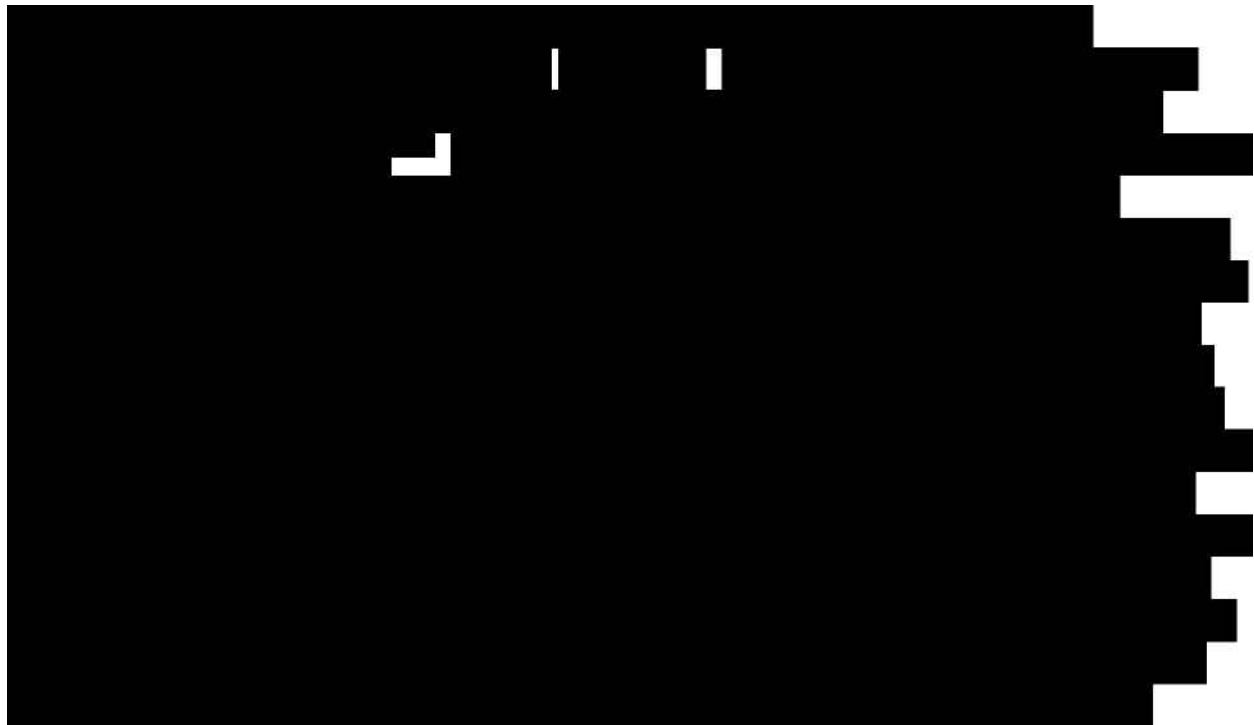
¹³⁵³ MetLife Voluntary Submission, Section VI, pp. VI-1-VI-8.

¹³⁵⁴ Id. at pp. VI-8-VI-11.

¹³⁵⁵ Id. at p. VI-12.

states that the Council has not adequately performed an in-depth analysis of the effectiveness of the state system.¹³⁵⁶ MetLife argues that the Council has ignored historical precedents and what the company describes as the Dodd-Frank Act's requirement of deference to the state system of insurance regulation and avoidance of duplication of the state oversight system.¹³⁵⁷

MetLife also argues that the Council has not properly applied the statutory standards. MetLife states that "[the Council's] treatment of these criteria to date does not reflect the kind of rigorous review that is required for reasoned decision-making under section 113 and the [Administrative Procedure Act]."¹³⁵⁸ Further, MetLife states that the Council has not applied the determination criteria in a manner that is "germane and specific to systemically important financial institutions" and that instead it has applied the criteria in a manner that would apply equally to a range of large non-financial U.S. corporations.¹³⁵⁹ MetLife also argues that the Council has not considered the vulnerability of MetLife to financial distress and maintains that the Council is required to consider that issue.¹³⁶⁰



¹³⁵⁶ MetLife Voluntary Submission, Section VI, pp. VI-12-VI-15.

¹³⁵⁷ Id.

¹³⁵⁸ Id. at p. VI-17.

¹³⁵⁹ MetLife Voluntary Submission, Section VI, p. VI-18.

¹³⁶⁰ Id. at pp. VI-19-VI-27.

¹³⁶¹ Id. at pp. VI-27-VI-28.

¹³⁶² MetLife letter to FSOC and Oliver Wyman analysis "Consequences of a SIFI Designation of MetLife" (July 22, 2014).

Additionally, MetLife argues that the Council should give no weight to the Financial Stability Board's identification of MetLife as a G-SII, due to the differing Council and Financial Stability Board processes.¹³⁶³

7.4 Application of the Council's Framework

7.4.1 Transmission Channels

7.4.1.1 *Exposure Transmission Channel*¹³⁶⁴

MetLife argues that, "[w]hile a number of financial market participants have exposure to MetLife, those exposures in each instance are limited in size, scope, and potential third-party losses"¹³⁶⁵

MetLife argues that even if it were placed into receivership, policyholders would receive continued service and experience minimal or no losses.¹³⁶⁶ In MetLife's view, its products would not be difficult to replicate and could be easily absorbed by the market.

MetLife states that ultimate ownership of its corporate debt is dispersed among a large number of individual holders, many of which are not leveraged. MetLife has approximately \$70 billion in FABNs and GICs outstanding.¹³⁶⁷ The company also has a CP program (\$100 million outstanding as of June 30, 2013).¹³⁶⁸

The company asserts that its derivatives undertakings are modest (\$379 billion notional amount outstanding as of June 30, 2013) and that its contracts are well-diversified across a range of counterparties. According to its calculations, the average impact of MetLife's default would be less than [REDACTED] of a derivatives dealer's total capital, with the largest exposure being [REDACTED].¹³⁶⁹ MetLife further states that hedging accounts for 97 percent of its derivatives.¹³⁷⁰

MetLife states that CDS referencing the company is negligible when compared to the G-SIBs. MetLife is a reference entity for \$25 billion in gross notional amount of CDS contracts. The company states that this is a small amount relative to MetLife's size and the overall CDS market,

¹³⁶³ MetLife Voluntary Submission, Section VI, pp. VI-28-VI-29.

¹³⁶⁴ The company's arguments described in this subsection are addressed throughout this document, but are primarily discussed in section 4.2.

¹³⁶⁵ MetLife Voluntary Submission, Section I, p. I-8.

¹³⁶⁶ *Id.* at p. I-9.

¹³⁶⁷ MetLife Response to OFR Data Request, document A.6.

¹³⁶⁸ MetLife Voluntary Submission, Section I, p. I-10.

¹³⁶⁹ *Id.* at pp. I-10-I-11.

¹³⁷⁰ MetLife Presentation to FSOC (April 24, 2014), p. 9.

and is even lower than the small amount of direct exposure the market has to MetLife through its limited amount of outstanding debt.¹³⁷¹

MetLife argues that its securities lending business does not pose risks to financial stability.¹³⁷² MetLife notes that its securities lending program is approximately \$30 billion and that its governance rules limit a borrower's exposure to 2 percent of the market value of the securities borrowed, implying a maximum \$600 million total exposure.¹³⁷³ MetLife further states that its securities lending occurs exclusively in regulated insurance entities and is subject to regulatory limitations and supervision.¹³⁷⁴

Finally, MetLife states that its net assumed liabilities from reinsurance are approximately \$1.5 billion and that its purchases of reinsurance do not expose counterparties to risk.¹³⁷⁵

*7.4.1.2 Asset Liquidation Transmission Channel*¹³⁷⁶

MetLife asserts that its asset-liability profile differs fundamentally from the typical financial intermediary profile described in the Interpretive Guidance. MetLife describes itself as a liability-driven business with long-term, predictable cash flows. MetLife believes that its policyholders are unlikely to surrender policies prior to maturity because they face economic disincentives to do so.¹³⁷⁷ Further, MetLife submitted a consumer study that focuses on how respondents would expect to behave in situations involving financial distress of their own or another annuity or cash value life insurance provider. The study finds, among other things, that “[a] large majority of owners indicated they would keep their policy even if the issuer experiences financial distress,” “there is a low probability of contagion” across life insurers, and “there is a low probability of cash value funds leaving the life insurance industry.”

The company invests in long-term assets to minimize liquidity risk and maturity mismatches between assets and liabilities. MetLife manages a \$458 billion general account investment portfolio (56 percent of total assets). Cash, short-term investments, U.S. Treasury securities, agencies, and agency RMBS, which the company states are traditionally the most highly liquid asset classes under all market conditions, represent over 20 percent of the portfolio's securities.¹³⁷⁸ MetLife states that its “spread margin business is limited and low risk.”¹³⁷⁹

¹³⁷¹ MetLife Voluntary Submission, Section I, p. I-11.

¹³⁷² MetLife Presentation to FSOC (April 24, 2014), p. 11.

¹³⁷³ MetLife Voluntary Submission, Section I, p. I-12.

¹³⁷⁴ MetLife Presentation to FSOC (April 24, 2014), p. 11.

¹³⁷⁵ MetLife Voluntary Submission, Section I, p. I-12.

¹³⁷⁶ The company's arguments described in this subsection are addressed throughout this document, but are primarily discussed in section 4.3.

¹³⁷⁷ MetLife Voluntary Submission, Section I, pp. I-13-I-14.

¹³⁷⁸ *Id.* at pp. I-14-I-15.

¹³⁷⁹ MetLife Presentation to FSOC (April 24, 2014), p. 10.

MetLife further states that variable annuity surrenders decrease in stressed markets.¹³⁸⁰ MetLife also notes that “MLIC’s surrender rate peaked at 8 percent in the Great Depression.”¹³⁸¹

MetLife argues that the Oliver Wyman liquidity analysis demonstrates, even under the most unrealistic and adverse assumptions (including the immediate and simultaneous surrender of all surrenderable liabilities), that MetLife’s sales of securities in a stressed economic environment would be insignificant compared with the respective trading volumes of the relevant asset classes, and would not cause any material change in asset prices.¹³⁸² It states that the Oliver Wyman study demonstrates that the premise that financial distress at a large insurer could cause heightened surrenders at other insurers is contrary to historical experience and assumes that policyholders would act against their economic interests.¹³⁸³ MetLife also states that state regulators would intervene in the event of, and most likely well before, any such extreme financial distress or policyholder demands at an insurer.¹³⁸⁴ MetLife emphasizes that the scenarios in the Oliver Wyman asset liquidation analysis are inappropriate for evaluating risk because they assume general account policyholder surrender increases to levels in far in excess of empirical experience and inconsistent with other factors.¹³⁸⁵ Oliver Wyman’s analysis finds that the company would have sufficient readily saleable assets to meet any level of general account policyholder surrenders and other liability payment demands with no meaningful disruption to the market for any asset class in these scenarios.¹³⁸⁶

*7.4.1.3 Critical Function or Service Transmission Channel*¹³⁸⁷

MetLife argues that the critical function transmission channel does not apply to the company, because MetLife does not perform any critical function or offer any critical service to the broader financial system that would not be continued in resolution or for which there are no ready substitutes.¹³⁸⁸ MetLife states that its products are highly substitutable.¹³⁸⁹ MetLife further states that it has no role in the payments or settlements system.¹³⁹⁰

¹³⁸⁰ MetLife Presentation to FSOC (April 24, 2014), p. 12.

¹³⁸¹ *Id.* at p. 13.

¹³⁸² MetLife Presentation to FSOC (March 11, 2014), p. 25.

¹³⁸³ *Id.*

¹³⁸⁴ *Id.*

¹³⁸⁵ MetLife Voluntary Submission, Section I, p. I-13.

¹³⁸⁶ MetLife Voluntary Submission, Section I, p. I-17.

¹³⁸⁷ The company’s arguments described in this subsection are addressed throughout this document, but are primarily discussed in section 4.4.

¹³⁸⁸ MetLife Voluntary Submission, Section I, pp. I-17-I-18.

¹³⁸⁹ MetLife Presentation to FSOC (April 24, 2014), p. 28.

¹³⁹⁰ *Id.*

7.4.2 Six-Category Framework

7.4.2.1 *Size*¹³⁹¹

MetLife argues that although size is one criterion for a determination, the Council should also look at whether size would offer any benefit by mitigating the possibility of a firm transmitting distress to the broader economy.¹³⁹² MetLife further argues that “in enacting Dodd-Frank, Congress made clear that size alone is not a basis for designation.”¹³⁹³ The company states that MetLife’s business model presents less risk than other types of similarly sized financial institutions such as banks.¹³⁹⁴ MetLife contends that its size does not create or correlate to complexity but rather is a benefit in the life insurance industry “as it allows for greater diversification and pooling of insurance risks across a wide variety of individuals and risk types.”¹³⁹⁵ MetLife contends that size must be considered in the context of the company’s own business model and operating strategy.¹³⁹⁶ MetLife states that it does not engage in maturity transformation and that its short-term debt is only 0.27 percent of assets. Additionally, \$246 billion of MetLife’s \$816 billion in assets are qualifying separate account assets, where risk is borne by the beneficial owners. MetLife states that its off-balance sheet activities are relatively modest, and insignificant relative to G-SIBs. The company has \$379 billion in gross notional derivatives contracts, and other off-balance sheet commitments of \$9.1 billion.¹³⁹⁷ Finally, MetLife states that its asset management business is [REDACTED] of revenue.¹³⁹⁸

7.4.2.2 *Interconnectedness*¹³⁹⁹

MetLife states that its interconnections are limited in size, scope, and potential exposure whether measured individually or in the aggregate and do not raise systemic concerns.¹⁴⁰⁰ As of June 30, 2013, MetLife states that the exposure of MetLife’s top 10 financial institution counterparties to a MetLife insolvency was only [REDACTED]¹⁴⁰¹ MetLife states that its funding sources are broadly diversified, generally retail-oriented and do not pose any threat to U.S. financial stability. MetLife notes that [REDACTED] of its funding comes from policyholders, who the company states do not pose systemic concern, and reiterates the modest and diversified nature of

¹³⁹¹ The company’s arguments described in this subsection are addressed throughout this document, but are primarily discussed in sections 3.1 and 3.2.

¹³⁹² MetLife Voluntary Submission, Section I, p. I-19.

¹³⁹³ MetLife Presentation to FSOC (April 24, 2014), p. 30.

¹³⁹⁴ MetLife Voluntary Submission, Section I, p. I-20.

¹³⁹⁵ MetLife Presentation to FSOC (March 11, 2014), p. 23.

¹³⁹⁶ MetLife Presentation to FSOC (April 24, 2014), p. 30.

¹³⁹⁷ MetLife Voluntary Submission, Section I, p. I-20.

¹³⁹⁸ MetLife Presentation to FSOC, April 24, 2014, p. 6.

¹³⁹⁹ The company’s arguments described in this subsection are addressed throughout this document, but are primarily discussed in sections 4.2, 4.3.2, 4.3.3, 4.3.4, 4.3.5, and 4.3.6.

¹⁴⁰⁰ MetLife Presentation to FSOC, March 11, 2014, p. 24.

¹⁴⁰¹ MetLife Voluntary Submission, Section I, p. I-20.

its corporate debt and other capital markets activities. The fair value of MetLife's exposure to domestic financial companies is just over [REDACTED]¹⁴⁰² No institutional counterparty has significant enough exposure to MetLife or the assets MetLife holds, either individually or in the aggregate, to incur material impairment in the event of MetLife's failure.¹⁴⁰³ Finally, MetLife states that exposures from its derivatives, securities lending, and reinsurance activities are limited in size and are diversified across a range of high-quality counterparties.¹⁴⁰⁴

7.4.2.3 *Substitutability*¹⁴⁰⁵

MetLife states that other firms could provide similar financial services in a timely manner at a similar price and quantity with no disruption in the unlikely event of a MetLife resolution, because it has a large number of competitors and offers a standardized product. It notes that the three primary markets in which MetLife operates are unconcentrated under Department of Justice and Federal Trade Commission guidelines and would remain unconcentrated even if MetLife's business were combined with the market leader or next largest provider.¹⁴⁰⁶

7.4.2.4 *Leverage*¹⁴⁰⁷

MetLife states that it is not highly leveraged and does not rely on short-term funding.¹⁴⁰⁸ MetLife has \$26.1 billion in total outstanding debt, and total equity of \$60.4 billion.¹⁴⁰⁹ Debt is only 3.4 percent of MetLife's total liabilities.¹⁴¹⁰ The resulting debt-to-equity ratio of 0.43 is significantly smaller than that of all the U.S. G-SIBs and lower than that of both AIG and Prudential. MetLife states that its ratio of total consolidated assets to total equity is 9.4.¹⁴¹¹ Further, MetLife also notes that it is subject to and well above the NAIC's RBC standards.¹⁴¹²

7.4.2.5 *Liquidity Risk and Maturity Mismatch*¹⁴¹³

MetLife argues that the company's life insurance business model is not dependent on the transformation of short-term liabilities into longer-term assets.¹⁴¹⁴ MetLife notes that 92 percent

¹⁴⁰² MetLife Voluntary Submission, Section I, p. I-21.

¹⁴⁰³ MetLife Voluntary Submission, Section I, p. I-8; MetLife Presentation to FSOC (March 11, 2014), p. 24.

¹⁴⁰⁴ MetLife Voluntary Submission, Section I, p. I-22.

¹⁴⁰⁵ The company's arguments described in this subsection are addressed throughout this document, but are primarily discussed in section 4.4.

¹⁴⁰⁶ MetLife Voluntary Submission, Section I, pp. I-23-I-24.

¹⁴⁰⁷ The company's arguments described in this subsection are addressed throughout this document, but are primarily discussed in sections 4.2.4.6, 4.3.1, 4.3.7, and 4.3.8.

¹⁴⁰⁸ MetLife Presentation to FSOC (March 11, 2014), p. 24.

¹⁴⁰⁹ MetLife Voluntary Submission, Section I, pp. I-24.

¹⁴¹⁰ MetLife Presentation to FSOC (March 11, 2014), p. 24.

¹⁴¹¹ MetLife Presentation to FSOC (April 24, 2014), p. 29.

¹⁴¹² MetLife Voluntary Submission, Section I, pp. I-24-I-25.

¹⁴¹³ The company's arguments described in this subsection are addressed throughout this document, but are primarily discussed in sections 3.2.1, 4.3.2, 4.3.3, and 4.3.5.

¹⁴¹⁴ MetLife Voluntary Submission, Section I, p. I-25.

of its liabilities relate to insurance policies that have long-term, predictable cash flows based on actuarial forecasts for policy claim, and that 20 percent of its \$458 billion general account investment portfolio is invested in highly liquid asset classes. MetLife states that its most extreme stress test showed that liquidated assets provide at least [REDACTED] coverage for the expected liability outflows under an extreme stress scenario across all time periods.¹⁴¹⁵

MetLife also notes that it has an extremely low likelihood of sudden liquidity demands due to the long-term nature of its liabilities.¹⁴¹⁶ MetLife further contends that its customers do not view its products as a ready source of cash and there are powerful economic, tax, and other disincentives to policy surrenders.¹⁴¹⁷

*7.4.2.6 Existing Regulatory Scrutiny*¹⁴¹⁸

MetLife notes that insurance authorities regulate MetLife's insurance subsidiaries, with these subsidiaries accounting for 98 percent of the company's assets, 96 percent of its liabilities, and 95 percent of its revenues on a consolidated basis.¹⁴¹⁹ These subsidiaries are subject to filing requirements, RBC requirements, and the states' resolution frameworks.¹⁴²⁰ MetLife further states that its U.S. insurance companies (including captive reinsurance companies) are subject to extensive regulation and supervision, including capital requirements calibrated to insurance risks and designed for early intervention; required testing to ensure sufficiency of assets to defease liabilities; quality requirements and concentration limits for investments; derivatives use plans; approval of material intercompany transactions and all new activities; conservative accounting standards tailored to insurance; and supervisory reports.¹⁴²¹

¹⁴¹⁵ MetLife Voluntary Submission, Section I, pp. I-26-I-27.

¹⁴¹⁶ MetLife Presentation to FSOC (March 11, 2014), p. 24.

¹⁴¹⁷ *Id.*

¹⁴¹⁸ The company's arguments described in this subsection are addressed throughout this document, but are primarily discussed in section 5.

¹⁴¹⁹ MetLife Voluntary Submission, Section II, p. II-2.

¹⁴²⁰ MetLife Voluntary Submission, Section I, p. I-28.

¹⁴²¹ MetLife Presentation to FSOC (April 24, 2014), p. 27.

7.5 Resolvability¹⁴²²

MetLife submitted a resolvability assessment seeking to demonstrate that, under applicable legal regimes, MetLife and its subsidiaries could be resolved in an orderly fashion without destabilizing effects for the U.S. financial system.¹⁴²³

MetLife's assessment finds no material obstacles to the orderly resolution of MetLife.¹⁴²⁵

MetLife states that the standard for resolvability of an insurance organization like MetLife should reflect the nature of its business, its asset and liability structure, and the expectations of its policyholders. MetLife contrasts bank deposits, which promise payment on demand, with insurance policies, which promise benefits when and if the obligations ripen.¹⁴²⁶

7.5.1 Resolution Framework

MetLife states that the typical course of action in the case of financial distress would be for the relevant state insurance authorities to deal with the subsidiaries where the distress occurs on a company-by-company basis. MetLife states that insurance failures are typically slow to mature and state insurance authorities typically intervene prior to failure to avert failure or mitigate the depths of losses.¹⁴²⁷

MetLife outlines the process for receivership and transfer of policies. The company states that policyholders would not suffer any losses to the extent that their policy claims did not exceed the applicable GA limit (generally up to at least \$300,000 in aggregate death and withdrawal benefits), and large claims would lose

¹⁴²² The company's arguments described in this subsection are addressed throughout this document, but are primarily discussed in section 6.

¹⁴²³ MetLife Presentation to FSOC (March 11, 2014), p. 25.

¹⁴²⁴ MetLife Voluntary Submission, Section V, p. V-3.

¹⁴²⁵ MetLife Voluntary Submission, Section I, pp. I-28-I-29.

¹⁴²⁶ MetLife Voluntary Submission, Section I, p. I-29.

¹⁴²⁷ *Id.* at p. I-30.

¹⁴²⁸ *Id.*

¹⁴²⁹ MetLife Voluntary Submission, Section I, pp. I-30-I-32.

[REDACTED]

MetLife notes that there may be multiple authorities and multiple receiverships in the case that more than one subsidiary failed at the same time. MetLife believes that respective receivers would take coordinated and cooperative actions as the need arose.¹⁴³³

7.5.2 Factors Impacting MetLife's Resolvability

MetLife states that the following factors enhance its resolvability.

[REDACTED]

[REDACTED]

[REDACTED]

¹⁴³⁰ MetLife Voluntary Submission, Section I, pp. I-32-I-33.

¹⁴³¹ Id. at p. I-33.

¹⁴³² Id. at pp. I-32-I-33.

¹⁴³³ Id. at pp. I-33-I-34.

¹⁴³⁴ MetLife Voluntary Submission, Section I, pp. I-34-I-35.

¹⁴³⁵ Id. at p. I-36.

¹⁴³⁶ MetLife Voluntary Submission, Section I, pp. I-36-I-37.

¹⁴³⁷ Id. at p. I-37.

7.6 MetLife Written Hearing Submission

On October 16, 2014, MetLife submitted supplemental written materials to the Council to contest the proposed determination.¹⁴⁴⁰ A high-level overview of certain issues addressed is below. In addition, this submission includes a paragraph-by-paragraph critique of the Council's notice of proposed determination.

7.6.1 Exposure Transmission Channel

MetLife challenges the assertion that the exposure of the company's counterparties is so significant that its material financial distress could pose a threat to those counterparties and thereby affect financial stability. MetLife states that the Council's analysis uses a flawed methodology for calculating exposure that artificially inflates exposure amounts and fails to account for factors that mitigate exposure, such as the GAs. Further, MetLife states that the Council's methodology fails to demonstrate with sufficient specificity how material financial distress at MetLife would affect MetLife's counterparties adversely.

MetLife asserts that the Council's analysis overstates the exposure of G-SIBs and G-SIIs to MetLife because the calculations do not consider expected recovery rates for insurers in insolvency, which the company states are lower than rates for other insolvent financial entities. When considering this caveat, the company states that the exposures of most of these institutions to MetLife are [REDACTED] of their total equity.

The company also states that the Council's analysis fails to recognize structural elements in the types of products held by institutional customers. Specifically, the company notes that many of these liabilities are separate account liabilities that are protected from the company's general creditors in the event of insolvency, and therefore are not properly considered as exposures.

MetLife also states that most customers with surrender provisions, who could in theory demand payment if MetLife became insolvent, are retail customers, who are economically incentivized to retain their policies. Moreover, MetLife states that most customers are covered by the GA

1438 [REDACTED]
 1439 [REDACTED]
 1440 MetLife Materials Contesting the Proposed Determination (October 16, 2014).

system. Further, the company states, 40 million of these customers are non-U.S. customers, meaning any loss to these customers would not have any direct impact on U.S. financial stability.

MetLife asserts that the assessment of the company's capital markets exposures improperly includes activities that cannot reasonably be considered capital markets activities.

The company also states that the analysis ignores the nature of MetLife's securities lending business because this business is not used to generate short-term funding, and all loan transactions are fully collateralized. MetLife states that if the collateral available is considered, this significantly offsets the level of exposure estimated in the analysis.

MetLife also states that the analysis does not substantiate MetLife's possible contagion effects among parties with no direct exposure to MetLife. While the analysis cites the principle that increased interconnectedness among parties can increase the risk of contagion effects spreading from one firm to others, it fails to demonstrate what threshold of losses would be significant enough to materially impair MetLife's counterparties and pose a threat to U.S. financial stability. MetLife asserts that even if the correct exposure figures are used, the analysis provides no empirical analysis to support the assertion that these exposures could translate into a threat to U.S. financial stability.

7.6.2 Asset Liquidation Transmission Channel

MetLife asserts that the analysis mischaracterizes the company's activities to overstate and speculate about the likelihood of asset liquidation risk. MetLife contends that the speculative nature of the Council's analysis makes its conclusions unreasonable.

MetLife also states that the analysis overstates the company's exposure to FABS by considering them short-term securities, ignoring that some of these assets have long-term maturities. MetLife asserts that the analysis oversimplifies the nature of its investment portfolio, which is a mixture of assets of varying liquidities, which, the company states, provides the company with more liquidity options than the analysis acknowledges.

MetLife also asserts that the analysis mischaracterizes the company's leverage, stating that the company's short-term debt is minimal compared to other types of leverage, but that the analysis groups high- and low-risk debt together, distorting its actual leverage. The company further contests the characterization of its securities lending liabilities in the analysis, which it contends involve high-quality assets in transactions that counterparties cannot terminate unilaterally.

MetLife also asserts that the Council's analysis misunderstands the Oliver Wyman asset liquidation analysis, which the company states illustrates that even under the extreme conditions of the most implausible scenarios, asset sales at the company would not cause a threat to U.S. financial stability. The company further states that the conclusions in the analysis contradict

MetLife's factual evidence and statements as to the company's liquidation strategy without offering evidence to counter MetLife's assertions.

MetLife also addressed factors affecting its insurance-related liabilities. First, the company states that the scope and speed of asset liquidation assumed in the Council's analysis would require policyholders to surrender policies in an insolvent company, an action against their own economic interest and contrary to historical experience with regard to insolvent insurers. Second, the company states that the Council's asset liquidation scenario ignores disincentives of MetLife or state regulators to stay policy withdrawals, disregarding the impact of state guaranty funds and regulation. MetLife further states that even if the analysis substantiated the likelihood of the implausible scenarios, the Oliver Wyman study shows that MetLife's resulting asset sales still would not be sufficient to create price impacts that could cause market instability.

Finally, MetLife states that the analysis ignores historical data and the nature of the U.S. repo market as an insignificant part of the U.S. financial system, and its diminishing in importance due to recent market developments.

7.6.3 Critical Function or Service Transmission Channel

While MetLife agrees with the conclusion in the analysis that the critical function transmission channel is not a means through which MetLife's material financial distress would be likely to pose a threat to U.S. financial stability, the company states that the analysis speculates about factors that would make this transmission channel pose such a threat by making unsupported assumptions.

For example, the company asserts that the analysis attacks the Herfindahl-Hirschman Index, which is used to assess industry concentration, but then fails to offer any alternative to this measure. MetLife also states that the analysis makes unexplained statements regarding anticipated delays in the absorption of MetLife's business by other providers. In addition, the company states that the analysis is inconsistent on the issue of corporate benefits funding, where the company states that it concludes such funding is not large enough to pose a threat to financial stability while also suggesting that the size of MetLife's market share could pose systemic problems. MetLife also asserts that the analysis is overly speculative regarding the potential impact on financial stability of pension buy-in products.

7.6.4 Resolvability

MetLife asserts that the company's resolvability, rather than increasing risk to the financial system, mitigates the threat that MetLife poses to U.S. financial stability. The company states that the analysis ignores or misconstrues critical information in concluding that MetLife's resolvability is a weakness.

MetLife states that the analysis ignores the evidence of the durability of the existing resolution regime for insurance companies. [REDACTED]

[REDACTED]

The company contends that the analysis further underestimates the ability of the GAs to address insurer insolvencies. In addition, MetLife argues that the assertion that the existence of MetLife's business activities in multiple jurisdictions complicates resolution misunderstands the nature of insurance regulation and inappropriately attempts to superimpose a bank-centric "single point of entry" approach on an entirely different industry. MetLife contends that this description of the insurance resolution regime misunderstands the GAs, and therefore fails to appreciate its mitigating impact on insurer resolution.

[REDACTED]

MetLife also contends that the analysis mischaracterizes MetLife's business connections in ways that incorrectly suggest these connections increase resolvability risk. For example, MetLife states that the financial distress of a company can almost never be transmitted to a reinsurer unless that company fails to make its contractual reinsurance payments. MetLife states that any company's receiver is incentivized to maintain these contractual agreements, not breach them, because maintaining them allows the receiver the ability to sell this block of business to solvent carriers. MetLife contends that similar misconceptions are applied to MetLife's securities lending and derivatives management business, which the company states are collateralized and do not increase resolvability risk.

7.6.5 Legal Analysis

MetLife asserts that the Council's process violates constitutional, statutory, and regulatory requirements for notice and due process. Further, MetLife asserts that the Council fails to consider and to apply the proper statutory factors in evaluating MetLife.

MetLife asserts that it is premature for the Council to make a determination regarding the company because other regulations related to nonbank financial company determinations have not yet been implemented. MetLife cites three such regulatory actions: (1) the enhanced prudential standards applicable to nonbank financial companies, pursuant to section 165 of the Dodd-Frank Act; (2) the Board of Governors' regulations exempting certain types or classes of nonbank financial companies from supervision by the Board of Governors, pursuant to section 170(a) of the Dodd-Frank Act; and (3) standards for the Council to evaluate insurance companies specifically for a determination.

