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September 30, 2010

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

File Reference: 1810-100

Dear Technical Director:

Aetna Inc. ("Aetna") appreciates the opportunity to provide our views on the Financial Accounting Standards Board's (the "Board") proposed Accounting Standards Update ("ASU"), "*Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*" (the "ED"). We are one of the nation's leading diversified health care benefits companies, offering a broad range of traditional and consumer-directed health insurance products and related services. At June 30, 2010, we had approximately $20.4 billion of invested assets, which included approximately $17.7 billion of debt and equity securities designated as available-for-sale. These invested assets have historically generated over a billion dollars of investment income each year for the past three fiscal years. Given the size of our investment portfolio, we not only consider ourselves a preparer of financial statements, but also a user. The comments noted below reflect both perspectives.

The ED proposes a fundamental change in the accounting for financial instruments. The commentary included below is based upon our assessment of the ED as currently drafted. However, we believe that in order to fully assess the magnitude of these changes, we would like the opportunity to review the proposed amendments to existing codification. It is only through the review of the detailed technical guidance that we can fully assess the impact of this update. Although the content of "*Appendix C: Summary of Proposed Amendments to the FASB Accounting Standards Codification*" provides a general view on which sections of current accounting guidance will be amended, the modified technical language is needed to completely understand the extent of these changes.

Overall, we agree that the fair value of financial instruments provides important information to financial statement users that should be presented in the financial statements, however, we do not agree that fair value is the appropriate measurement attribute for all financial assets and liabilities. Consequently, we do not support the issuance of the proposal as currently drafted. Our disagreement is primarily based on conceptual differences in the classification and measurement of mortgage loan receivables, equity method investments and a company's own long-term debt. Therefore, we urge the Board, in its deliberations, to modify the current proposal to maintain a mixed-attribute classification and measurement model.

Recognition & Measurement
As an insurance company, we hold investments to match the duration of our insurance liabilities. As the duration of our liabilities change, we will often sell securities to rebalance this portfolio. As a result, we cannot assert our ability to hold our investment securities until maturity. Therefore, it will be difficult to qualify for the Board's proposed exception which would allow us to mark the fair value changes of this portfolio through other comprehensive income rather than net income.

If we do not qualify for the proposed exceptions, changes in the fair value of our investments will be reflected in earnings and this will result in earnings volatility that will mask the underlying operating performance of our business. For example, had we reflected the change in fair value of our debt and equity securities in earnings for the years 2008 and 2009, our reported net income would have increased by $619 million, or 48%, in 2009 and decreased by $283 million, or 20%, in 2008. We note that the volatility was even greater in 2008 after considering the $340 million (after tax) yield-related impairments that we incurred during this time period. The combined impact would have lowered net income for 2008 by approximately $623 million, or 45%.

Additionally, we believe marking our investment portfolio through earnings will cause confusion to our investors as this volatility will detract them from understanding the results of our core operations. If the Board proceeds with this accounting treatment, we foresee the creation of another non-GAAP measure to remove the impact of these adjustments when reporting our earnings to the external investment community.

We understand the Board supports the proposed fair value model as the Board believes that this measurement model will provide consistency between financial statements, particularly within industry groups. We agree that comparability should be a core principle of financial reporting. However, we believe that the model as currently proposed will cause inconsistency amongst the health insurance industry based upon the different investment strategies that are applied in practice today. Consistent with our competitors, we match the duration of our investments with the duration of our insurance liabilities and sell investments to provide funding for expected payouts of claims and/or other liquidity needs as well as to maximize investment returns. Therefore, even though health insurers have the same underlying business strategy for their investments, the recognition model for each company may differ based upon the frequency of their investment transactions required to effectively manage their business.

Predominant Use of Fair Value
Although we agree that fair value of financial instruments provides important information to financial statement users, we do not agree that fair value is the appropriate measurement attribute for mortgage loan receivables, long-term debt and equity method investments for the reasons discussed below.

Mortgage Loans and Long-term Debt
At June 30, 2010, Aetna owned over $1.5 billion in mortgage loan receivables of which an overwhelming majority of these are held for the long-term. We do not actively trade these investments and an overwhelming majority of these securities are held to maturity. Recording these investments at fair value would be inconsistent with this underlying business strategy, as

we hold them for income generation purposes. Furthermore, mortgage loans are not traded on public exchanges; thus quoted prices are not readily available for these securities. Fair value as a measurement attribute for such securities lacks relevance and reliability and is costly to implement with no enhanced benefit.

