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Technical Director
File Reference No. 2013-220
Financial Accounting Standards Board
P.O. Box 5116
401 Merritt 7
Norwalk, CT 06856-5116

Via e-mail @ director@fasb.org

Re: Proposed Accounting Standards Update: Financial Instruments – Overall (Subtopic 825-10)

Dear Technical Director:

The Hartford Financial Services Group Inc. ("The Hartford" or "we") appreciates the opportunity to comment on the Financial Accounting Standards Board's Proposed Accounting Standards Update ("ASU") issued February 14, 2013 concerning *Financial Instruments – Overall (Subtopic 825-10)*. Please also accept our appreciation for considering our comments after the deadline of May 15th, so that we could develop our comments consistent with our comments due May 31st on the Board's closely related proposed ASU: *Financial Instruments – Credit Losses (Subtopic 825-15)*. The Hartford is an insurance and financial services company that provides investment products and life and property and casualty insurance to both individual and business customers in the United States. The Hartford holds a \$115 billion investment portfolio that includes debt securities, equity securities, commercial mortgage loans and limited partnership (equity method) investments and will be impacted by the final guidance resulting from this proposed ASU.

The Hartford supports the goal of providing financial statement users with more decision-useful information about an entity's involvement in financial instruments, while reducing the complexity in accounting for those instruments. We also support guidance that develops a consistent, comprehensive framework for classifying those instruments linking the measurement of financial assets to the way in which an entity expects to benefit from the cash flows embedded in those assets. The recognition and measurement model proposed in the ASU would seem to satisfy this goal for loans held by a banking institution. However, to satisfy this goal for debt and equity securities, as well as loans,

held by insurance companies, we believe that the model could be improved. We believe the proposal may inappropriately result in many financial instruments, including common debt instruments, being measured at fair value with changes in fair value recognized in net income. In particular, we believe that the proposed model for assessing contractual cash flow characteristics is unnecessarily complex and restrictive, particularly as it applies to structured securities. The model can be improved by allowing entities to align the recognition and measurement of financial assets in a way that better reflects the way the assets fit within the asset and liability management of and overall accounting for the entity. We recommend more financial assets be recognized and measured at fair value with changes in fair value recognized in other comprehensive income unless an entity elects amortized cost for assets it intends to hold or the entity elects to report changes in fair value in net income.

The Hartford offers the following recommendations, which are further discussed under the relevant questions from the proposed ASU in the attached appendix.

- Classify debt instruments as FV-OCI, unless an entity conditionally elects amortized cost (condition being that the asset will be held for collection) or unconditionally elects fair value with changes in fair value recognized in net income (FV-NI). [Refer to questions 10 & 11]
- ❖ At a minimum, allow an option to classify financial assets held for collection at FV-OCI (e.g., mortgage loans). [Refer to questions 10 & 11]
- Classify equity securities at FV-OCI and establish a two-step impairment test like today's guidance (other-than-temporary decline in fair value), unless an entity unconditionally elects FV-NI (e.g., for a trading portfolio or to better match the accounting for a liability). [Refer to question 19]
- ❖ Eliminate the solely principal and interest requirement and rely on the current definition of a financial asset that is a debt instrument − "a receivable for contractual cash flows that provide for cash payments on fixed and determinable dates, whether or not there is any stated provision for interest". This definition does not require analysis of underlying assets or cash flows within a structured debt investment which is operationally burdensome and results in different accounting based on legal form. [Refer to questions 4, 7 & 9]
- ❖ Do not preclude structured investments from meeting the definition of a debt instrument based on subordination. Subordination is a credit feature more appropriately addressed in accounting for credit impairments. [Refer to questions 4, 7 & 9]
- ❖ Preserve bifurcation of embedded derivatives for financial assets (not just liabilities). Bifurcation is well understood and accounts for non-clearly and closely related elements of contractual cash flows in financial assets that are debt instruments. The presence of a non-clearly and closely related element should not preclude the host instrument from being accounted for as a debt investment. [Refer to questions 4, 7, 8 & 21]

Thank you for the opportunity to provide input on the proposal. Please contact me at 860-547-4848 or scott.lewis@thehartford.com if you would like to discuss our responses.