MetLife asserts that the Council's analysis failed to consider alternatives to a determination under section 113 of the Dodd-Frank Act and did not consider any of the expected costs to MetLife of a Council determination. MetLife also states that the Council's analysis is impermissibly speculative by assuming material financial distress at the company, rather than assessing its likelihood.

MetLife alleges that the Council failed to properly apply the statutory standards under section 113 of the Dodd-Frank Act because, it asserts, the "overwhelming focus" of the analysis on transmission channels does not give adequate weight to statutory factors other than size and interconnectedness. The company also argues that the analysis fails to consider material differences between the types of risks posed by an insurance company and other financial companies.

MetLife also claims that the Council's structure and procedures for determinations violate constitutional separation of powers and due process.

7.7 MetLife Oral Hearing Held on November 3, 2014

On November 3, 2014, officers and representatives of MetLife appeared at an oral hearing before the Council to contest the proposed determination.

During the oral hearing, MetLife first discussed the differences between banks and insurers, stating that while banks are subject to panics and destabilizing runs, insurance companies are not. MetLife noted that historically, the failure and resolution of a bank by the FDIC has often taken place over a period of days, while the failure of an insurance company has generally taken place over an extended period of time and as a result does not create the same financial stability concerns as the insolvency and resolution of banks.

MetLife also criticized several aspects of the Council's process. First, MetLife asserted that the Council should examine the type of activities in which MetLife engages, rather than the company's size. MetLife argued that while it may be large, it engages in activities that are less risky than the activities of certain other financial companies.

Second, MetLife asserted that it is premature to make a determination regarding MetLife because the Board of Governors has not issued a final rule setting forth the prudential standards that will apply to nonbank financial companies subject to Board of Governors supervision. MetLife noted that if the Board of Governors were to apply Basel III capital standards to nonbank financial companies, many of MetLife's lines of business would become uneconomic because the Basel standards were not designed for insurance activities. [REDACTED]

Third, MetLife stated that it would be inappropriate to make a determination regarding MetLife when there may be changes forthcoming to the Council's determinations process.

Fourth, MetLife distinguished itself from the insurance companies subject to previous Council determinations. MetLife argued that a hypothetical run on MetLife's assets, which MetLife does not believe to be possible, would not cause financial instability. MetLife also differentiated itself on the basis that no G-SIB has exposure of more than 2 percent of its capital to MetLife. MetLife noted that almost all of its assets and derivatives obligations are held in highly regulated insurance entities and that this simpler corporate structure would make MetLife easier to resolve than either AIG or Prudential. MetLife also asserted that a Council determination must be based on two assessments: (1) the likelihood of MetLife experiencing material financial distress, and (2) the consequences of such distress for U.S. financial stability. MetLife argued that the Council's analysis fails to meet these requirements.

MetLife also asserted that it does not meet the statutory definition of a "nonbank financial company."

MetLife also stated that each of the three main arguments in the Council's analysis is inaccurate or overstated. First, MetLife asserted that the Council overstates exposure of the U.S. financial system, particularly G-SIBs, to MetLife. Second, MetLife stated that the assumptions used with regard to a hypothetical "run" on MetLife are inaccurate. MetLife asserted that a run on an insurer such as MetLife would imply that all existing state regulation has failed, and, further, that policyholders would act against their own economic interests by selling their policy at a loss to their contract's value. MetLife also asserted that there is no evidence that a retail insurance policyholder run has ever occurred. MetLife emphasized that the Oliver Wyman study cited in the company's submissions analyzes several scenarios that demonstrate that, even with implausible risk assumptions in the most severe distress scenarios, MetLife could execute an orderly sale of assets that would not cause instability in the U.S. financial system. MetLife also cited the NORC study, discussed above in section 4.3.5.3, as evidence that policyholders would seek out professional advice before taking action regarding their accounts, and asserted that a professional would advise the policyholder not to liquidate their policy. Finally, MetLife claimed that the Council's analysis overstates the contagion effects of a potential MetLife insolvency and fails to adequately consider historical examples of insurance company failures that did not cause contagion.

MetLife argued that the insurance market is very different from the banking sector because large insurers do not receive any implicit guarantee and do not offer unique capabilities that cannot be replaced by smaller market participants, so that if it were subject to a Council determination, MetLife would be left at a competitive disadvantage relative to insurers not subject to a Council determination, with no resulting benefits to the financial system. Rather, MetLife asserted that a Council determination regarding MetLife would result only in a number of negative consequences, including higher consumer costs, competitive distortions in the marketplace, and the potential dismantling of the company.

In response to questions from members of the Council, MetLife addressed issues including the following:

- Asset liquidation in stress scenarios: MetLife described its strategy for selling assets in a time when the entire economy is stressed by referring the Council to Scenario 3 of the Oliver Wyman study, which assumed a worse scenario for the company and the broader economy than occurred in 2008. Even in this model, which MetLife believes is unrealistic, MetLife stated that according to the study the company would still be able to meet its liquidity needs.
- Historical examples: MetLife stated that there have been relevant examples of historical insurance company failures, such as Confederation Life in Canada, which, though not similarly sized in terms of assets, was comparable in size relative to the GDP of the economy in which it became insolvent.
- Credit ratings: MetLife stated that credit ratings have an important, but not dispositive, effect on MetLife's business, and that ratings are an important mechanism to provide consumers with confidence in insurers.
- Short-term funding agreements: MetLife stated that the company's FABS program is a matched-book business whereby FABS proceeds are invested in other assets, and that FABS proceeds are not used for general corporate purposes. MetLife also noted that the program is regulated by New York State and other insurers do use these instruments, although due to its size MetLife is the largest player in this market.
- Impact of Council determination: MetLife noted that it could not definitively state what impact a Council determination would have on the company because the relevant enhanced prudential standards had not been promulgated.
- Resolution: MetLife stated that the existing insurance regulatory regime and MetLife's resolvability assessment both assume that the supervisory agency responsible for each individual entity within the MetLife corporate structure will take control of, and if necessary resolve, that entity without recourse to any other part of MetLife's corporate

structure. MetLife asserted that there are no material interconnections among the MetLife entities, so that during a distress event, each entity could if necessary be resolved by its local supervisory agency. In addition, MetLife stated that it regularly coordinates directly with all foreign regulators supervising MetLife entities.

7.8 Supplemental Written Materials Submitted on November 10, 2014

MetLife made a submission on November 10, 2014, to supplement its oral presentation to the Council on November 3, 2014.

First, MetLife asserts that the Council's failure to consider MetLife's vulnerability is unreasonable. Second, MetLife repeats its assertion that it is unreasonable for the Council not to suggest a specific condition that could cause material financial distress at MetLife. Third, MetLife contends that Scenario 4 in the Oliver Wyman analysis is so conservative and implausible that the Council cannot have any rational basis for considering any scenario of more severe material financial distress at MetLife. Fourth, the company asserts that size cannot be the sole or even the predominant factor in a Council determination regarding MetLife. Fifth, MetLife argues that section 113(a)(2)(K) of the Dodd-Frank Act, which requires the Council to consider "any other risk-related factors that the Council deems appropriate," requires the Council to consider the adverse consequences of a Council determination regarding MetLife, its shareholders, its customers, and insurance markets as a whole. MetLife states that the Council did not consider such consequences.

8 CONCLUSION

The Council has made a final determination that material financial distress at MetLife could pose a threat to the financial stability of the United States and that MetLife shall be supervised by the Board of Governors and be subject to enhanced prudential standards.

9 MINORITY OR DISSENTING VIEWS OF COUNCIL MEMBERS

9.1 Views of the Voting Members

Views of the Council's Independent Member Having Insurance Expertise

As the Financial Stability Oversight Council's (the Council) Independent Member having insurance expertise, I dissent from the Council's Final Determination that MetLife, Inc., (MetLife) could pose a threat the financial stability of the United States if it were to suddenly and inexplicably be in material financial distress and face imminent failure. I disagree with what in the vernacular is described as the "designation" of MetLife as a "systemically important financial institution" or "SIFI."

The Resolution presented for the vote today by the Council points only to the First Determination Standard as the sole justification for the Council's determination – *that material*

financial distress at the nonbank financial company could pose a threat to the financial stability of the United States. The Council's analysis using the First Determination Standard has not persuaded me, and I believe that MetLife has presented a comprehensive response to the flaws in the Council's basis for proposed determination.

I believe that there could be some findings within the Council's Notice of Final Determination and Statement of the Basis for the Financial Stability Oversight Council's Final Determination Regarding MetLife, Inc., (Notice of Final Determination) that would be useful in considering the designation of MetLife under the Second Determination Standard – *that the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the nonbank financial company could pose a threat to the financial stability of the United States*, regardless of whether the company were experiencing material financial distress.

The Second Determination Standard largely mirrors one of the ten statutory considerations the Council evaluated under the First Determination Standard.¹⁴⁴¹ However, consistent with past designations, the Council has again elected not to make a determination with respect to the company's activities under the Second Determination Standard. By not considering the Second Determination Standard, the Council has continued its practice of not informing a company of those aspects of its business that were the primary factors associated with a designation.

I do share concerns about some of MetLife's activities, particularly in the non-insurance and capital markets activities spheres, and in the resulting exposures identified and described in the Council's Notice of Final Determination in the Company Overview and Exposure Transmission Channel sections. These activities might conceivably pose a threat to the U.S. financial stability under certain circumstances. It is these types of activities that should be fully evaluated under the Second Determination Standard, as opposed to the flawed Council analysis under the First Determination Standard.

I do not, however, agree with the analysis under the Asset Liquidation Transmission Channel of the Notice of Final Determination, which is one of the principal bases for the finding under the First Determination Standard. I do not believe that the analysis' conclusions are supported by substantial evidence in the record, or by logical inferences from the record. The analysis relies on implausible, contrived scenarios as well as failures to appreciate fundamental aspects of insurance and annuity products, and, importantly, State insurance regulation and the framework of the McCarran-Ferguson Act.¹⁴⁴² It presumes that all current operations and activities are static without consideration of any dynamics or responses occurring before a presumed insolvency. The analysis discusses in detail, and is dismissive of, the U.S. State insurance regulatory framework, the panoply of State regulatory authorities, and the willingness of State

¹⁴⁴¹ Dodd-Frank §113(a)(2), 12 U.S.C. §5323 (a)(2).

¹⁴⁴² 15 U.S.C. §§1011-1015.

regulators to act, thereby overstating shortcomings and uncertainties that are inherent in all regulatory frameworks, State or Federal.

In addition, I do not believe that the Critical Function or Service Transmission Channel analysis warrants acknowledgement as a fallback basis for designation, as MetLife does not appear to provide any critical financial service or product for which substitutes are unavailable.

The Council's expressed concerns in the Notice of Final Determination as to existing regulatory scrutiny, the State guaranty associations, and the potential complexities associated with the resolution of a large insurance company, seem to me to be unbalanced and lead to distorted conclusions regarding the Asset Liquidation Transmission Channel. This is also the case, in my opinion, as to those portions of the analysis that concern the existing framework for the resolution of insurance companies. If all of these system-wide concerns of the Council are legitimate, it should be using its other available tools to address them.

While the Council's approach to designation triggers supervisory jurisdiction by the Board of Governors of the Federal Reserve System (Board of Governors or Board), it does little else to promote real financial system reform. In my considered view, the Council should be more transparent about which of MetLife's activities, together or separately, pose the greatest risk to U.S. financial stability in order to provide constructive guidance for the primary financial regulatory authorities, the Board of Governors, international supervisors, other insurance market participants and, of course, MetLife itself, to address any such threats posed by the company. The Notice of Final Determination that went to MetLife, while it is hundreds of pages long, is not, in my opinion, a roadmap showing any possible exit ramp.

It is important to identify particular activities in order to encourage appropriate and further action that could lessen any company-specific threat to U.S. financial stability. Paraphrasing what one insurance thought leader once told me: "We should not tolerate any insurance company posing a threat to our financial system – pinpoint what makes them systemically risky and let's fix them."¹⁴⁴³ I believe that not pinpointing specific activities that contribute to the company's systemic risk profile is a mistake. Importantly, rather than confronting the greater burden tied to the Second Determination Standard, it is easier to simply presume a massive and total insolvency first, and then speculate about the resulting effects on activities, than it is to initially analyze and consider those activities.

Speaking for myself, I believe that activities conducted by financial companies that are worth spotlighting include the extent and type of use of wholesale funding markets and other available lending facilities to fund operations, together with sizable securities lending programs, and high

¹⁴⁴³ Therese M. Vaughan, Ph.D., Dean of the College of Business and Public Administration, Drake University, and former Iowa Insurance Commissioner, President and CEO of the National Association of Insurance Commissioners, International Association of Insurance Supervisors Executive Committee member, and Chair of the Joint Forum.

operating leverage, all of which could possibly pose risk to the broader markets and the U.S. financial system, particularly if such funding and credit markets access were to retract in a period of overall stress in the financial system and a weak macroeconomic environment. Potential risks to financial stability might stem not only from this vulnerability to funding market disruption, but also from the mix and scale of certain activities, which could possibly have the potential to disrupt or exacerbate market dislocations, regardless of whether a financial company is experiencing financial distress. MetLife actively participates in these funding markets and engages in securities financing transactions in a significant way.

It is possible that I might have even agreed with the Notice of Final Determination had the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of MetLife been accepted as the precursor that could affect the potential for material financial distress at the company to transmit financial instability. Indeed, in its Final Rule and Guidance, the Council recognized that there is some degree of overlap between the First and Second Determination Standards as a nonbank financial company that could pose a threat to U.S. financial stability because of the nature, scope, size, scale, concentration, interconnectedness, or mix of its activities could also pose a threat to U.S. financial stability if it were to experience material financial distress.¹⁴⁴⁴ However, the Notice of Final Determination concludes that the origin of the company's systemic risk would stem from a sudden and unforeseen insolvency of unprecedented scale, of unexplained causation, and without effective regulatory responses or safeguards. I simply cannot agree with such a premise, which is the central foundation for this designation.

This decision by the Council designating MetLife should come as no surprise to anyone, as it has long been anticipated and expected. However, it may be helpful to take a quick holistic look-back to consider the chronology of certain circumstances that led to MetLife's designation.

On February 14, 2013, MetLife announced that it had deregistered as a bank holding company, as approved by the Board of Governors and the Federal Deposit Insurance Corporation (FDIC), after having been supervised by the Board since 2001.¹⁴⁴⁵ Many of the company's activities set forth in the Notice of Final Determination developed over this time period. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), once MetLife had deregistered as a bank holding company, it then became eligible for Council review as a non-bank financial institution.¹⁴⁴⁶

¹⁴⁴⁴ 12 C.F.R., Pt. 1310 (1-1-14 Edition).

¹⁴⁴⁵ MetLife Press Release, "MetLife sheds bank holding company status with approvals from the Federal Reserve and FDIC" (February 14, 2013).

¹⁴⁴⁶ See 12 U.S.C. §5311(a)(4)(B), excluding bank holding companies from the definition of "nonbank financial company."

On July 18, 2013, the Financial Stability Board (FSB), an international organization within the umbrella of the Group of Twenty (G-20), primarily comprising the world's finance ministers and central bankers, including the U.S. Department of the Treasury (Treasury) and the Board of Governors, announced that it had identified MetLife as a global systemically important financial institution (G-SIFI). G-SIFIs are declared by the FSB to be "institutions of such size, market importance, and global interconnectedness that their distress or failure would cause significant dislocation in the global financial system and adverse economic consequences across a range of countries."¹⁴⁴⁷ Thus, MetLife was declared by the FSB as a threat not to just the U.S. financial system, but to the entire global financial system.

The FSB's announcement of the identification of MetLife and eight other insurers as G-SIFIs stated that its action had been taken "in collaboration with the standard-setters and national authorities;" and, that as G-SIFIs, these organizations would be subject to policy measures including immediate enhanced group-wide supervision, as well as to recovery and resolution planning requirements.¹⁴⁴⁸ It is clear to me that the consent and agreement by some of the Council's members at the FSB to identify MetLife a G-SIFI, along with their commitment to use their best efforts to regulate said companies accordingly, sent a strong signal early-on of a predisposition as to the status of MetLife in the U.S -- ahead of the Council's own decision by all of its members.

Despite subsequent assertions by some of the Council's members that the FSB and Council processes are separate and distinct, they are in my mind very much interconnected and not dissimilar. It would seem to follow that FSB members who consent to the FSB's identification of G-SIFIs also commit to impose consolidated supervision, yet-to-be agreed-to capital standards, resolution planning, and other heightened prudential measures on those G-SIFIs that are domiciled in their jurisdictions. With respect to MetLife and the other U.S. insurance organizations declared to be threats to the global financial system - American International Group (AIG) and Prudential Financial, Inc., (Prudential) - the only way that FSB policies and measures can be imposed upon such G-SIFIs is through a determination by the Council as a whole that material financial distress or activities occurring at such companies could: (a) pose a threat to the financial stability of the United States, and (b) should be supervised by the Board of Governors. A failure of the Council to designate MetLife would thus appear to amount to a failure of the U.S. to meet international commitments already made within the G-20.

Although it may be technically accurate to say that the FSB's declaration is not legally binding on the Council, the FSB explicitly acts in collaboration with the standard-setters and national authorities with the expectation that the intended effects will be achieved by FSB member

¹⁴⁴⁷ See FSB, "Progress and Next Steps Towards Ending "Too-Big-To-Fail" (TBTF), Report of the Financial Stability Board to the G-20" (September 2, 2013), p. 8.

¹⁴⁴⁸ FSB, Press Release, "FSB identified an initial list of global systemically important insurer (G-SIIs)," Ref. no: 49/2013 (July 18, 2013).

countries. The FSB's framework for the identification of systemic risk in the financial system is clear about this intended influence: "The FSB's decisions are not legally binding on its members – instead the organisation operates by *moral suasion and peer pressure*, in order to set internationally agreed policies and minimum standards that its members commit to implementing at national level."¹⁴⁴⁹

As the FSB continues to consider other U.S. financial firms for designation as G-SIFIs, I encourage my fellow Council members whose agencies are members of the FSB to not again allow the FSB to "front-run" or pressure decisions that must be made first by the Council as a whole. Congress authorized Council members to designate U.S. and foreign nonbank financial companies at the Council level – not anywhere else. An FSB meeting with only a few Council members' agencies participating should not decide that certain firms are systemically important; or, conversely, that any firms are not systemically important, before the Council as a whole has decided those questions. To do otherwise seems to me to undermine confidence in the Council itself; to be inconsistent with the intent of Congress; and to be patently unfair to those nonbank financial companies under review that must be afforded due process and fair dealing under U.S. law and procedures.

So, now that the Council has designated MetLife a U.S. SIFI, it joins AIG, Prudential, and GE Capital Corporation (GECC), as firms under consolidated supervision by the Board of Governors. Yet, it also appears to me that perhaps all that the Council has really achieved is to resign these four companies to their pre-designation status as firms previously overseen by the Federal Government.

Prior to designation, I, like many, viewed the Federal Reserve Bank of New York as a *de facto* supervisor of AIG due to its role as lender in unusual and exigent circumstances; Prudential, as a savings and loan holding company, was subject to supervision by the Board of Governors for about one year until the company changed its thrift charter; and GECC, another savings and loan holding company, had been subject to supervision by the Board since July 2011. MetLife was supervised by the Board as a bank holding company for over a decade until it "de-banked" in early 2013, as noted earlier. Granted, now that these four U.S. nonbank financial companies have been designated as U.S. SIFIs, the Board of Governors' Dodd-Frank Act authorities to be applied will undoubtedly be more robust than those previously applied.

After nearly 4½ years, the Council's search for SIFIs has found potential systemic risk concentrated in the insurance sector with three of the four designated SIFIs being insurers. I am concerned as to whether different types of nonbank financial companies may be receiving disparate treatment both in the Council's analysis and processes. As the Council continues its work, it is my hope that we can concentrate our efforts to consider regulatory reform and

¹⁴⁴⁹ <http://www.financialstabilityboard.org/about/#framework> (accessed December 1, 2014) (emphasis supplied).

improve regulation of those large nonbank financial companies and their activities that have been left largely unexamined since the financial crisis, but that may significantly risk financial instability. The Council's vigor in evaluating such unexamined (and in some cases unregulated) nonbank financial companies is imperative in successfully fulfilling its charge to identify threats to our financial system, economy, and the American people.

9.2 Views of the Non-Voting Members

View of Adam Hamm, the State Insurance Commissioner Representative

I have serious concerns with the Basis for the Council's final determination that MetLife's material financial distress could pose a threat to the financial stability of the United States. I note that my predecessor, Director John Huff of the Missouri Insurance Department, also had concerns with the Council's Basis for the proposed designation of MetLife. Not only do I agree with his earlier assessment of the Council's Basis for the proposed designation, but I am particularly troubled that the issues he has identified have not been fully addressed in the rationale for the final designation. Specifically, the Council has failed to appropriately consider the efficacy of the state insurance regulatory system. As President of the National Association of Insurance Commissioners, I have seen first-hand how states effectively coordinate and address regulatory concerns. While the primary purpose of state insurance regulatory authorities is to protect policyholders, their attendant effect on protecting the financial system from actual or potential systemic risks should not be ignored. In addition, the Council uses a flawed asset liquidation argument that relies on speculative surrender amounts and does not appropriately take into account the insurance business model, insurance company regulation, and the disincentives policyholders have to surrender their insurance policies. Last, the Council has failed to address the criticism that it did not conduct a robust analysis of characteristics of MetLife beyond its size, particularly as it relates to the exposure channel discussion. Identifying outer boundaries of exposures and claiming they could impact a nebulously defined market is not robust analysis; it simply means the Council has identified a very large company.

I specifically take issue with the following aspects of the Council's Basis for the final determination:

1. It is disturbing that the Council continues to diminish the role of the state insurance regulatory framework, which not only reduces the likelihood of failure (an issue that the Council claims it does not have to consider), but also the impact on the financial system from the company's material financial distress. Indeed, state insurance regulators have expansive authorities and wide discretion to utilize them. This is a strength of our insurance regulatory system, and enabled state insurance regulators to effectively protect policyholders throughout the recent financial crisis. It is noteworthy that my staff sought to correct basic factual errors regarding the operation of the state regulatory system just days before the vote on the final designation of the company. Even though some errors

were corrected, it is unclear whether the Council ever fully considered the nature and scope of the state insurance regulatory system. After three insurance company designations in four years, it confounds me that much of the Council and staff continue to misunderstand and mischaracterize the insurance regulatory framework.

There is no better evidence of this than the Council's depiction of the state insurance regulatory framework in Section 5 of the Basis. In an effort to find fault with MetLife's arguments regarding regulatory scrutiny, the Council seeks to poke holes at specific tools of state insurance regulators, particularly risk-based capital (RBC). State insurance regulators have multiple tools at their disposal to identify concerns at companies, not just RBC. RBC is an objective tool, embedded in state statutes, used by regulators on at least an annual basis to trigger specific actions when an insurer's surplus drops below regulatory thresholds based upon key risks for the insurer. Other regulatory tools, which the Basis inaccurately describes in several respects, such as ongoing examination and analysis programs, are designed to identify concerns, require information on a more frequent basis than RBC, and exist to address specific issues before RBC is triggered. Moreover, state insurance regulators can declare that a company is in Hazardous Financial Condition, which is a tool available to all state insurance regulators, and provides them the ability to take a wide range of actions beyond those specifically identified in the Basis: including reducing, limiting, or suspending the volume of business; limiting or withdrawing from certain investments and investment practices; suspending or limiting dividends; correcting corporate governance deficiencies; and imposing stays, among others. The Basis fails to fully consider the range of mechanisms insurance regulators use to identify and address problems despite their being equally or even more important than RBC. Not only do these tools help prevent solvency concerns with the company, but, as a result of our authorities allowing for early regulatory intervention and ongoing supervision, they also minimize the impact of any material financial distress on policyholders, other counterparties and the system. Disregarding the full scope of state insurance regulatory authorities misapplies Section 113 of the Dodd-Frank Act that the Council appropriately take into account the degree to which the company is already regulated when making a determination that a company could pose a threat to the financial stability of the United States.

2. Notwithstanding the valid argument that MetLife raises about the likelihood of the company's failure, even if you assume material financial distress at MetLife and that the Council had a fulsome understanding of the system (which for the reasons above I do not believe it does), the Council's description of existing regulatory scrutiny misses the mark. To effectively assess how regulation mitigates the risks the firm poses to financial stability, the Council should have sought to match the areas of concern to the authorities of existing regulators to address those concerns. The Basis fails to do this. As a result, the

Basis fails to acknowledge that most, if not all, of the concerns it identifies (several of which have questionable merit) are addressed by the existing regulatory structure. This omission makes the Council's rationale for its decision fundamentally flawed.

This is particularly the case with the asset liquidation channel discussion. For example, the Council raises concerns with significant policyholder surrenders in the event of MetLife's material financial distress and any attendant asset liquidation resulting from those surrenders. Insurance regulators have the authority to impose stays or apply similar powers to manage heightened policyholder surrender activity. Consistent with the objectives of insurance regulation, these actions can be taken to preserve assets for policyholders, who do not or cannot surrender their policies, in order to ensure their insurance claims can be paid in the future. Fears of surrenders leading to mass asset liquidation are thus unfounded, as insurance regulators have the ability and, moreover, the responsibility to take action in such an event. To the extent that the Council speculates about such stays leading to further contagion across the insurance industry, insurance regulators have extensive authorities to intervene to protect policyholders at these other firms as well. It is worth noting that our authorities are flexible and provide us substantial means to quell panic. Even when a stay is implemented, insurance regulators can allow the release of funds in certain circumstances such as, for example, when a policyholder faces a financial hardship or similar emergency. With respect to the exposure channel, it is also worth noting that several of the exposures of concern to the Council appear to be primarily with entities that are regulated by Council member agencies. If Council members are concerned about their regulated entities' exposures to MetLife, it is far more effective to limit those entities' exposures to MetLife than to designate MetLife. In fact, the state insurance regulatory system has investment laws that include limitations on the maximum exposure to any single issuer to ensure our regulated entities are not unduly exposed to any one entity, irrespective of its size or perceived risks that entity may pose to the financial system.

It is unclear from the Basis what additional tools beyond those already at an insurance regulator's disposal could effectively address the risks the Council identifies, which are, in large part, concerns emanating from insurance legal entities that state insurance regulatory authorities are specifically designed to address. As Benjamin Lawskey, Superintendent of the New York Department of Financial Services, noted in his letter of July 30, 2014, his department and other state regulators employ a wide array of tools in supervising MetLife including, but not limited to: constant and ongoing supervision and examination, limitations on the type of and concentration of invested assets, risk-based capital and reserving requirements focused on early intervention in times of distress; review of filed derivative use plans; prior approval of intercompany transactions; prior approval of new policy types, rates and lines of business; financial reporting; and

statutory accounting requirements that are more conservative than Generally Accepted Accounting Principles. Suggestions or assertions that a consolidated regulator would more effectively address the identified potential risks should be supported by a description of the tools, how they explicitly address the systemic risks identified, and experience from past financial crises, lest they appear without merit or self-serving. For example, while requiring additional capital is a useful tool, a capital surcharge cannot prevent let alone substantially mitigate the impact of a hypothetical insurance policyholder run of all applicable policies that the Council identifies in the Basis. Simply put, the tools at the disposal of state insurance regulators are either equally or more effective than the enhanced prudential standards that would be at the Federal Reserve's disposal in addressing many of the risks the Council identifies.

3. Despite verbiage sprinkled throughout the Basis indicating the Council considered a range of scenarios detailing the potential impacts of the material financial distress of MetLife, it remains unclear to me what specific scenarios were presented to the Council and therefore it is impossible to evaluate whether those scenarios were appropriate to apply to an insurance company. To the extent the Council believes the Basis sets forth appropriate scenarios, I must respectfully disagree. For example, in analyzing asset liquidation, nowhere in the Basis does the Council a) delineate stressed run scenarios, including the impact of company and/or regulatory stay activities, b) identify asset liquidation scenarios and their impacts to specific and defined financial markets; and c) compare those impacts to normal and stressed ranges of variance in those specific and defined markets. Moreover, the Basis implicitly assumes material financial distress at all insurance entities at the same time, yet the Basis cites no historical examples of that having ever occurred. Each legal entity insurer has unique characteristics and writes different products, which have different policyholder characteristics. Accordingly, each insurance entity would react to stress differently and its regulator would appropriately respond differently to those specific circumstances.

As for the exposure channel, the Council makes claims that retail policyholders or corporate customers would suffer losses as a result of material financial distress at MetLife, but does not detail how those losses translate into "an impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict significant damage on the broader economy." Unsubstantiated qualitative statements describing "concerns," or "potential negative effects," for example, should not be a substitute for robust quantitative analytics that demonstrate scenarios that MetLife's material financial distress could have substantial impacts to particular asset markets or the financial system as a whole. Saying it does not make it so.

4. A key consideration for the final designation is the asset liquidation channel. The final Basis, like the proposed Basis, continues to offer merely speculative outcomes related to

the liquidation of assets based in large part on hypothetical and highly implausible claims of significant policyholder surrenders. To remedy this, the Council continues to offer the “Greenwood Analysis” in Appendix D, but it treats all financial institutions exactly the same using broad-based assumptions regarding asset dispositions that do not take into account the specific characteristics of MetLife, its assets and liabilities, the particular characteristics of insurance products or insurance policyholder behavior. There is no explicit provision for the differences in timing and the assets of MetLife are categorized using bank asset categories even though they are substantially different. In contrast, Oliver Wyman, on behalf of MetLife, prepared an analysis that more appropriately captured the unique characteristics of the insurance business model and was tailored to MetLife’s products and asset profile. Notwithstanding that the Oliver Wyman analysis also did not take into account regulatory intervention, the Oliver Wyman analysis studied multiple scenarios (some of which are highly implausible in my estimation) that linked liability runs to MetLife’s available liquidity, liquidity obtained through asset sales, and the impacts of those sales on financial markets. It concluded that any asset liquidation that might take place as a result of MetLife’s material financial distress would not pose a threat to the financial stability of the United States. The Council offered some critiques regarding the sensitivity of assumptions and results of the Oliver Wyman analysis, but still failed to perform a suitable analysis of its own.

