THE HARTFORD

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Technical Director
Financial Accounting Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: **File Reference No. 1590-100** Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities*, an amendment of FASB Statement No. 133.

Dear Mr. Golden:

The Hartford Financial Services Group Inc. ("The Hartford") appreciates the opportunity to comment on the June 6, 2008 Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Accounting for Hedging Activities*, an amendment of FASB Statement No. 133 (the "Statement").

The Hartford supports the FASB's efforts to simplify accounting for hedging activities, improve financial reporting, resolve practice issues, and address recognition and measurement issues. However, we do not believe that the proposed Statement will improve hedge accounting and financial reporting due to the elimination of the ability to designate individual risks as the hedged risks. The Hartford agrees with the alternative views expressed in Appendix A of the proposed Statement, with particular emphasis on paragraphs A54 through A59.

We offer the following comments on several provisions of the proposed Statement that concern The Hartford, and seem to conflict with the Board's objectives.

Hedged Risk, Issue 1: Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the ability of an entity to designate individual risks and requiring the reporting of risks inherent in the hedged item or transaction?

Eliminating the ability of a company to designate individual risks as hedged will impair the usefulness of financial statements, and may be a disincentive to the use of highly effective and prudent hedging strategies to reduce risk.

Derivatives are often designed to manage individual risks, and many insurance companies, including The Hartford, use derivatives to effectively hedge certain risks while remaining exposed to others. In conjunction with its asset liability management program, a company may choose to hedge the risk of changes in interest rates on the fair value of debt securities, yet remain exposed to credit risk in order to maintain the investment yield. Alternatively, a company may choose to hedge credit risk only, reducing its exposure to an individual credit in order to remain within corporate risk tolerances. Many companies also hedge the cash flows on the forecasted issuance of their own debt or other liabilities from changes in interest rates without considering changes in credit spread. Simple and highly effective hedges are structured to accomplish these objectives.

Currently under the designation of individual risk approach that is included in both FAS 133 and IAS 39 these hedges qualify for hedge accounting and, consequently, a company's financial statements reflect the economic results of these risk management activities. Eliminating the ability to designate individual risks as hedged risks will cause some commonly used and highly effective hedges to no longer qualify for hedge accounting because the derivative instrument may not be reasonably effective in offsetting the entire change in fair value or cash flows of the hedged item. For hedges that would be considered reasonably effective, the entire change in fair value or cash flows of the hedged item would be reflected in net income. This would result in significant income volatility, and financial statements would no longer reflect the economic results of the hedging transactions and management's successful efforts to reduce interest rate risk. Consequently, we believe the usefulness of financial statements would be impaired and that the proposed change may act as a disincentive for the use of prudent hedging strategies.

Also, we believe that income recognition of the un-hedged risks for only the assets and liabilities that qualify for hedge accounting would not provide useful information on a company's risk management activities. As mentioned above, the proposed Statement would require income recognition for changes in fair value of un-hedged risks related to assets and liabilities that are part of a hedging relationship, while not requiring income recognition for similar assets and liabilities that are not hedged. For example, a company may hedge a portion of its corporate bond portfolio against changes in fair value resulting from changes in interest rates. The un-hedged changes in fair value due to credit risk on the hedged bonds would be recognized in income while similar changes in value for un-hedged corporate bonds would be recorded in accumulated other comprehensive income. This will result in inconsistent accounting for un-hedged credit risk.

Finally, hedge accounting under IFRS allows for the designation of individual risks as hedged risks. As a result, this provision of the proposed Statement will not converge US GAAP accounting with IFRS. Consequently, any benefit from reduced complexity will be temporary as companies will have to go through the cost and effort of converting back to a designation of individual risks approach.

Hedge Effectiveness, Issue 4: Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not?

The Hartford supports the lower threshold for hedge effectiveness as it will simplify the initial and ongoing hedge maintenance requirements. However, we believe that additional guidance is necessary to ensure consistent application. Several examples of hedge relationships that would be considered reasonably effective would be helpful.

For situations in which interest rate risk is currently designated as the hedged risk for financial instruments but would no longer be permitted under the proposed Statement (except for the entities own debt at inception), do you believe you would continue to qualify for hedge accounting utilizing your current hedging strategy? If not, would you (a) modify your hedging strategy to incorporate other derivative instruments, (b) stop applying hedge accounting, (c) elect the fair value option for those financial instruments, or (d) adopt some other strategy for managing risk.

Changes in credit spreads could have a significant impact on the fair value or cash flows of a financial instrument that is being hedged for interest rate risk. Consequently, we believe that a number of The Hartford's current hedging strategies may not qualify for hedge accounting even with a lower standard of reasonable effectiveness. We will be required to assess the relative impacts of changes in interest rates and credit spreads on the hedged item over the term of the hedge in order to determine if the hedge will be reasonably effective, increasing rather than reducing complexity.

For interest rate hedges that no longer qualified for hedge accounting, The Hartford would have to reconsider its risk management approach and may modify its hedging strategy or discontinue the hedging strategy and adopt some other approach for managing risk. In either case, the replacement strategy will be less effective and /or more costly. The Hartford is less likely to consider the fair value option due to its inflexibility (must be elected at inception and cannot be removed) and the resulting income volatility.

Presentation of Hedging Gains and Losses, Issue 7: Do you believe that Statement 133 should be amended to prescribe the presentation of these amounts.

The Hartford does not believe that SFAS 133 should be amended to provide guidance on the presentation of gains and losses on hedging instruments. SFAS 161's disclosure requirements will provide sufficient information on the financial presentation of derivative gains and losses.

Benefit-Cost Considerations, Issue 11: Do you believe the Board identified the appropriate benefits and costs related to this proposed Statement? If not, what additional benefits or costs should the Board consider?

The Hartford does not believe that the benefits outweigh the costs of implementing the Proposal for the following reasons:

- The overall usefulness of financial statements will not be improved and will actually be impaired due to the elimination of the ability to designate individual risks as hedged items.
- Companies may curtail hedging activities or employ sub-optimal strategies in order to achieve hedge accounting.
- Benefits from implementing the proposed Statement can only be realized to the extent that the accounting converges with IFRS. Provisions that do not converge with IFRS, such as the ability to designate individual risks, will not be cost beneficial if they are replaced by IFRS in a short period of time.

We appreciate the opportunity to comment on the proposed Statement and would be happy to discuss our comments in more detail with the Board or its staff. Please feel free to call me at (860) 547-4135.

Very truly yours,

Beth A. Bombara
Senior Vice President, Controller, and Chief Accounting Officer
The Hartford Financial Services Group, Inc.