Sincerely,

Scott R. Lewis

Attachment - Appendix

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APPENDIX QUESTIONS FOR RESPONDENTS

Scope

Questions for All Respondents

Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?

The Hartford agrees with the scope of the proposed ASU.

Question 2: Do you agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?

The Hartford agrees with the retention of the industry-specific specialized guidance; however, the scope exception for investment companies should be broad and not only reference debt and equity securities in subtopic 946-320. Other assets and liabilities that are typically included in investment companies should be covered in this scope exception to retain existing guidance for these entities.

Recognition

Questions for All Respondents

Question 4: Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?

Based on the proposed contractual cash flow characteristics assessment, anything other than plain vanilla loans and debt securities would be accounted for at FV-NI. We believe the proposed contractual cash flow characteristics assessment is unnecessarily complex and restrictive, particularly as it applies to structured securities. The solely payments of principal and interest ("SPPI") criteria should be eliminated and investments in debt instruments should rely simply on the definition of a financial asset that is a debt instrument – "a receivable for contractual cash flows that provide for cash payments on fixed and determinable dates, whether or not there is any stated provision for interest". We believe this definition is sufficient to appropriately classify debt instruments.

The SPPI criterion requires detailed analysis of underlying assets or cash flows within beneficial interests in securitized financial assets (referred to subsequently as structured debt investments). This is operationally burdensome in that entities would need to study securities offering memoranda for debt securities to determine the accounting classification. To this point, we have over 2,000 different structured securities and over 500 of these were acquired in 2012.

This criterion would also result in different accounting based on legal form. For example municipal debt securities that are revenue bonds are based on the cash flows of an operation such as sewer and water services and do not have an underlying debt

instrument which is necessary to meet the SPPI criterion. If the same municipality instead borrowed funds by issuing general obligation bonds, these municipal debt securities would meet the SPPI criterion.

Another SPPI criterion requires the credit risk of a debt security tranche be no greater than the underlying pool of assets as a whole, which would also result in different accounting based on legal form. Many subordinate structured debt security tranches would not likely meet the SPPI requirement resulting in the security being classified at FV-NI. In contrast, if an entity invests in a debt security issued by a corporation that is subordinate to other obligations of the corporation, that security would not fail the SPPI criterion because it is not issued through a structured investment vehicle. Subordination is a credit feature more appropriately addressed in accounting for credit impairments.

In addition to the SPPI criterion being unnecessarily complex and restrictive in applying to structured securities, we note that plain vanilla debt instruments may encounter similar issues. For example, a loan may contain minor fees such as for the assignment of a loan to an affiliate where we believe it would be inappropriate, based on that feature alone, to require the loan to be FV-NI.

We would propose that debt investments should be identified based on the existing definition – "a receivable for contractual cash flows that provide for cash payments on fixed and determinable dates, whether or not there is any stated provision for interest", and that bifurcation of embedded derivatives in U.S. GAAP be retained to eliminate concerns that certain cash flows may not be characteristic of debt instruments. The ASU would preserve bifurcation for financial liabilities but not for financial assets and we think symmetry is important. Bifurcation is well understood and accounts for non-clearly and closely related elements of contractual cash flows in financial assets that are debt instruments. The presence of a non-clearly and closely related element should not preclude the host instrument from being accounted for as a debt investment. As proposed, the application of the SPPI test could result in a less than significant contractual feature determining the accounting treatment.

Question 5: The proposed amendments define *principal* as the amount transferred by the holder at initial recognition. Should the definition of *principal* be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?

The Hartford agrees with the definition of principal and believes that amortized cost accounting, including the interest method of income recognition, can appropriately address differences in the principal repaid at maturity or other settlement and the initial amount transferred. Under amortized cost accounting and the interest method an entity amortizes a premium or accretes a discount to reflect the expected rate earned or paid and arrive at the expected repayment or other settlement amount.

Question 6: Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?

The application guidance is clear but unnecessary. As stated in our response to Questions 4 and 7, the cash flow characteristics assessment is overly complex and should be removed from the proposed guidance.

Question 7: Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?