Even assuming the Council’s asset liquidation analysis was appropriate otherwise, it does not take into account the impact of regulatory intervention as described above. This is exacerbated by the Council’s failure to appreciate the historical effectiveness of the insurance regulatory system in crisis. For example, in response to the arguments by MetLife seeking to analogize the impacts of a failure of MetLife to other insurance company failures in history, the Council notes correctly that the failure of an insurance company of MetLife’s size and scope has never taken place. While that is a fair statement as each company has its own unique characteristics, the fact that there is no comparable insurance failure is a testament to the state insurance regulatory system, a fact that the Council ignores. The Council effectively assumes lack of regulatory intervention in the discussion or otherwise fails to take into account the breadth and effectiveness of the authorities at a state insurance regulator’s disposal. As a result, the Council’s analysis misapplies Section 113, which requires the Council to consider existing regulatory scrutiny in determining whether a company’s material financial distress could pose a threat to the financial system of the United States.

5. With respect to the exposure channel analysis, the Council appears to be primarily concerned that that the company is large. The discussion of the exposure channel fails to set forth sufficient evidence to conclude that MetLife’s exposures to various counterparties are large enough individually or in the aggregate to pose a threat to the

financial stability of the United States. While the Council acknowledges mitigants such as those identified by MetLife in its comprehensive submission in opposition to its proposed designation, the Council fails to incorporate them in a meaningful way in its exposure discussion. As a result, any large company could meet the standard applied by the Council in the exposure channel even if individual exposures were relatively small and well within regulatory limits. Importantly, the Council fails to consider the mitigating benefits to a company of spreading its risks across different counterparties, leaving large companies unable to determine the Council's specific concerns with their investment behavior given the illogic that both spreading and concentrating investments can be the basis for designation.

6. I also take issue with certain arguments that are not firm-specific. For example, the Council raises concerns that a MetLife failure could stress the guaranty fund system. Notwithstanding the statement from the National Organization of Life and Health Insurance Guaranty Associations (NOLGHA) that indicates that such concerns are unfounded, to the extent the Council takes issue with the capacity of the guaranty funds more broadly to handle other insurer failures, that is an issue with the guaranty fund system not MetLife. Another example is the Basis' treatment of MetLife's Funding Agreement Backed Securities Programs and their impact on money market funds in the event MetLife would be unable to meet its obligations under those contracts. The Securities and Exchange Commission (SEC) has issued rules to address the concerns relating to the risk of money market funds "breaking the buck." Broad-based reform such as the SEC rules rather than designation is the more appropriate vehicle for addressing concerns about money market funds. While I support the SEC's efforts, if the Council does not believe that the new rules adequately addresses its concerns with money market funds, it should work with the SEC to resolve such concerns rather than designating firms such as MetLife that have exposures to money market funds.
7. At its core, the Basis demonstrates that the Council has created an impossible burden of proof for companies to meet as it effectively requires companies to prove that there are no circumstances under which the material financial distress of the company could pose a threat to the financial stability of the United States. The Council admits as much when it states "... the Dodd-Frank Act sets forth the 10 considerations the Council must take into account in making a determination, and that list includes neither the likelihood of a company's failure nor the likelihood of certain scenarios in which such a failure could pose a threat to financial stability." It remains to be seen whether this approach is legally tenable. Even if one assumes, however, that it is legally tenable and it is not necessary to ascribe the likelihood of any one scenario, that should not excuse the Council from setting forth specific quantitative scenarios, based on reasonable, albeit stressed assumptions, demonstrating that the material financial distress of the company meets the

statutory standard. Without applying some sort of overlay of plausibility, any large company could meet the statutory standard as applied by the Council. Yet it is well established that size cannot be the only criterion for designation. If it were, Congress would have passed a law treating nonbanks the same as bank holding companies, requiring Federal Reserve supervision and enhanced prudential standards to any company above a certain size threshold. Because Congress did not do this and specifically required that the Council consider at least 10 statutory considerations (not the least of which is the “the degree to which the company is already regulated”), the Council should do more than put together a lengthy discussion that raises concerns with the characteristics of any large company.

Finally, I would be remiss if I did not mention that, despite the sheer volume of arguments (no matter how far-fetched) contained in the Basis, the Council fails to identify the specific set of legitimate issues of concern that has led to the company’s designation. Our goal as a Council should be to reduce systemic risks to the U.S. financial system. While designation of a company is just one tool to address systemic risks, if it is going to be a useful one, the Basis for this designation should clearly delineate the causes of the Council’s concern, be based on robust analytics designed to demonstrate the evidentiary basis for such concerns, and provide the company a clear roadmap as to the rationale for its designation. Absent a clear rationale from the Council and an “exit ramp” from designation, neither the company nor its regulators can realistically determine how best to proceed in reducing the company’s risk to the system and eliminating its “Too Big to Fail” status.

For the reasons set forth above, I have serious concerns with the Basis for the final designation of MetLife.

APPENDIX A: METLIFE CONSOLIDATED BALANCE SHEET

(\$ Millions, except share and per share data)		As of June 30, 2013
<u>ASSETS</u>		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value		\$356,514
Equity securities available-for-sale, at estimated fair value		3,231
Fair value option and trading securities, at estimated fair value		16,110
Mortgage loans:		
Held-for-investment, principally at amortized cost		55,636
Held-for-sale, principally at estimated fair value		—
Mortgage loans, net		55,636
Policy loans		11,722
Real estate and real estate joint ventures		9,886
Other limited partnership interests		7,197
Short-term investments, principally at estimated fair value		12,990
Other invested assets, principally at estimated fair value		17,920
Total investments		491,206
Cash and cash equivalents, principally at estimated fair value		9,184
Accrued investment income		4,357
Premiums, reinsurance and other receivables		23,283
Deferred policy acquisition costs and value of business acquired		24,782
Goodwill		9,447
Other assets		7,830
Separate account assets		245,573
Total Assets		815,662
<u>LIABILITIES AND EQUITY</u>		
Future policy benefits		184,697
Policyholder account balances		215,195
Other policy-related balances		15,279
Policyholder dividends payable		750
Policyholder dividend obligation		2,273
Payables for collateral under securities loaned and other transactions		33,247
Bank deposits		—
Short-term debt		100
Long-term debt		18,577
Collateral financing arrangements		4,196
Junior subordinated debt securities		3,193
Current income tax payable		111
Deferred income tax liability		6,602
Other liabilities		25,331
Separate account liabilities		245,573
Total Liabilities		755,124
Total Equity		60,408
Total Liabilities and Equity		\$815,622

Source: MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, p. 5.

APPENDIX B: SUMMARY OF INTERACTIONS WITH METLIFE AND REGULATORS

Since July 2013, staff of the Council members and their agencies had a number of interactions with MetLife management and regulators.

Meetings (In-person or Telephonic) with MetLife

Date	Company Interaction
September 10, 2013	Meeting with MetLife regarding Council's Stage 3 process
October 1, 2013	Meeting with MetLife regarding MetLife's history, structure and regulation, risk management and governance, and investments
November 1, 2013	Meeting with MetLife regarding MetLife's investments, derivatives usage, and capital markets program
November 19, 2013	Meeting with MetLife regarding MetLife's uses of reinsurance, governance of reinsurance, legal entity restructuring, and captive reinsurance
December 3, 2013	Meeting with MetLife regarding MetLife's voluntary submission
January 10, 2014	Meeting with MetLife regarding responses to request for information (telephonic).
January 17, 2014	Meeting with MetLife regarding MetLife's variable annuities and hedging activities
January 27, 2014	Meeting with MetLife regarding MetLife's resolvability
February 26, 2014	Meeting with MetLife regarding MetLife's insurance liabilities and liquidity features and stress testing
March 11, 2014	Meeting with MetLife regarding MetLife's bank capital framework and MetLife's experience during the Great Depression
April 24, 2014	Council Deputies Committee meeting with MetLife CEO and other senior executives
May 13, 2014	Meeting with MetLife and Oliver Wyman regarding Oliver Wyman analysis
June 4, 2014	Meeting with MetLife and Oliver Wyman regarding Oliver Wyman analysis assumptions (telephonic)
November 3, 2014	Oral hearing before the Council

Meetings (In-person or Telephonic) with MetLife Regulators

Date	Regulator Interaction
July 9, 2013	Conference call with NYDFS regarding January 2013 supervisory college for MetLife
July 25, 2013	Conference call with NYDFS regarding planning for further consultation
September 16-17, 2013	Visitation at NYDFS regarding review of regulatory information, various topics
February 4, 2014	Conference call with NYDFS regarding tail risk

March 20, 2014	Conference call with Connecticut Insurance Department regarding various topics
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Data Received from MetLife¹⁴⁵⁰

<u>Title</u>	<u>Description</u>
DOCUMENTS UPLOADED IN 9/2013	
1st Submission Cover Sheet.pdf	
09.09.13_FSOC_Response_Submission_Outline.pdf	Outline of responses for first submission
Response to C.3 (pdf) - 2 files	Narrative response to C.3
2nd Submission Cover Sheet.pdf	
Response to A.1.a.viii (pdf, xlsx) - 2 files	Holders letters of credit, 2011-2013 exposures by counterparty
Response to A.1.b (pdf, xlsx) - 11 files	2011-2013 common stock, preferred stock, private placements, senior debt, consolidated, mutual funds, subordinated debt, credit support, sovereign nations, political subdivisions (all by CP)
Response to A.1.c (pdf, xlsx) - 2 files	Spreadsheet responsive to items A.1.c.i through A.1.c.v, derivatives exposure
A.5.lines_of_credit (pdf,) - 3 files	LOC terms, conditions, draw, maturities, cancellation, LOC amounts, institutions, drawn and undrawn
Response to A.8 (pdf, xlsx) - 6 files	Securities received as collateral from CP, cash collateral liability by counterparty and legal entity, repurchase agreement by counterparty and collateral type, narrative responsive to A.8 through A.8.c
Response to C.2 (pdf, xlsx) - 4 files	Mortgage loans originated and serviced, reserves related to the exiting of residential mortgage loan business, narrative response
Response to A.10 (pdf, xlsx) - 3 files	Narrative response to A.10, securities lending collateral by CP
Response to A.18 (pdf, xlsx) - 6 files	Off-balance sheet, unconsolidated, consolidated VIEs and by legal entity, commitments, narrative response
Response to B.9 (pdf) - 2 files	Narrative response to B.9, collateral
09.11.13_FSOC_Response_Submission_Outline.pdf	Outline of responses for second submission
Response to C.1 (pdf, xlsx) - 4 files	Infrastructure issuers, narrative response to C.1
Response to D.1 (pdf) - 27 files	Rating Agency Presentations: A.M. Best, Fitch, Moody's, S&P for 2011-2013
D.4_Consolidating_Balance_Sheet (pdf, xlsx) - 2 files	Q2 2013 and Q4 2012 consolidating balance sheets
B.2_AOM (pdf) - 11 files	Reserves by country and method, separate account reserves by country and method - Mid-East branches, reliance certifications - in force and asset data, statutory reserve, asset adequacy tests
Response to A.2_Net_Written_CDS (pdf, xlsx) - 2 files	2011-2013 net written CDS notional amount, cover memorandum

¹⁴⁵⁰ For purposes of brevity, references to or descriptions of certain files submitted by MetLife are presented in summary form below.

Response to A.9 (pdf) - 2 files	Description of reinvestment guidelines, current investment mix, and liquidity for securities lending cash collateral
Response to A.17 (pdf, xlsx) - 6 files	Commercial mortgage loans by geographic market and property type and by LTV and debt service coverage ratio and by performance indicator, response to A.17.a - A.17.c
Response to D.6 (pdf, xlsx) - 8 files	Information requested by IAIS as part of the G-SII consideration process
Response to A.11 (pdf) - 2 files	Derivatives activities, narrative responsive to A.11 - A.11.f
Response to B.2 - 42 files	Insurance subsidiaries' actuarial memorandums 2012: MICC, MLIC, MLI-MO, MLI_USA, MRC, MRD, MTL, NELICO, ALICO, GALIC, DelAm, FMLI;
DOCUMENTS UPLOADED IN 10/2013	
10 1 2013 PM MetLife Master Final FSOC.pdf	Overview of MetLife presentation on 10/1/13
FSOC Response Submission Outline (pdf) - 7 files	List of files submitted on 10/8/13, 10/9/13, 10/11/13, 10/14/13, 10/15/13, 10/17/13, 10/25/13
Investments_Overview - fsoc Final.pdf	MetLife investments 11/1/13 presentation
Response to A.1.a.i-A.1.a.vi (xlsx and pdf) - 9 files	No reported holders, redirect to response for Q A.19, senior debt, subordinated debt, debt equity holders, aggregate response, ceded reinsurance balances
Response to A.1.b.vi-A.1.b.vii (pdf, xlsx) - 4 files	Exposures by counterparty, assumed reinsurance balances
Response to A.3 (pdf, xlsx) - 3 files	
Response to A.4 (pdf, xlsx) - 2 files	CFO consolidated
Response to A.6_CFO (pdf), - 5 files	Corporate benefit funding segment, tab "Question A6 (CFO)-A6a, A6c" details total reserves held for the product, liabilities due over time. Tab "Question A6 (CFO)-A6b Top 10" top 10 policyholders for each of the above and policy values for each policyholder, product level detail of cost and fair value for 12/2011, 12/2012 and 6/2013
Response to A.7 (pdf) - 2 files	MetLife_Reserves Methodology_SVGIC_SVBOLI_related product
Response to A.12 (pdf) - 3 files	Actuarial memorandum, general account inclusive of global variable annuities, MLIC 2012 actuarial memorandum appendix
Response to A.13 (pdf, xlsx) - 3 files	U.S. deferred variable annuities, description of variable annuity guarantees, gross by rider

Response to A.14 (pdf, xlsx) - 14 files	Capital_maintenance_agreements_liquidity_support_arrangements_direct_performance_guarantees, asset value guarantees, LOCs indemnifications or other credit support, intercompany loans, ISDA agreements, intercompany reinsurance arrangements, tax sharing agreements, service agreements, master trading agreements, internal pricing transfer agreements, cash management agreements, risk or loss pooling arrangements
Response to A.15 (pdf, xlsx) - 4 files	Affiliated reinsurance - GALIC, reinsurance collateral and program
Response to A.16 (pdf) - 2 files	
Response to A.19 (pdf, xlsx) - 3 files	CP holders and descriptions
Response to B.1 (pdf) - 2 files	List of files and asset-liability matching overview
B.2_MetLife Mas S.A de CV Mexico SA Pensiones Mexico SA_2012_Memo_Asset Liability Matching.docx	Asset-liability matching (with MS Word document embedded)
B.2_MetLife Seguros de Retiro SA_2012_AOM_Argentina_Memo_Specifically Assigned Assets.docx	Specifically assigned assets report (with several PDF documents embedded)
B.2_Metropolitan Life Seguros e Previdencia Privada SA_2012_AOM_Brazil_Memo_ALM Section.docx	Asset-liability matching (with MS Word document embedded)
B.2_Metropolitan Life Seguros e Previdencia Privada SA_2012_AOM_Brazil_Memo_Liquidity Test Report.docx	Liquidity test (with PDF document embedded)
B.2_Metropolitan Life Seguros e Previdencia Privada SA_2012_AOM_Brazil_Memo_Liability Adequacy Test.docx	Liability adequacy test (with PDF document embedded)
B.11._Cover_Sheet.pdf	List of files
B.11._Summary_Consolidated_Assets_and_Liabilities.xls	
B.11.Part_1_Legal_Entities.pdf	
B.11_Critical_to_Operations_Suppliers.xlsx	Supplier list
Response to B.12 (pdf, xlsx) - 2 files	Surrender rates
B.2 - Actuarial Memoranda Submission Overview.docx	List of submitted documents
B.2_MetLife Alico Life Insurance KK_FY 2012 Japan Actuary on Status of Assets Opinion. (pdf) – 2 files	Opinion on status of assets
B.2_MetLife Alico Life Insurance KK_FY 2012_AOM_Japan Actuary on Status of Assets Opinion(Japanese).doc	
B.2_MetLife Alico Life Insurance KK_FY 2012_AOM_ Japan Actuary on Status of Assets Supplementary Opinion(Japanese).doc	
B.2_MetLife Assurances Limited__2012_AOM_Cover Note.docx	List of submitted documents
B.2_MetLife Assurances Limited 2012 Year End FSA Retuns – Final Version Unsigned pdf	2012 annual FSA insurance returns, 2012 individual capital assessment

B.2_MetLife Chile Seguros de Vida S.A._2012_AOM_Chile_Memo_Liability Adequacy Test.docx	Liability adequacy test (with MS Word document embedded)
B.2_MetLife Chile Seguros de Vida S.A._2012_AOM_Chile_Memo_Matching.docx	Asset-liability matching (with MS Excel and PDF documents embedded)
B.2_MetLife Chile Seguros de Vida S.A._2012_AOM_Chile_Memo_Premium Sufficiency Test.docx	Premium sufficiency test (with MS Word document embedded)
B.2_MetLife Insurance Company of Korea Limited _FY2012_Korea_Appointed actuary report (pdf) - 2 files	
D3.MetLife Subsidiary and Branch Solvency and RBC_2012 (pdf, xlsx) - 56 files	Basel III under stress, summary regulatory table: U.S. and non-U.S. RBC ratios and leverage, returns under the insurance services and other related issues 2002-2011, 2011-2012 financial statements, balance sheets, and independent auditor's report, 2012 Central Bank of Ireland annual return, assets, liabilities, profit and loss, solvency, 2012 annual report on the activities, independent auditor's report and annual financial statements, 2012 annual FSA insurance returns, 2012 audit report, 2012 life risk-based capital, 2012 health risk-based capital, 2012 property risk-based capital
Response to B.9 (pdf, xlsx) - 3 files	Policyholder loans
B 5_Operating and Financial Leverage Summary (pdf and excel)- 5 files	
Response to B.6 (pdf, xlsx) - 34 files	Separate account assets, asset management business
Response to B.8 (pdf, xlsx) - 2 files	
B.2_MetLife Insurance Company of Korea Limited_FY2012_AOM_Korea Actuary Summary of Appointed Actuary's Report _English only.docx	2012 summary of actuarial opinion
B.11._2013_Abbreviated_Org_Chart.pdf	Abbreviated entity organization chart
B.11._2013_Entities_List_Updated_and_Distributed_Se ptember_2013.pdf	Subsidiary list
Response to C.4 (pdf, xlsx)- 6 files	CFO U.S. and non-U.S., MetLife's market share for all business lines on- and off-balance sheet; non-U.S., Latin America, Asia, and EMEA
Response to D.2.a - D.2.d (pdf, xlsx) - 5 files	Legal_Entities_Segment, how business is managed, inherent risks reported and managed, ERM framework
Response to C.1 (pdf)- 2 files	CFO, aggregate response
Response to D.4 (pdf, xlsx) - 2 files	Revenue_Assets_Liabilities_Part2
Response to D.7 (pdf) - 2 files	Shared_Services_Operations
Response to D.5 (pdf) - 3 files	Asset-liability matching, investment guidelines, operations by country
Response to D.8 (pdf, xlsx) - 2 files	Foreign activities
DOCUMENTS UPLOADED IN 11/2013	
Response to B.2 (pdf) - 2 files	Liquidity stress test results by legal entity
Response to B.3 (pdf, xlsx) - 3 files	Market analysis
B.4_cover_page.pdf	

Voluntary_Submission_Section_IV_Analysis_of_Market_Consequences_of_Severe_Financial_Distress_Narrative.pdf	MetLife voluntary submission
Voluntary_Submission_Section_II_Description_of_MetLife.pdf	MetLife voluntary submission
Voluntary_Submission_Section_III_Detailed_Analysis_of_MetLife_Under_Section_113_of_Dodd-Frank_Act.pdf	MetLife voluntary submission
Voluntary_Submission_Section_IV_Analysis_of_Market_Consequences_of_Severe_Financial_Distress_A.pdf	MetLife voluntary submission
Voluntary_Submission_Cover_letter.pdf	MetLife voluntary submission
Voluntary_Submission_Section_I_Executive_Summary.pdf	MetLife voluntary submission
Response to B.7 (pdf, xlsx) - 5 files	LATAM CFO, ASIA CFO, EMEA CFO, US CFO
Response to B.12 (pdf, xlsx) - 2 files	Supplemental response
Response to B.13 (pdf, xlsx) - 24 files	CFO, U.S. CFO
Voluntary_Submission_Section_IV_Analysis_of_Market_Consequences_of_Severe_Financial_Distress_B.pdf	MetLife voluntary submission
Voluntary_Submission_Section_V_Resolvability_Assessment.pdf	MetLife voluntary submission
B.10_Cover Page.pdf	
Voluntary_Submission_Section_VI_Legal_Analysis_of_the_Framework_for_SIFI_Designation.PDF	MetLife voluntary submission
Voluntary_Submission_Table_of_Contents.PDF	MetLife voluntary submission
Overview of Reinsurance 11-19-13 FINAL.pdf	Reinsurance presentation
DOCUMENTS UPLOADED IN 1/2014	
Response to A.18 (pdf, xlsx) - 4 files	Commitments to fund partnership, mortgage loans, and bank credit facilities by legal entity, consolidated VIEs, narrative responsive to A.18b and A.18.d, unconsolidated VIEs
ga2013-variable_annuities.pdf	Variable annuities - an analysis of financial stability by the Geneva Association
Response to A.2.b (pdf, xlsx) - 2 files	Gross written CDS notional and purchased CDS notional offset
Response to A.7.b (pdf) - 2 files	Narrative and tables responsive to A.7.b
MetLife Resolvability Assessment (Final).pdf	MetLife resolvability
Response to D.2.e and D.2.f (pdf) - 10 files	Asset-liability matching metrics: flash report, components of MetLife's economic capital model, 3Q 2013 economic capital results, quarterly market risk report, risk grid: 9/28/12, 9/30/13, 10/1/13, 10/2/13, 12/3/13
FSOC November 1 2013 Investments Follow-up Final.pdf	Investments/derivatives follow up materials related to 11/1/13 meeting
1 17 2014 MetLife VA Final Submission to FSOC.pdf	Introduction to MetLife variable annuities

Revised Timeline.pdf	
DOCUMENTS UPLOADED IN 2/2014	
20140212 - MetLife Liquidity Analysis (FINAL).pdf	
Response to A.1.d (pdf, xlsx) - 4 files	Derivative data as of 6/30/13, 12/31/11, 12/31/12
Response to A.1.e (pdf) - 2 files	
CEAB_Adjustment_Determination_Date_Report_3Q_2013.pdf	
Response to A.4.b - A.4.c (pdf, xlsx) - 2 files	Liability risk exposures by line of business
Response to A.6 (pdf, xlsx) - 2 files	Spreadsheet responsive to items A.6.d - 1
MRV_-_Notice_Pursuant_to_Sec_5.01_a_and_Ex_D-1_of_the_Credit_Facility_Agreement.pdf	Document delivery/confidentiality instructions
MRV_-_Notice_Pursuant_to_Sec_2.09d_ii_of_the_Credit_Facility_Agreement.pdf	Document delivery/confidentiality instructions
MrD_Authorizations_-_Executive_Summary_final_6.11.2012.DOCX	Finance and risk committee board meeting to approve reserve financing
Response to A.13.d (pdf, xlsx) - 2 files	Variable annuity guarantee performance
Response to A.14.o (pdf) - 2 files	Table which summarizes contingency clauses
MLIUSA_MLIMO_Exeter_VA_GMXB_01-01-2012.doc	
Response to A.19.b - A.19.d (pdf) - 2 files	Narrative responsive to A.19.b_d
MRV_-_Notice_Pursuant_to_Sec_5.01_a_i_ii_and_iii_of_the_Credit_Facility_Agreement.pdf	Document delivery/confidentiality instructions
MRSC_AppendixA-9-30-13.pdf	
Response to B.3 (pdf, xlsx) - 4 files	Fixed income securities by sector and rating, fixed income securities by maturity category
Update_on_Reserve_Financing_-_Resolutions_-_Dec_2013.pdf	Resolution on reserve financing
Response to B.6 (pdf, xlsx) - 3 files	Narrative responsive to B.6.b, list of separate names and if they are registered with the SEC
10_2007_Closed_Block_Reinsurance_Best_Rating_Agency_Meeting.pdf	Closed Block reinsurance
MEL-Exeter_VA_GMXB_07-19-2013.doc	Reinsurance pricing
Business Plan (pdf) - 9 files	2011-2013 Exeter, MORE, Exeter Cayman, Exeter Delaware business plans
Response to D.7 (pdf) - 4 files	Staffing Levels_in_Insolvency, narrative responsive to item D.7.c, MLG_Services_Agreements, narrative responsive to D.7.b
Response to D.3.b (pdf, xlsx) - 2 files	Prescribed accounting practices and their impact on statutory capital and surplus by legal entity
Reinsurance Trust Agreements (pdf) - 7 files	Reinsurance trust agreements for FMLI Exeter, MEC, MLIC Exeter, NELICO Exeter, SFC
Actuarial Opinion (pdf) - 6 files	2012 actuarial opinions for MORE, Exeter, MRSC, MRV, MRC, MRD
Actuarial Memorandum (pdf) - 6 files	Actuarial memorandum for MORE, Exeter, MRSC, MRV, MRC, MRD

MRC_Q3_2013_Closed_Block_Footnote_6(o)(21).pdf	Notes to the interim condensed consolidated financial statements
Trust Agreements (pdf) - 19 files	Trust agreements for MIC, MLAC, MLC, NEC, NE, SF, TN, MO, ML, NYC
MEL-Exeter_VA_GMXB_11-01-2010.pdf	Board meeting agenda and minutes
MEL-Exeter_VA_GMXB_11-04-2011.doc	Variable annuity amendment
Capital_Mgmt_Trans.pdf	Capital management transition authority
MEL-Exeter_VA_GMXB_01-20-2012.doc	Variable annuity pricing memo
Board_Consent_A_and_R_Automatic_Reinsurance_Agreement.pdf	A and R restated automatic reinsurance agreement
MRC_Q3_2013_Blue_Book_FINAL.PDF	2013 quarterly statement
MRC_Q3_2013_Available_Funds_Calculation.doc	Statement of available funds
MRC_FAA_Q3_2013_Deliverables_-_Introductory_.pdf	Document delivery/confidentiality instructions
MRC_Q3_2013_Compliance_Certificate_with_Available_Funds_6(o)(6).pdf	Officer's certificate
MRC_Q3_2013_Section_6o16_.pdf	Document delivery/confidentiality instructions
MRC_SC_2012_Stat_Audit.pdf	2012 and 2011 financial statements
MRD_2012_STAT_Audit.pdf	2012 financial statements
MRD_Cell1_P2-4_Q313_Final.pdf	Cell 1 assets and liabilities
Pursuant_to_Schedule_D_of_the_Stop_Loss_Retrocession_Agreement.pdf	Document delivery/confidentiality instructions
9.30.2013_MrD_TAC.PDF	Total adjusted capital of MRD Cell 1
2013_Q3_MrD_Capital_Maintenance_notification_to_Inc.pdf	Attesting to total adjusted capital and risk-based capital
Exeter_Reassurance_Company,_Ltd_2012_Audited_Financial_Statements.pdf	Financial statements 2011 and 2012
MRC_FAA_Q3_2013_MLIC_CC_Sec_6(o)(6)_and_6(o)(7).pdf	Officer's certificate
MRC_-_Final_Amended_Plan_-_December_21,_2009.pdf	1st amendment to 3rd amended and restated plan of operations
MRV_Cell_3_Q3_2013_Expense_Discussion.docx	Breakout of statement of operations
Re_MRSC_Q3_2013-_Trust_Asgnmt_Agr_Sec_3.1_n_q_i_and_q_iv.pdf	Document delivery/confidentiality instructions
Clean-MrC_Plan_of_Operations.DOC	Third amended and restated plan of operation
MRV_Cell2_P2-4_Q313_Final.pdf	Cell 2 assets and liabilities
MRV_Q3_2013_-_Pursuant_to_Sec_7.2a_ii_of_LOC_Reimb_and_Sec_Agr.pdf	Document delivery/confidentiality instructions
MRV_Q3_2013_-_Pursuant_to_Sec_7.2b_ii_of_LOC_Reimb_and_Sec_Agr.pdf	Document delivery/confidentiality instructions
MRV_Q3_2013_-_Pursuant_to_Sec_7.22_of_LOC_Reimb_and_Sec_Agr.pdf	Document delivery/confidentiality instructions
MRV_Cell_2_Sixth_Amended_and_Restated_Plan_of_Operation_-_August_2011.DOC	Sixth amended and restated plan of operations for cell 2

MRV_Cell_2_-_Fifth_Amended_and_Restated_Plan_of_Operation_-_June_2011.doc	Fifth amended and restated plan of operations for cell 2
MRV_Cell_2_-_First_Amended_and_Restated_Plan_of_Operation_-_Sept._2008.DOC	First amended and restated plan of operations for cell 2
MRV_Cell_3_Initial_Plan_of_Operation_-_Dec._2009.pdf	Initial plan of operations for cell 3
MRV_Cell_3_-_Second_Amended_and_Restated_Plan_of_Operation_-_April_2013.DOCX	Second amended and restated plan of operations for cell 3
Reinsurance_Settlements_3Q_2013.pdf	Reinsurance settlement data
MRV_Q3_2013_Cell_3_Cashflow_Report.pdf	Cash flow report
MRV_Q3_2013_OFFICERS_CERT_Sec_7_2(b)(ii)_Int_Fin_and_Exp_Discuss.pdf	Compliance certificate
MRV_Q3_2013_-_Pursuant_to_Sec_7.2c_of_LOC_Reimb_and_Sec_Agr.pdf	Document delivery/confidentiality instructions
MRV_Q3_2013_-_Pursuant_to_Sec_7.2dii_of_LOC_Reimb_and_Sec_Agr.pdf	Document delivery/confidentiality instructions
MRV_Q3_2013_-_Pursuant_to_Sec_7.8_of_LOC_Reimb_and_Sec_Agr.pdf	Document delivery/confidentiality instructions
Response to A.8 (pdf, xlsx) - 7 files	Securities lending peak transaction value by asset class, month, and counterparty; cash transferred to and received from counterparties under securities lending transactions; separate account securities lending information; narrative responsive to items A.8.d-h; repo agreement peak balance per quarter by legal entity and average daily balance; securities lending cash collateral liability peak balance per quarter by legal entity and average daily balance
Response to A.12 (pdf, xlsx) - 6 files	Quarterly hedge values: 9/30/09-12/31/13, hedge profit and loss by quarter 2008-2013, non-U.S. profit and loss by quarter 2009-2013, variable annuity reserves by quarter and entity, table summarizing hedging programs
Response to B.5.b - B.5.c (pdf, xlsx) - 7 files	A.M. Best paper on operating leverage calculation methodologies, Moody's paper explaining criteria for evaluating operating debt, S&P paper discussing operating vs. financial leverage, summary of definitions of operating leverage used by rating agencies, explanation of how leverage was calculated, financial leverage over the past five years
MRV_Q313_Blue_Book_FINAL.PDF	Quarterly statement
2013_FMLI_Q3_2013_Key_Pages.pdf	FMLI financial statement 2013
2013_MetLife_Inc._10-Q_September_30,_2013.pdf	Quarterly Report on Form 10-Q
Response to A.2.c-A.2.d (pdf) - 2 files	Narrative responsive to A.2.c_d
Financial_Statement_Certificate_3Q_2013.pdf	

