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MetLife®

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

Re: RIN 3038 – AD08 Real-Time Public Reporting of Swap Transaction Data

Dear Mr. Stawick:

MetLife welcomes the opportunity to comment on the proposed regulations regarding Real Time Reporting of Swap Transaction Data issued by the Commodity Futures Trading Commission ("the Commission") (the "Proposed Rules"), which constitute a segment of the framework of compliance rules required to implement a framework for the real-time public reporting of swap transaction and pricing data for all swap transactions in accordance with Section 727 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank").

MetLife, Inc. is the holding company of the MetLife family of insurance companies. The MetLife organization is a leading provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 60 countries. MetLife holds leading market positions in the United States (where it is the largest life insurer based on insurance in force), Japan, Latin America, Asia Pacific, Europe and the Middle East. MetLife, Inc. is a public company, registered under the Securities Act of 1934 and has securities listed on the New York Stock Exchange.

MetLife is providing this comment letter from the perspective of an active end-user of financial derivatives that responsibly uses these instruments to continuously and systematically hedge the risk associated with its investment portfolio and insurance product liabilities, such as hedging of equity and interest rate risks associated with our global variable annuity products. MetLife's continued ability to manage financial risks through the use of derivative hedges is an important component in our risk management framework that allows us to offer a broad range of insurance products to our customers. To the extent MetLife's costs of hedging these insurance products increases, a portion of such costs are likely to be passed on to our customers in the form of higher premiums and in some cases, we may no longer offer certain insurance products. MetLife appreciates the effort and consideration that the staff of the Commission has dedicated to developing the Proposed Rules. Well-structured size and timing requirements for the public reporting of Block Trade and Large Notional Swaps will increase market confidence, and consequently market liquidity and MetLife is supportive of these efforts.

MetLife recognizes the public policy purposes behind the Proposed Rules and supports the goals of market transparency and price discovery, while expanding liquidity. However, we are also concerned that the real time reporting framework contained in the Proposed Rules will (1) increase market risk and intermediation costs to Swap Dealers which will translate into increased hedging (including transactional) costs passed through to end-users such as MetLife, (2) materially decrease market liquidity in various derivative products, in each case, contrary to the specific provisions of 2(a)(13(C) and 2(a)(13(E), respectively, of the Commodity Exchange Act (the "CEA") and (3) fail to protect customer anonymity of proprietary product information and customer hedging strategies.

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

Extension of the timing of reporting requirements related to Block Trades and Large Notional Swap Transactions

Block trades permit market participants to execute a large order at a single negotiated price without revealing important information about a specific market participants position or trading strategy to the entire marketplace. As the Commission acknowledges in the Proposed Rules, Swap Dealers that agent swaps for "natural long" customers such as MetLife, hedge the risk of a block trade by entering into additional, offsetting transactions. For block trades to work effectively, market participants position or trading strategy must not be reported to the market until sufficient time has elapsed to permit the Swap Dealer to hedge its exposure and reduce its market risk. Allowing the market access to such critical information within the time frames contemplated by the Proposed Rules will provide an opportunity for unaffiliated derivatives traders to trade ahead of Swap Dealers hedging positions on behalf of their customers, through the use of high-speed algorithmic trading programs and other similar means. This opportunistic trading by derivatives traders will increase the hedging cost to Swap Dealers with a corresponding increase in the bid/ask spread charged by Swap Dealers to end-users. Under a post-trade public reporting system that gives Swap Dealers sufficient time to hedge, the Swap Dealer will execute the block trade at a certain price based on the anticipated amount of market risk and cost the Swap Dealer will incur in the transaction, which will be reflected in the bid-ask spread.

As other commentators have pointed out, futures exchanges have recognized this problem and have sought to address it by permitting delays in reporting of block trades. However, the 5-15 minute[1] delays currently permitted are frequently not long enough to hedge exposure to a block trade. As a result, the amount of block trading that has taken place through futures exchanges since the introduction of block trading procedures has been extremely limited. Instead market participants have turned to the over-the-counter Swap markets. The data for 2010 reflects this limitation, as the average percentage block trades on U.S. Treasury futures was less than 3% of total daily volume (*i.e.,* approximately 254 block trades).[2] This average percentage is even lower when all trades for

[1] *See* e.g. CME Rule 526F and NYMEX Rule 526F.
[2] *See,* Submission of Securities Industry and Financial markets Association dated November 24, 2010 in response to 75 FR 76139. This does not include the ultra-long contact whose average percentage is a bit higher but actually has very little trading activity.

2010 are included in the calculation and not just transactions on those days where there were block trades.

The need for robust and flexible access to block trading in swaps is even more pronounced than in futures for two main reasons. First, the mandatory trade execution requirements of Title VII largely eliminate the escape valve currently available for futures traders via the over-the-counter Swaps markets. Second, the informational signaling problem described above is less acute for futures than swaps because of the standardization of terms and smaller number of distinct futures contracts such that swaps contracts, especially longer dated transactions, reveal larger amounts of information about the positions and trading strategies of the counterparties to a trade than in futures, and can often be used to infer the hedging strategy and activities utilized by the end-user.[3]