A financial asset with a contractual term that modifies the economic relationship between principal and interest should be a debt instrument and any embedded derivative not clearly and closely related to a debt instrument should be bifurcated. The SPPI criteria should be eliminated and investments in debt instruments should rely simply on the definition of a financial asset that is a debt instrument – "a receivable for contractual cash flows that provide for cash payments on fixed and determinable dates, whether or not there is any stated provision for interest". We believe that a more effective and less complex way to evaluate these contractual terms is through retaining the bifurcation of embedded derivatives that exists today and is well understood. The proposed guidance for evaluating modified economic relationships is more complex and does not achieve the stated objective of reducing complexity compared to existing guidance. The proposed guidance would introduce the notion of benchmark debt instruments to identify features that modify what is deemed an acceptable economic relationship between principal and interest. There would not be added benefit that would outweigh the cost to be absorbed by preparers to implement and apply the proposed guidance each period.

Question 8: Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?

The application guidance is clear but unnecessary. As stated in our response to Questions 4 and 7, the cash flow characteristics assessment is overly complex and should be removed from the proposed guidance. Including additional guidance on modified economic relationships would increase the complexity that is involved in the evaluation of the cash flow characteristics test and somewhat arbitrarily refine what is an acceptable interest rate for debt instruments. For example, the guidance would not allow for a rate that resets 1-monthly to be reset based on 3-month LIBOR which clearly has a minor impact on the fair value and cash flows of the investment and should not require FV-NI classification. We do not believe it is appropriate for the ASU to require that the tenor of an interest rate match the tenor of the principal. Entities negotiate interest rates and thereby determine the compensation for the time value of money under a market transaction. Furthermore, we believe detecting and evaluating the 'modified economic relationship' would likely lead to a significant number of interpretations similar to the number of interpretations produced by the Derivatives Implementation Group (DIG) relating to embedded derivatives.

We recommend retaining bifurcation of embedded derivatives for assets in place of the requirement to assess a modified economic relationship between principal and interest.

Question 9: For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains

payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What would you propose instead?

We do not agree with the look-through approach for beneficial interests (securitized debt investments). As noted in Questions 4 and 7 above, we recommend the Board eliminate the SPPI assessment from the proposed guidance and retain bifurcation for embedded derivatives in financial assets. By retaining bifurcation, any embedded derivatives not clearly and closely related to the host instrument would be bifurcated and the appropriate classification and measurement category would be determined for the host instrument.

The proposed look-through approach is overly burdensome and effectively requires detailed evaluation of the terms of the underlying pool of instruments to determine if the proposed criteria are met to be classified in a category other than FV-NI. Typically, the level of detailed information necessary to evaluate the underlying pool is not readily available. The Hartford holds securitized debt investments both for collection of their contractual cash flows and for sale. Most of these securities are investment grade. The proposed guidance for beneficial interests would result in many, if not most, structured debt investments being recorded at FV-NI which would not provide decision-useful information to financial statement users when an entity's business model is not to engage in actively trading/selling these assets.

In addition, classification of structured debt investments at FV-NI simply due to subordination of obligations within tranches is not consistent with the treatment of other debt instruments issued by operating entities. For example, a corporation can issue subordinated debt that would meet the SPPI test. Similar to corporate debt investments where subordination is not a relevant attribute in the SPPI test, subordination through tranching of structured debt investments should not impact the classification and measurement of a financial asset and should not be a relevant attribute in the SPPI test.

In addition to the inconsistent treatment between beneficial interests and corporate instruments noted in the previous paragraph, the application guidance for beneficial interests appears to emphasize credit risk as a primary reason why assets might fail the SPPI test. We believe credit risk should not be a relevant attribute when determining the appropriate classification and measurement category; rather, credit risk should only be considered as a part of the impairment model for financial assets.

Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?

We believe the business model assessment essentially means that assets should be classified for measurement at amortized cost, FV-NI or FV-OCI based on the entity's expected realization of the asset which is appropriate. However, we believe the ASU should establish the default classification for financial assets that are debt instruments to be FV-OCI, unless an entity conditionally elects amortized cost (condition being hold for collection) or unconditionally elects FV-NI. This approach would allow entities to recognizes net income and other comprehensive income impacts in a way that better reflects the asset and liability management and overall accounting for the entity.

At a minimum, the ASU should allow an option to classify financial assets held for collection-only at FV-OCI (e.g., mortgage loans) to allow the entity to align the classification and measurement of its assets with the classification and measurement of related liabilities. We have included further explanation in Question 11.

Question 11: Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?

