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Letter of Comment No: 66
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Mr. Lawrence W. Smith
Director - Technical Application and Implementation Activities - FSP
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Comments on Proposed FSP EITF Issue 03-1-a

Dear Mr. Smith:

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 FASB Staff Position EITF 03-1-a, "Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"" (the "Proposed FSP").

Aetna is one of the nation's leading providers of health care, dental, pharmacy, group life, disability and long-term care benefits. As of September 30, 2004, the Company held approximately \$18.8 billion in invested assets, including approximately \$15.6 billion in debt securities, which are accounted for in accordance with FAS 115, "Accounting for Certain Investments in Debt and Equity Securities."

The Company regularly reviews its debt and equity securities to determine whether a decline in fair value below the carrying value is other than temporary. In its analysis, the Company evaluates all relevant facts and circumstances for each investment in accordance with the guidance in FAS 115, the Securities and Exchange Commission's Staff Accounting Bulletin No. 59, "Accounting for Noncurrent Marketable Equity Securities" ("SAB 59"), EITF Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" and EITF Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value" ("Topic D-44").

The determination of whether a decline in the value of an investment is other-than-temporary requires management to exercise significant diligence and judgment. We maintain the appropriate management controls and procedures to ensure such analysis is prudently executed. Further, we provide disclosures as required by paragraph 21 of EITF 03-1 and additional disclosures we believe are helpful to financial statement users.

We are concerned that the impairment recognition guidance provided in EITF 03-1, specifically the last sentence in paragraphs 12 and 16, which introduce a tainting concept, may have one of two unintended consequences if not corrected:

- If a company's intention to hold an underwater security until recovery is called into
 question (as contemplated by paragraphs 12 and 16), it will result in all debt and equity
 securities in an unrealized loss position being impaired, resulting in a lower of cost or
 market ("LOCOM") accounting treatment, or
- 2. To avoid the tainting provisions of paragraphs 12 and 16, a company may modify its investment policy such that securities would be held until cost recovery (to avoid selling a security at a loss) or sold prematurely (i.e., before such sale would violate the diminutive tainting thresholds established). Such modifications to its investment policy to avoid an adverse accounting event may result in investment transactions and/or a portfolio management program that have suboptimal economics.

Paragraph 7 of the Proposed FSP provides three sales circumstances that would not necessarily call into question "the investor's ability and intent to hold other securities to recovery." We do not believe that these are the only circumstances the FASB should consider as it deliberates the Proposed FSP.

We have outlined below certain additional circumstances that we believe should not call into question previous assertions about intent and ability to hold to recovery (as contemplated by paragraphs 12 and 16 of the EITF and supplemented by the guidance in the Proposed FSP). We developed this list based on our experiences in managing a multi-billion dollar investment portfolio which supports our business model. We respectfully recommend that the FASB carefully evaluate other circumstances which may exist in other industries (e.g., banking) to identify additional circumstances that should not call into question an entity's positive intent and ability to hold underwater securities until recovery before finalizing its guidance.

Examples of circumstances in which a sale of an underwater security which we believe should not call into question previous assertions about intent and ability to hold to recovery:

Changes in the duration of insurance liabilities - An insurance enterprise often rebalances its investment portfolio to ensure that its assets and liabilities are properly duration-matched. Insurance enterprises generally utilize debt securities for cash flows that match the projected duration of their liabilities. Periodically, the maturity of insurance liabilities change, resulting in changes to the duration and/or timing of cash flows required to settle the liability. These changes occur for several reasons, including changing market conditions, the occurrence of significant insurable events, or changes in policyholders' status or behavior. As a result, insurance enterprises may sell debt securities and purchase others with maturity characteristics that match that of the revised insurance liability's cash flows.

- Changes in interest rate spreads In longer-term insurance contracts, such as long-term disability products, companies price the premium to charge policyholders, incorporating assumptions of a spread on assets held. Changes in market conditions can and do have an impact on the interest spread. Often these changes in interest spread are not significant in the short-term, but may be significant over the long-term. As such changes are identified, portfolio managers respond by rebalancing the investment portfolio to achieve a desired interest rate spread.
- Insurance company risk management policies and strategies An insurance enterprise often reviews its risk management policy and investment strategies, for example in response to changes in tax laws, compliance with insurance regulations of domiciliary states and rating agency issues, etc. Changes in a company's risk management policy or strategies may result in an insurance company rebalancing its portfolio to achieve an appropriate mix of issuers, sectors, etc.

In the examples provided above, if a company rebalances its investment portfolio, it may sell securities at a loss (in accordance with Topic D-44, an impairment loss would be recognized in the period in which the decision to sell is made). We do not believe these circumstances were contemplated by the EITF as it deliberated the tainting provisions of paragraphs 12 and 16 of EITF 03-1.

We acknowledge the FASB's attempt to provide certain circumstances under which an underwater security can be sold without tainting a company's statement of intent and ability to hold other underwater securities until they recover in value. However, we believe the circumstances proposed are too limiting and place unnecessary restraints on a portfolio manager's ability to execute sound investment polices consistent with a company's business model.

We recommend the FASB consider removing the last sentences in paragraphs 12 and 16 of EITF 03-1 in their entirety. We strongly believe the inclusion of these sentences is unintentionally creating significant consequences to companies with material investment holdings. We believe with an amendment to exclude these sentences, the EITF's guidance for evaluating impairments and the required disclosures, coupled with the guidance in Topic D-44 and SAB 59, provide issuers sufficient guidance in evaluating its holdings for other-than-temporary impairments.

Alternatively, we would recommend the FASB consider the additional circumstances noted above and expand its project to determine the potential impact on this issue on a broader array of companies before finalizing the Proposed FSP. The circumstances should be considered as examples rather than an all-inclusive list.

We appreciate your consideration of our views on the Proposed FSP. 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,

Ronald M. Olejniczak

Vice President and Controller

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