MET_board_resolutions_re_MRD_-_final_6.11.2012.DOCX	Board approval to spin up MRD
2013_MLIC_Q3_2013_Key_Pages (2).pdf	MLIC financial statement 2013
Response to A.11 (pdf, xlsx) - 5 files	Collateral Jurisdiction; top 10 RSAT exposures; narrative responsive to A.11.g-l (derivatives); description of hedge types employed
MET_Board_Materials_-_Dec._2010_-_MRV_Cell_2_upsize_-_MRV_Cell_3_facility.PDF	Capital management transaction authority
MET_Board_Memo_-_MRD_transactions__final_6.11.2012.docx	Reserves financing transaction with potential risk takers
B.2.b_cover.pdf	
MetLife_Inc_BOD_Memo_Resolutions_2006-10-24_-_MLIC_Exeter.pdf	Three bank facilities for insurance reserves
MetLife_Inc_BOD_Minutes_2006-10-24_-_Reinsurance_Agr_MLIC_Exeter.pdf	Board of directors meeting minutes
MLIC_FMLI_VA_GMxB_12-01-2004.pdf	Term sheet
Response to A.18.c (pdf, xlsx) - 5 files	Consolidated VIEs, operating joint venture assets and liabilities, unconsolidated VIEs, narrative responsive to A.18.c
Three_Insurance_Reserve_Facilities.pdf	Insurance reserve facilities
Response to B.7 (pdf, xlsx) - 8 files	Explanation of deferred annuities discrepancy, CFO: U.S., Europe, Korea/Japan, LATAM
Update_on_Reserve_Financing_-_Memo_-_Dec_2013.pdf	Update on reserve financing
Response to B.12 (pdf, xlsx) - 6 files	Spreadsheet responsive to items B.12.b.i, ii, iii, iv and B.12.c, narrative responsive to item B.12.d
UW_Committee_Support_Memoranda_100404.doc	Reinsurance agreement
102207_Moodys_AXXX_v2.pdf	AXXX discussion with Moody's
070905_Closed_block_NYID_meeting_-_v1.pdf	Closed Block securitization
MRC_Q3_2013_Fiscal_Agency_Agreement_-_Section_6o4b_confidential_information.pdf	Document delivery/confidentiality instructions
MRC_Q3_2013_-_Sections_6o6_and_6o7_Ceding_Company_Certificate_-_MLIC.pdf	Document delivery/confidentiality instructions
Notification_Pursuant_to_the_MetLife_Reinsurance_Company_of_Delaware_Licensing_Order.pdf	
Board_Mailing_Closed_Block_Reinsurance.pdf	Closed Block reinsurance resolution
Board_Mailing_for_Update_on_Bank_Facility_for_Insurance_Reserves.pdf	Governance committee update on bank facility for insurance reserves
MRC_Q3_2013_Compliance_Certificate_6(o)(16).pdf	Officer's certificate
FSOC Additional Questions on Stress Testing and Tail Risk FINAL.pdf	Stress test approach
MEL-Exeter_VA_GMXB_08-12-2013.doc	Reinsurance pricing
MEL-Exeter_VA_GMXB_08-16-2011.doc	Reinsurance pricing
MEL-Exeter_VA_GMXB_10-28-2010.doc	Reinsurance pricing
Bank_Facilities_Package.pdf	Bank facilities for insurance reserves
MRC_Q4_2013_Investment_Certificate.pdf	Quarterly investment certification
Letter_of_Credit_Facility_-_Oct_2007.pdf	LOC proposal
MRC_Q3_2013_Closed_Block_-_2013_Final.pdf	Quarterly statement of activity

MRC_Q3_2013_-_Section_6_o__21.pdf	Document delivery/confidentiality instructions
MRC_Q3_2013_Officer's_Certificate_with_Statement_6(o)(6)(7).pdf	Officer's certificate
MRC_Q3_2013_Sections_6o6__and_6o7_Issuer.pdf	Document delivery/confidentiality instructions
MRSC_2012_Stat_Audit.pdf	2012 and 2011 financial statements
MRV_2012_Stat_Audit.PDF	2012 and 2011 financial statements
9.30.2013_MrD_Cell_1_TAC.PDF	Total adjusted capital of MRD Cell 1
2012_Missouri_Reinsurance,_Inc._Financials.pdf	Missouri reinsurance financial statements - year-end 2012 and 2011
2013_MLIC_Q3_2013_Key_Pages.pdf	MLIC financial statement 2013
MICC_and_MLAC_to_MRSC_Q3_2013_(2).pdf	
MRSC_4Q_2013_Investment_Certificate.pdf	Quarterly investment certification
MRSC_Q3_2013_Fiscal_Agent_Deliverables_Sec_6(o)(1)_CC.pdf	Compliance certificate
MRV_Cell_2_RBC_attachment_3Q_2013.pdf	Total adjusted and risk-based capital
MRV_Cell_3_Investment_Certification_Q3_2013.pdf	Quarterly investment certification
MRD_Cell_1_-_Initial_Strategic_Business_Plan_-_December_2012.pdf	Initial strategic business plan for protected cell 1
MRV_Cell_1_Plan_of_Operation_-_December_2007.pdf	Plan of operation for cell 1
MRV_Q3_2013_7.22_Certificate.pdf	Compliance certificate
MRD_Cell_1_-_Amended_and_Restated_Strategic_Business_Plan.pdf	Amended and restated strategic business plan for protected cell 1
(New)_MetLife_Reinsurance_Company_of_South_Carolina_Plan_of_Operation_v14.DOC	Amended and restated plan of operation
MRV_Cell_2_-_Second_Amended_and_Restated_Plan_of_Operation_-_August_2009.DOC	Second amended and restated plan of operations for cell 2
MRV_Cell_2_-_Seventh_Amended_and_Restated_Plan_of_Operation_-_March_2013.pdf	Seventh amended and restated plan of operations for cell 2
MRV_Cell_2_-_Third_Amended_and_Restated_Plan_of_Operation_-_August_2010.DOC	Third amended and restated plan of operations for cell 2
MRV_Cell_2_-_Fourth_Amended_and_Restated_Plan_of_Operation_-_December_2010.DOC	Fourth amended and restated plan of operations for cell 2
MRV_Q3_2013_Cell_3_Financials_Key_pages.pdf	Cell 3 assets and liabilities
MRV_Cell_3_-_First_Amended_and_Restated_Plan_of_Operation_-_December_2010.docx	First amended and restated plan of operations for cell 3
MRV_Q3_2013_Blue_Book_FINAL.PDF	Quarterly statement
MRV_Cell_2_Initial_Plan_of_Operation_-_December_2007.pdf	Initial plan of operations for cell 3
Periodic_Actuarial_Certificate__9-30-2013.pdf	Actuarial certificate
MRV_Q3_2013-_Pursuant_to_Sec_7.3a_LOC_Reimb_and_Sec_Agr.pdf	Document delivery/confidentiality instructions

Re_MRV_Q3_2013_-_Pursuant_to_Sec_7.2b_ii_of_LOC_Reimb_and_Sec_Agr.pdf	Document delivery/confidentiality instructions
Reinsurance Settlements 2Q 2013_rev_11.01.2013.pdf	Reinsurance settlement data
Response to B.11 (pdf, xlsx) - 5 files	Narrative responsive to B.11, organizational chart, including MetLife Korea, list of external suppliers, consolidated assets and liabilities of significant Korean subsidiaries
Response to D.2 (pdf, xlsx) - 6 files	Chart of general account investments: 2008-2013, general and separate accounts peak and trough data: 2008-2013, chart of separate account investments: 2008-2013, table which summarizes contingency clauses
Response to A.15 (pdf, xlsx) - 12 files	reserves by captive, description of reinsurance trust agreements, holders of surplus notes issued by captives, reinsurance agreement, list limits, assets by captive, reconciliation of captive's capital, exposure by reinsurer and risk type, narrative responsive to items A.15.j-o, Exeter US VA recapture
DOCUMENTS UPLOADED IN 3/2014	
Presentation to FSOC March 11 2014.pdf	Presentation regarding bank capital framework and Great Depression experience
Corporate Overview.pdf	
Appendix_A_Data_Collection_Form_12_31_12_Consolidated_Response.xlsx	
Institutional Markets - Capital Market Products.pdf	
Resolvability - Variable Interest Entities.pdf	Variable interest entities
Resolvability-Closed Block.pdf	Closed block asset segregation
Intercompany Arrangements.pdf	Narrative responsive to several resolvability questions
Resolvability-Separate Account Assets.pdf	Separate account assets
Resolvability-Unconsolidated VIEs.pdf	Unconsolidated VIEs
Derivatives Organization.pdf	Derivatives organization chart
Follow-ups to 2-26 Meeting Q 1 and 2.pdf	Clarification of surrender eligibility, impact on 10 largest banking organizations by four scenarios
Asset Liquidation.pdf	
Appendix_A_Data_Collection_Form_6_30_13_Consolidated_Response.xlsx	
Resolvability - Foreign Dividends.pdf	Foreign dividends
03.28.14 FSOC Follow-up Response Submission Outline.pdf	
B.3.c_cover_Appendix_A.pdf	
Intercompany file.xlsx	"Due to" and "due from" intercompany schedules
Follow_Up_A8_Response.pdf	Narrative expanding upon 2008 4Q internal asset transfer disclosure
Resolvability-Derivatives.pdf	Derivatives management
27 March 2014 Statement from NOLHGA.pdf	Statement from Peter G. Gallanis, President of NOLHGA

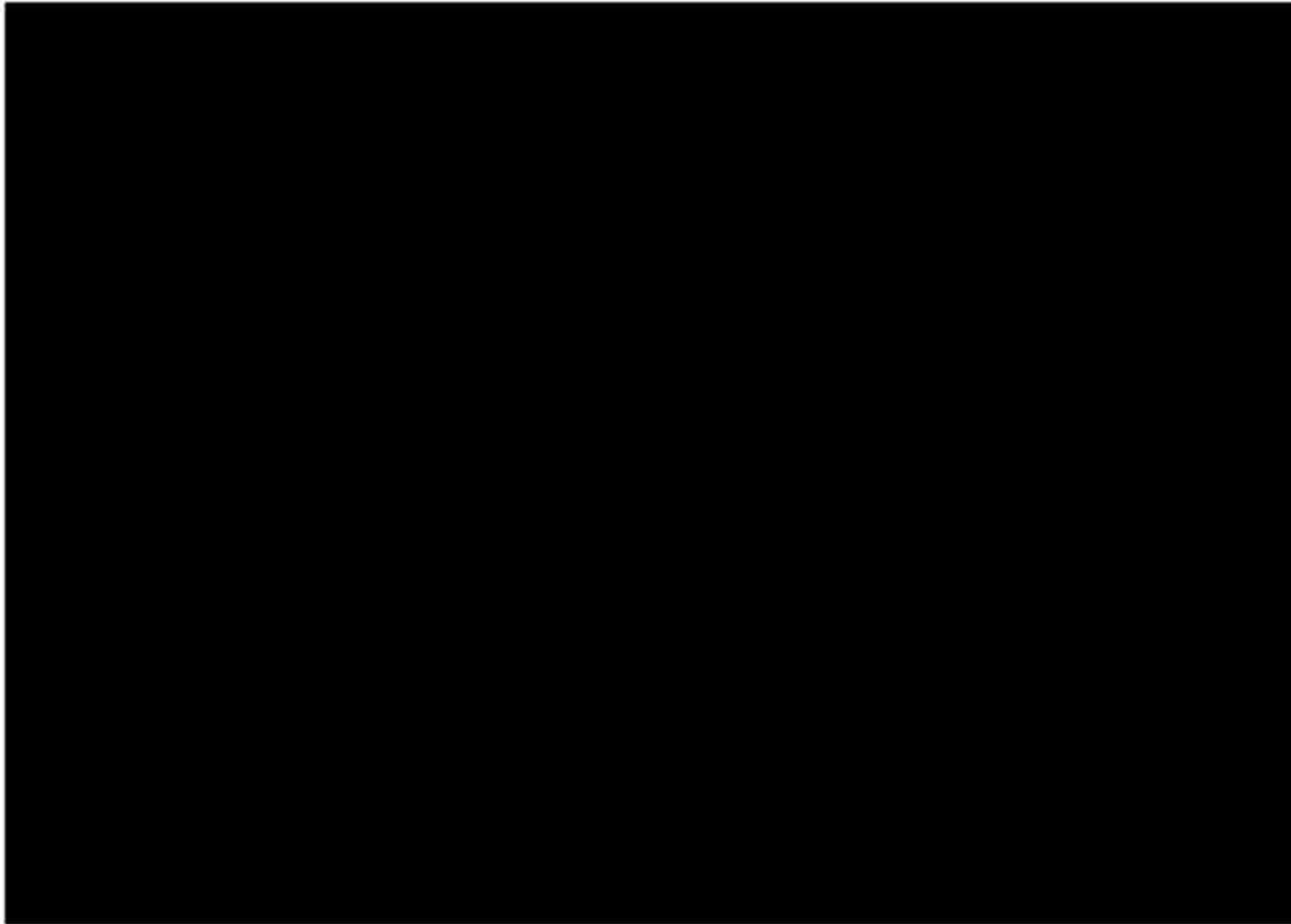
DOCUMENTS UPLOADED IN 4/2014	
Response to B.7 (xlsx) - 4 files	B7 revision: Korea and Japan, EMEA, Latin America, U.S.
Follow_up_A9_Response.pdf	Narrative clarifying “extreme scenario” and contractual provisions permitting early termination
Resolvability Conference Call Agenda Item 3 (VIEs).pdf	VIEs
Resolvability Conference Call Agenda Item 4 (Intercompany Arrangements).pdf	Intercompany arrangements
Resolvability Conference Call Agenda Item 5 (Affiliated Captives).pdf	Affiliated captives
Resolvability Conference Call Agenda Item 6 (Institutional Business).pdf	Institutional business
April 24 2014 FSOC Meeting Presentation Submission.pdf	Presentation, April 24, 2014
Resolvability Conference Call Agenda Item 1(Shared Services).pdf	Shared services
Resolvability Conference Call Agenda Item 2 (Derivatives Management).pdf	Derivatives management
DOCUMENTS UPLOADED IN 5/2014	
A.6.j_response.pdf	Notice of previous response
B.6._response.pdf	Response to discussion of qualifying separate accounts
A.14.p_response.pdf	Supplemental data request description
A.19.e.xlsx	Supplemental data on CP
2013.11.12_-_Liability_cash_outflow_model_(PROTECTED).xlsx	Oliver Wyman analytical model: liability cash outflow
20140522_-_Liquidity_models_-_cover_note_for_FSOC_Sent.pdf	Oliver Wyman analytical model: cover sheet
2013.11.12_-_Asset_sales_optimization_(PROTECTED).xlsm	Oliver Wyman analytical model: asset sales
2013.11.12_-_Impact_on_bank_capital_(PROTECTED).xlsx	Oliver Wyman analytical model: bank capital
DOCUMENTS UPLOADED IN 6/2014	
A.4.c_response.xlsx	Corporate benefit funding liabilities by major product type
Response to A.8 (pdf, xlsx) - 7 files	Cash collateral by lent security type, securities purchased with proceeds of FABNs issued, FABN program overview, securities lent by MetLife legal entity, supplemental request response, lent security type by stated financial maturity
NORC - Consumer Views Slides.pdf	NORC: consumer views on life insurers experiencing financial distress presentation
B.7.h_m_US_CFO_1of1.xlsx	Spreadsheet responsive to B.7.h - B.7.m
FSOC transmittal letter.pdf	
NORC - Consumer Views Summary.pdf	NORC: consumer views on life insurers experiencing financial distress report

Response to A.15 (pdf, xlsx) - 4 files	Exposures as risk transfer or risk financing, assumed reinsurance balances, narrative responsive to A.15, captives using modco
Response to B.3 (pdf, xlsx) - 6 files	Narrative responsive to B.3, asset composition of restricted assets of MLIC, MICC, and other legal entities
Master securities loan agreements – 33 files	
DOCUMENTS UPLOADED IN 7/2014	
20140711 - Appendix D - Interest rate shock.pdf	
20140711 - Written responses to FSOC questions.pdf	
20140711 Appendix A - NORC - Consumer Views Slides and Summary (pdf) = 2 files	
20140711 - Appendix B - OW NORC Cover Letter.pdf	
20140711 - Appendix C - Expanded case studies.pdf	
Cover Letter to OW Consequences of SIFI Designation Document.pdf	Consequences of a Council determination regarding MetLife
MetLife_Harm_Narrative.pdf	Consequences of a Council determination regarding MetLife
Cover Letter for CL Derivatives.pdf	Cover letter regarding analysis of MetLife's derivatives activity
2014 07 20 Culp-Veronesi Report.pdf	Potential systemic implications of MetLife's derivatives activities
20140722 0800 - VA surrender disincentives.pdf	Analysis of market impact of a liquidity crisis - focus on variable annuities
DOCUMENTS UPLOADED IN 8/2014	
WWheeler20120516.pdf	Testimony of William J. Wheeler President, Americas, MetLife, Inc., before the U.S. House of Representatives Financial Institutions and Consumer Credit Subcommittee, May 16, 2012
Letter to FSOC on Activities Based Regulation.pdf	Request for consideration of an activities-based approach to regulating insurance in lieu of further designations
2013-05-01 1600 Alternative Framework - Long_pdf.zip	Alternative framework to Basel for insurance companies - full version
Capital Markets Summit Remarks.pdf	"Life Insurers as SIFIs: A Case of Mistaken Identity?", speech by Steven A. Kandarian, Chairman, President and CEO of MetLife, April 10, 2013
MetLife Harm Narrative - Annexes 1 and 2 _ OW.PDF	Annex to "MetLife Harm Narrative" received on 7/22/2013
2013-05-01 1600 Alternative Framework - Short_pdf.zip	Alternative framework to Basel for insurance companies – short version
DOCUMENTS UPLOADED IN 9/2014	
Letter to Pinschmidt sept 2014.pdf	Letter regarding materials relating to FSOC's proposed determination regarding MetLife.

DOCUMENTS UPLOADED IN 10/2014	
Letter to Pinschmidt.pdf	Letter regarding materials relating to FSOC's proposed determination regarding MetLife.
10 3 2014 Evidentiary Hearing Request.pdf	Letter to Patrick Pinschmidt requesting an oral evidentiary hearing.
Waiver re oral hearing – Execution Copy.pdf	Waiver regarding oral hearing
Letter of Pinschmidt (10 14 14).pdf	Letter regarding the oral hearing and submitted materials.
1 - Cover Letter.pdf 2 - Table of Contents.pdf 3 - Section I - Executive Summary.pdf 4 - Section II - Exposure Transmission Channel.pdf 5 - Section III - Asset Liquidation Transmission Channel.pdf 6 - Section IV - Critical Function or Service Transmission Channel.pdf 7 - Section V - Resolvability.pdf 8 - Section VI - Legal Analysis with Annexes.pdf 9 - Section VII - Paragraph by Paragraph Rebuttal of NPD.pdf 10 - Appendix - NORC Letter and Slide.pdf	MetLife's written materials contesting the notice of proposed determination.
10 27 John Hele Visual Aids_Submitted.pdf	Visual aids for hearing
10 27 Ricardo Anzaldua Visual Aids_Submitted.pdf	Visual aids for hearing
Letter to Pinschmidt 10 30 14.pdf	Letter to Patrick Pinschmidt contesting MetLife's classification as a "nonbank financial company" under section 102 of the Dodd-Frank Act
Letter to Pinschmidt of October 22 2014.pdf	Letter regarding a denial of a Freedom of Information Act request.
DOCUMENTS UPLOADED IN 11/2014	
Attachment 4 - MetLife--Response to Additional Questions.pdf	Responses to questions of Chairman Yellen, Director McRaith, and Commissioner Hamm
Attachment 3 - MetLife--Analysis of Financial Activities.pdf	Analysis of MetLife under Section 4(k) of the Bank Holding Company Act
Attachment 2 - Nonbank Financial Company Letter.pdf	Letter responding to Roy Woodall's question section 102 of the Dodd-Frank Act
Attachment 1 - Supplemental Letter for 11-10-2014 transmission.pdf	Letter addressing five topics that were the subject of Council members' questions
10 7 Submitted FSOC Oral Hearing Transcript (with corrections).pdf	MetLife's corrections to FSOC's oral hearing transcript

PRIVILEGED AND CONFIDENTIAL

APPENDIX C: G-SIB AND G-SII CAPITAL MARKET EXPOSURES TO METLIFE



PRIVILEGED AND CONFIDENTIAL**Appendix C: G-SIB AND G-SII CAPITAL MARKET EXPOSURES TO METLIFE**

[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

Note: This analysis primarily uses outstanding, reported amounts in order to evaluate the financial footprint of MetLife. The exposures highlighted in Appendix C provide context for the range of potential outcomes that could occur in the event of MetLife's material financial distress, and are not estimates of expected losses to counterparties.

APPENDIX D: FIRE-SALE IMPACT ANALYSIS

The liquidation of assets by a firm in financial distress may temporarily force prices below those attainable in normal market conditions. These fire-sale prices will have a direct impact on the balance sheet of all firms holding the same or similar assets, thus potentially spreading financial distress to other firms. The potential size of the total fire-sale effect of a firm on the broader economy is related to the firm's leverage, size, and asset profile relative to other firms.

Role of Leverage, Size, and Asset Composition

In order to achieve the same reduction in leverage, a more leveraged firm would need to sell a larger amount of assets than a less leveraged firm. The volume of assets that would have to be sold is directly linked to the firm's leverage.¹⁴⁵¹

Once a firm determines it must sell assets in response to the initial shock, the amount of assets placed on the market will naturally depend on the size of the firm. Simply put, for the same proportional shock to equity and the same initial leverage, a firm with \$1 trillion in total assets would need to sell orders of magnitude more than a firm with \$1 billion in total assets. A smaller firm may be able to sell an amount of assets that could be absorbed without market disruptions. However, a larger firm may need to sell a larger volume of assets, which may have a negative impact on the market. Thus, once a firm determines that it must sell assets in response to the initial shock, the amount of assets placed on the market will naturally depend on the size of the firm.

Finally, for a given size and leverage, the market impact of asset sales by a financial firm in distress will also depend on the firm's asset profile. If the firm owns and subsequently sells assets that are not held by any other financial firm, it may significantly depress prices for that asset without damaging the net worth of other financial firms. As discussed under "Effects on the broader economy" below, if the firm owns and subsequently sells assets that are held by many other financial firms, the fall in the price of that asset has the potential to decrease the net worth of other financial firms. This is a fire-sale externality.

Irrespective of industry or activity, any company that is large, leveraged, and holds assets similar to those held by other large, leveraged institutions, has the potential to create negative fire-sale externalities by liquidating portions of its assets.¹⁴⁵²

¹⁴⁵¹ A firm's raising of additional capital could reduce the amount of assets that would need to be liquidated, which could reduce the magnitude of a fire sale. However, a firm in material financial distress, especially in the context of overall stress in the financial services industry and in a weak macroeconomic environment, may face difficulties or delays in raising capital or in selling subsidiaries or lines of business. Such difficulties could arise, for example, from intra-firm interconnectedness and complexity. The simulation in this appendix addresses the state of a firm net of any capital raise.

Summary of the Analysis

To further inform the Council's understanding with respect to MetLife, an analysis of the relative impact of negative shocks to the equity or assets of certain large financial institutions was undertaken. The analysis considers the framework proposed in Greenwood, Landier and Thesmar's work titled, "Vulnerable Banks."¹⁴⁵³ The analysis is a tool intended to provide additional information related to the evaluation of the potential impact of material financial distress at MetLife, and not an independent basis for a final determination by the Council.¹⁴⁵⁴

The analysis starts by assuming that MetLife's equity capital decreases by one-third, one-half, or two-thirds of its original value. The reasons for the decrease in equity capital (the "equity shock") are not specified in the analysis, because the equity shock is presumed regardless of reason and the analysis does not assess the likelihood of such a shock. They could include a catastrophic mortality event, company-specific material financial distress, or adverse conditions in the broader capital markets in the context of unfavorable macroeconomic circumstances. The analysis is undertaken assuming the equity shock has occurred, rather than assessing the likelihood of such a shock. The analysis assumes that MetLife and all other firms included in the simulations would respond to the shortfall in equity capital by, among other things, selling some of their assets, with all firms following the same liquidation assumptions outlined below as MetLife. Finally, the equity shock analysis measures the effect that the sale of assets has on other financial institutions that hold similar assets. The analysis considers a wide range of potential equity shock scenarios, described in detail below, to better ensure that the conclusions hold for different initial shock sizes, different market conditions and different responses by MetLife and the other affected institutions.

As a robustness check, the analysis employs a second set of shock scenarios. The second set of scenarios assumes a decrease in the value of assets (an "asset shock"). For the asset shock simulations, assets were reduced by one percent, two percent, or three percent of their original value. As with the equity shock outlined above, the reasons for the decrease in asset values are

¹⁴⁵² MetLife asserts that the analysis in Appendix D overlooks industry-specific characteristics that distinguish insurers from other financial institutions. MetLife Materials Contesting the Proposed Determination (October 16, 2014), Section VII, at VII-251. Market volatility can affect companies in diverse parts of the financial system, and this analysis assists in evaluating the comparative potential effect of fire sales by MetLife on other institutions holding similar assets.

¹⁴⁵³ Robin Greenwood, Augustin Landier, and David Thesmar, "Vulnerable Banks," NBER WP 18537 (November 2012), available at <http://www.nber.org/papers/w18537>; Greenwood, Landier and Thesmar, "Vulnerable Banks," *Journal of Financial Economics*, Forthcoming.

¹⁴⁵⁴ There are a number of other analyses that market participants use for measuring the importance and impact of certain firms. For example, one commonly used metric is S-risk, which has been used by a number of researchers as it combines key characteristics of systemic risk, including size, leverage, and interconnectedness. In one S-risk analysis, MetLife is placed fourth in the systemic risk top-10 list for U.S. financial companies. V-Lab Beta. "US Financials Systemic Risk Top Ten," NYU Stern School: The Volatility Institute, available at vlab.stern.nyu.edu/welcome/riskvlab.stern.nyu.edu/welcome/risk

not specified in the analysis because the asset shock is presumed regardless of reason, and the analysis does not assess the likelihood of such a shock.

The analysis uses a comparative approach to gauge the effect of MetLife's potential fire sale on other firms. The analysis compares the fire-sale externalities that MetLife's material financial distress would impart to the system to the externalities that other large financial institutions would impart if they faced the same equity and asset shocks. Note that in this exercise, more highly leveraged firms experience smaller decreases in asset value than less leveraged firms, which have more equity.

The framework does not explicitly state a liquidation time horizon or timeline.¹⁴⁵⁵ However, the different scenarios listed below incorporate the effects of several different liquidation horizons. For example, a scenario in which asset sales have a small price impact also reflects the results of a scenario in which asset sales have a large price impact, but liquidation of assets takes place over a longer time span. The reason is that liquidating assets slowly would presumably have a smaller price impact than liquidating assets quickly. Similarly, a firm with a target leverage of 1/2 may be thought of as a firm with target leverage of 1 that uses asset sales to get to a target leverage of 1/2 and uses other means (such as raising equity or selling businesses) for the other 1/2.

Data and Assumptions Used in the Analysis

Data on the asset holdings of the largest 50 BHCs and the largest 27 insurance companies as of the second quarter of 2013 were collected for this analysis.¹⁴⁵⁶ For BHCs, the Federal Reserve's regulatory filings were used.¹⁴⁵⁷ For insurance companies, data were collected from the firms' quarterly filings with the SEC.

The analysis used 19 asset classes derived from regulatory reports and public filings. The asset classes included were:

- cash and balances due from depository institutions;
- Federal Funds sold and securities purchased under agreements to resell;
- U.S. Treasury securities and agency securities;
- State and political subdivisions in the U.S. Securities;
- RMBS;
- CMBS;

¹⁴⁵⁵ For a discussion of the potential asset liquidation by MetLife, including the timeframe for liability outflows and asset sales, see section 4.3.

¹⁴⁵⁶ Consistent data for the insurance company Aflac Inc., the eighth largest insurance company, were not available, so it was excluded from the analysis.

¹⁴⁵⁷ Federal Reserve reporting form FR Y-9C, *Consolidated Financial Statements for Bank Holding Companies* (FR Y-9C).

- ABS;
- other domestic debt securities;
- foreign debt securities;
- residual securities;
- trading assets;
- loans secured by real estate in domestic offices;
- loans secured by real estate outside of the U.S.;
- loans to consumers in domestic offices;
- loans to consumers outside of the U.S.;
- commercial and industrial (C&I) loans in domestic offices;
- C&I loans outside of the U.S.;
- other loans; and
- other assets listed on balance sheets.

For firms for which holdings of a particular asset class were not available, the asset class was set to zero. Residual, uncategorized assets were assigned to a separate category.

Granular, non-aggregated data on the sub-categories of loans held by insurance companies was not available from publicly available sources. It is, however, available for the BHC and savings and loan holding company (SLHC) data used in the analysis. To permit the use of more detailed BHC and SLHC loan data, the analysis assumed that insurance company loans were spread evenly across all loan categories. To confirm that this assumption about sub-categories of loan types did not affect the results of the analysis, the analysis was repeated by aggregating all loan types into a single loan category. This quality assurance check produced virtually the same result as evenly spreading the loans across all sub-categories and confirmed that the assumption had no material impact on the results.

Separate account assets of life insurance companies were excluded from this analysis because policyholders, not the companies, control the decision to liquidate these assets. It should be noted, however, that to the extent that separate account policyholders surrender or withdraw their policies out of concern regarding a company's viability (or the state of the industry generally) – whether rational or not, the additional liquidation of separate account assets could magnify the effects summarized in this fire sale analysis.

All assets and asset classes are equally affected by the initial shock. In addition, it was assumed that in the fire sales, firms dispose of assets in proportion to their portfolio weights.¹⁴⁵⁸ The analysis allows each asset class to have a different price sensitivity to the volume of assets sold

¹⁴⁵⁸ For a discussion regarding the potential order of asset sales by MetLife, see section 4.3.9.

in the fire-sale phase. However, by assumption, there is no spillover effect from fire sales of one asset class to the price of a different asset class, and there are also no subsequent asset sales by other firms beyond the initial fire sale conducted by the affected firm. If “second-round” asset sales by other firms were to occur, the effects of a fire sale at MetLife would be worse.