We believe the application guidance is clear but we are concerned that we would be required to present certain debt investments at amortized cost that we believe are more appropriately reflected as FV-OCI. As stated in Question 10 we believe the default classification should be FV-OCI unless an entity conditionally elects to classify the debt instruments meeting the held for collection business model requirement in amortized cost. As an insurance company we invest in commercial mortgage loans that we hold for collection. Under the new insurance contracts ASU soon to be exposed by the Board we expect that our insurance liabilities will be discounted with interest-related changes in current value recognized in other comprehensive income. Considering this potential accounting for the liabilities, we would report better accounting matching by classifying the commercial mortgage loans at FV-OCI and do not believe we should be prohibited from doing so simply because we have not generally sold commercial mortgage loans. Therefore, we believe the application guidance could be simplified if FV-OCI was the default category which would result in more decision-useful information by reporting fair value for assets where an entity's asset-liability management is important.

At a minimum, the ASU should allow an option to classify financial assets held for collection at FV-OCI (e.g., mortgage loans).

Question 12: Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?

We believe the classification and measurement model for financial instrument does effectively contain a tainting notion in that past sales are a significant determinant in whether an entity can classify investments as held for collection, within amortized cost. Nevertheless, we appreciate that there is not an explicit tainting notion and believe the application should rely on the principle and exercise of professional judgment.

Question 13: The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?

While we have loan commitments that may be impacted by the proposed amendments, we do not have concerns with the approach that would classify loan commitments consistent with the loan that would be issued. However, our concerns about the cash flow characteristics test as discussed in Question 4 and the assessment for features that modify the economic relationship between principal and interest discussed in Question 7 are equally applicable to commitments for loans that would not meet the SPPI test.

Initial Measurement

Questions for All Respondents

Question 14: Do you agree with the initial measurement principles for financial instruments? If not, why?

We agree with the initial measurement principles for financial instruments. These essentially capitalize transaction costs as part of the cost of the instrument unless the instrument is classified at FV-NI.

Subsequent Measurement

Questions for All Respondents

Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?

We generally agree that financial liabilities should be measured at amortized cost unless they meet certain exceptions (i.e., the entity will transfer the liability or the liability is for a short sale). However, there are certain liabilities issued by insurers that will fall under the proposed ASU and not the soon-to-be-exposed insurance contracts standard where measurement at amortized cost may not provide decision-useful information where assets are measured at FV-OCI. Accordingly, we recommend a FV-OCI option for the measurement of the liability when such an election would reduce an accounting mismatch. Examples of these liabilities would include annuity payments without life contingencies.

Question 17: The proposed amendments would require a nonrecourse financial liability that is settled with only the cash flows from the related financial assets (see paragraph 825-10-35-11) to be measured on the same basis as those assets. Do you agree with the proposed amendments? If not, why? What would you propose instead?

We have no objection to the proposed amendments in this regard.

Question 18: The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?

We do not agree with the proposed requirement to recognize an impairment for assets held at amortized cost simply because an entity has the intention to sell the investments because it is inconsistent with the treatment for assets held at FV-OCI, is operationally inefficient and can give rise to confusing financial statement effects. We believe the ASU for credit losses would recognize an aggregate allowance for credit impairment on financial assets and, consistent with that, we believe a simpler accounting approach would be to recognize any additional losses in net income at the time of sale, when the fair value at the time of sale is known. The ASU would require financial assets classified at amortized cost to be measured at lower of cost or market through net income where an entity has an intention to sell the asset. Conversely, the proposed ASU for recognition and measurement eliminates the current GAAP guidance that would require financial assets classified at FV-OCI to be impaired to the lower of cost or fair value where an

entity has an intention to sell the asset (as evident by the strike-through language to ASC 320-10-35-33A on page 91 of that proposed ASU). Therefore the proposed accounting is inconsistent. We believe the inconsistency should be resolved by recognizing any additional losses in net income at the time of sale because that can be objectively applied and is operationally more efficient. This change would eliminate the current process to review financial assets in unrealized loss positions for potential sale at the end of each reporting period, an exercise that requires operational resources for little or no benefit and also results in entities restricting securities from possible sale around reporting period ends. We also note there is precedent for this accounting for debt extinguishments. For debt extinguishments any loss (or gain) is recognized at the date of extinguishment.

