1095 Avenue of the Americas, 41st Floor, New York, NY 10036-6796
Tel (212) 578-3761 • Fax (212) 578-3691
nlatrenta@metlife.com

Nicholas D. Latrenta
Executive Vice President
and General Counsel
Legal Affairs

MetLife®

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Via E-mail to regs.comments@federalreserve.gov

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. R-1410; RIN No. 7100-AD69
Incentive-Based Compensation Arrangements

Dear Ms. Johnson:

MetLife, Inc. ("MetLife") is a leading global provider of insurance, annuities and employee benefit programs, serving 90 million customers in over 60 countries. Through its subsidiaries and affiliates, MetLife holds leading market positions in the United States, Japan, Latin America, Asia Pacific, Europe and the Middle East. As the owner of MetLife Bank, National Association ("MetLife Bank"), a federally-chartered bank, MetLife is a bank holding company and financial holding company subject to regulation under the Bank Holding Company Act of 1956, as amended, and to inspection, examination, and supervision by the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of New York. MetLife Bank is subject to regulation and examination primarily by the Office of the Comptroller of the Currency and secondarily by the Federal Reserve System and the Federal Deposit Insurance Corporation.

MetLife appreciates the opportunity to provide comments on the rules proposed by the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and other federal regulators (collectively, the "Agencies") regarding the incentive-based compensation arrangements of covered financial institutions.

MetLife agrees that incentive-based compensation arrangements are critical tools in the successful management of financial institutions. Well-designed and -executed incentive compensation can attract, retain, and motivate the talented directors, executives and associates necessary to maintain a well-managed company, protect the interests of stakeholders, promote the creation of shareholder value, and contribute to the efficient functioning of the financial system. Conversely, flawed arrangements can threaten the success, and, in extreme cases, the ongoing viability, of financial institutions.

In many respects, the proposed rules strike an appropriate balance between providing the Agencies and the institutions they regulate with guidance and general principles, on the one hand, and the flexibility to address each institution's particular business circumstances on the other. It is crucially important that Agencies and institutions have the ability to apply any rules on incentive-based compensation in a manner that does not require a "one size fits all" approach. First, because regulated institutions differ in their business models, risks, challenges and other circumstances, any rules that seek to apply particular tests or rigid, bright-line formulas across-the-board to determine appropriate incentive-based compensation will inevitability fail to take proper account of the particular and myriad considerations that should be part of an evaluation of an institution's arrangements. Also, a rigid approach to regulation in this area creates a serious risk of stifling innovation and stymieing efforts to offer appropriate incentives to meet business goals and to develop compensation structures that allow institutions to remain safe, sound and well-managed.

One aspect of the proposed rules, however, appears particularly susceptible to harmful rigidity, and should be changed or clarified to ensure that the Agencies and companies recognize that each institution's approach must be evaluated in context and that companies need wide latitude in how they comply. At larger covered institutions (those with $50 billion or more in total consolidated assets), the proposed rules would require that at least 50 percent of the incentive-based compensation of an executive officer be deferred over a period of at least three years. Deferred amounts would have to be adjusted for actual losses or other measures or aspects of performance that are realized or become better known during the deferral period. Deferred amounts may be not released at a rate faster than pro rata over the three year period. See 12 C.F.R. 236.5(b)(3)(i), as proposed by the Federal Reserve Board.

MetLife agrees that compensation should be sensitive to risks an institution has taken. Certainly, deferral of incentive-based compensation is one way to achieve this. However, as other parts of the rules (see 12 C.F.R. 236.5(b)(2)(i), as proposed by the Federal Reserve Board) and earlier guidance from the Agencies have explained, it is far from the only way to do so. Large covered institutions should retain the flexibility to structure incentive-based compensation to reflect the long-term results of risk-taking by executives in a number of ways, rather than being tied to a one-size-fits-all deferral requirement -- particularly the quantitative requirements (i.e., the deferral of at least 50% of incentive compensation over a three-year period) of the proposed rules. Moreover, the Agencies should retain the flexibility to regulate large institutions with a full spectrum of potential approaches to this challenge available to them. Alternative means that a large covered institution could use to ensure that executives' incentive-based compensation takes account of the results of risk-taking include, among other methods:

- guidelines that call for executives to retain the net shares of institution stock they have acquired through exercising stock options or from other incentive compensation awards;

- long performance periods that allow the results of risks taken to play out in business results;

- performance measures that themselves take realized or potential losses into account in determining payouts; and

- discretionary awards that allow boards of directors to exercise judgment in light of all of the data pertaining to executives' decisions, including the risks taken and reserves necessary to reflect those risks.

In at least some circumstances, deferral may be an inferior strategy to help manage the risks of business decisions, and could even impair the Agencies' regulatory goals. For example, where proper risk management and governance controls are in place and the risks of business decisions are already well-controlled and reflected in business results, deferring payment may provide incentives for executives to take larger risks to increase the ultimate payout amounts from deferred awards.

If the Agencies choose to retain the deferral requirement, they should clarify the rule to make sure that large institutions understand that they retain the responsibility for properly designing the deferral mechanisms from among a variety of alternatives and have the flexibility to do so. For example, the rule should make clear that large institutions have the flexibility to provide for deferral mechanisms that:

- provide for "deferral" that may apply before vesting, not merely before payment is made, so that incentive-based awards are subject to appropriate adjustment for actual losses or other measures or aspects of performance that are realized or become better known even before they vest in favor of the executive;

- include measures of performance dependent on the value or change in price of securities, such as the institution's common stock, that reflect the market's evaluation of the risks the institution has taken;

- allow for measures of performance that are relative to the institution's competitors as well as those that depend on absolute measures of performance or comparison of performance to earlier periods; or

- allow differences in the variability of adjustments during the deferral period based on other aspects of the institution's approach to risk management, e.g., institutions that demonstrate strong risk management practices may need less variability in the deferral period adjustments they make to incentive-based compensation.

Without clarification of the proposed rules, Agencies and institutions may conclude that many arrangements that serve the purposes of the rule are insufficient to qualify as "deferral." For example, instruments such as performance shares or restricted stock units, which depend on stated performance measures and the value of equity securities in the institution and which do not vest until after the performance period has run should, if properly designed to reflect the results of risks taken, count as deferrals. In addition, Agencies would lose the flexibility to regulate institutions that demonstrate strong risk management practices differently from those that did not, potentially frustrating the purpose of the rules in encouraging strong risk management.

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In sum, we believe the Agencies should permit large institutions to utilize a variety of measures to make incentive compensation sensitive to the risks they have taken, rather than requiring deferral as a mandatory means to achieve this linkage. Agencies and large institutions should have the flexibility to design an overall approach to appropriate incentive-based compensation risk management that may or may not include deferral. If the Agencies do require large institutions to defer a portion of their executives' incentive-based compensation, they should allow themselves and large institutions the flexibility to design deferral and adjustment mechanisms that reflect the institution's particular circumstances.

We appreciate this opportunity to comment on the Agencies' proposals. If you have any questions regarding these comments, or would like to discuss, please feel free to contact me at 212-578-3761 or via email at nlatrenta@metlife.com.

Very truly yours,

ND Latrenta

Nicholas D. Latrenta
Executive Vice President & General Counsel