Populations. Alternative populations were selected, based on the considerations of size, leverage and asset composition as explained above. The three population scenarios considered were:

1. 76 firms in the system (50 largest firms in the sample that file FR Y-9C forms by total assets plus 26 largest public insurance companies by total assets);
2. 126 firms in the system (100 largest firms in the sample that file FR Y-9C forms by total assets plus 26 largest public insurance companies by total assets); and
3. 1147 firms in the system (all firms in the sample that file FR Y-9C forms plus 26 largest public insurance companies by total assets).

Target leverage. The simulations employed three different assumptions concerning the level of leverage desired by the firm after being hit by a shock—the “target” or “post-shock” leverage. The analysis assumed the following post-shock leverage levels:

1. 1 (firm returns to pre-shock leverage level);
2. 1/3 (firm returns to 1/3 of pre-shock leverage level); and
3. 1/2 (firm returns to 1/2 of pre-shock leverage level).

Asset liquidity. The simulations employed the following five alternative assumptions regarding the liquidity of the 19 asset classes noted above:

1. Cash is fully liquid. All other assets have the same liquidity—\$1 billion of trading imbalances lead to a price change of 1 basis point.
2. Cash, U.S. Treasuries, and U.S. Agency Securities are fully liquid (no price impact when sold). The price change per \$1 billion of trading imbalances for the other assets are:
 - a. 1 basis point for Federal Funds Sold & Securities Purchased under Agreements to Resell, State and Political Subdivisions in the U.S. Securities, Residential MBS, Commercial MBS, Asset backed securities, Residual securities, Trading Assets;
 - b. 2 basis points for Other Domestic Debt Securities, Foreign Debt Securities; and
 - c. 3 basis points for the remaining asset classes.
3. Cash, U.S. Treasuries, and U.S. Agency Securities are fully liquid. The price change per \$1 billion of trading imbalances for the other assets are:
 - a. 1 basis point for Federal Funds Sold & Securities Purchased under Agreements to Resell, State and Political Subdivisions in the U.S. Securities,

- Residential MBS, Commercial MBS, Asset backed securities, Residual securities, Trading Assets;
- b. 2 basis points for Other Domestic Debt Securities, Foreign Debt Securities;
 - c. 3 basis points for Loans Secured by Real Estate in Domestic Offices, Loans to Consumers in Domestic Offices, C&I Loans in Domestic Offices, Other Loans; and
 - d. 4 basis points for the remaining asset classes.
4. Cash, U.S. Treasuries, and U.S. Agency Securities are fully liquid. The price change per \$1 billion of trading imbalances for the other assets are:
- a. 10 basis points for Federal Funds Sold & Securities Purchased under Agreements to Resell, State and Political Subdivisions in the U.S. Securities, Residential MBS, Commercial MBS, Asset backed securities, Residual securities, Trading Assets, Loans to Consumers in Domestic Offices;
 - b. 20 basis points for Other Domestic Debt Securities, Foreign Debt Securities;
 - c. 100 basis points for Loans Secured by Real Estate in Domestic Offices, Loans Secured by Real Estate Outside United States, Loans to Consumers Outside the US, C&I Loans in Domestic Offices, C&I Loans outside the United States, Other loans; and
 - d. 150 basis points for other assets.
5. Cash, U.S. Treasuries, and U.S. Agency Securities are fully liquid. The price change per \$1 billion of trading imbalances for the other assets are:
- a. 10 basis points for Loans to Consumers in Domestic Offices;
 - b. 20 basis points for Federal Funds Sold & Securities Purchased under Agreements to Resell, State and Political Subdivisions in the U.S. Securities, Residential MBS, Commercial MBS, Asset Backed Securities, Residual securities, Trading Assets;
 - c. 50 basis points for Other Domestic Debt Securities, Foreign Debt Securities;
 - d. 200 basis points for Loans to Consumers Outside the United States;
 - e. 300 basis points for Other Loans; and
 - f. 500 basis points for the remaining asset classes.

Firms were subjected to 135 alternative scenarios for each of the equity shock and asset shock (for a total of 270 scenarios). The analysis assumes a wide range of scenarios, with MetLife liquidating a range of assets from \$10 billion to \$238 billion. This range of liquidations is not based on figures provided by MetLife. [REDACTED]

[REDACTED] The higher-end of the range is not implausible if MetLife experienced a combination of surrenders or withdrawals of certain of its insurance, annuity, and retirement products, run-off or early termination of securities lending transactions, and an inability of MetLife to rollover FABCP and FABNs. It is important to note, however, that the results discussed below illustrate that the conclusions do not rest on any one assumption or scenario, such as the amount of assets liquidated. In particular, the sensitivity testing that removed the harshest of the asset shock scenarios for insurance firms only (i.e., banks were still subject to the harshest shocks) resulted in an immaterial, relative change for MetLife. The sensitivity test is discussed in more below.

Discussion of Results

The fire-sale externality for each firm was analyzed under each scenario. Each firm's fire-sale rank relative to other firms, the stability of this ranking across parameter sets, and the magnitude of the effect relative to the largest, most systemic firms in the population are products of the analysis. The fire-sale externalities were "normalized" by dividing each firm's externality by the largest fire-sale externality within each parameter set. The results are shown below in Table 54 and Table 55.

Table 54 shows the results of shocks to equity capital. Under the scenarios run, MetLife produces a fire-sale effect of almost 20 percent of the size of the effect created by a fire sale at the firm with the largest fire-sale effect. This is comparable to the fire sale effect created by AIG and U.S. Bank. The results were consistent across a variety of specifications, with MetLife ranking from 7th to 10th depending on the parameters used. The analysis suggests that not just by size but also by leverage and asset composition, a fire sale of assets by MetLife has the potential to generate significant effects on the broader financial system. Indeed, the effect is at least of similar magnitude to those predicted for many of the largest U.S. BHCs.

Table 55 shows the results of shocks to assets. Note that these shocks produce substantially larger fire-sale effects at more leveraged firms, for the reasons noted earlier in this appendix. Under the scenarios run, MetLife produces a fire-sale effect about 18 percent of the size of the effect created by a fire sale at the firm with the largest fire-sale effect. This is comparable to the fire-sale effects created by U.S. Bank, General Electric Capital Corporation (GE Capital), or Prudential.

Altering the analysis by cutting all shock sizes in half (and thus the asset sales), does not change the relative effect of the fire sale (i.e., none of the numbers in Table 54 or Table 55 change). This is due to the comparative nature of the analysis. Even though the dollar amount of externalities for MetLife would be half as large as in the present analysis, the externalities would be reduced in the same proportion for all of the other firms in the simulation as well.

Effects on the broader economy

A fire sale of assets by a large financial firm like MetLife will reduce the value of assets held by other financial intermediaries and potentially reduce their capital cushions. The size and duration of the responses of financial institutions' portfolios to these changes transmit the effect of fire sales to credit markets and, thus, the broader economy. In response to unexpected events, financial institutions typically make thoroughgoing, but gradual, adjustments to their holdings of

both financial assets and liabilities. Using aggregate data, these adjustments have been shown to take several quarters, and in some cases years, to complete.¹⁴⁵⁹

Sensitivity testing

MetLife asserts that its liabilities are such that they would not be subject to the same severe asset shocks that banks could experience during material financial distress.¹⁴⁶⁰ In response to MetLife's assertions, sensitivity testing was conducted to dramatically ease the equity capital and asset shocks applied to insurance companies, including MetLife, but not change either of the shock scenarios applied to banks. Specifically, the largest capital shocks—reduction of equity capital by two-thirds—were not applied to insurance companies, but the largest equity capital shocks were still applied to banks. In addition, the largest asset shocks—3 percent—were not applied to insurance companies, but the largest asset shocks were still applied to banks.

As a result of the modified equity capital shocks, MetLife's mean fire-sale externality goes from 20 percent to 18 percent of the largest externality. The results are shown below in Table 56. The modified capital shocks reduce MetLife's fire-sale externality (since the shocks on insurance firms are milder) but not in a material way. The results of this sensitivity testing: (1) support the point noted above that the analysis's conclusions do not rest on any one assumption or scenario, such as the amount of assets liquidated; and (2) make clear that even at significantly reduced capital shocks, MetLife still has a significant fire-sale externality.

As a result of the modified asset shocks, MetLife's mean fire-sale externality goes from 18 percent to 16 percent of the largest externality. The results are shown below in Table 57. The modified asset shocks reduce MetLife's fire-sale externality (since the shocks on insurance firms are milder) but not in a material way. The results of this sensitivity testing: (1) support the point noted above that the analysis's conclusions do not rest on any one assumption or scenario, such as the amount of assets liquidated; and (2) make clear that even at significantly reduced asset sale shocks, MetLife still has a significant fire-sale externality.

¹⁴⁵⁹ Hancock, D., A.J. Laing, and J.A. Wilcox, "Bank Capital Shocks: Dynamic Effects on Securities, Loans and Capital," *Journal of Banking and Finance* volume 19, issues 3-4 (June 1995), pp. 661-677; B.S. Bernanke and A.S. Blinder, "The Federal Funds Rate and the Channels of Monetary Transmission," *The American Economic Review* volume 82, issue 4 (September 1992), pp. 901-921.

¹⁴⁶⁰ See, e.g., MetLife Voluntary Submission Section III, pp. III-78-III-85.

Table 54: Summary Statistics of Firms' Fire-Sale Effects Under Capital Shocks

Name	Mean (%)	Minimum (%)	Maximum (%)
Bank of America	100.0%	99.4%	100.0%
JPMorgan Chase	87.6	77.2	100.0
Wells Fargo	77.8	63.7	89.9
Citigroup	58.5	48.9	68.4
Morgan Stanley	27.3	18.0	39.6
Goldman Sachs	25.8	13.2	45.7
GE Capital	24.2	17.8	30.1
AIG	20.9	17.0	26.2
U.S. Bank	20.3	16.7	22.8
MetLife	19.7	16.5	23.2
PNC	16.9	13.5	19.1
Berkshire Hathaway	16.6	10.8	23.3
Capital One	13.3	12.1	14.6
Prudential	12.3	8.9	14.4
BB&T	11.6	9.3	13.5
SunTrust	9.9	8.1	11.5
BNY Mellon	9.2	7.7	10.7
Regions	7.2	5.7	8.5
Fifth Third	7.0	5.5	7.9
Hartford	6.8	5.8	8.4
ALLY Financial	6.6	5.7	7.5
M&T	5.9	4.3	7.3
State Street	5.6	4.5	6.6
Keycorp	4.7	4.0	5.2
American Express	4.7%	3.4%	5.7%

Table 55: Summary Statistics of Firms' Fire-Sale Effects Under Asset Shocks

Name	Mean (%)	Minimum (%)	Maximum (%)
JPMorgan Chase	99.8%	97.7%	100.0%
Bank of America	90.6	78.6	100.0
Wells Fargo	67.8	48.2	85.9
Citigroup	54.5	50.7	56.0
Morgan Stanley	32.1	23.8	41.4
Goldman Sachs	29.6	17.1	47.1
MetLife	18.3	14.7	22.4
U.S. Bank	17.3	12.3	21.3
GE Capital	15.0	9.9	19.2
Prudential	14.8	12.0	16.8
PNC	12.2	8.4	15.1
AIG	10.0	7.4	13.0
BB&T	9.6	6.6	12.2
Capital One	9.5	7.5	10.4
BNY Mellon	8.9	7.9	10.7
SunTrust	8.0	5.7	10.2
State Street	6.2	5.5	7.7
Fifth Third	6.0	4.1	7.5
Regions	5.6	3.8	7.1
Hartford	5.2	4.0	6.6
ALLY Financial	5.2	3.9	5.6
M&T	4.6	2.9	6.2
Keycorp	4.1	3.0	5.0
Charles Schwab	4.1	3.6	4.9
Lincoln National	3.9	3.3	4.6
American Equity	3.7%	3.0%	4.5%

Table 56: Summary Statistics of Firms' Fire-Sale Effects Under Modified Capital Shocks

Name	Mean (%)	Minimum (%)	Maximum (%)
Bank of America	100.0%	99.4%	100.0%
JPMorgan Chase	87.6	77.2	100.0
Wells Fargo	77.8	63.7	89.9
Citigroup	58.5	48.9	68.4
Morgan Stanley	27.3	18.0	39.6
Goldman Sachs	25.8	13.2	45.7
GE Capital	24.2	17.8	30.1
U.S. Bank	20.3	16.7	22.8
AIG	19.2	12.7	26.2
MetLife	18.1	12.4	23.2
PNC	16.9	13.5	19.1
Berkshire Hathaway	15.2	8.1	23.3
Capital One	13.3	12.1	14.6
BB&T	11.6	9.3	13.5
Prudential	11.3	6.7	14.4
SunTrust	9.9	8.1	11.5
BNY Mellon	9.2	7.7	10.7
Regions	7.2	5.7	8.5
Fifth Third	7.0	5.5	7.9
ALLY Financial	6.6	5.7	7.5
Hartford	6.2	4.3	8.4
M&T	5.9	4.3	7.3
State Street	5.6	4.5	6.6
Keycorp	4.7	4.0	5.2
American Express	4.7%	3.4%	5.7%

Table 57: Summary Statistics of Firms' Fire-Sale Effects Under Modified Asset Shocks

Name	Mean (%)	Minimum (%)	Maximum (%)
JPMorgan Chase	99.8%	97.7%	100.0%
Bank of America	90.6	78.6	100.0
Wells Fargo	67.8	48.2	85.9
Citigroup	54.5	50.7	56.0
Morgan Stanley	32.1	23.8	41.4
Goldman Sachs	29.6	17.1	47.1
U.S. Bank	17.3	12.3	21.3
MetLife	16.3	9.8	22.4
GE Capital	15.0	9.9	19.2
Prudential	13.1	8.0	16.8
PNC	12.2	8.4	15.1
BB&T	9.6	6.6	12.2
Capital One	9.5	7.5	10.4
AIG	8.9	4.9	13.0
BNY Mellon	8.9	7.9	10.7
SunTrust	8.0	5.7	10.2
State Street	6.2	5.5	7.7
Fifth Third	6.0	4.1	7.5
Regions	5.6	3.8	7.1
ALLY Financial	5.2	3.9	5.6
Hartford	4.6	2.7	6.6
M&T	4.6	2.9	6.2
Keycorp	4.1	3.0	5.0
Charles Schwab	4.1	3.6	4.9
American Express	3.6	2.8	4.3
Northern Trust	3.6%	2.8%	4.3%

APPENDIX E: SUBSIDIARY ABBREVIATIONS

ALICO	American Life Insurance Company
Exeter Re	Exeter Reassurance Company, Ltd.
FMLI	First MetLife Investors Insurance Company
GALIC	General American Life Insurance Company
MAL	MetLife Assurance Limited
MEL	MetLife Europe Limited
MET	MetLife, Inc.
MetLife Chile	MetLife Chile Seguros de Vida S.A.
MetLife Funding	MetLife Funding, Inc.
MetLife Japan	MetLife Alico Life Insurance Company K.K.
MetLife Korea	MetLife Insurance Company of Korea Limited
MetLife Mexico	MetLife Mexico S.A.
MGF	Metropolitan Life Global Funding I
MICC	MetLife Insurance Company of Connecticut
MIF	MetLife Institutional Funding II
MLIC	Metropolitan Life Insurance Company
MIHI	MetLife International Holdings Inc.
MICUSA	MetLife Insurance Company USA
MLI-MO	MetLife Investors Insurance Company
MLI-USA	MetLife Investors USA Insurance Company
MORe	Missouri Reinsurance Company, Inc.
MRD	MetLife Reinsurance Company of Delaware
MRC	MetLife Reinsurance Company of Charleston
MRSC	MetLife Reinsurance Company South Carolina
MRV	MetLife Reinsurance Company of Vermont
NELICO	New England Life Insurance Company

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PRIVILEGED AND CONFIDENTIAL**December 18, 2014****1. INTRODUCTION****1.1 Council Determination**

The Financial Stability Oversight Council (Council) was established in 2010 with three purposes: to identify risks to U.S. financial stability; to promote market discipline; and to respond to emerging threats to the stability of the United States financial system.¹ To address potential risks to U.S. financial stability, the Dodd-Frank Act authorizes the Council to determine that certain nonbank financial companies shall be supervised by the Board of Governors of the Federal Reserve System (Board of Governors) and be subject to enhanced prudential standards.

Because MetLife, Inc. (MetLife) is a significant participant in the U.S. economy and in financial markets, is interconnected to other financial firms through its insurance products and capital markets activities, and for the other reasons described below, material financial distress at MetLife could lead to an impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict significant damage on the broader economy. Based on the Council's evaluation of all the facts of record in light of the factors that the Council is statutorily required to consider, the Council has made a final determination that material financial distress at MetLife could pose a threat to U.S. financial stability and that MetLife will be supervised by the Board of Governors and be subject to enhanced prudential standards.

The Council's final determination does not constitute a conclusion that MetLife is experiencing material financial distress. Rather, consistent with the statutory standard for determinations by the Council under section 113 of the Dodd-Frank Act, the Council has determined that material financial distress at the company, if it were to occur, could pose a threat to U.S. financial stability.

1.2 Engagement with MetLife

In making its determination, the Council carefully considered a broad range of information available through public and regulatory sources, as well as information provided by MetLife. The Council's determination is based on extensive qualitative and quantitative analyses regarding MetLife, taking into account the company's businesses and activities and company-specific financial analysis.

On July 16, 2013, the Council notified MetLife that the company was under consideration for a proposed determination by the Council. The company was invited to meet with staff and to submit materials, and the Council also requested specific information relevant to the Council's evaluation. Between September 2013 and September 2014, staff of Council members and their agencies met with MetLife's representatives 12 times. These staff were subject to the direction of the Council's Deputies Committee and Nonbank Financial Company Designations Committee, both of which include representatives of all of the Council members. In addition, representatives of the company met with senior officials of Council members and member agencies. Staff also had five meetings with two state insurance regulatory authorities with

¹ See Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) section 111, 12 U.S.C. § 5321.

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jurisdiction over MetLife's insurance subsidiaries. MetLife submitted over 21,000 pages of materials to the Council during its evaluation.

On September 4, 2014, the Council voted to make a proposed determination regarding MetLife. On the same day, the Council sent the company a notice and explanation of the basis of the proposed determination, which provided an extensive analysis of the potential for material financial distress at MetLife to pose a threat to U.S. financial stability. The notice also informed the company of its right to request a hearing before the Council to contest the proposed determination. On October 3, 2014, MetLife requested a written and an oral hearing before the Council, which was granted by the Council. MetLife submitted written hearing materials to the Council on October 16, 2014. An oral hearing before the full Council was held on November 3, 2014. On November 10, 2014, the company submitted additional written materials to supplement the materials presented during the oral hearing.

The company's submissions to the Council before and after the proposed determination were considered by the Council. On December 18, 2014, the Council voted to make a final determination regarding MetLife, and provided the company with a detailed statement of the basis for the Council's decision.²

The statement of the basis for the final determination that the Council provided to MetLife relies extensively on nonpublic information that was submitted by MetLife to the Council. For example, that analysis includes information such as the types and amounts of counterparty exposures to MetLife arising from the company's securities issuances, guaranteed investment contracts (GICs), and derivatives activities; the size, collateralization, and liquidity of the company's securities lending program; the impact on capital of the company's use of captive reinsurance; the terms of inter-affiliate transactions; and the scale of the company's insurance liabilities with discretionary withdrawal features. The Council is subject to statutory and regulatory requirements to maintain the confidentiality of certain information submitted to it by a nonbank financial company under review for a potential determination.³ As a result, this public explanation of the basis for the Council's final determination omits such information and addresses the key factors that the Council considered in its evaluation of MetLife and the primary reasons for the Council's determination. This explanation of the basis is intended to provide Congress and the public with an understanding of the Council's analysis while protecting sensitive, confidential information submitted by MetLife to the Council.

1.3 The Legal and Analytic Framework for a Final Determination

The Council may determine that a nonbank financial company will be supervised by the Board of Governors and be subject to prudential standards if the Council determines that (1) material financial distress at the nonbank financial company could pose a threat to the financial stability of the United States (the First Determination Standard) or (2) the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the nonbank financial company could pose a threat to the financial stability of the United States (the Second Determination

² The nonpublic statement of the basis of the Council's decision that the Council provided to MetLife constitutes part of the Council's administrative record regarding MetLife.

³ See Dodd-Frank Act section 112(d)(5). 12 U.S.C. § 5322(d)(5); 12 C.F.R. part 1310.20(e).

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Standard).⁴ The Council may subject a nonbank financial company to Board of Governors supervision and enhanced prudential standards if either the First or Second Determination Standard is met. The Council evaluated MetLife under the First Determination Standard.

In considering whether to make a determination that a nonbank financial company will be supervised by the Board of Governors and subject to enhanced prudential standards, the Council is required to consider the following 10 statutory factors:⁵

1. the extent of the leverage of the company;
2. the extent and nature of the off-balance-sheet exposures of the company;
3. the extent and nature of the transactions and relationships of the company with other significant nonbank financial companies and significant bank holding companies;
4. the importance of the company as a source of credit for households, businesses, and State and local governments and as a source of liquidity for the United States financial system;
5. the importance of the company as a source of credit for low-income, minority, or underserved communities, and the impact that the failure of such company would have on the availability of credit in such communities;
6. the extent to which assets are managed rather than owned by the company, and the extent to which ownership of assets under management is diffuse;
7. the nature, scope, size, scale, concentration, interconnectedness, and mix of the activities of the company;
8. the degree to which the company is already regulated by 1 or more primary financial regulatory agencies;
9. the amount and nature of the financial assets of the company; and
10. the amount and types of the liabilities of the company, including the degree of reliance on short-term funding.

In determining that material financial distress at MetLife could pose a threat to U.S. financial stability, the Council considered each of the statutory considerations in section 113 of the Dodd-Frank Act and all of the facts of record.

The Council adopted a rule and interpretive guidance (Interpretive Guidance)⁶ that describe the manner in which the Council applies the statutory standards and considerations, and the processes and procedures that the Council follows, in making determinations under section 113

⁴ Dodd-Frank Act section 113(a)(1), 12 U.S.C. § 5323(a)(1).

⁵ The Council may also consider any other risk-related factors that it deems appropriate. Dodd-Frank Act section 113(a)(2), 12 U.S.C. § 5323(a)(2).

⁶ 12 C.F.R. part 1310, app. A.

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of the Dodd-Frank Act. The rule and Interpretive Guidance describe the factors that the Council intends to use when analyzing companies at various stages of the determination process, including sample metrics. The Council's ultimate assessment of whether a nonbank financial company meets a statutory standard for determination is based on an evaluation of each of the statutory considerations, taking into account facts and circumstances relevant to the company.

The Interpretive Guidance explains the analytic framework developed by the Council to group the 10 statutory considerations into six categories: size, interconnectedness, substitutability, leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny. The Council analyzes a nonbank financial company using appropriate quantitative and qualitative data relevant to each of these six categories.

The Interpretive Guidance also defines statutory terms relevant to the determinations process. The Interpretive Guidance states that the Council will consider a "threat to the financial stability of the United States" to exist "if there would be an impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict significant damage on the broader economy." The Interpretive Guidance also reflects the belief of the Council that "material financial distress" exists when a nonbank financial company "is in imminent danger of insolvency or defaulting on its financial obligations."

As history has shown, including in 2008, financial crises can be hard to predict and can have consequences that are both far-reaching and unanticipated. Consistent with the Council's mission under the Dodd-Frank Act to identify potential threats before they occur, and as described in the Interpretive Guidance, the Council's analysis focuses on the potential consequences of material financial distress at MetLife "in the context of a period of overall stress in the financial services industry and in a weak macroeconomic environment." As a result, the Council considered a range of outcomes that are possible but vary in likelihood. The Council's approach is consistent with the statutory standard set forth in the Dodd-Frank Act; it considers the range of potential outcomes of MetLife's material financial distress, rather than relying on a specific worst-case scenario. There may be scenarios in which material financial distress at MetLife would not pose a threat to U.S. financial stability, but there is a range of possible alternatives in which it could do so.

1.4 Transmission Channels for Material Financial Distress

In evaluating MetLife, the Council assessed how the company's material financial distress could be transmitted to other firms or markets, thereby causing a broader impairment of financial intermediation or of financial market functioning. An impairment of financial intermediation and financial market functioning can occur through several channels. In the Interpretive Guidance, the Council identified the following channels as most likely to facilitate the transmission of the negative effects of a nonbank financial company's material financial distress to other financial firms and markets:

- *Exposure.* Through this transmission channel, the Council evaluates if a nonbank financial company's creditors, counterparties, investors, or other market participants have exposure to the company that is significant enough to materially impair those creditors, counterparties, investors, or other market participants and thereby pose a threat to U.S. financial stability.

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- *Asset liquidation.* The Council assesses whether a nonbank financial company holds assets that, if liquidated quickly, would cause a fall in asset prices and thereby significantly disrupt trading or funding in key markets or cause significant losses or funding problems for other firms with similar holdings.
- *Critical function or service.* The evaluation of this transmission channel considers the potential effects if a nonbank financial company is no longer able or willing to provide a critical function or service that is relied upon by market participants and for which there are no ready substitutes.

In addition to these three transmission channels, the Interpretive Guidance notes that the threat a nonbank financial company may pose to U.S. financial stability is likely to be exacerbated if the company is sufficiently complex, opaque, or difficult to resolve in bankruptcy such that its resolution in bankruptcy would disrupt key markets or have a material adverse impact on other financial firms or markets. A company's resolvability may mitigate or aggravate the potential for the company to pose a threat to U.S. financial stability.

1.5 Determination that MetLife is Predominantly Engaged in Financial Activities

The Council is authorized to determine that a nonbank financial company will be subject to supervision by the Board of Governors and to enhanced prudential standards.⁷ A company is a nonbank financial company, and thus eligible for a determination by the Council, if it is predominantly engaged in financial activities, subject to certain exceptions.⁸ Section 102(a)(6) of the Dodd-Frank Act provides that a company is predominantly engaged in financial activities if at least 85 percent of the company's and all of its subsidiaries' annual gross revenues are derived from, or at least 85 percent of the company's and all of its subsidiaries' consolidated assets are related to, "activities that are financial in nature" as defined in section 4(k) of the Bank Holding Company Act of 1956, as amended.⁹

More than 85 percent of MetLife's revenues are derived from activities that are financial in nature, and more than 85 percent of MetLife's assets are related to activities that are financial in nature.¹⁰ Thus, MetLife is a nonbank financial company and is eligible for a final determination by the Council.

2. DESCRIPTION OF METLIFE

2.1 Overview

MetLife is a significant participant in financial markets and the U.S. economy and is significantly interconnected to insurance companies and other financial firms through its products and capital markets activities.¹¹ MetLife, Inc., a Delaware corporation, is a publicly

⁷ See Dodd-Frank Act section 113, 12 U.S.C. § 5323.

⁸ Dodd-Frank Act section 102(a)(4), 12 U.S.C. § 5311(a)(4).

⁹ Dodd-Frank Act section 102(a)(6), 12 U.S.C. § 5311(a)(6). See also 12 C.F.R. part 242.

¹⁰ See Bank Holding Company Act section 4(k)(4)(B) and (l), 12 U.S.C. §§ 1843(k)(4)(B) and (l).

¹¹ As noted above, the Council is subject to requirements to maintain the confidentiality of certain information submitted to it by a nonbank financial company under review for a potential determination. As a result, this public explanation of the basis for the Council's final determination omits such information.

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traded holding company headquartered in New York, New York. MetLife is the largest publicly traded U.S. insurance organization¹² and one of the largest financial services companies in the United States,¹³ based on total assets. As of September 30, 2014, MetLife had \$909 billion of total consolidated assets, consisting of approximately \$516 billion of general account invested assets (including cash and cash equivalents) and \$319 billion of separate account assets.¹⁴ In addition, MetLife had \$71 billion of total equity.^{15, 16} As of September 30, 2014, MetLife's market capitalization was approximately \$61 billion.

Through its subsidiaries,¹⁷ MetLife is a leader in providing a wide array of financial services, including group and individual life insurance, annuity products, and retirement-related products and services. MetLife is the largest provider of life insurance in the United States as measured by total SAP admitted assets¹⁸ and gross life insurance in-force, with \$4.4 trillion of gross life insurance in-force (excluding annuities) as of December 31, 2013.¹⁹ As of year-end 2013, MetLife operated in approximately 50 countries through 359 subsidiaries.²⁰

As of September 30, 2014, more than 75 percent of MetLife's assets and revenues were derived from its U.S. and Latin American operations (the company's Americas segment). MetLife's assets located outside of the United States are predominantly in Asia.²¹ Other geographic regions include Asia; and Europe, the Middle East and Africa (EMEA). MetLife's U.S. operations are managed by line of business, including Retail; Group, Voluntary & Worksite Benefits; and Corporate Benefit Funding. The Retail line of business provides whole life, term life, variable life, and universal life insurance; disability and property and casualty insurance; and fixed and variable annuities. The Group, Voluntary & Worksite Benefits business line provides term life, variable and universal life, disability, dental, and property and casualty insurance. The Corporate Benefit Funding line of business primarily manages the company's institutional business, which offers insurance, annuity, and investment products that include GICs, funding agreements, other stable value products, and separate account contracts for the

¹² SNL Financial, data as of September 30, 2014.

¹³ SNL Financial, data as of September 30, 2014.

¹⁴ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 4. See section 2.4 for a discussion of the differences between general and separate accounts.

¹⁵ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 4. Publicly traded insurance organizations report financial data prepared on the basis of generally accepted accounting principles (GAAP); unless otherwise noted, financial data cited herein were prepared on a GAAP basis. Licensed insurance companies, including subsidiaries of publicly traded companies, are also required to file financial data prepared on the basis of statutory accounting principles (SAP) for state regulatory reporting purposes.

¹⁶ See Appendix A for the company's consolidated balance sheet as of September 30, 2014.

¹⁷ Consistent with the Dodd-Frank Act, the Council's determination is with respect to MetLife, Inc., the holding company of the MetLife organization. However, because the business and activities of MetLife, Inc. are conducted primarily through its subsidiaries, the Council's analysis considered the potential effects of material financial distress at one or more of the company's significant subsidiaries as well as at the holding company. Therefore, depending on the context, references to "MetLife" may refer to the holding company or to the holding company and one or more of its subsidiaries.

¹⁸ An insurer's statutory admitted assets are assets which can be valued and included on the balance sheet to determine financial viability of the company.

¹⁹ SNL Financial, using data prepared on the basis of SAP.

²⁰ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 44 and Exhibit 21.1.

²¹ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 19.

