April 10, 2006

Technical Director – File Reference 1250-001
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116


File Reference No. 1250-100

Dear Technical Director:


We understand and appreciate that the Board’s objective in providing a fair value option is to enable companies to reduce some of the volatility in reporting earnings caused by the mismatch in the “mixed attribute” accounting model. We encourage the issuance of guidance that better reflects economic results of operations. Although measurement issues remain that have yet to be resolved for fair valuing insurance contracts in general, there are currently asset/liability relationships relating to investment and certain insurance contracts where insurance enterprise financial reporting would be enhanced through a fair value option.

Therefore, MetLife supports a fair value option since it will, in certain circumstances, provide an opportunity for more relevant financial reporting by insurance enterprises. However, it is important to note that the fair value measurement standard that is currently being separately proposed by the Board (“Proposed Measurement Standard”) does not provide adequate guidance that considers the unique aspects and complexities of insurance contracts. Important components of fair value which still need to be further analyzed for insurance contracts include the development of risk margins, individual vs. portfolio basis, the consideration of cash surrender value floors and the use of discount
rates. Since there still are significant open issues relating to the Proposed Measurement Standard, subjective models and assumptions will be utilized until further comprehensive guidance for measuring fair value of insurance contracts is issued. This may impair user analysis of insurance enterprise financial statements.

Our response below will address certain issues outlined in the “Notice for Recipients of This Exposure Draft” as it specifically impacts MetLife in addition to other concerns we have with the ED.

ISSUE 1 - SCOPE

Proposed Focus of Scope

As mentioned above, we generally support the proposed statement and agree with its objective of simplifying and improving financial reporting. The accounting for certain insurance enterprise liabilities and assets and hedging activities supporting such liabilities would be simplified if a fair value option was available:

- Under Paragraph No. 21 of Statement of Position 03-1 Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1), participating group pension contracts may have liabilities recorded at fair value if the contract holder receives investment results from a contractually referenced pool of assets. This currently creates a mismatch if there are related assets held at carrying value, such as mortgage loans, with the liabilities held at fair value.

- Guaranteed minimum death benefits (GMDBs) and guaranteed minimum income benefits (GMIBs) offered with variable annuity contracts are riders which, if economically hedged (i.e., non-qualifying under SFAS No. 133) using derivatives, may be mismatched on the financial statements with the derivatives recorded at fair value through net income and the insurance contract liabilities recorded at book value in accordance with SOP 03-1.

- Other insurance contract liabilities recorded at book value, such as structured settlements, fixed annuities with annual inflation adjustments and long-term care products, are also commonly economically hedged using derivatives which may cause a mismatch similar to GMDBs and GMIBs.

Contract by Contract Basis

Paragraph No. 8 of the ED permits the election of the fair value option on a contract by contract basis. However, companies would not be able to bifurcate individual contracts and elect the fair value option for certain cash flows but account for other cash flows using a different measurement attribute. Certain insurance contracts are routinely sold with an option to purchase riders that enhance the basic insurance policy or contract. The ED is not clear whether such riders may be measured as separated contracts or must be
accounted for and measured at fair value together with the base policy or contract. We believe that the scope of the fair value option should be applied to the riders as separate components when existing accounting has already established that the components be accounted for separately. In addition, products sold by insurance enterprises have related assets and liabilities such as unamortized deferred acquisition costs, unearned revenue liabilities and deferred sales inducement assets. Although these would not meet the ED’s definition of financial assets and financial liabilities, we encourage the Board to clarify the measurement of these contract-related assets and liabilities if an insurance enterprise elects the fair value option for a contract.

It is also important to note that, while the ED states that financial assets and liabilities are elected on a contract by contract basis, it is not appropriate to measure the fair value of insurance liabilities on an individual contract basis. For instance, determining fair value of one insurance contract based on its cash flow would not be statistically reliable since the expected deviation for that one observation would be extremely significant. However, the “contract by contract basis” is in reference to the election of fair value and not measurement. We continue to support the ability to aggregate contracts for measuring fair value even though the fair value option is on a contract by contract basis.

**ISSUE 6 & 7 - CHANGE IN CREDITWORTHINESS/PRESENTATION AND DISCLOSURE**

MetLife opposes the use of the effect of the changes in the creditworthiness in reporting liabilities. The results of a standard where the deterioration in the creditworthiness of a Company would generate current period gains in the income statement due to the liabilities being reduced as a result of the lower credit rating is not prudent nor would it improve the quality of financial reporting and masks operating performance as noted by one board member in the ED. The gain is not realizable other than through a bankruptcy or a renegotiation of a contract, which is generally not on a going concern basis of accounting.

**ADDITIONAL ISSUE**

**Effective Date and Transition**

Based on the ED, the standard would be effective the beginning of each reporting entity’s first fiscal year that begins after December 15, 2006, with earlier adoption encouraged, but no earlier than the adoption of the Proposed Measurement Standard. We strongly recommend that the effective date of the adoption be delayed at least one year. This would allow companies ample time to (i) assess their existing asset/liability relationships, (ii) determine the extent the option will be utilized and (iii) develop necessary system enhancements, operational procedures and financial reporting controls to properly implement the new guidance. We understand that the Proposed Measurement Standard will not become effective until fiscal years beginning after November 15, 2007. Therefore, the fair value election should be effective no earlier than the Proposed
Measurement Standard so that such guidance will be properly and more consistently applied.

CONCLUSION

The proposed guidance under the ED would reduce certain unnecessary non-economic volatility in the financial statements by mitigating the mismatch in the “mixed attribute” model that is created in the accounting world today. Therefore, the benefit of eliminating unnecessary non-economic volatility will enhance insurance industry financial reporting in limited circumstances. We understand that this proposed standard could be an interim step toward a requirement to measure all insurance liabilities at fair value. MetLife still has strong concerns that there is limited guidance on fair valuing insurance contracts. In many cases, the lack of guidance would give companies significant latitude and subjectivity in the development of assumptions, thereby causing a wide diversity in measuring such insurance liabilities. In addition, the outcome of including all liabilities at fair value where there are no related financial assets to offset against would create more volatility in the statements rather than less and would more than offset the benefits created by the option standard. However, the mitigation of accounting volatility in financial statements by fair valuing certain insurance liabilities and related assets provides more relevant information and outweighs any consistency and comparability issues that may be created by the standard. Also, comparability issues and potential abuses resulting from limited guidance may be minimized if restrictions are placed on the use of the fair value option and if additional robust disclosures are required.

If you have any questions regarding the contents of this letter, please contact me anytime to discuss our comments.

Very truly yours,

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Mr. Robert C. Tarnok
Vice President

cc: Joseph J. Prochaska, Jr.
    Executive Vice President, Chief Accounting Officer

    Sandra J. Peters
    Vice President, Corporate Controller