December 18, 2014

BASIS FOR THE FINANCIAL STABILITY OVERSIGHT COUNCIL'S FINAL DETERMINATION REGARDING METLIFE, INC.

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, or is likely to experience, 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.

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).

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.

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.

- *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. <u>DESCRIPTION OF METLIFE</u>

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

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[7] <u>See</u> 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). <u>See</u> <u>also</u> 12 C.F.R. part 242.
[10] <u>See</u> Bank Holding Company Act section 4(k)(4)(B) and (I), 12 U.S.C. §§ 1843(k)(4)(B) and (I).
[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.

traded holding company headquartered in New York, New York. MetLife is the largest publicly traded U.S. insurance organization[12] 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 assets[18] 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

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[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.

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]

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[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,

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[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.

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

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[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.

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

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[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.

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

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[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-

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

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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/reportpub/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#.

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 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 raised $397 million through the Temporary Liquidity Guarantee Program run by the Federal Deposit Insurance

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[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.

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.

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 million[62] 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, or is likely to experience, 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.

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[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 exposures[64] 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.

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.

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[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.

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

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

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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.

$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.

early returns of securities borrowed in connection with its approximately $30 billion[89] 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.

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.

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[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.

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]

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[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.

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.

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[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#.

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.

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 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

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[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.

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.

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.

Appendix A: MetLife Consolidated Balance Sheet

($ Millions, except share and per share data)	**As of Sept. 30, 2014**
ASSETS	
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**
LIABILITIES AND EQUITY	
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.