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November 2, 2005

Letter of Comment No: 134
File Reference: 1204-001

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1204-001

Dear Ms. Bielstein:

Aetna Inc. ("Aetna" or the "Company") appreciates the opportunity to provide you with our views on the Financial Accounting Standards Board's (the "Board") Proposed Statement of Financial Accounting Standards, "*Business Combinations, a replacement of FASB Statement No. 141*" (the "Proposed Standard").

Aetna is one of the nation's leading providers of health insurance and related benefits. We consider ourselves both a preparer and a user of financial statements. As we enhance our product capabilities and geographic presence, we continually evaluate targeted acquisitions that represent key opportunities. As a result, in the past two fiscal years (to date), we have acquired five businesses with a total consideration of over \$1.1 billion. We accounted for each of these acquisitions using the acquisition method prescribed by Financial Accounting Standard No. 141, *Business Combinations* ("FAS 141").

As an issuer of public debt and equity securities, we share the Board's desire to improve the transparency of accounting and reporting of business combinations. We endeavor to provide clarity around the fundamentals of our businesses in our financial statements. Further, accounting standards should advocate consistency in application, permitting users to compare our results to those of other companies. As it relates to accounting for business combinations, accounting standards should account for the transaction as a discreet economic event, treating the transaction separately from the ongoing business concern.

As an investor in public debt and equity securities, we are primarily interested in understanding the core business operations and how a significant transaction will affect such operations. In periods subsequent to a transaction, we remain interested in the true economics of the transaction rather than subjective changes in fair value, which are not easily verifiable, and would make it difficult to understand the core business results.

For reasons cited below, we are concerned that aspects of the Proposed Standard will result in accounting that obscures the economics of the transaction, which may impact a users' ability to understand the fundamentals of a company's core businesses separately from the business combination transaction. As a result, we encourage the Board to consider the following matters.

- Fair value – marketplace participants – We believe the intended use of the asset or liability subject to fair value estimates should be considered versus that of a hypothetical marketplace participant.
- Recognition of the fair value of preacquisition contingencies and contingent consideration – We strongly oppose the proposed accounting for preacquisition contingencies and contingent consideration and encourage the Board to retain current guidance in FAS 141.
- User acceptability – This Proposed Standard will have broad-reaching implications for our financial statement users, which we believe are not fully understood. We encourage the Board to educate and survey a broad base of users as it continues to deliberate this important standard.

Each of these is further discussed below.

Fair Value – Marketplace Participants

We acknowledge the Board's definition of fair value referenced in its Proposed Statement of Financial Accounting Standards, "*Fair Value Measurements*" (the "Fair Value Proposal"). The Fair Value Proposal defines fair value as follows (emphasis added): "*the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties.*" In that proposed standard, willing parties are "*presumed to be marketplace participants representing unrelated buyers and sellers that are (a) knowledgeable, having a common level of understanding about factors relevant to the asset or liability and the transaction, and (b) willing and able to transact in the same market(s), having the legal and financial ability to do so.*"

We understand that the practical application of this definition would not necessarily consider the specific factors present in a specific business combination, rendering a result that could be inconsistent with the economics of the transaction. We question whether reference to a hypothetical marketplace participant is appropriate when measuring fair value. To be consistent with the concept that the Company's intended use of the target company's assets is considered in its negotiations of the acquisition consideration, we believe the intent of the acquiring company should be a consideration in the determination of fair value. We believe this alternative would alleviate potential conflicts in judgment between auditors and preparers.

Accounting for Preacquisition Contingencies and Contingent Consideration

The Proposed Standard will require that all preacquisition contingencies be recorded at fair value. Conceptually, we agree with this provision, and we expect most users would as well. We acknowledge that there are certain preacquisition contingencies that have determinable fair values, for example assets held-for-sale, – in these cases; we agree that these contingencies should be recorded at fair value. However, for many of the preacquisition contingencies we have experienced (e.g., litigation), we are not aware of observable market values to reliably and consistently base fair value assumptions.

