

Robert J. Price Sr. Vice President & Controller

October 15, 2004

Mr. Robert Herz Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Letter of Comment No: /0 / File Reference: EITF03-1A

RE: FSP EITF No. 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue No. 03-1The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

Dear Mr. Herz:

The Hartford Financial Services Group, Inc., would like to offer our comments regarding the other-than-temporary impairment framework as well as questions two and three of FSP EITF Issue No. 03-1-a ("FSP") and other aspects of EITF 03-1. We believe the assessment of an other-than-temporary impairment should retain the underlying premise that it is probable that an investor will be unable to collect all amounts due according to the contractual terms of a debt security or initial investment for an equity security, as outlined in paragraph 16 of SFAS 115. Because the current provisions of EITF 03-1 require an investor to positively assert their intent and ability to hold until the price of the security recovers up to or beyond cost or par, many companies will record impairments for all securities that are depressed more than a minor extent, in order to maintain the flexibility to prospectively manage their investments and meet liquidity needs without concerns of tainting. We do not believe the assertion of intent and ability to hold is a prudent component of the impairment analysis process because it requires investors to determine future needs of liquidity under all potential outcomes and anticipate necessary future changes in their portfolio due to market movements.

We believe a more appropriate impairment model would focus on the credit deterioration of the issuer, similar to other asset types not subject to SFAS 115 such as accounts receivable and mortgage loans. The SEC's Staff Accounting Bulletin 59 includes factors that may be useful in determining if a securities credit quality has deteriorated such as the near term prospects of the issuer as well as the duration and severity of the impairment. An impairment model focused on credit is consistent with our internal management process because credit impairments are true economic losses and currently a data element used in product pricing decisions. Much of our portfolio matches specific liabilities held on a cost basis. Accordingly, changes in interest rates do not cause economic losses because we benefit from corresponding and offsetting changes in the economic value of the liabilities. We estimate that the Hartford would have recorded over \$400 million in interest rate related other-than-temporary impairments due to the provisions of EITF 03-1 in the second quarter 2004. The value of the impaired securities in the second quarter substantially recovered in the third quarter of 2004 due to changes in interest rates. We believe an impairment model that is focused on credit deterioration is more helpful to

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the users of our financial statements such as rating agencies and equity analysts and is consistent with their historic area of concern. We believe other-than-temporary impairments should also be recognized for non-credit related losses when it is probable the loss will be realized through a plan to sell the security.

If the current other-than-temporary impairment framework as codified in EITF 03-1is approved as drafted, significant procedural changes as well as system infrastructure modifications will be necessary. The significant process and infrastructure changes are the result of the expected increased volume and frequency of impairments recorded as realized losses, the need to maintain a different cost basis to support statutory and GAAP reporting and the subsequent accretion in value required by SOP 03-3. We believe for management, rating agency and equity analyst informational purposes we will need to prospectively differentiate economic net investment income and accretion of previously impaired securities. Although we believe that an other-than-temporary impairment model that is focused on credit deterioration with other impairments recognized when the investor intends to sell a security is most appropriate, the remainder of this letter offers suggestions regarding FSP EITF 03-1a and EITF 03-1 as currently drafted.

Impairment Duration and Severity

We believe that two critical elements in the evaluation of other-than-temporary impairments are the duration and severity of an impairment. While the concept of severity of an impaired security is addressed with the notion of "minor impairment" in question 2 of the FSP, the duration of an impairment is not currently a factor contemplated in EITF 03-1 for securities within the scope of paragraph 16. Historically, as a method to determine the probability of repayment of a debt security based upon its contractual terms, most companies reviewed the duration and severity of an impairment to assess if the security was other-than-temporarily impaired. A common standard presumes an other-thantemporary impairment for securities depressed 20 percent or more for 6 months or greater. The price of a security has proved to be a reliable method to identify securities that are other-than-temporarily impaired because the security price incorporates the markets' assessment of the probability of an issuer's default, a process supported by the efficient market hypothesis concept. Market reactions to a security issuer's news can produce a temporary market dislocation due to a supply and demand imbalance. Requiring investors to assess other-than-temporary impairments based only on severity of an impairment will inappropriately require companies to record losses for temporarily impaired securities. For example, in June of 2002 Time Warner Inc. announced that it was being investigated by the SEC and Department of Justice regarding certain company financial reporting and practices. The news depressed the price of it's debt security maturing in 2018 as of the calendar quarter ended June 2002 to \$68 from a price of \$95 the previous calendar quarter end. Based upon the current wording in paragraph 16 of EITF 03-1, we believe an impairment would have been necessary in order to preserve the ability to trade the security at a later date without the possibility of tainting the portfolio. The security maintained it's rating of BBB+ throughout the depressed period and subsequently recovered to a price of \$95 in November of 2002 after the market appropriately contemplated this impact of new information. Accordingly, we recommend that the duration of an impairment be included as an important factor considered in assessing which securities are other-than-temporarily impaired.