Additionally, we disagree that a company's own debt issued at fixed rates should be recorded at fair value in any circumstance. We question the usefulness of this information to investors. Because we generally hold debt outstanding until its maturity, we feel that recording this liability at fair value will give the user a value for this debt that will fluctuate greatly based upon current interest rates. Because a company does not transfer or sell its long term debt, fair value is not a meaningful measure as it will not reflect the long-term nature of these obligations. Additionally, the mark-to-market adjustments will cause unnecessary volatility to equity and, in some circumstances, companies will record a positive impact to equity when there is a detriment in their credit quality, a recognition pattern that seems counter-intuitive.

Therefore, we believe that amortized cost is a better recognition model for mortgage loan receivables and long-term debt than fair value and is consistent with the IASB model.

Equity Method Accounting
We do not agree with the proposed change to the criteria for the equity method of accounting. At June 30, 2010, we had approximately $837 million of investments in businesses unrelated to our core operations that we account for under the equity method of accounting. Limiting equity method accounting to investments that are "related" to the entity's consolidated business will likely scope strategic, but "unrelated," investments into the fair value accounting model.

In most circumstances, we invest in these investments as part of our investment diversification strategy and in order to generate cash flows over the long-term to fulfill our business obligations. The investees underlying these investments generally are not insurance entities or entities that support the insurance industry, but they may be. However, the equity returns we receive from these investments are an essential element to our business model.

Generally, these investments are not easily liquidated as there are no established markets and we would face obstacles such as obtaining contractually-required counterparty approval and potentially significant financial penalties if we violate contractually stated redemption restrictions (e.g., gates and lock-ups). Accordingly, investors in such investments are highly discouraged from entering into these investments for the short term.

We believe that the current equity method of accounting provides sufficient transparency and economic accuracy and providing fair value for equity method investments will not provide decision-useful information. In many instances, there is no public market for these strategic equity method investments and therefore fair value would be determined based on unobservable inputs that in practice are very difficult, if not impossible, to obtain each quarter. We are concerned the new criteria will have the unintended consequence of significantly expanding the fair value model to these types of investments that is not workable in practice and very costly to implement.

Consequently, we strongly recommend that the Board does not incorporate the proposed changes to the equity method of accounting. Based upon current practices, we are not aware of any concerns that would warrant modifications to this area and therefore, we do not understand the conceptual basis for this change. However, if the Board feels that the accounting for equity method investments needs to be further addressed, these changes should be discussed in a separate project.

Impairment model

Over the past several years, U.S. GAAP has prescribed several different impairment models for debt securities. Last year, the Board released a new model for impairment recognition that is in use today. This model requires the recognition of impairments when we do not expect to recover the cost basis of the investment or when we have the intent to sell a security in an unrealized loss position. We believe that the current model for credit impairment recognition for debt securities is appropriate and do not believe that any changes are needed. Under the current model, we will recognize credit impairments when we do not expect to recover the contractual cash flows of the investment. Under the model proposed in the ED, the Board requires an evaluation of impairment on each security, even if it is not in a loss position, to determine whether credit impairments exist. Under this approach, a company could have a scenario where they are taking a charge to earnings for an impairment on a security for which they are recognizing an unrealized gain in equity.

Another cause of our disagreement is the notion that preparers consider credit impairments based on past events and historical considerations versus the life span of the security. In reality, we consider historical together with current period events to assess the likely future collection of invested principal and interest payments. In periods such as the financial crisis in 2008, had we applied the proposed impairment model to our investment holdings, we envision significant impairment charges that would have reversed in subsequent periods.

We support and agree with the proposal to record the amount of credit impairments to an allowance account that can be reversed in future periods as facts and circumstances change. However, we disagree with the proposal for the recognition of investment income subsequent to an impairment for the reasons discussed in the next section of this letter.

We also agree with the Board's decision to remove the concept of yield (interest)-related impairments. Currently, when we recognize and disclose our impairments, we bifurcate them into their respective credit and yield related portions. This bifurcation allows us to inform our investors on the extent of losses caused by detriment to underlying cash flows and those caused by changes in interest rates.

Finally, we support the "practical expedient" for mortgage loan impairments. We believe that the most appropriate way to determine impairment on these investments is based upon the fair value of the underlying collateral. Only when the fair value of the underlying collateral deteriorates below the cost basis is the holder subject to real financial losses.