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investment management of defined benefit and defined contribution plan assets.²² In addition, MetLife provides institutions with products to fund post-retirement benefits and corporate-owned, bank-owned, insurance company-owned life insurance, and trust-owned life insurance (COLI, BOLI, ICOLI, and TOLI, respectively) for certain corporate employees.²³

MetLife's U.S. insurance company subsidiaries are regulated and supervised by their respective home state insurance regulatory authorities. As of December 31, 2013, those states, among others, include New York, Connecticut, Delaware, Rhode Island, and Missouri.²⁴

Domiciled in New York, Metropolitan Life Insurance Company (MLIC), one of MetLife's wholly owned subsidiaries, has approximately \$396 billion in assets,²⁵ over 40 percent of MetLife's total consolidated assets. MLIC underwrites life insurance and issues annuity products, which are sold to individuals, corporations, and other institutions and their employees.²⁶

On November 17, 2014, MetLife announced that it had completed a merger of four insurance subsidiaries (MetLife Investors USA Insurance Company, MetLife Investors Insurance Company, Exeter Reassurance Company Ltd., and MetLife Insurance Company of Connecticut) into a single surviving company domiciled in Delaware named MetLife Insurance Company USA.²⁷ Before the merger, these entities had total combined assets of over \$150 billion (on a SAP basis).²⁸

²² MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, pp. 11-12. MetLife Annual Report on Form 10-K for the year ended December 31, 2013, pp. 8-9.

²³ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, pp. 11-12. See MetLife, COLI/BOLI overview, available at https://www.metlife.com/institutional-retirement/plan-sponsors/coli-boli/index.html?WT.ac=GN_institutional-retirement_plan-sponsors_coli-boli#overview.

²⁴ See MetLife Annual Report on Form 10-K for the year ended December 31, 2013, pp. 311, 313.

²⁵ MLIC of the State of New York, Statutory Filing for the quarter ended September 30, 2014, p. Q02, available at http://investor.metlife.com/phoenix.zhtml?c=121171&p=irol-statutory_MLIC.

²⁶ MLIC of the State of New York, Statutory Filing for the year ended December 31, 2013, Management's Discussion and Analysis, p. 1. As of year-end 2013, 924 life and health insurance companies were in business in the United States, offering approximately \$570 billion of life insurance protection through individual policies and group certificates. In the first nine months of 2014, MLIC wrote over \$62 billion in direct premiums, including life insurance (no annuity), annuity product considerations, deposit-type contracts, and other considerations, which is more than any other insurance company. See MLIC of the State of New York, Statutory Filing for the quarter ended September 30, 2014, p. Q06. See also Federal Insurance Office, U.S. Department of the Treasury, "Annual Report on the Insurance Industry" (September 2014), available at http://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/2014_Annual_Report.pdf.

²⁷ MetLife Press Release, "MetLife Completes Merger of Three Life Insurance Companies and One Former Offshore Reinsurance Subsidiary" (November 17, 2014), available at <https://www.metlife.com/about/press-room/index.html?compID=150359>.

²⁸ SNL Financial, data as of December 31, 2013.

2.2 Certain Institutional and Capital Markets Products and Activities

2.2.1 Overview

MetLife leads the U.S. life insurance industry in certain institutional products and capital markets activities, such as issuances of funding agreement-backed notes (FABNs),²⁹ guaranteed minimum return products (such as general and separate account GICs), and securities lending activities. These activities expose other market participants to MetLife and create on- and off-balance sheet liabilities that increase the potential for asset liquidations by MetLife in the event of its material financial distress. Efforts to hedge such risks through derivatives and other financial activities are imperfect and further increase MetLife's complexity and interconnectedness with other financial markets participants.

2.2.2 Funding Agreements and Funding Agreement-Backed Securities

MetLife's funding agreements and related products, its FABNs and funding agreement-backed commercial paper (FABCP), constitute a significant portion of the company's capital markets financing activities and contribute to the company's operating leverage.³⁰ MetLife issued approximately 75 percent of all FABNs issued by U.S. life insurers in the first six months of 2013.³¹ These funding agreement-related instruments could contribute to or exacerbate the transmission of MetLife's material financial distress through the exposure and asset liquidation transmission channels.

In general, funding agreements are investment products issued out of the general account of an insurer into the institutional market. In MetLife's funding agreement-backed securities program, an insurer sponsors the establishment of a limited liability company to act as a special purpose vehicle (SPV) and issues a funding agreement to the SPV.³² Generally, a funding agreement is a direct senior obligation of the sponsoring insurance company. The SPV issues notes that provide the note holders with a security interest in the underlying funding agreement. Under the terms of a funding agreement, the insurance company agrees to pay interest and principal on the amounts borrowed from the SPV. The funding agreement is the SPV's primary asset and the source of funds to pay the note holders.³³ In 2013, MetLife issued \$49.2 billion, and repaid \$48.6 billion,

²⁹ See Fitch Ratings Special Report: "U.S. Funding Agreement-Backed Note Market Update: Tepid Market Since 2009" (December 10, 2013), p. 1. MetLife also has funding agreements through a program with the Federal Agricultural Mortgage Corporation (Farmer Mac). MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 170.

³⁰ Certain funding agreements, GICs and all other "deposit-type contracts" do not incorporate insurance risk. The National Association of Insurance Commissioners (NAIC) defines these deposit-type contracts as "contracts issued by insurers that do not incorporate risk from the death or disability of policyholders (mortality or morbidity risk) are more comparable to financial or investment instruments issued by other financial institutions than to insurance contracts." See NAIC Accounting Practices and Procedures Manual (2013).

³¹ Based on data downloaded from a Bloomberg terminal as of March 20, 2014, and Council analysis.

³² MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 9.

³³ See Fitch Ratings Special Report, "FA-Backed Notes: From Zero to \$135 Billion in Eight Years" (March 3, 2005), p. 4; Moody's Investors Service, "MetLife Short Term Funding LLC" (September 11, 2013), p. 4; See A.M. Best, "Rating Funding Agreement-Backed Securities Programs" (November 2, 2011), p. 3, available at <http://www.ambest.com/ratings/fundagreementmethod.pdf>; Metropolitan Life Global Funding I, prospectus for \$25 billion Global Note Issuance Program (September 2012), p. 10; MetLife Institutional Funding II, prospectus for \$7 billion Global Medium Term Note Issuance Program (September 2012), p. 5.

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in funding agreements. As of September 30, 2014, the company's total obligation outstanding under these funding agreements was \$52.3 billion.³⁴ MetLife's private placement FABNs outstanding increased by 50 percent between the beginning of 2009 and the end of 2013, from \$10 billion to \$15 billion, and has subsequently decreased to approximately \$13 billion.³⁵

Because these instruments are of varying maturities, some of which are short-term, MetLife is exposed to liquidity risk in the event that its investors determine not to renew their investment in MetLife's funding agreement-backed securities. This risk likely would increase if MetLife were to experience material financial distress and the program lost its prime rating.

Through its FABCP program, MetLife typically issues a funding agreement to a commercial paper conduit, which is funded through the issuance of commercial paper. The issued funding agreements do not necessarily match the maturity of the commercial paper. The FABCP is short-term, which exposes MetLife to the risk that its investors could determine not to renew their investment in MetLife's FABCP, particularly if MetLife were to experience material financial distress. MetLife's insurance companies act as liquidity backstops in the event that the FABCP is not renewed.³⁶ Similarly, certain borrowings under MetLife's other funding agreement-related contracts can be subject to rollover risk, which creates additional liquidity risk for MetLife.

If MetLife were to experience material financial distress, MetLife may not be able to roll over its fixed-maturity funding agreement-backed securities, extend its funding agreement-backed securities with embedded put options, or maintain its securities lending transactions in connection with its funding agreement-backed securities programs, which could force MetLife to liquidate assets, including illiquid assets, if the organization's liquid assets were insufficient to meet this unexpected demand.³⁷ In addition, MetLife's funding agreements and funding agreement-backed securities create exposures to MetLife for the holders of those instruments.

2.2.3 Securities Lending

MetLife's securities lending program provides the organization with a meaningful source of funding and operating leverage. Under the securities lending program, MetLife was liable for cash collateral under its control of approximately \$30 billion as of September 30, 2014.³⁸ Of that amount, \$8 billion related to securities (primarily U.S. Treasury and agency securities) that could be returned to MetLife within one business day, requiring the immediate return of cash collateral held by MetLife.³⁹ MetLife uses the cash collateral under this program to purchase additional securities, which can be less liquid than the securities lent.⁴⁰ The securities MetLife purchased

³⁴ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 154.

³⁵ Data downloaded from a Bloomberg terminal as of March 20, 2014.

³⁶ Moody's Investors Service, "MetLife Short Term Funding LLC, ABCP Program Review" (September 11, 2013), pp. 4-5.

³⁷ Rating agencies have noted that the use of FABCP or FABN programs has the potential to expose an insurer to liquidity and asset-liability management risks that could manifest during times of stressed market conditions. See, e.g., Moody's Investor Service, "US Life Insurers' FANIP Issuance Up On Attractive Funding Costs; Higher ALM Risks but More Spread Income" (May 14, 2014), p. 1.

³⁸ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 174.

³⁹ *Id.*

⁴⁰ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 44.

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with the cash collateral as well as the securities lent can generally count as admitted assets for the purpose of satisfying MetLife's state-based regulatory capital requirements.⁴¹ MetLife's securities lending program and the reinvestment of the cash collateral could create or exacerbate certain risks that MetLife could pose to other financial firms and markets in the event of its material financial distress.

2.2.4 GICs and Synthetic GICs

MetLife's GICs are general account and separate account liabilities of its insurance company subsidiaries offered to defined contribution plans directly or through stable value product intermediaries:

- MetLife's basic GIC product, referred to as the "Traditional GIC," is written out of the insurance companies' general accounts and offers clients a fixed or indexed rate investment.⁴²
- The proprietary "Met Managed GIC" is a separate account product that provides a general account guarantee of specified value, notwithstanding any decline in the value of the separate account assets.⁴³ The Met Managed GIC is offered to plan sponsors to support the liabilities of certain qualified benefit plans, and generally allows for employee-directed book-value withdrawals for benefits provided under those plans, including transfers to certain plan investment options and loans to the participant.⁴⁴
- Synthetic GICs are similar to Met Managed GICs (for example, they offer a general account guarantee), but refer to GICs booked as derivatives against underlying assets held by the contract holder rather than by MetLife. MetLife's synthetic GICs provide an insurer's client retirement plans with a minimum interest rate guarantee on their investments and a book value liquidity guarantee. Unlike Traditional GICs and Met Managed GICs, the underlying reference assets are owned and controlled by the plan rather than MetLife.

As of December 31, 2013, MetLife had \$6 billion of traditional GICs outstanding.⁴⁵ MetLife also had \$42 billion of separate account liabilities with guarantees, some of which are separate account GICs.⁴⁶ GIC participant balances are guaranteed up to the contract's book value by MetLife's insurance company subsidiaries and could develop into underfunded liabilities during stressed market conditions. The general account guarantees associated with MetLife's

⁴¹ See Statement of Statutory Accounting Principles No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.

⁴² See MetLife letter to SEC and CFTC regarding Stable Value Contract Study (September 26, 2011), available at <https://www.metlife.com/assets/cao/institutional-retirement/MetLifeResponseSEC-CFTC-RFI-StableValueSept2011.pdf>.

⁴³ Id.

⁴⁴ Id.

⁴⁵ SNL Financial, data as of December 31, 2013. Based on statutory data, SNL Life Group, Exhibit 7, Deposit type contracts (GI Contracts).

⁴⁶ SNL Financial, data as of December 31, 2013. Based on statutory data, SNL Life Group, Note 32, Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics.

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Traditional GICs and Met Managed GICs could lead MetLife to liquidate assets in the event of unexpected liquidity demands, which could result in the transmission of the negative effects of MetLife's material financial distress through the asset liquidation channel. In a stress scenario, the market value of the MetLife insurers' assets supporting the GICs may be less than book value at the time the contract holder is due to receive a payout or other withdrawal supported by the GICs.

A key feature of MetLife's separate account GIC, the Met Managed GIC, is that contract holders are protected from creditor claims in the event of a failure of the issuing MetLife insurer, because assets are held in the separate account. However, as with the Traditional GIC, Met Managed GICs guarantee payment of participant-initiated transactions, such as withdrawals for benefits, loans, or transfers to other funds within a plan.⁴⁷ GIC participant balances are guaranteed up to the contract's book value by MetLife and could develop into an underfunded liability during stressed market conditions. If MetLife experienced material financial distress and were unable to honor its obligations under these contracts, entities holding these financial guarantees could be exposed to losses. Testing to determine whether the market value of assets backing separate account GIC contracts is adequate to support the contract liabilities guaranteed may mitigate the risk in ordinary times, but could be less effective in the event of broader financial market stress.

As of September 30, 2014, MetLife had \$4 billion of outstanding synthetic GICs.⁴⁸ Because MetLife's insurers do not directly hold these assets, the assets are not consolidated onto MetLife's balance sheet. However, synthetic GICs create exposure to MetLife for the holders of these instruments.

2.3 Captive Reinsurance

Reinsurance is insurance purchased by an insurance company to cover portions of risk on insurance policies issued by that company. Reinsurance can fall within two broad categories: external risk transfer through third-party reinsurers and inter-affiliate risk transfer through so-called "captive" reinsurers. In a typical captive reinsurance transaction, an insurance company reinsures a block of existing business through the captive, which is subject to lower reserve and capital requirements than the ceding insurance company.⁴⁹ The Federal Insurance Office, the Federal Reserve Bank of Minneapolis, rating agencies, and state insurance regulators (independently and through the National Association of Insurance Commissioners (NAIC)) have recently focused attention on the increasing use of transactions between commercial insurance companies and affiliated captive reinsurers that are intended to reduce the amount of overall capital and reserves without actually transferring risk outside of an insurance holding company organization.⁵⁰ MetLife relies on internal and external financing arrangements, including

⁴⁷ MetLife letter to SEC and CFTC regarding Stable Value Contract Study (September 26, 2011), pp. 9-10, available at <https://www.metlife.com/assets/cao/institutional-retirement/MetLifeResponseSEC-CFTC-RFI-StableValueSept2011.pdf>.

⁴⁸ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 42.

⁴⁹ See New York Department of Financial Services (NYDFS), "Shining a Light on Shadow Insurance" (June 2013), p. 1, available at http://www.dfs.ny.gov/reportpub/shadow_insurance_report_2013.pdf.

⁵⁰ See Federal Insurance Office, U.S. Department of the Treasury, "Annual Report on the Insurance Industry" (September 2014), pp. 43-44, available at <http://www.treasury.gov/initiatives/fio/reports-and->

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internal receivable assets, investment assets, and letters of credit issued by unaffiliated financial institutions, to provide equity and statutory capital funding to affiliated reinsurance captives.⁵¹ In the event of material financial distress at MetLife, losses for MetLife's customers and counterparties through the exposure transmission channel could be exacerbated due to its use of captives. In addition, the potential for off-balance sheet affiliated captive exposures converting to funded exposures could contribute to asset liquidation risk.

2.4 General and Separate Accounts

A life insurance company's invested assets are held in two types of accounts: the general account and one or more separate accounts. The general account consists of assets and liabilities of the insurance company that are not allocated to separate accounts. Separate accounts consist of funds held by a life insurance company that are maintained separately from the insurer's general assets. An insurer's general account assets are obligated to pay claims arising from its insurance policies, annuity contracts, debt, derivatives, and other liabilities. By contrast, for non-guaranteed separate accounts, the investment risk is passed through to the contract holder; the income, gains, or losses (realized or unrealized) from assets allocated to the separate account are credited to or charged against the separate account. Therefore, non-guaranteed separate account liabilities are not generally directly exposed to the insurer's credit risk because they are insulated from claims of creditors of the insurance company. However, in the case of separate account contracts supported by the general account through guarantees, holders of separate accounts may be directly exposed to the insurer's credit risk.

2.5 Variable Annuities

A variable annuity is a hybrid insurance and securities contract issued by a life insurance company in which the purchaser pays the insurer a sum of money and the insurer promises to make periodic payments to the purchaser either immediately or beginning at some point in the future. The purchase payments often are invested in investment vehicles similar to mutual funds in which the purchaser allocates its money among the investment options available in the contract. Variable annuities commonly offer, for a fee, certain protections—commonly referred to as “riders” or guaranteed living benefits—for payouts, withdrawals, or account values against investment losses or unexpected longevity.

MetLife is a leading variable annuity writer, ranked second in overall variable annuity assets in the United States, and represents approximately 10 percent of the total market share based on net assets.⁵² As of September 30, 2014, MetLife reported \$100 billion of variable annuity account

[notices/Documents/2014_Annual_Report.pdf](#). Ralph S. J. Koijen and Motohiro Yogo, Growing Risk in the Insurance Sector, Federal Reserve Bank of Minneapolis Economic Policy Paper 14-2 (March 2014), available at http://www.minneapolisfed.org/pubs/eppapers/14-2/epp_14-2.pdf; Moody's Investors Service Special Comment, “The Captive Triangle: Where Life Insurers' Reserve and Capital Requirements Disappear” (August 23, 2013), pp. 2-3; NAIC White Paper “Captives and Special Purpose Vehicles” (July 6, 2013), p. 3, available at <http://www.naic.org/store/free/SPV-OP-13-ELS.pdf>; NYDFS, “Shining a Light on Shadow Insurance” (June 2013), pp. 6-7, available at http://www.dfs.ny.gov/report/pub/shadow_insurance_report_2013.pdf.

⁵¹ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 151.

⁵² See Investment News, “Variable Annuities” (February, 24, 2014), p. 1, available at <http://www.investmentnews.com/article/20140224/CHART02/140229937/variable-annuities#>.

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values with guaranteed living benefit features and \$198 billion of variable annuity account values with guaranteed death benefit features.⁵³ Net amount at risk, measured by taking the present value of the guaranteed minimum benefit amount in excess of the current account balance, is a potentially useful indicator of risk in variable annuities. The net amount at risk for guaranteed living benefits is \$1.8 billion (1.8 percent of the separate account balance of \$96 billion), and the net amount at risk for guaranteed death benefits is \$4.6 billion (2.8 percent of the separate account balance of \$163 billion).⁵⁴

Guaranteed living benefits on variable annuity contracts are sensitive to changes in market conditions. Similar to other types of annuity contracts, the cash value of a variable annuity contract can be withdrawn at the discretion of the purchaser, subject to withdrawal fees. Thus, variable annuities, particularly those with guaranteed living benefits, are generally viewed as exposing the issuing insurer to broader risks than those of ordinary protection products like term or whole life insurance.⁵⁵ While hedging can mitigate this risk for an insurer, such hedging activities increase a company's complexity and interconnectedness with other financial institutions.

2.6 MetLife During the Recent Financial Crisis

Like many of its life insurance peers, during the financial crisis, MetLife experienced significant decreases in the value of its assets. MetLife's GAAP total equity significantly decreased between 2007 and the first quarter of 2009, due in part to the reduced value of the company's fixed income portfolio.⁵⁶ Among life insurers, in 2008, MetLife had the second largest amount of unrealized losses, and in 2009, MetLife's unrealized losses amounted to 22.5 percent of all unrealized losses among life insurers.⁵⁷ Although a substantial portion of the decreases in the value of its assets remained unrealized, this experience is indicative of both the scale of MetLife's investments and also the extent to which the value of that portfolio can fall.

MetLife had a variety of available funding options during the financial crisis. At the time, MetLife was a bank holding company, which gave the company access to a range of liquidity and capital sources made available to banking entities. MetLife initially sought funding from the Troubled Asset Relief Program (TARP), but ultimately withdrew its application. MetLife did use several emergency federal government-sponsored facilities. During 2008 and 2009, MetLife's subsidiary bank accessed the Federal Reserve Term Auction Facility 19 times for a total of \$17.6 billion in 28-day loans and \$1.3 billion in 84-day loans.⁵⁸ In March 2009, MetLife

⁵³ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 20.

⁵⁴ Because annuity and life contracts with guarantees may offer more than one type of guarantee in each contract (e.g., both living and death benefits), the amounts may not be mutually exclusive. MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 20.

⁵⁵ See A.M. Best, "Special Report: U.S. Life/Annuity - Issue Review. Rating Factors for Organizations Using Life Captive Reinsurers" (October 28, 2013), available at http://www3.ambest.com/bestweek/purchase.asp?record_code=218101&AltSrc=26.

⁵⁶ MetLife Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, p. 4; MetLife Quarterly Report on Form 10-Q for the quarter ended June 30, 2007, p. 4.

⁵⁷ See Government Accountability Office (GAO), "Impacts of and Regulatory Response to the 2007-2009 Financial Crisis," GAO-13-583 (June 2013), p. 67.

⁵⁸ See Board of Governors, Term Auction Facility (August 2013), available at http://www.federalreserve.gov/newsevents/reform_taf.htm.

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raised \$397 million through the Temporary Liquidity Guarantee Program run by the Federal Deposit Insurance Corporation (FDIC), which enabled the organization to borrow funds at a lower rate than it otherwise would have been able to obtain.⁵⁹ Additionally, MetLife borrowed \$1.6 billion through the Federal Reserve's Commercial Paper Funding Facility.⁶⁰

MetLife also accessed the capital markets beyond the use of TLGP during the crisis. Notably, the company was able to raise additional capital via debt and equity issuances between April 2008 and July 2009.⁶¹

3. ANALYSIS OF POTENTIAL EFFECTS OF MATERIAL FINANCIAL DISTRESS AT METLIFE

3.1 Transmission Channel Analysis

3.1.1 Overview

Consistent with the Dodd-Frank Act and the Interpretive Guidance, the Council evaluated the extent to which material financial distress at MetLife could be transmitted to other financial firms and markets and thereby pose a threat to U.S. financial stability through the following three transmission channels: (1) the exposures of counterparties, creditors, investors, and other market participants to MetLife; (2) the liquidation of assets by MetLife, which could trigger a fall in asset prices and thereby could significantly disrupt trading or funding in key markets or cause significant losses or funding problems for other firms with similar holdings; and (3) the inability or unwillingness of MetLife to provide a critical function or service relied upon by market participants and for which there are no ready substitutes. In evaluating whether material financial distress at MetLife could be transmitted to other firms and markets through the transmission channels to a degree that could cause a broader impairment of financial intermediation or of financial market functioning, the Council considered the statutory factors set forth in section 113 of the Dodd-Frank Act.

In light of MetLife's size, leverage, interconnectedness with other large financial firms and financial markets, provision of products that may be surrendered for cash at the discretion of its institutional and retail contract holders and policyholders, and impediments to its rapid and orderly resolution, material financial distress at MetLife could have significant adverse effects on a broad range of financial firms and financial markets, and could lead to an impairment of financial intermediation or financial market functioning that could be sufficiently severe to inflict significant damage on the economy. Accordingly, the Council has determined that material financial distress at MetLife could pose a threat to U.S. financial stability. The Council considered a broad range of information in its analysis. No single consideration was determinative in the Council's evaluation, but the following explanation describes important factors considered in the Council's determination regarding MetLife.

⁵⁹ MetLife Annual Report on Form 10-K for the year ended December 31, 2009, p. 18.

⁶⁰ See Board of Governors, Commercial Paper Funding Facility (August 2013), available at http://www.federalreserve.gov/newsevents/reform_cpff.htm.

⁶¹ MetLife Annual Report on Form 10-K for the year ended December 31, 2008, p. 7; MetLife Annual Report on Form 10-K for the year ended December 31, 2009, pp. 67, 94.

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The threat to U.S. financial stability that could be posed by MetLife's material financial distress arises primarily from the exposure and asset liquidation transmission channels, although under certain circumstances the critical function or service channel may exacerbate the extent to which the company's material financial distress could be transmitted to the broader financial system and economy. In addition, MetLife's complexity, intra-firm connections, and potential difficulty to resolve, aggravate the risk that the company's material financial distress could materially impair financial intermediation and financial market functioning.

- Large financial intermediaries have significant exposures to MetLife arising from the company's institutional products and capital markets activities, such as funding agreements, general and separate account GICs, pension closeouts, securities lending agreements, and outstanding indebtedness. The company's material financial distress could also expose certain of MetLife's approximately 100 million⁶² worldwide policyholders and contract holders to losses.
- If MetLife were to experience material financial distress, it could be forced to liquidate assets to meet its obligations to counterparties, contract holders, and policyholders. A potential liquidity strain could arise from MetLife's institutional and capital markets products that are subject to early termination or non-renewal at the option of counterparties, or from the substantial portion of the company's insurance liabilities that policyholders can surrender in exchange for cash value. In lieu of surrender, and as required by state laws, for life insurance products that accrue a cash value (such as universal and whole life insurance policies), policyholders may also borrow against their outstanding policies.⁶³ A large-scale forced liquidation of MetLife's large portfolio of relatively illiquid assets, including corporate debt and asset-backed securities (ABS), could disrupt trading or funding markets. The potential for a forced asset liquidation could be exacerbated by MetLife's leverage, which is among the highest of its peers.
- MetLife has a leading position in several important financial markets, including life insurance, retirement products, and commercial real estate lending. While the transmission of stress could be aggravated through the critical function and service channel, particularly in a period of macroeconomic stress and broader pullbacks by other market participants in the markets in which MetLife is a key player, the company's participation in these markets does not generally appear large enough to cause a significant disruption in the provision of services if the company were to experience material financial distress.

The Council's final determination does not constitute a conclusion that MetLife is experiencing material financial distress. Rather, consistent with the statutory standard for determinations by the Council under section 113 of the Dodd-Frank Act, the Council has determined that material financial distress at the company, if it were to occur, could pose a threat to U.S. financial stability.

⁶² MetLife, "MetLife in the World," available at <https://www.metlife.com/assets/cao/iws/hp/about/MetLifeCorporateFactSheet.pdf> (accessed December 7, 2014).

⁶³ See, e.g., 18 Del. C. 2911(a) (2014); Ohio Rev. Code Ann. 3915.05(G) (West 2014); N.J. Stat. Ann. 17B:25-8 (West 2014); N.Y. Ins. Law 3203(8)(A) (McKinney 2014); S.C. Code Ann. 38-63-220(l) (2014).

3.1.2 Exposure Transmission Channel

The exposure to a nonbank financial company that is significant enough to materially impair creditors, counterparties, investors, or other market participants and thereby pose a threat to U.S. financial stability is one of the three channels identified by the Council as most likely to facilitate the transmission of the negative effects of a nonbank financial company's material financial distress or activities to other financial firms or markets. The direct and indirect exposures⁶⁴ of MetLife's creditors, counterparties, investors, policyholders, and other market participants to MetLife are significant enough that MetLife's material financial distress could materially impair those entities or the financial markets in which they participate, and thereby could pose a threat to U.S. financial stability.

Institutional and Capital Markets Exposures

Large financial intermediaries, including global systemically important banks (G-SIBs) and global systemically important insurers (G-SIIs), have significant exposures and interconnections to MetLife through its institutional products and capital markets activities. MetLife's capital markets activities, including securities lending and outstanding indebtedness, create significant exposures to the company, including exposures among G-SIBs and G-SIIs. In addition, large financial intermediaries and other companies have significant exposures to MetLife arising from the company's institutional products, such as general and separate account GICs, funding agreements, and pension closeouts.

As described above, for institutional customers, MetLife offers various insurance, annuity, and investment products that include GICs, funding agreements, other stable value products, and separate account contracts for the investment management of defined benefit and defined contribution plan assets. In addition, MetLife provides institutions with products to fund post-retirement benefits and COLI, BOLI, ICOLI, and TOLI for certain corporate employees. Many of MetLife's institutional products are in separate accounts, but guarantees for these products (for example, minimum value guarantees) are obligations of the general account and therefore are reliant on MetLife's financial strength. If MetLife were to experience material financial distress, it may be unable to honor the guarantees on these institutional products, potentially exposing holders or beneficiaries of these products to losses.

Although some of the exposures from MetLife's institutional products for group plans may be dispersed among individual policyholders, material financial distress at MetLife could force pension plans and other institutional users of these products to write down certain of their assets from book value to market value, which could result in significant costs for the pension plans and potentially also for their institutional sponsors. Additionally, policyholders with investments held in separate accounts have exposures to MetLife arising from minimum value guarantees or

⁶⁴ For the purposes of the Council's analysis, "direct exposures" generally refer to exposures of MetLife's counterparties or investors that arise directly from the transactional relationship with MetLife. "Indirect exposures" generally refer to exposures of market participants that do not arise from direct exposures, and may encompass a market participant's potential losses arising from its exposures to other firms that have direct exposures to MetLife. For example, a firm may be impaired through indirect exposures if its counterparties are unable to satisfy their obligations due to losses from direct exposures to MetLife.

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stable value guarantees covering the amount of any deficiency if the market value of separate account assets falls below the guaranteed level.

Through these institutional products and other activities of MetLife, including the company's capital markets activities, a large number of major financial institutions and corporations are significantly interconnected with and exposed to MetLife. In the event of MetLife's material financial distress, these exposures could impair the ability of those firms to provide financial services and result in a contraction in the supply of financial services that could negatively affect financial market functioning.

The sources of these exposures include MetLife's outstanding GICs. As of December 31, 2013, MetLife had approximately \$6 billion of traditional GICs outstanding.⁶⁵ MetLife had \$42 billion of separate account liabilities with guarantees, some of which are separate account GICs.⁶⁶ As of September 30, 2014, MetLife had approximately \$4 billion of outstanding synthetic GICs.⁶⁷ (MetLife's GICs and synthetic GICs are described in section 2.2.4.)

MetLife is also a participant in the pension closeouts and structured settlements markets, and payments to beneficiaries could be interrupted or reduced in the event of MetLife's material financial distress. In addition, as of March 31, 2014, MetLife manages over \$18 billion of BOLI, COLI, and ICOLI, which expose beneficiaries or guarantors to losses if the market value of the assets were less than the guaranteed value.⁶⁸

Market participants are also directly and indirectly exposed to MetLife as a result of its capital markets activities. Estimated capital markets exposures to MetLife include \$16 billion of outstanding long-term debt;⁶⁹ \$3 billion of junior subordinated debt;⁷⁰ approximately \$30 billion of securities lending agreements;⁷¹ \$5 billion of derivatives liabilities;⁷² \$16 billion of unsecured credit and committed facilities;⁷³ approximately \$52 billion of funding agreement-backed securities, Federal Home Loan Bank (FHLB) financing, and other obligations;⁷⁴ and \$4 billion of net notional single-name credit default swaps where MetLife serves as the reference entity.⁷⁵ The market capitalization of MetLife's common shares outstanding was approximately \$61 billion as of September 30, 2014, but exposures to MetLife arising from its outstanding equity securities do not appear to be a significant direct source of risk to U.S. financial stability.

⁶⁵ SNL Financial, data as of December 31, 2013. Based on statutory data, SNL Life Group, Exhibit 7, Deposit type contracts (GI Contracts).

⁶⁶ SNL Financial, data as of December 31, 2013. Based on statutory data, SNL Life Group, Note 32, Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics.

⁶⁷ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 42.

⁶⁸ See MetLife, COLI/BOLI overview, available at https://www.metlife.com/institutional-retirement/plan-sponsors/coli-boli/index.html?WT.ac=GN_institutional-retirement_plan-sponsors_coli-boli#overview.

⁶⁹ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 4.

⁷⁰ *Id.*

⁷¹ *Id.* at p. 31.