Minor Impairments

We agree with the practical and conceptual merits of characterizing "minor impairments" as being temporary and eliminating the need for investors to assert their ability and intent to hold a security that is impaired to a minor extent. However, we do not believe that minor impairments should be defined as a bright line depression percentage but rather we support a framework that allows flexibility based upon the security's characteristics such as duration, credit quality, foreign currency and convexity. The life

insurance industry offers many products that have extended maturity dates such as settlement annuities. Internal risk management policies typically require insurance companies to match the duration of their invested assets with the corresponding liabilities. Accordingly, a substantive portion of a life insurer's portfolio may be invested in assets of thirty years or more. A 20 basis point increase in interest rates would decrease the price of a typical thirty-year fixed rate security by approximately 6%. Monthly interest rate changes of 20 basis points or more have occurred 8 times during 2004 through September 30, illustrating that temporary impairments will in many cases exceed the proposed bright line threshold of 5 percent. Having the flexibility to define a minor impairment for all debt securities as a change in value that results from market factors such as interest rates, credit spreads and foreign exchange rates that are reasonably possible to occur within a reasonable period of time would appropriately adjust the depression percentage that is considered minor based upon the security's characteristics. Market factor changes that are reasonably possible to occur could be supported by average historical movements.

Intent and Ability To Hold

The FSP justifies changes in the intent and ability to hold due to only isolated, nonrecurring and unusual events including unexpected and significant changes in liquidity and interest rates, criteria that are consistent with securities classified as HTM as outlined in SFAS 115.

We believe such an interpretation is fundamentally inconsistent with the principles of the AFS category, which was specifically created for securities intended to be held for an unspecified period of time. Additionally, we do not believe the interpretation of intent to hold when applied to securities classified as AFS should taint trading in future periods if the sales are in reaction to changes in market environments or changes necessitated by an enterprises asset-liability management activities or liquidity needs. Justifying changes in the intent to hold only for isolated, nonrecurring and unusual events would likely require us and many other companies to impair all securities depressed more than a minor extent in order to maintain the flexibility to prudently manage our investment portfolio and meet liquidity needs. For example, life insurance company asset-liability portfolio management policies typically require that the duration of the investment portfolio be maintained within pre-defined guidelines. With regards to certain life company businesses such as a fixed income defined contribution savings product, the expected time period the average customer will maintain their investment balance in the fixed account option is estimated rather than based upon a contractual maturity date. As interest rates and equity markets change the expected time period a customer will remain invested in the fixed account option will also change, requiring alterations in the supporting general account investment portfolio. It would be impossible to accurately predict future market movements and which securities within the portfolio would be appropriate to maintain based upon the expected changes in duration of a contract liability. As a result we believe this provision of EITF 03-1 would also necessitate recording impairments on all securities impaired more than a minor extent in order to maintain the flexibility to prospectively manage investments and meet liquidity needs without concerns of tainting. We believe the FSP should be amended to allow for an investor's change in intent and ability to hold without resulting in a tainting event, if the sale was in reaction to changes in interest rates for which the assets directly correspond to interest sensitive liabilities recorded at cost.

In addition, the third circumstance for which a change in an investor's ability and intent to hold a security could be justified is a de minimis volume of sales. We believe for practical considerations the justifications of changes of an investor's intent should also include a de minimis dollar amount of loss upon sale.

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Financial Reporting and Infrastructure Implications

Recognizing an impairment for all securities depressed more than a minor extent will result in reporting a significant portion of our security portfolio on a lower of cost or market basis through the income statement, which SFAS 115 sought to avoid. In addition, impairments recognized for securities that are not credit related or for which the debtor's payment of principle and interest are probable, would be accreted through net investment income in accordance with Statement of Position 03-3, and effectively reverse over time. We do not believe this accounting framework would produce transparent financial information because the recording of losses and the subsequent reversal through net investment income would cloud the true economic performance of our investment portfolio.

In addition, EITF 03-1 as currently drafted would significantly increase the volume of securities deemed other-than-temporarily impaired, requiring substantial infrastructure changes, due to our need to maintain different amortized cost amounts for statutory and GAAP reporting purposes. For statutory purposes we would continue to accrete to par based upon the original cost, while for GAAP we would accrete the newly impaired value to par. We estimate that over the past year EITF 03-1 would have required other-than-temporary impairments to be recorded for approximately 6,000 additional securities. We do not believe the perceived benefit to the readers of our financial statements justifies the additional cost.

Thank you for the opportunity to express our comments regarding FSP and EITF 03-1 and we appreciate your consideration of this matter. I can be reached at 860.547.8495 if you would like to discuss the contents of this letter.

Sincerely,

Robert J. Price Senior Vice President and Controller