Interest income recognition

We do not support the Board's proposed interest income recognition model as it will create a disparity when comparing the interest income on a previously impaired financial instrument to the income from an identical investment that applied a different recognition attribute (e.g., amortized cost). When an impairment occurs, the proposed guidance would require the basis in the investment to be adjusted for the purposes of determining and recording interest income. This approach would cause actual cash interest receipts to exceed the calculated interest income for financial instruments with a recognized impairment, even when the underlying interest receipts are unchanged. We do not agree with this approach as the recognition and measurement criteria of interest income is well understood by users of financial statements and the interplay between the allowance for impairment and interest income proposed by the Board will confuse investors and other users of financial statements.

Furthermore, this change would require significant system changes to accommodate this new recognition model. As an insurance company, we must file financial statements on a regulatory basis of accounting with significant supplemental schedules. Current regulatory accounting principles are based primarily on amortized cost. Therefore, if this model is finalized, we would have to maintain two separate accounting records for our investments. Currently, our in-house and/or third party systems do not have the capability to apply multiple separate income recognition methodologies for the same financial asset and we expect to incur significant costs to develop and manage these systems.

For the reasons noted above, we do not believe the resulting financial information would be decision useful or cost beneficial. Accordingly, the current practice of recognizing interest income based on the amount contractually due (net of fees and premiums/discounts) for all financial assets is preferable. Subsequent to an allowance for credit losses being established on a financial asset, we recommend recognizing interest income consistent with the principles based approach utilized for investments that currently have allowances for credit losses recorded as prescribed in FASB Accounting Standards Codification 310 - 30 "*Loans and Debt Securities Acquired with Deteriorated Credit Quality*". This approach requires a company to describe its policy for recognizing interest income on impaired securities with the premise for accrual based on the extent the amount is deemed collectable.

Presentation and Disclosure

With this exposure draft, the Board is looking to overhaul the recognition and measurement of all financial instruments, therefore, we urge the Board to also use this opportunity to take a fresh look at all of the related disclosures to determine which provide the most decision useful information.

Based on discussions with users of our financial statements, we received feedback that our current disclosures are not providing decision useful information. Much of the information currently required may contribute to this user frustration. We recommend the Board take this opportunity to remove or reduce elements of current disclosures, for example, consideration be given to disclosing the average duration and credit ratings (investment grade versus non-investment grade) on investment securities and removing disclosures of actual maturity. Additionally, as the Board moves away from yield-related impairments, disclosures currently required for securities in an unrealized loss position lose their relevance. These disclosures instead should be replaced with the additional information relating to credit impairments. By modifying our current disclosures, we believe that users of our financial statements will find this information to be more valuable.

Furthermore, we support providing clear, concise, and adequate presentation of financial instruments on the face of the financial statements. In this regard, we believe that the proposed presentation requirements will encumber the face of the financial statements with extensive disclosure that will detract from the relevant financial measures. When analyzing feedback from investors on the disclosure requirements of this update, the Board should assess the extent to which users require this information on the face of the financial statements. If the disclosure is valuable to users, then we urge the Board to consider allowing this information to be disclosed in the footnotes. As the footnotes are subject to audit, there would be no compromise on the integrity of the information.

Effective Date

In determining an effective date for this standard, we advise the Board to consider the numerous other proposals that were recently released and those expected to be released in the near term. With these proposals, the Board is completely overhauling several significant areas of U.S. GAAP, many of which are fundamental to our business. Therefore, we encourage the Board to consider the extensive time needed by preparers to update their systems to meet these new requirements and also the time needed to educate investors, management and our key vendors on the impact of these changes to our accounting and reporting.

Additionally, any decision on effective date should be made in conjunction with the Securities & Exchange Commission ("SEC"). Recently, the SEC reaffirmed its IFRS roadmap. With this decision, the SEC has effectively affirmed a substantial stake in the success of the implementation of any converged standards in the U.S. Consequently, a decision on effective date of any converged standards should be delayed until the SEC has a resolution on its path of convergence or conversion.

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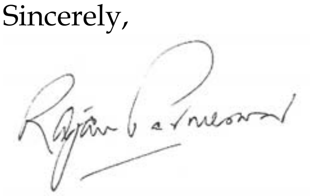
We appreciate the opportunity to express our views on this matter. We will be pleased to meet with the Board and Staff at its earliest convenience to discuss these issues in more depth and to clarify any comments contained herein. If you have any questions regarding this letter, please feel free to contact me.

Sincerely,



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