⁷² MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 42.

⁷³ *Id.* at p. 171.

⁷⁴ *Id.* at p. 170.

⁷⁵ See Depository Trust & Clearing Corporation, Table 6 as of September 26, 2014, available at <http://www.dtcc.com/products/derivserv/data/index.php>.

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As of September 30, 2014, MetLife maintained two unsecured credit facilities totaling \$4 billion and committed facilities aggregating \$12 billion.⁷⁶ The unsecured credit facilities are used for general corporate purposes, and the committed facilities are used for collateral for certain of MetLife's affiliated reinsurance liabilities.⁷⁷ Under the company's committed facilities, \$6.6 billion in LOCs and \$2.8 billion in aggregate drawdowns under collateral financing agreements were outstanding.⁷⁸

In addition, a significant portion of MetLife's securities lending counterparties are firms whose interconnectedness with the broader financial system could amplify the effect of any losses. MetLife generally lends securities in exchange for cash collateral representing 102 percent of the value of the securities.⁷⁹ MetLife uses the cash collateral to purchase additional securities, which can be less liquid than the securities lent.⁸⁰ MetLife reinvests the cash collateral in securities, including ABS, RMBS (residential mortgage-backed securities), CMBS (commercial mortgage-backed securities), U.S. and foreign corporate securities, and U.S. Treasury and agency securities.⁸¹ If MetLife were to experience material financial distress, its securities lending counterparties, particularly those counterparties holding lower-quality securities (compared with Treasury securities), could have an incentive to close out transactions as quickly as possible in order to withdraw cash collateral and reduce exposure to MetLife or to the borrowed securities. More generally, to avoid market concerns regarding their own financial condition, counterparties and other institutional customers may have an incentive to reduce exposures and disclose the limited extent to which they have a financial relationship with the firm in material financial distress.

MetLife's gross notional amount of derivatives outstanding as of September 30, 2014, was \$406 billion. MetLife's derivatives portfolio includes interest rate derivatives (63 percent by gross notional amount, as of September 30, 2014), equity derivatives (17 percent), foreign exchange derivatives (16 percent), and credit derivatives (3 percent).⁸² MetLife uses equity derivatives and other derivatives to hedge variable annuity guarantees.⁸³

Some counterparties' exposures to MetLife may be material relative to their equity capital, while others are smaller. MetLife's derivatives counterparties, creditors, debt holders, and securities lending and repurchase agreement counterparties include other large financial intermediaries that are interconnected with one another and the rest of the financial sector. Exposures of these large financial firms to MetLife could result in direct losses to those firms as a result of MetLife's material financial distress. For example, at the beginning of 2013, money market mutual funds (MMFs) held over 50 percent of MetLife's FABCP, and a maximum of 65 MMFs could "break the buck" if MetLife were to default on its funding agreement-backed securities.⁸⁴ As witnessed

⁷⁶ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 171.

⁷⁷ Id.

⁷⁸ Id.

⁷⁹ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 131.

⁸⁰ Id. at p. 44.

⁸¹ MLIC of the State of New York, Statutory Filing for the year ended December 31, 2013, p. 19.7.

⁸² MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 42.

⁸³ See MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 147.

⁸⁴ Data are as of October 31, 2013, from Securities and Exchange Commission Form N-MFP and Council analysis. An MMF has "broken the buck" (i.e., re-priced its securities below \$1.00 per share) if it is unable to maintain a

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during the 2007-2009 financial crisis, when one MMF breaks the buck, a broader run on MMFs can be triggered. Such an event could lead investors to withdraw from short-term funding markets more broadly, which could impair the ability of large financial firms to serve as financial intermediaries.

The exposures discussed above reflect aggregate gross exposures and do not incorporate the potential mitigating effects from the collateralization of exposures or potential recovery rates. However, a consideration of aggregate gross exposure estimates is relevant because, among other things, it assists in an analysis of the company's interconnectedness and with a comparison of exposures to MetLife with exposures to other financial institutions. Further, exposures to MetLife, even when calculated taking these mitigating factors into account, are substantial and could lead the company's material financial distress to pose a threat to U.S. financial stability.

Exposure of U.S. Policyholders and the Guaranty Associations

Retail policyholders are also directly exposed to MetLife. MetLife has approximately 100 million customers worldwide.⁸⁵ MetLife's material financial distress could directly expose certain of these policyholders and contract holders to losses, particularly those who hold products with cash values and guaranteed benefit features. Retail policies are typically long-term liabilities realized over time, which may minimize the potential impact in any given year. Further, state guaranty and security fund associations (GAs) may mitigate some U.S. policyholder losses from certain insurance and annuity products in the event of insolvency of the insurance company issuing those products. Although the GAs could mitigate some policyholder losses, the GAs only cover certain products and policies up to the point of state-specific coverage limits.⁸⁶ Moreover, due to MetLife's size, scope, the withdrawal features of some of its life insurance and annuity offerings, and broad national presence, the GAs could have insufficient capacity to handle a resolution of one of MetLife's lead insurers, and the liquidation of MetLife's large insurer subsidiaries could strain the GAs' capacity for many years. The total annual GA assessment capacities of all 50 U.S. states, the District of Columbia, and Puerto Rico were

stable net asset value (NAV) per share based on pricing of its portfolio holdings. On July 23, 2014, the SEC adopted MMF reforms that include a floating-NAV requirement for institutional prime MMFs. The MMF reforms do not require a floating NAV for certain funds, including retail MMFs. After the SEC's adoption of those reforms, the Council stated that it intends to monitor the effectiveness of the SEC's reforms in addressing risks to financial stability.

⁸⁵ MetLife, "MetLife in the World," available at <https://www.metlife.com/assets/cao/iws/hp/about/MetLifeCorporateFactSheet.pdf>.

⁸⁶ States have determined the level of protection to be afforded to their respective residents. For example, GA benefit protection for life insurance death benefits is capped at \$300,000 in 44 states and the District of Columbia and \$500,000 in six states. Life insurance cash value coverage is capped at \$100,000 in 41 states and the District of Columbia, while nine states set cash value coverage at various levels above \$100,000. The coverage cap for annuity benefits is at least \$250,000 in most states; it is \$100,000 in two states and Puerto Rico, \$300,000 in eight states and the District of Columbia, and \$500,000 in four states. See "The Life & Health Insurance Guaranty Association System: The Nation's Safety Net," 2014 Edition, National Organization of Life and Health Guaranty Associations (NOLHGA), available at <https://www.nolhga.com/factsandfigures/main.cfm>. Other products, particularly those for defined benefit plans, may be covered by GAs, but because the coverage limit may apply to the entire retirement plan, not each plan participant, the coverage level may be small relative to the size of the contract. Certain institutional products, such as stable value wraps, generally are not covered by GAs.

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\$2.9 billion for life insurance and \$3.4 billion for annuities as of December 31, 2012.⁸⁷ The exposures of MetLife's individual policyholders and institutional customers could cause MetLife's material financial distress to impair those entities and affect financial market functioning and the economy.

Aggregate Exposures and the Risk of Contagion

The negative effects resulting from the material financial distress or failure of a large, interconnected financial firm such as MetLife are not limited to the amount of direct losses suffered by any one of the firm's counterparties, creditors, and customers. MetLife's material financial distress could indirectly affect other firms due to market uncertainty about their exposures to MetLife and the potential impact of such exposures on the financial health of those firms, their counterparties, or the financial markets in which they participate. This type of uncertainty can lead market participants to pull back from a range of firms and markets, in order to reduce exposures, thereby increasing the potential for destabilization. In the event of MetLife's material financial distress, large and leveraged counterparties with direct or indirect exposures to MetLife could engage in behavior that results in a contraction in financial activity by those counterparties as well as others.

3.1.3 Asset Liquidation Transmission Channel

The second channel identified by the Council as most likely to facilitate the transmission of the negative effects of a nonbank financial company's material financial distress or activities to other financial firms or markets is if the company holds a large amount of assets that, if liquidated quickly, could significantly disrupt the operation of key markets or cause significant losses or funding problems for other firms with similar holdings. During a period of overall stress in the financial services industry and in a weak macroeconomic environment, a deterioration in asset prices or market functioning could pressure other financial firms to sell their holdings of affected assets in order to maintain adequate capital and liquidity. This, in turn, could produce a cycle of asset sales that could lead to further market disruptions.

In addition, if MetLife were to experience material financial distress, it could be forced to liquidate assets to meet its obligations to counterparties, contract holders, and policyholders. In order to meet a rapid increase in liquidity demand, MetLife could be forced to sell assets at discount prices, which could impair financial intermediation or financial market functioning.

There are two primary sources of potential liquidity strains that could cause or contribute to a forced asset liquidation by MetLife: institutional and capital markets products that can be terminated or not renewed by the counterparty, and insurance-related liabilities that can be withdrawn or surrendered by the contract holder or policyholder. First, if MetLife experienced material financial distress, it could be forced to sell assets in response to investors' refusal to rollover some of its approximately \$35 billion of FABCP and FABNs outstanding,⁸⁸ or due to

⁸⁷ Assessment capacity is based on written premium volume. See NOLHGA. "Nationwide Capacity, Assessments Called and Refunded Summary" (October 28, 2013), available at <http://www.nolhga.com/resource/file/capacity/2012/R1%20Nationwide%20Capacity.%20Assessments%20Called%20and%20Refunded%20Summary.pdf>.

⁸⁸ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014. p. 170.

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early returns of securities borrowed in connection with its approximately \$30 billion⁸⁹ securities lending program.

As described above, in its securities lending program, MetLife's insurance company subsidiaries lend securities to third parties in exchange for cash collateral. MetLife generally receives cash collateral equal to at least 102 percent of the fair market value of the lent security.⁹⁰ MetLife uses the cash collateral it receives to purchase securities that can be less liquid than the lent securities and have longer maturities than the duration of the underlying securities loans. This maturity mismatch results in liquidity risk for MetLife.⁹¹ In the event of MetLife's material financial distress, liquidity risk would be increased if its counterparties were to close out their transactions early by returning the borrowed securities to MetLife in order to recoup their cash collateral. In addition, a portion of MetLife's securities lending program is funded with proceeds from the sale of FABNs, which exposes the company to the liquidity risks associated with the actions of securities borrowers as well as potential risks associated with the FABN investors' non-renewal of maturing FABNs.

The second source of potential liquidity strains that could cause or contribute to a forced asset liquidation by MetLife is the portion of the company's retail insurance and annuity products that can be surrendered or withdrawn for cash. While many insurance liabilities are long-term and cannot be withdrawn or converted to cash at the discretion of the policyholder or contract holder, other insurance liabilities relate to products that have been designed and purchased as savings or investment products and have contractual terms that allow varying levels of discretionary withdrawals. The simplest life insurance product, term life insurance, is purely a protection product that does not allow policyholders to withdraw cash immediately or to surrender their policies for a cash value; as a result, it does not pose a run risk.⁹² On the other end of the spectrum are products that can generally be surrendered by a policyholder or contract holder upon demand, for cash, with minimal penalty or adjustment.

MetLife provides products across this spectrum. At year-end 2013, of the \$308 billion in general account liabilities of MetLife's U.S. insurance operating companies, approximately \$49 billion may be withdrawn with little or no penalty.⁹³ A portion of the cash value of these liabilities is available for discretionary withdrawal through policy loans and partial or full surrenders with little or no penalty and therefore could, in some circumstances, take on characteristics of short-term liabilities. Although these products generally are considered to be long-term liabilities and a number of these products include provisions that are designed to disincentivize withdrawals, such as penalties and loss of guarantee accumulation, these disincentives could serve as less of a deterrent if MetLife's ability to meet its obligations were in doubt. Upon requests for early withdrawal or surrender of some portion of these products, an insurer may find it necessary to liquidate securities in its investment portfolio to generate the cash required to meet those

⁸⁹ *Id.* at p. 174.

⁹⁰ *Id.* at p. 152.

⁹¹ MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 44.

⁹² See McMenamin, Robert, Zain Mohey-Deen, Anna Paulson, and Richard Rosen, "How Liquid Are U.S. Life Insurance Liabilities?", Federal Reserve Bank of Chicago, Chicago Fed Letter, No. 302 (2012).

⁹³ SNL Financial, data as of December 31, 2013. Based on statutory data. SNL Life Group, Note 32, Analysis of Annuity Actuarial Reserves and Deposit Type Liabilities by Withdrawal Characteristics.

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requests. Further, in lieu of surrenders, some policyholders may opt for partial surrenders or policy loans to reduce the impact of the contractual disincentives while still withdrawing available cash from their policies.

The potential for withdrawals could increase in the event that MetLife experiences material financial distress, as concerns about the company's ability to meet future obligations could induce large numbers of policyholders and contract holders to use or accelerate contractual cash withdrawals or policy loans.

Approximately \$206 billion of MetLife's separate account liabilities can also be withdrawn or transferred, although separate account contract holders generally have stronger disincentives to surrender than general account policyholders.⁹⁴

MetLife's insurance company subsidiaries have the contractual right to defer payouts for up to six months on many of the immediately payable cash surrender values associated with their products.⁹⁵ Further, state insurance regulators could impose stays on policyholder withdrawals and surrenders. An insurance company-imposed moratorium would delay the exercise of certain types of contract holder withdrawal or surrender options available based on contractual features. However, MetLife's insurance company subsidiaries could have disincentives to invoke these options because of the negative signal regarding the company's financial strength that could be sent to counterparties, policyholders, and investors as a result of such actions. Surrenders and policy loan rates could increase if MetLife's policyholders feared that stays were likely to be imposed either by MetLife's insurance company subsidiaries or by their state insurance regulators.

While the exercise of contractual deferral provisions, combined with operational and logistical considerations, could slow any asset liquidation well beyond seven days, moratoria on outflows would not necessarily mitigate the liquidity pressure on MetLife in the event that the organization experiences material financial distress. For example, if MetLife exercised its contractual deferrals at a time when MetLife was experiencing material financial distress, the suspension of insurance and annuity product contract outflows through contractual provisions could spread concern regarding MetLife's financial condition more broadly in the marketplace, which could lead to further liquidity demands as, for example, securities lending counterparties, funding agreement-backed securities investors, and other policyholders with surrenderable liabilities seek to reduce their exposures to MetLife. These increased liquidity demands could prompt additional asset liquidations.

⁹⁴ *Id.*

⁹⁵ Insurance companies may be able to delay payment of some withdrawable liabilities. For example, the NYDFS has for many years required all insurers writing business in the state of New York to include a contractual provision allowing the insurer to impose a stay on outflows connected with an insurance policy or contract. See sections 4221 and 4223 of the New York State Insurance Code pertaining to individual policies and contracts (non-variable); see also New York Regulations 47 and 77 for individual variable annuity and individual variable life contracts, respectively, at New York Comp. Codes R. & Regs. tit. 11, §§ 50.7(a)(4), 54.6(b)(8)(ii). With respect to group contracts, deferral provisions are typically agreed to by the parties to the contracts. Additionally, state insurance regulators' authorities permit the suspension of certain payment outflows in situations where the regulators have taken control of an insurance company in receivership.

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Further, the imposition of a suspension of insurance policy and annuity product surrender or withdrawal options could cause uncertainty to spread to the customers of other insurance companies offering similar products and could undermine confidence in the broader life insurance industry. If such a situation were to occur during a period of overall stress in the financial services industry and in a weak macroeconomic environment, surrenders at other life insurers could increase, particularly if MetLife's material financial distress were related to a broader economic shock or market event, such as an interest rate spike or impairments in a widely held asset class.

MetLife's portfolio of highly liquid assets may not be sufficient to avoid sales of less-liquid assets in order to meet increased liquidity demands. At least \$37 billion of MetLife's invested assets are encumbered.⁹⁶ MetLife may be unable to quickly sell those assets.

In such a scenario, a large-scale forced liquidation of MetLife's assets could cause significant disruptions to key markets, including corporate debt and ABS markets. MetLife has substantial holdings of various assets that are relatively illiquid.⁹⁷ For example, U.S. corporate fixed income securities represent the largest category of MetLife's assets, and its holdings represent over four days of average daily trading volume (ADTV).⁹⁸ In addition, as of September 30, 2014, MetLife's general account assets invested in U.S. ABS represented over 12 days of the market's ADTV.⁹⁹ Liquidity in the corporate debt and ABS markets has demonstrated the potential to significantly decrease in a period of overall stress in the financial sector and in a weak macroeconomic environment. The large size of these portfolios could make it difficult to liquidate the associated assets, if needed, and any liquidation could put significant pressure on market prices, causing significant losses for other firms with similar holdings. Resulting price dislocations in debt markets could cause significant disruptions in critical funding markets relied upon by the largest and most leveraged financial firms, and in the availability of funding for the broader U.S. economy.

A forced asset liquidation could be exacerbated by the scale and composition of MetLife's financial and operating leverage. MetLife's leverage ratio is among the highest of its peers. MetLife has significant operating debt compared to its peers, largely related to its institutional investment products. MetLife's operating leverage ratio was driven largely by liabilities from its securities lending activities (approximately \$30 billion),¹⁰⁰ FHLB borrowings (\$15 billion),¹⁰¹

⁹⁶ See MLIC of the State of New York, Statutory Filing for the year ended December 31, 2013, p. 19.8; MetLife Investors USA Insurance Company, Statutory Filing for the quarter ended June 30, 2014, p. Q07.4.

⁹⁷ As of September 30, 2014, MetLife held \$108 billion of U.S. corporate securities at fair value, and \$70 billion of asset-backed securities and mortgage-backed securities at fair value. MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 22.

⁹⁸ Securities Industry and Financial Markets Association (SIFMA), "Statistics," available at <http://www.sifma.org/research/statistics.aspx>.

⁹⁹ Id.

¹⁰⁰ MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 174.

¹⁰¹ Id. at p. 170.

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general account traditional GICs (\$6 billion),¹⁰² and funding agreement-backed securities and other funding agreements (\$37 billion).¹⁰³

Moreover, the severity of the disruption caused by a forced liquidation of MetLife's assets could be amplified by the fact that the investment portfolios of many large insurance companies are composed of similar assets, which could cause significant losses for those firms. Significant outflows from MetLife could also put other large life insurers that may also be perceived as vulnerable at risk of similar outflows. The potential erosion of capital and de-leveraging could result in asset fire sales that could disrupt financial market functioning and that could ultimately damage the broader economy.

3.1.4 Critical Function or Service Transmission Channel

MetLife operates in a range of insurance, risk transfer, and capital markets, and has a leading position in several of the key markets in which it offers products or otherwise participates, including life insurance, retirement products, and commercial real estate lending. The company is the leader in the life and health insurance market, with a market share of approximately 15 percent based on premiums written.¹⁰⁴ MetLife is also a significant participant in the corporate benefit funding and annuity product markets. As noted above, MetLife is ranked second in overall variable annuity assets in the United States, and represents approximately 10 percent of the total market share based on net assets.¹⁰⁵ Additionally, MetLife operates lines of business that provide credit to households, businesses, agricultural enterprises, and state and local governments, while also serving as a federal government contractor and a provider of credit to low-income, minority, or underserved communities.

While the withdrawal of a market leader such as MetLife from so many business lines could aggravate the transmission of MetLife's material financial distress through the critical function or service channel, most of the key insurance markets in which MetLife operates appear to be competitive, and other firms would likely be able to absorb the increased demand for products and services if MetLife ceased to offer them. MetLife's shares in these generally fragmented and competitive markets do not appear large enough to cause a significant disruption in the provision of services if the company were to experience material financial distress and were unable or unwilling to provide services. Certain markets in which MetLife is a significant participant are more concentrated and potentially less substitutable, such as the corporate benefit funding market, but MetLife's participation in these markets has fluctuated considerably. In addition, it is unclear whether these markets are sufficiently large or interconnected with the broader financial system such that MetLife's withdrawal from these markets could pose a threat to U.S.

¹⁰² SNL Financial, data as of December 31, 2013. Based on statutory data, SNL Life Group, Exhibit 7, Deposit type contracts (GI Contracts).

¹⁰³ The funding agreement-backed securities and other funding agreements amount includes special purpose entity funding agreements (\$34.5 billion) and Farmer Mac funding agreements (\$2.8 billion). MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 170.

¹⁰⁴ See Federal Insurance Office, U.S. Department of the Treasury, "Annual Report on the Insurance Industry" (September 2014), p. 9, available at http://www.treasury.gov/initiatives/fio/reports-and-notices/Documents/2014_Annual_Report.pdf.

¹⁰⁵ See Investment News, "Variable Annuities" (February, 24, 2014), p. 1, available at <http://www.investmentnews.com/article/20140224/CHART02/140229937/variable-annuities#>.

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financial stability. Nevertheless, under certain market conditions, the transmission of stress through this transmission channel could be aggravated, particularly in a period of macroeconomic stress and broader pullbacks by other market participants in the markets in which MetLife is a key player.

3.2 Existing Supervision and Regulation

In considering whether to make a final determination regarding MetLife, the Council considered the degree to which MetLife is already regulated by one or more primary financial regulatory agencies.¹⁰⁶ The Council also consulted with certain regulators of MetLife or its insurance company subsidiaries before making a final determination regarding the company.

MetLife is currently not subject to consolidated supervision. The company's subsidiaries are subject to supervision by a number of U.S. and international regulators.¹⁰⁷ MetLife's insurance company subsidiaries are subject to supervision by regulators in all 50 U.S. states, the District of Columbia, the five U.S. territories, and numerous foreign countries.¹⁰⁸ As of December 31, 2013, MetLife's primary U.S. insurance regulators for its life insurance and annuity products businesses are the NYDFS, the Connecticut Insurance Department, and the Delaware Department of Insurance.

A state insurance regulator supervises numerous aspects of a licensed entity's operations, including solvency; pricing and products; investments; reinsurance; reserves; asset-liability matching; transactions with affiliates; use of derivatives; and management. State insurance regulators also have examination authorities. In the United States, MetLife's insurance company subsidiaries are subject to state-based, legal entity regulation. All 50 U.S. states, the District of Columbia, and Puerto Rico are currently accredited under the NAIC's Financial Regulation Standards and Accreditation Program, which requires regulators to demonstrate that they have adequate administrative authority to regulate an insurer's corporate and financial affairs.

Insurance companies are required to prepare financial data and submit quarterly and annual financial statements on the basis of SAP and to provide information describing the businesses and financial matters in which they are engaged. This legal entity-based regulatory reporting regime is used by state insurance regulators to monitor the financial health of state-licensed insurers through quarterly and annual analyses, and on-site examinations are performed at least once every five years.¹⁰⁹ Financial examinations are generally conducted on the basis of financial information covering a period of up to five calendar years prior to the examination as-of date.

¹⁰⁶ See Dodd-Frank Act section 113(a)(2)(H), 12 U.S.C. § 5323(a)(2)(H).

¹⁰⁷ In the United States, insurance companies are licensed and regulated by the chief insurance regulatory authorities of the 50 states, the District of Columbia, and the five U.S. territories. These authorities are members of the NAIC. Primary (or lead) state regulatory authorities for multi-state insurers are determined by state insurance regulatory members of the NAIC.

¹⁰⁸ MetLife's foreign subsidiaries are regulated by the regulatory authorities in those host countries.

¹⁰⁹ For any insurer deemed a troubled company, the reporting, analysis, and examinations are increased in frequency and depth.

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State insurance regulators have a range of authorities. Certain of these authorities are described below. For example, in addition to the regulator's financial analysis and examination authorities, an early intervention tool may be available to certain state insurance regulators if the state insurance regulator finds that an insurer is in hazardous financial condition. The nature of intervention could include requiring an insurer to increase capital and surplus, requiring an insurer to file financial reports and a business plan, or a range of other corrective actions. Another example of state insurance regulatory authority is risk-based capital (RBC) requirements, a capital measurement tool designed to help state insurance regulators detect when progressively more intense levels of intervention may be appropriate. The RBC framework involves calculation of a legal entity-level capital position using a formula specific to the insurance sector within which an insurance company operates and yields the minimum capital standard for an insurance entity. The RBC framework establishes an objective standard for triggering regulatory action when an insurer's RBC ratio falls below certain levels, although insufficient RBC is not the only factor that can be used by a state regulator to intervene when an insurance company is in financial distress. Many variables influence whether, when, and how a state regulator could intervene in the distress of one of MetLife's insurers.

While one or more of the state regulators' authorities may be effective in mitigating the risks arising from an insurance company, these authorities have never been tested by the material financial distress of an insurance company of the size, scope, and complexity of MetLife's insurance subsidiaries.

While the state insurance regulators have authority over MetLife's insurance subsidiaries domiciled in their respective states, state insurance regulators generally do not have direct authority to require a non-mutual holding company of a state-licensed insurer or any non-insurance company subsidiary to take or not take actions outside of the insurer for the purpose of safety and soundness of the insurer or for the avoidance of risks from activities that could result in adverse effects on U.S. financial stability. Also, state regulators do not have direct authority relative to MetLife's international insurance activities.

State regulators and regulators in other countries are also currently involved in the regulatory oversight of MetLife's captive reinsurance companies, which reinsure risk from affiliated companies. As described above, MetLife's use of captive reinsurance subsidiaries generally enables the company to hold lower-quality capital and lower reserves than would otherwise be required, which creates a greater risk that MetLife could be required to liquidate assets to satisfy an increase in demand for liquidity.

For U.S.-domiciled insurance holding companies with operations in multiple jurisdictions, state insurance regulators may convene "supervisory colleges" on a periodic basis. These supervisory colleges are non-public regulator forums that may meet in session on an annual or semi-annual basis. They include the state insurance regulators of the largest insurance company subsidiaries in an insurance holding company and regulators responsible for supervising insurance subsidiaries in other countries, as well as regulatory agencies that may be responsible for supervising the company's non-insurer affiliates. While supervisory colleges may allow state insurance regulators to monitor other parts of an insurance organization, and may enhance communications of confidential supervisory concerns across an enterprise, they are not equivalent to the supervisory and regulatory authorities to which a nonbank financial company that the Council determines shall be subject to supervision by the Board of Governors and

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enhanced prudential standards is subject, nor do they have direct supervisory authority over the holding company or its non-insurance subsidiaries.

MetLife's non-insurance subsidiaries include broker-dealers (regulated by the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority) and registered investment advisers (regulated by the SEC). MetLife issues variable annuity contracts and variable life insurance policies through separate accounts that are registered with the SEC as investment companies under the Investment Company Act of 1940.¹¹⁰ In addition, the variable annuity contracts and variable life insurance policies issued by these registered separate accounts are registered with the SEC under the Securities Act of 1933.¹¹¹

Further, as described above, GAs may mitigate some policyholder losses from certain insurance and annuity products in the event of insolvency of the insurance company issuing those products. However, due to MetLife's size and broad national presence, the GAs could have insufficient capacity to handle a resolution of one of MetLife's lead insurance underwriters.

From 2001 until early 2013, MetLife was subject to consolidated supervision by the Board of Governors as a bank holding company. While MetLife was under Board of Governors supervision, state insurance regulators supervised the insurance activities of its insurance subsidiaries. During that period, Federal Reserve System staff coordinated with insurance and other regulators to supervise MetLife's subsidiaries. MetLife, Inc. has deregistered as a bank holding company and MetLife is not currently subject to consolidated supervision.

The final determination by the Council regarding MetLife allows the Board of Governors to apply a number of new requirements to MetLife. These include requirements to (1) submit a resolution plan to the Board of Governors and the FDIC providing for its rapid and orderly resolution in the event of its material financial distress or failure;¹¹² (2) comply with enhanced prudential standards imposed by the Board of Governors under section 165 of the Dodd-Frank Act and with regulations providing for the early remediation of financial distress at the company under section 166 of the Dodd-Frank Act;¹¹³ and (3) file a written notice prior to acquiring voting shares of certain large financial companies.¹¹⁴ The Board of Governors is responsible for establishing the prudential standards that will be applicable to MetLife under section 165 of the Dodd-Frank Act. The Council's determination regarding MetLife does not provide the company with any new access to government liquidity sources or create any authority for the government to rescue the company in the event of its failure.

The Council has considered all the facts of record in light of the requirement that it consider the degree to which MetLife is already regulated by one or more primary financial regulatory

¹¹⁰ Each registered separate account is generally divided into subaccounts, each of which invests in an underlying mutual fund which is itself a registered investment company under the Investment Company Act of 1940. See MetLife Annual Report on Form 10-K for the year ended December 31, 2013, p. 26.

¹¹¹ Id.

¹¹² See Dodd-Frank Act section 165, 12 U.S.C. § 5365.

¹¹³ See Dodd-Frank Act sections 165 and 166, 12 U.S.C. §§ 5365, 5366. The enhanced prudential standards required by section 165 of the Dodd-Frank Act are for the purpose of "prevent[ing] or mitigat[ing] risks to the financial stability of the United States that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected financial institutions."

¹¹⁴ See Dodd-Frank Act section 163, 12 U.S.C. § 5363.

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agencies and has determined that the Dodd-Frank Act provides additional regulatory and supervisory tools focused on financial stability.

3.3 Resolvability

The Council also has considered whether the threat that material financial distress at MetLife could pose to U.S. financial stability could be mitigated or aggravated by its complexity, the opacity of its operations, or its difficulty to resolve. The Council has evaluated MetLife's resolvability, and the ease or difficulty of successfully separating and liquidating or otherwise disposing of the company if it should fail, in light of all the facts of record.

The Council recognizes that some insurance assets and businesses by their nature will take longer to wind down than others. Therefore, in the context of the phrase "rapid and orderly resolution" and as applied to these assets and businesses, the term "rapid" refers to the ability to timely implement a plan for resolving the company that calms markets and market participants. By design, the winding-down of a failed insurer's estate may take several years to accomplish while policyholder and contract holder liabilities are paid off as they come due, or are transferred to solvent insurers.

MetLife is a highly complex and interconnected financial services organization that operates in approximately 50 countries and provides services to approximately 100 million customers globally.¹¹⁵ The complexity of MetLife's operations and intercompany relationships, including intra-group dependencies for derivatives management, investment management, risk management, cross-border operations, and critical services, creates complexities that could pose obstacles to a rapid and orderly resolution.

MetLife's entities have a substantial number of interconnections to one another through intercompany funding arrangements, guarantees associated with inter-affiliate reinsurance, capital and net worth maintenance agreements, liquidity support commitments, and general account guarantees of separate account products that could transmit distress at one MetLife entity to other parts of the organization.¹¹⁶ These interconnections, along with MetLife's extensive and complex global network, could result in significant challenges to resolving the company.