Given the lack of observable market data, we are also concerned with how such estimates will be audited or consistently applied. We envision applying the expected cash flow model, as described in Concept Statement No. 7, *“Using Cash Flow Information and Present Value in Accounting Measurements”* (“CON 7”), in estimating the fair value of such contingencies. However, this approach is highly judgmental and difficult to be verified by our auditors or recreated by our users. As a result, we expect the proposed model will result in a fair value that is inherently inaccurate; one which we know will differ from the ultimate outcome of the contingency. Additionally, until the underlying contingency is resolved, future recalculations of the fair value of contingent payment arrangements will contain similar inaccuracies, which will be reflected in earnings as fair value adjustments. In our experience, users require that we clearly disclose and analyze core business information, free of non-recurring charges, such as these fair value adjustments. Therefore, it would be more appropriate to adjust the value of the contingency based on triggering events, not simply the passage of time.

We have the same concerns regarding valuation of the proposed accounting for contingent consideration. By its nature, contingent consideration is typically used when the buyer and seller cannot agree on a set purchase price related to the item in question.

Further, we do not agree with the provisions of the Proposed Standards that propose to change accounting for subsequent valuations of a contingencies. The changes in the fair value of contingencies (whether preacquisition or transaction-related) should be recorded as an adjustment to goodwill instead of being recognized in earnings. By reflecting these adjustments to goodwill, the accounting for the acquisition will better reflect the underlying economics of the transaction, rather than making such adjustments indistinct from a company’s fundamental business results.

Therefore, we strongly encourage the Board to reconsider the proposed accounting and consider retaining existing guidance in FAS 141. If the Board concludes that such contingencies should be recorded at the date of acquisition only, we request the Board consider an alternative to recognition of the fair value of such amounts, opting instead for footnote disclosure of such amounts. While we recognize this concession is not optimal, we believe it is preferable until reliable fair value models are attained and auditors assert they are able to confirm reliability of such amounts.

User Acceptability of the Proposed Standard

The Board acknowledged that it has met with several groups of financial statement users in its deliberations of this Proposed Standard. We strongly believe that many financial

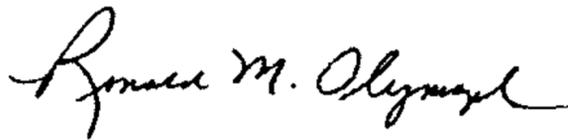
statement users do not fully understand the significant change in practice this standard will have, but rather have supported the Board's approach from a theoretical point of view. Therefore, prior to finalizing this standard, we urge the Board to strive to fully educate a broad array of actual financial statement users as to the changes in practice to be expected and survey this group with similar questions as posed in the Proposed Standard. In reality, as such users likely will not have the time to review such complex materials (i.e., it has been a challenge for us to get their attention) that may or may not impact their *immediate* priorities, we propose that the Board hold roundtables or resource group discussions with such working users to clarify the FASB's intent and the users' understanding. We are encouraged by the Board's recent formation of the Investor Task Force, and would recommend the use of this task force in such discussions.

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In summary, we are highly concerned as to the overall direction of this project and believe much work, including education, must be done prior to finalizing such radical changes. We strongly encourage the Board to begin with the Conceptual Framework and/or Financial Performance Reporting projects prior to attempting to overhaul a significant price of the total picture. We acknowledge that there are times where it is appropriate to tackle one-off or small issues, however; accounting for business combinations is not such an issue. Therefore, we respectfully request the Board to reconsider this project as proposed above.

We appreciate your consideration of our views on the Proposed Standard. We would be pleased to discuss our comments further with you or members of your staff. If you have any questions regarding this letter, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, reading "Ronald M. Olejniczak". The signature is written in a cursive style with a large initial 'R' and 'O'.

Ronald M. Olejniczak
Vice President and Controller