MetLife's core business involves undertaking long-term liabilities to a very large number of policyholders, which compels MetLife to enter into large scale hedging transactions of considerably longer duration than most other end-users of swaps. In light of the considerable size and continuous nature of many of MetLife's liability hedging programs, particularly in long dated and generally less liquid instruments, we believe that the transaction reporting of Block Trades and Large Notional Swaps, as detailed in the Proposed Rules, will increase hedging costs by either (1) increasing the direct cost of executing Block Trades and Large Notional Swap or (2) providing incentives to hedgers to enter into a larger number of smaller transactions in an effort to mask the size of such hedging programs, which would increase transactional costs and operational risk. Consequently, we favor an approach whereby reporting of Block Trades and Large Notional Swaps may be delayed for a minimum of 4 hours, a time delay which the Commission permitted previously for BrokerTec Futures Exchange, L.L.C.[4] A minimum 4-hour delay in public reporting would allow enough time to complete most large scale hedging programs, even in long-dated and less liquid markets. In this regard, we note that the Commodity Exchange Act, as amended by the Dodd-Frank Act, expressly requires the Commission to prescribe public reporting "in a manner that does not disclose the business transactions or market positions of any person."[5] We believe that this prescription requires the Commission to either permit an appropriate reporting delay or develop an effective alternative approach to address the market reality that large notional trades in certain longer-dated, less liquid markets tend to be concentrated among a finite number of life insurers and pension funds and indicate that additional, related trades are likely to be made by the customer as part of an ongoing hedging program and/or a swap dealer attempting to flatten or balance its position. We believe it is imperative that any such alternative approach effectively

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[3] Among other things, the ability of derivatives traders to place "resting orders" or provide "streaming quotes" on a Central Limit Order Book or Swap Execution Facility that would be transmitted along with any Requests For Quote as contemplated by the proposed rules related to "Core Principles and Other Requirements for Swap Execution Facilities" (76 FR 1214) means that a derivatives trader could trade in front of a Block Trade or Large Notional Swap without knowledge of either of the counterparties to such Block Trade or Large Notional Swap.

[4] See CFTC Staff Report, dated June 14, 2001(regarding the application of BrokerTec Futures Exchange, L.L.C. for designation as a contract market). In support of a 4-hour reporting delay, the Commission stated that "the facilitator of the block must be able to establish its hedging position, over time, in efficiently sized lots, without revealing to the marketplace the ultimate size of the position to be hedged, thus permitting the facilitator of the block to avoid disadvantageous prices in its related hedging activity..."

[5] CEA 2(a) (13)(C)(iii).

accounts for the existence of significant variations in the market liquidity among swap instruments and, consequently, provides for flexible or "sliding"-scale reporting timeframes depending on the notional size, underlying value, duration or liquidity of the underlying swap instruments.

MetLife has additional concerns related to the ability of market participants to identify MetLife and its hedging strategies through the disclosure of transaction details, including the notional amount. We recognize that the Proposed Rules include a provision which is intended to mitigate the risk that the identity of end-users and their hedging strategies will be identified. Proposed Rule 43.4(i), would limit the public dissemination of the notional or principal amount of any swap to certain predetermined rounding levels and that any notional or principal amount greater than 250 million would be rounded and reported as "250+". Thus, under this disclosure convention the market would not learn the actual size above $250 million. As now proposed, this fixed maximum disclosure level would apply to all swap markets regardless of the underlying value, duration or liquidity. We respectfully submit that this one-size-fits-all approach will not be adequate. Rather, we believe that since the market for a particular swap instrument may be more or less liquid, a variable maximum disclosure level should be employed depending on the liquidity of the particular swap markets.

A maximum disclosure level avoids public disclosure of the full size of trades when such size likely conveys unfair information about the identity or position of the trader or the likelihood that the trader has a need to engage in a series of large trades as part of a hedging program. We submit that this information derives in large measure from the trade size in relation to each particular market's size and liquidity, as well as the size of trades normally conducted in that market. In smaller, less liquid swap markets, a public disclosure of a "250+" trade will contain material information about the identity of the type of entity, as well as market position and trading strategy. To address this, we suggest that rounding levels and maximum disclosure levels for swaps be calculated individually for each of the various swap types and durations as appropriate.

Nothing in these suggestions detracts from MetLife's support for the Commission's need for full regulatory transparency and therefore would expect that information with respect to all Block Trades and Large Notional Swaps would be available immediately to the Commission.

Refine definition of Block Trades and Large Notional Swaps to reduce the limitations and multipliers in the Distribution Test and "Multiple" or "Social Size " Test and include multiple timing requirements based on market impact of transactions

MetLife supports the market specific and variable approach for determining the minimum threshold for block trading size contained in Proposed Rule 43.5(g), which requires the calculation minimum block sizes to consider factors relating to transaction size, total market size, distribution

of notional transaction amounts, market liquidity and other factors. We remain concerned, however, that the multipliers determining size of trades to be treated as Block Trades pursuant to the Distribution and Multiple Tests in Proposed Rules 43.5(g) (i) and (ii) are too restrictive and will result in the real-time disclosure of transactions that would likely impact the market. The legislative history of Dodd-Frank indicates that Congress understood that Block Trades are very common in the securities and futures markets.[6] MetLife respectfully suggests that the static Distribution Test in Proposed Rule 43.5(g) (i) should be reduced to an initial 50% to be consistent with the Congress' intent. Similarly, the five (5) times Multiple Test in Section 43.5(g) (ii) should be reduced to an initial 1.5X. The time period for Public Reporting of Block Trades and Large Notional Amount Trades would be adjusted pursuant to the following table:

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

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

MetLife is pleased to be able to continue to participate through the comment process in the framing of this critical new regulatory framework. Please feel free to contact me at my email address above if you have any questions regarding this comment letter.

Respectfully,

Todd F. Lurie

[6] 156 Cong. Rec. Section 5921 (daily ed. July 15, 2010)(statement of Sen. Blanche Lincoln)