MetLife's operations are subject to separate regulatory regimes administered by numerous state, federal, and non-U.S. regulators. There is no precedent for the resolution of an insurance organization of the size, scope, and complexity of MetLife. An effort to achieve a coordinated resolution of MetLife would require accommodations with each of its local supervisory authorities, as well as cooperation and coordination among a number of home and host jurisdiction supervisory authorities and courts. For example, if MetLife were to experience material financial distress, the resolution of its U.S. insurance subsidiaries would occur under the laws of the various state regulatory authorities in which it operates, and would involve various state GAs. An orderly resolution of MetLife would require the immediate and effective cooperation between various parties (e.g., bankruptcy courts and state courts) in order to avoid

¹¹⁵ MetLife, "MetLife in the World," available at <https://www.metlife.com/assets/cao/iws/hp/about/MetLifeCorporateFactSheet.pdf> (accessed December 7, 2014).

¹¹⁶ See MetLife Annual Report on Form 10-K for the year ended December 31, 2013, pp. 151, 359-360.

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disruptions to the employees, facilities and infrastructure, and other services provided by these entities. Although state insurance regulators coordinate resolution through interstate associations and colleges, there is no single interstate regulator with jurisdiction across state boundaries. There is no global regulatory framework for the resolution of cross-border financial organizations, and applicable U.S. resolution regimes, including the separate state GAs, have never been tested by the resolution of an insurance organization of the size, scope and complexity of MetLife. These factors could aggravate the potential for MetLife's material financial distress, if it were to occur, to pose a threat to U.S. financial stability.

The interstate and cross-border complexities involved in resolving a large organization such as MetLife include the difficulty of ensuring the continuity of critical shared services, the separation of financial and operational linkages, the potential ring-fencing of assets, and the coordination of numerous receiverships and judicial proceedings across multiple jurisdictions. Multiple proceedings seeking to maximize recoveries for particular claimants could result in conflicts. Numerous receivers or judicial authorities would have to disentangle a complex web of intercompany agreements. A complex resolution process could increase the likelihood of delays in resolving claims and could result in increased losses.

Based on all the facts of record, the Council has determined that if MetLife were to experience material financial distress, issues related to its resolvability could aggravate the potential for its material financial distress to pose a threat to U.S. financial stability.

As noted above, the Council's determination regarding MetLife will enable the Board of Governors to apply a number of new requirements to MetLife, including a requirement that MetLife submit a resolution plan to the Board of Governors and the FDIC providing for its rapid and orderly resolution in the event of its material financial distress or failure. While a company's resolution can be complicated by its complexity, the opacity of its operations, or other exacerbating factors, the Council believes that no firm should be protected from its own failure, and these statutory tools enable regulators to facilitate the orderly liquidation of a company.

4. CONCLUSION

The Council has made a final determination that material financial distress at MetLife could pose a threat to the financial stability of the United States and that MetLife should be supervised by the Board of Governors and be subject to enhanced prudential standards.

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<i>(\$ Millions, except share and per share data)</i>		As of Sept. 30, 2014
<u>ASSETS</u>		
Investments:		
Fixed maturity securities available-for-sale, at estimated fair value		\$368,070
Equity securities available-for-sale, at estimated fair value		3,689
Fair value option and trading securities, at estimated fair value		17,246
Mortgage loans		58,038
Policy loans		11,756
Real estate and real estate joint ventures		10,393
Other limited partnership interests		8,214
Short-term investments, principally at estimated fair value		12,240
Other invested assets, principally at estimated fair value		17,905
Total investments		507,551
Cash and cash equivalents, principally at estimated fair value		8,783
Accrued investment income		4,380
Premiums, reinsurance and other receivables		23,814
Deferred policy acquisition costs and value of business acquired		25,503
Goodwill		10,216
Other assets		8,900
Separate account assets		319,480
Total assets		\$908,627
<u>LIABILITIES AND EQUITY</u>		
Future policy benefits		\$189,282
Policyholder account balances		215,226
Other policy-related balances		15,026
Policyholder dividends payable		710
Policyholder dividend obligation		2,825
Payables for collateral under securities loaned and other transactions		33,776
Short-term debt		100
Long-term debt		16,389
Collateral financing arrangements		4,196
Junior subordinated debt securities		3,193
Current income tax payable		293
Deferred income tax liability		11,357
Other liabilities		25,373
Separate account liabilities		319,480
Total liabilities		837,226
Redeemable noncontrolling interests		102
Total equity		71,299
Total liabilities and equity		\$908,627

Source: MetLife Quarterly Report on Form 10-Q for the quarter ended September 30, 2014, p. 4.

Views of the Council's Independent Member Having Insurance Expertise

As the Financial Stability Oversight Council's (the Council) Independent Member having insurance expertise, I dissent from the Council's Final Determination that MetLife, Inc., (MetLife) could pose a threat the financial stability of the United States if it were to suddenly and inexplicably be in material financial distress and face imminent failure. I disagree with what in the vernacular is described as the "designation" of MetLife as a "systemically important financial institution" or "SIFI."

The Resolution presented for the vote today by the Council points only to the First Determination Standard as the sole justification for the Council's determination – *that material financial distress at the nonbank financial company could pose a threat to the financial stability of the United States*. The Council's analysis using the First Determination Standard has not persuaded me, and I believe that MetLife has presented a comprehensive response to the flaws in the Council's basis for proposed determination.

I believe that there could be some findings within the Council's Notice of Final Determination and Statement of the Basis for the Financial Stability Oversight Council's Final Determination Regarding MetLife, Inc., (Notice of Final Determination) that would be useful in considering the designation of MetLife under the Second Determination Standard – *that the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of the nonbank financial company could pose a threat to the financial stability of the United States*, regardless of whether the company were experiencing material financial distress.

The Second Determination Standard largely mirrors one of the ten statutory considerations the Council evaluated under the First Determination Standard.¹ However, consistent with past designations, the Council has again elected not to make a determination with respect to the company's activities under the Second Determination Standard. By not considering the Second Determination Standard, the Council has continued its practice of not informing a company of those aspects of its business that were the primary factors associated with a designation.

I do share concerns about some of MetLife's activities, particularly in the non-insurance and capital markets activities spheres, and in the resulting exposures identified and described in the Council's Notice of Final Determination in the Company Overview and Exposure Transmission Channel sections. These activities might conceivably pose a threat to the U.S. financial stability under certain circumstances. It is these types of activities that should be fully evaluated under the Second Determination Standard, as opposed to the flawed Council analysis under the First Determination Standard.

¹ Dodd-Frank §113(a)(2), 12 U.S.C. §5323 (a)(2).

I do not, however, agree with the analysis under the Asset Liquidation Transmission Channel of the Notice of Final Determination, which is one of the principal bases for the finding under the First Determination Standard. I do not believe that the analysis' conclusions are supported by substantial evidence in the record, or by logical inferences from the record. The analysis relies on implausible, contrived scenarios as well as failures to appreciate fundamental aspects of insurance and annuity products, and, importantly, State insurance regulation and the framework of the McCarran-Ferguson Act.² It presumes that all current operations and activities are static without consideration of any dynamics or responses occurring before a presumed insolvency. The analysis discusses in detail, and is dismissive of, the U.S. State insurance regulatory framework, the panoply of State regulatory authorities, and the willingness of State regulators to act, thereby overstating shortcomings and uncertainties that are inherent in all regulatory frameworks, State or Federal.

In addition, I do not believe that the Critical Function or Service Transmission Channel analysis warrants acknowledgement as a fallback basis for designation, as MetLife does not appear to provide any critical financial service or product for which substitutes are unavailable.

The Council's expressed concerns in the Notice of Final Determination as to existing regulatory scrutiny, the State guaranty associations, and the potential complexities associated with the resolution of a large insurance company, seem to me to be unbalanced and lead to distorted conclusions regarding the Asset Liquidation Transmission Channel. This is also the case, in my opinion, as to those portions of the analysis that concern the existing framework for the resolution of insurance companies. If all of these system-wide concerns of the Council are legitimate, it should be using its other available tools to address them.

While the Council's approach to designation triggers supervisory jurisdiction by the Board of Governors of the Federal Reserve System (Board of Governors or Board), it does little else to promote real financial system reform. In my considered view, the Council should be more transparent about which of MetLife's activities, together or separately, pose the greatest risk to U.S. financial stability in order to provide constructive guidance for the primary financial regulatory authorities, the Board of Governors, international supervisors, other insurance market participants and, of course, MetLife itself, to address any such threats posed by the company. The Notice of Final Determination that went to MetLife, while it is hundreds of pages long, is not, in my opinion, a roadmap showing any possible exit ramp.

It is important to identify particular activities in order to encourage appropriate and further action that could lessen any company-specific threat to U.S. financial stability. Paraphrasing what one insurance thought leader once told me: "We should not tolerate any insurance company posing a threat to our financial system – pinpoint what makes them systemically risky and let's fix

² 15 U.S.C. §§1011-1015.

them.”³ I believe that not pinpointing specific activities that contribute to the company’s systemic risk profile is a mistake. Importantly, rather than confronting the greater burden tied to the Second Determination Standard, it is easier to simply presume a massive and total insolvency first, and then speculate about the resulting effects on activities, than it is to initially analyze and consider those activities.

Speaking for myself, I believe that activities conducted by financial companies that are worth spotlighting include the extent and type of use of wholesale funding markets and other available lending facilities to fund operations, together with sizable securities lending programs, and high operating leverage, all of which could possibly pose risk to the broader markets and the U.S. financial system, particularly if such funding and credit markets access were to retract in a period of overall stress in the financial system and a weak macroeconomic environment. Potential risks to financial stability might stem not only from this vulnerability to funding market disruption, but also from the mix and scale of certain activities, which could possibly have the potential to disrupt or exacerbate market dislocations, regardless of whether a financial company is experiencing financial distress. MetLife actively participates in these funding markets and engages in securities financing transactions in a significant way.

It is possible that I might have even agreed with the Notice of Final Determination had the nature, scope, size, scale, concentration, interconnectedness, or mix of the activities of MetLife been accepted as the precursor that could affect the potential for material financial distress at the company to transmit financial instability. Indeed, in its Final Rule and Guidance, the Council recognized that there is some degree of overlap between the First and Second Determination Standards as a nonbank financial company that could pose a threat to U.S. financial stability because of the nature, scope, size, scale, concentration, interconnectedness, or mix of its activities could also pose a threat to U.S. financial stability if it were to experience material financial distress.⁴ However, the Notice of Final Determination concludes that the origin of the company’s systemic risk would stem from a sudden and unforeseen insolvency of unprecedented scale, of unexplained causation, and without effective regulatory responses or safeguards. I simply cannot agree with such a premise, which is the central foundation for this designation.

This decision by the Council designating MetLife should come as no surprise to anyone, as it has long been anticipated and expected. However, it may be helpful to take a quick holistic look-back to consider the chronology of certain circumstances that led to MetLife’s designation.

On February 14, 2013, MetLife announced that it had deregistered as a bank holding company, as approved by the Board of Governors and the Federal Deposit Insurance Corporation (FDIC),

³ Therese M. Vaughan, Ph.D., Dean of the College of Business and Public Administration, Drake University, and former Iowa Insurance Commissioner, President and CEO of the National Association of Insurance Commissioners, International Association of Insurance Supervisors Executive Committee member, and Chair of the Joint Forum.

⁴ 12 C.F.R., Pt. 1310 (1-1-14 Edition).

after having been supervised by the Board since 2001.⁵ Many of the company's activities set forth in the Notice of Final Determination developed over this time period. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), once MetLife had deregistered as a bank holding company, it then became eligible for Council review as a non-bank financial institution.⁶

On July 18, 2013, the Financial Stability Board (FSB), an international organization within the umbrella of the Group of Twenty (G-20), primarily comprising the world's finance ministers and central bankers, including the U.S. Department of the Treasury (Treasury) and the Board of Governors, announced that it had identified MetLife as a global systemically important financial institution (G-SIFI). G-SIFIs are declared by the FSB to be "institutions of such size, market importance, and global interconnectedness that their distress or failure would cause significant dislocation in the global financial system and adverse economic consequences across a range of countries."⁷ Thus, MetLife was declared by the FSB as a threat not to just the U.S. financial system, but to the entire global financial system.

The FSB's announcement of the identification of MetLife and eight other insurers as G-SIFIs stated that its action had been taken "in collaboration with the standard-setters and national authorities," and, that as G-SIFIs, these organizations would be subject to policy measures including immediate enhanced group-wide supervision, as well as to recovery and resolution planning requirements.⁸ It is clear to me that the consent and agreement by some of the Council's members at the FSB to identify MetLife a G-SIFI, along with their commitment to use their best efforts to regulate said companies accordingly, sent a strong signal early-on of a predisposition as to the status of MetLife in the U.S -- ahead of the Council's own decision by all of its members.

Despite subsequent assertions by some of the Council's members that the FSB and Council processes are separate and distinct, they are in my mind very much interconnected and not dissimilar. It would seem to follow that FSB members who consent to the FSB's identification of G-SIFIs also commit to impose consolidated supervision, yet-to-be agreed-to capital standards, resolution planning, and other heightened prudential measures on those G-SIFIs that are domiciled in their jurisdictions. With respect to MetLife and the other U.S. insurance organizations declared to be threats to the global financial system - American International Group (AIG) and Prudential Financial, Inc., (Prudential) - the only way that FSB policies and measures can be imposed upon such G-SIFIs is through a determination by the Council as a

⁵ MetLife Press Release, "MetLife sheds bank holding company status with approvals from the Federal Reserve and FDIC" (February 14, 2013).

⁶ See 12 U.S.C. §5311(a)(4)(B), excluding bank holding companies from the definition of "nonbank financial company."

⁷ See, FSB, "Progress and Next Steps Towards Ending "Too-Big-To-Fail" (TBTF), Report of the Financial Stability Board to the G-20" (September 2, 2013), p. 8.

⁸ FSB, Press Release, "FSB identified an initial list of global systemically important insurer (G-SIIs)," Ref. no: 49/2013 (July 18, 2013).

whole that material financial distress or activities occurring at such companies could: (a) pose a threat to the financial stability of the United States, and (b) should be supervised by the Board of Governors. A failure of the Council to designate MetLife would thus appear to amount to a failure of the U.S. to meet international commitments already made within the G-20.

Although it may be technically accurate to say that the FSB's declaration is not legally binding on the Council, the FSB explicitly acts in collaboration with the standard-setters and national authorities with the expectation that the intended effects will be achieved by FSB member countries. The FSB's framework for the identification of systemic risk in the financial system is clear about this intended influence: "The FSB's decisions are not legally binding on its members – instead the organisation operates by *moral suasion and peer pressure*, in order to set internationally agreed policies and minimum standards that its members commit to implementing at national level."⁹

As the FSB continues to consider other U.S. financial firms for designation as G-SIFIs, I encourage my fellow Council members whose agencies are members of the FSB to not again allow the FSB to "front-run" or pressure decisions that must be made first by the Council as a whole. Congress authorized Council members to designate U.S. and foreign nonbank financial companies at the Council level – not anywhere else. An FSB meeting with only a few Council members' agencies participating should not decide that certain firms are systemically important; or, conversely, that any firms are not systemically important, before the Council as a whole has decided those questions. To do otherwise seems to me to undermine confidence in the Council itself; to be inconsistent with the intent of Congress; and to be patently unfair to those nonbank financial companies under review that must be afforded due process and fair dealing under U.S. law and procedures.

So, now that the Council has designated MetLife a U.S. SIFI, it joins AIG, Prudential, and GE Capital Corporation (GECC), as firms under consolidated supervision by the Board of Governors. Yet, it also appears to me that perhaps all that the Council has really achieved is to resign these four companies to their pre-designation status as firms previously overseen by the Federal Government.

Prior to designation, I, like many, viewed the Federal Reserve Bank of New York as a *de facto* supervisor of AIG due to its role as lender in unusual and exigent circumstances; Prudential, as a savings and loan holding company, was subject to supervision by the Board of Governors for about one year until the company changed its thrift charter; and GECC, another savings and loan holding company, had been subject to supervision by the Board since July 2011. MetLife was supervised by the Board as a bank holding company for over a decade until it "de-banked" in early 2013, as noted earlier. Granted, now that these four U.S. nonbank financial companies

⁹ <http://www.financialstabilityboard.org/about/#framework> (accessed December 1, 2014) (emphasis supplied).

have been designated as U.S. SIFIs, the Board of Governors' Dodd-Frank Act authorities to be applied will undoubtedly be more robust than those previously applied.

After nearly 4½ years, the Council's search for SIFIs has found potential systemic risk concentrated in the insurance sector with three of the four designated SIFIs being insurers. I am concerned as to whether different types of nonbank financial companies may be receiving disparate treatment both in the Council's analysis and processes. As the Council continues its work, it is my hope that we can concentrate our efforts to consider regulatory reform and improve regulation of those large nonbank financial companies and their activities that have been left largely unexamined since the financial crisis, but that may significantly risk financial instability. The Council's vigor in evaluating such unexamined (and in some cases unregulated) nonbank financial companies is imperative in successfully fulfilling its charge to identify threats to our financial system, economy, and the American people.

View of Adam Hamm, the State Insurance Commissioner Representative

I have serious concerns with the Basis for the Council's final determination that MetLife's material financial distress could pose a threat to the financial stability of the United States. I note that my predecessor, Director John Huff of the Missouri Insurance Department, also had concerns with the Council's Basis for the proposed designation of MetLife. Not only do I agree with his earlier assessment of the Council's Basis for the proposed designation, but I am particularly troubled that the issues he has identified have not been fully addressed in the rationale for the final designation. Specifically, the Council has failed to appropriately consider the efficacy of the state insurance regulatory system. As President of the National Association of Insurance Commissioners, I have seen first-hand how states effectively coordinate and address regulatory concerns. While the primary purpose of state insurance regulatory authorities is to protect policyholders, their attendant effect on protecting the financial system from actual or potential systemic risks should not be ignored. In addition, the Council uses a flawed asset liquidation argument that relies on speculative surrender amounts and does not appropriately take into account the insurance business model, insurance company regulation, and the disincentives policyholders have to surrender their insurance policies. Last, the Council has failed to address the criticism that it did not conduct a robust analysis of characteristics of MetLife beyond its size, particularly as it relates to the exposure channel discussion. Identifying outer boundaries of exposures and claiming they could impact a nebulously defined market is not robust analysis; it simply means the Council has identified a very large company.

I specifically take issue with the following aspects of the Council's Basis for the final determination:

1. It is disturbing that the Council continues to diminish the role of the state insurance regulatory framework, which not only reduces the likelihood of failure (an issue that the Council claims it does not have to consider), but also the impact on the financial system from the company's material financial distress. Indeed, state insurance regulators have expansive authorities and wide discretion to utilize them. This is a strength of our insurance regulatory system, and enabled state insurance regulators to effectively protect policyholders throughout the recent financial crisis. It is noteworthy that my staff sought to correct basic factual errors regarding the operation of the state regulatory system just days before the vote on the final designation of the company. Even though some errors were corrected, it is unclear whether the Council ever fully considered the nature and scope of the state insurance regulatory system. After three insurance company designations in four years, it confounds me that much of the Council and staff continue to misunderstand and mischaracterize the insurance regulatory framework.

There is no better evidence of this than the Council's depiction of the state insurance regulatory framework in Section 5 of the Basis. In an effort to find fault with MetLife's arguments regarding regulatory scrutiny, the Council seeks to poke holes at specific tools

of state insurance regulators, particularly risk-based capital (RBC). State insurance regulators have multiple tools at their disposal to identify concerns at companies, not just RBC. RBC is an objective tool, embedded in state statutes, used by regulators on at least an annual basis to trigger specific actions when an insurer's surplus drops below regulatory thresholds based upon key risks for the insurer. Other regulatory tools, which the Basis inaccurately describes in several respects, such as ongoing examination and analysis programs, are designed to identify concerns, require information on a more frequent basis than RBC, and exist to address specific issues before RBC is triggered. Moreover, state insurance regulators can declare that a company is in Hazardous Financial Condition, which is a tool available to all state insurance regulators, and provides them the ability to take a wide range of actions beyond those specifically identified in the Basis: including reducing, limiting, or suspending the volume of business; limiting or withdrawing from certain investments and investment practices; suspending or limiting dividends; correcting corporate governance deficiencies; and imposing stays, among others. The Basis fails to fully consider the range of mechanisms insurance regulators use to identify and address problems despite their being equally or even more important than RBC. Not only do these tools help prevent solvency concerns with the company, but, as a result of our authorities allowing for early regulatory intervention and ongoing supervision, they also minimize the impact of any material financial distress on policyholders, other counterparties and the system. Disregarding the full scope of state insurance regulatory authorities misapplies Section 113 of the Dodd-Frank Act that the Council appropriately take into account the degree to which the company is already regulated when making a determination that a company could pose a threat to the financial stability of the United States.

2. Notwithstanding the valid argument that MetLife raises about the likelihood of the company's failure, even if you assume material financial distress at MetLife and that the Council had a fulsome understanding of the system (which for the reasons above I do not believe it does), the Council's description of existing regulatory scrutiny misses the mark. To effectively assess how regulation mitigates the risks the firm poses to financial stability, the Council should have sought to match the areas of concern to the authorities of existing regulators to address those concerns. The Basis fails to do this. As a result, the Basis fails to acknowledge that most, if not all, of the concerns it identifies (several of which have questionable merit) are addressed by the existing regulatory structure. This omission makes the Council's rationale for its decision fundamentally flawed.

This is particularly the case with the asset liquidation channel discussion. For example, the Council raises concerns with significant policyholder surrenders in the event of MetLife's material financial distress and any attendant asset liquidation resulting from those surrenders. Insurance regulators have the authority to impose stays or apply similar

powers to manage heightened policyholder surrender activity. Consistent with the objectives of insurance regulation, these actions can be taken to preserve assets for policyholders, who do not or cannot surrender their policies, in order to ensure their insurance claims can be paid in the future. Fears of surrenders leading to mass asset liquidation are thus unfounded, as insurance regulators have the ability and, moreover, the responsibility to take action in such an event. To the extent that the Council speculates about such stays leading to further contagion across the insurance industry, insurance regulators have extensive authorities to intervene to protect policyholders at these other firms as well. It is worth noting that our authorities are flexible and provide us substantial means to quell panic. Even when a stay is implemented, insurance regulators can allow the release of funds in certain circumstances such as, for example, when a policyholder faces a financial hardship or similar emergency. With respect to the exposure channel, it is also worth noting that several of the exposures of concern to the Council appear to be primarily with entities that are regulated by Council member agencies. If Council members are concerned about their regulated entities' exposures to MetLife, it is far more effective to limit those entities' exposures to MetLife than to designate MetLife. In fact, the state insurance regulatory system has investment laws that include limitations on the maximum exposure to any single issuer to ensure our regulated entities are not unduly exposed to any one entity, irrespective of its size or perceived risks that entity may pose to the financial system.

It is unclear from the Basis what additional tools beyond those already at an insurance regulator's disposal could effectively address the risks the Council identifies, which are, in large part, concerns emanating from insurance legal entities that state insurance regulatory authorities are specifically designed to address. As Benjamin Lawsky, Superintendent of the New York Department of Financial Services, noted in his letter of July 30, 2014, his department and other state regulators employ a wide array of tools in supervising MetLife including, but not limited to: constant and ongoing supervision and examination, limitations on the type of and concentration of invested assets, risk-based capital and reserving requirements focused on early intervention in times of distress; review of filed derivative use plans; prior approval of intercompany transactions; prior approval of new policy types, rates and lines of business; financial reporting; and statutory accounting requirements that are more conservative than Generally Accepted Accounting Principles. Suggestions or assertions that a consolidated regulator would more effectively address the identified potential risks should be supported by a description of the tools, how they explicitly address the systemic risks identified, and experience from past financial crises, lest they appear without merit or self-serving. For example, while requiring additional capital is a useful tool, a capital surcharge cannot prevent let alone substantially mitigate the impact of a hypothetical insurance policyholder run of all applicable policies that the Council identifies in the Basis. Simply

put, the tools at the disposal of state insurance regulators are either equally or more effective than the enhanced prudential standards that would be at the Federal Reserve's disposal in addressing many of the risks the Council identifies.

3. Despite verbiage sprinkled throughout the Basis indicating the Council considered a range of scenarios detailing the potential impacts of the material financial distress of MetLife, it remains unclear to me what specific scenarios were presented to the Council and therefore it is impossible to evaluate whether those scenarios were appropriate to apply to an insurance company. To the extent the Council believes the Basis sets forth appropriate scenarios, I must respectfully disagree. For example, in analyzing asset liquidation, nowhere in the Basis does the Council a) delineate stressed run scenarios, including the impact of company and/or regulatory stay activities, b) identify asset liquidation scenarios and their impacts to specific and defined financial markets; and c) compare those impacts to normal and stressed ranges of variance in those specific and defined markets. Moreover, the Basis implicitly assumes material financial distress at all insurance entities at the same time, yet the Basis cites no historical examples of that having ever occurred. Each legal entity insurer has unique characteristics and writes different products, which have different policyholder characteristics. Accordingly, each insurance entity would react to stress differently and its regulator would appropriately respond differently to those specific circumstances.

As for the exposure channel, the Council makes claims that retail policyholders or corporate customers would suffer losses as a result of material financial distress at MetLife, but does not detail how those losses translate into "an impairment of financial intermediation or of financial market functioning that would be sufficiently severe to inflict significant damage on the broader economy." Unsubstantiated qualitative statements describing "concerns," or "potential negative effects," for example, should not be a substitute for robust quantitative analytics that demonstrate scenarios that MetLife's material financial distress could have substantial impacts to particular asset markets or the financial system as a whole. Saying it does not make it so.

4. A key consideration for the final designation is the asset liquidation channel. The final Basis, like the proposed Basis, continues to offer merely speculative outcomes related to the liquidation of assets based in large part on hypothetical and highly implausible claims of significant policyholder surrenders. To remedy this, the Council offers additional analysis in an appendix, but that analysis treats all financial institutions exactly the same using broad-based assumptions regarding asset dispositions that do not take into account the specific characteristics of MetLife, its assets and liabilities, the particular characteristics of insurance products or insurance policyholder behavior. There is no explicit provision for the differences in timing and the assets of MetLife are categorized

using bank asset categories even though they are substantially different. In contrast, an economic consulting firm, on behalf of MetLife, prepared an analysis that more appropriately captured the unique characteristics of the insurance business model and was tailored to MetLife's products and asset profile. Notwithstanding that this analysis also did not take into account regulatory intervention, the analysis studied multiple scenarios (some of which are highly implausible in my estimation) that linked liability runs to MetLife's available liquidity, liquidity obtained through asset sales, and the impacts of those sales on financial markets. It concluded that any asset liquidation that might take place as a result of MetLife's material financial distress would not pose a threat to the financial stability of the United States. The Council offered some critiques regarding the sensitivity of assumptions and results of this analysis, but still failed to perform a suitable analysis of its own.

Even assuming the Council's asset liquidation analysis was appropriate otherwise, it does not take into account the impact of regulatory intervention as described above. This is exacerbated by the Council's failure to appreciate the historical effectiveness of the insurance regulatory system in crisis. For example, in response to the arguments by MetLife seeking to analogize the impacts of a failure of MetLife to other insurance company failures in history, the Council notes correctly that the failure of an insurance company of MetLife's size and scope has never taken place. While that is a fair statement as each company has its own unique characteristics, the fact that there is no comparable insurance failure is a testament to the state insurance regulatory system, a fact that the Council ignores. The Council effectively assumes lack of regulatory intervention in the discussion or otherwise fails to take into account the breadth and effectiveness of the authorities at a state insurance regulator's disposal. As a result, the Council's analysis misapplies Section 113, which requires the Council to consider existing regulatory scrutiny in determining whether a company's material financial distress could pose a threat to the financial system of the United States.

5. With respect to the exposure channel analysis, the Council appears to be primarily concerned that that the company is large. The discussion of the exposure channel fails to set forth sufficient evidence to conclude that MetLife's exposures to various counterparties are large enough individually or in the aggregate to pose a threat to the financial stability of the United States. While the Council acknowledges mitigants such as those identified by MetLife in its comprehensive submission in opposition to its proposed designation, the Council fails to incorporate them in a meaningful way in its exposure discussion. As a result, any large company could meet the standard applied by the Council in the exposure channel even if individual exposures were relatively small and well within regulatory limits. Importantly, the Council fails to consider the mitigating benefits to a company of spreading its risks across different counterparties,

leaving large companies unable to determine the Council's specific concerns with their investment behavior given the illogic that both spreading and concentrating investments can be the basis for designation.

6. I also take issue with certain arguments that are not firm-specific. For example, the Council raises concerns that a MetLife failure could stress the guaranty fund system. To the extent the Council takes issue with the capacity of the guaranty funds more broadly to handle other insurer failures, that is an issue with the guaranty fund system not MetLife. Another example is the Basis' treatment of MetLife's Funding Agreement Backed Securities Programs and their impact on money market funds in the event MetLife would be unable to meet its obligations under those contracts. The Securities and Exchange Commission (SEC) has issued rules to address the concerns relating to the risk of money market funds "breaking the buck." Broad-based reform such as the SEC rules rather than designation is the more appropriate vehicle for addressing concerns about money market funds. While I support the SEC's efforts, if the Council does not believe that the new rules adequately addresses its concerns with money market funds, it should work with the SEC to resolve such concerns rather than designating firms such as MetLife that have exposures to money market funds.
7. At its core, the Basis demonstrates that the Council has created an impossible burden of proof for companies to meet as it effectively requires companies to prove that there are no circumstances under which the material financial distress of the company could pose a threat to the financial stability of the United States. It remains to be seen whether this approach is legally tenable. Even if one assumes, however, that it is legally tenable and it is not necessary to ascribe the likelihood of any one scenario, that should not excuse the Council from setting forth specific quantitative scenarios, based on reasonable, albeit stressed assumptions, demonstrating that the material financial distress of the company meets the statutory standard. Without applying some sort of overlay of plausibility, any large company could meet the statutory standard as applied by the Council. Yet it is well established that size cannot be the only criterion for designation. If it were, Congress would have passed a law treating nonbanks the same as bank holding companies, requiring Federal Reserve supervision and enhanced prudential standards to any company above a certain size threshold. Because Congress did not do this and specifically required that the Council consider at least 10 statutory considerations (not the least of which is the "the degree to which the company is already regulated"), the Council should do more than put together a lengthy discussion that raises concerns with the characteristics of any large company.

Finally, I would be remiss if I did not mention that, despite the sheer volume of arguments (no matter how far-fetched) contained in the Basis, the Council fails to identify the specific set of legitimate issues of concern that has led to the company's designation. Our goal as a Council

should be to reduce systemic risks to the U.S. financial system. While designation of a company is just one tool to address systemic risks, if it is going to be a useful one, the Basis for this designation should clearly delineate the causes of the Council's concern, be based on robust analytics designed to demonstrate the evidentiary basis for such concerns, and provide the company a clear roadmap as to the rationale for its designation. Absent a clear rationale from the Council and an "exit ramp" from designation, neither the company nor its regulators can realistically determine how best to proceed in reducing the company's risk to the system and eliminating its "Too Big to Fail" status.

For the reasons set forth above, I have serious concerns with the Basis for the final designation of MetLife.