In addition, if the financial assets are being transferred in connection with settling liabilities, asset impairment due to changes in interest rates would be recognized earlier than either the gain due to changes in interest rates on a matching liability or the gain on any other assets being transferred that are in an unrealized gain position. This recognition of income statement impacts in different periods for a change in interest rates affecting related assets and liabilities provides less decision-useful information. The Hartford experienced this recently upon the disposition of an insurance business through a reinsurance transaction whereby it transferred invested assets to reinsure a block of business and recognized losses in one quarter and greater investment gains in the subsequent quarter.

We also noted that the guidance is not clear whether any impairment recognized for the additional unrealized loss would be recognized through an allowance or an adjustment to the cost, or partially through the allowance and partially through an adjustment to the amortized cost.

Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?

The Hartford agrees with the practicability exception to measure equity securities without readily determinable fair values at cost less impairment.

However, we believe that entities should classify and measure equity securities with readily determinable fair values at FV-OCI and the ASU should establish a two-step impairment test like today's guidance (other-than-temporary declines in fair value) unless an entity unconditionally elects FV-NI (e.g., for a trading portfolio or to better match the accounting for a liability). We invest in and hold equity securities for appreciation as part of an overall asset-liability management framework with the objective of generating excess total return on the investment portfolio as a whole. We invest in a number of preferred and high dividend rate equity securities that generate significant current income, as well as appreciation. We don't generate returns by trading based upon short-term price changes. For equity securities that are held for investment purposes, applying the FV-NI model reflects unnecessary volatility in the income statement and therefore is not decision-useful.

Question 20: Should an entity evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income separately from the other deferred tax assets of the entity (rather than combined and analyzed together)? If not, why?

The Hartford agrees with the proposed ASU but we believe that an entity should have the ability to evaluate the recoverability of a deferred tax asset resulting from unrealized losses recorded in other comprehensive income separately from other deferred tax positions of the entity, but not be required to do so. Having the ability to evaluate the recoverability of a deferred tax asset separately is simpler and justified given the financial assets can be held to recover the deferred tax asset; however, we encourage the Board to replace "shall" with "can" to allow companies flexibility in applying tax planning strategies in the future.

Question 21: Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15 and would be assessed in their entirety on the basis of the proposed classification requirements. In contrast, hybrid financial liabilities would be assessed for bifurcation and separate accounting under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?

We disagree with the proposal that would have financial assets evaluated for cash flow characteristics and not bifurcate embedded derivatives. As stated in Question 7, we believe a financial asset with a contractual term that modifies the economic relationship between principal and interest should be a debt instrument and any embedded derivative not clearly and closely related to a debt instrument should be bifurcated. We believe that a more effective and less complex way to evaluate these contractual terms is through retaining the bifurcation of embedded derivatives guidance that exists today and is well understood. The proposed guidance for evaluating modified economic relationships is more complex and does not achieve the stated objective of reducing complexity compared to existing guidance. Therefore, there would not be added benefit that would outweigh the cost that would be absorbed by preparers to implement and apply the proposed guidance each period. In addition we do not believe it is appropriate for the ASU to require that the tenor of an interest rate match the tenor of the principal. Entities negotiate interest rates and thereby determine the compensation for the time value of money under a market transaction.

Question 22: The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?

The Hartford agrees with the proposed amendment on accounting for reclassifications between amortized cost, FV-OCI and FV-NI.

Presentation

Questions for Preparers and Auditors

Question 26: The proposed amendments would require an entity to separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at fair value through other comprehensive income (see paragraphs 825-10-45-14

through 45-15). Is the proposed fair-value-based method provided for computing the foreign currency gain or loss component operable? If not, why? What would you propose instead?

The Hartford has no objection to the change in current accounting whereby changes in fair value due to foreign exchange will be reported in net income (like for other assets and liabilities) and no longer reported in other comprehensive income with other changes in fair value.

Disclosures

Questions for All Respondents

Question 29: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?

The Hartford has no objection to the proposed disclosure requirements which are substantially consistent with current disclosure requirements.

Transition and Open Effective Date Information

Questions for All Respondents

Question 30: Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?

The Hartford has no objection to the permitted early adoption of the provisions of the ASU that would allow entities to report changes in fair value of liabilities associated with the entity's own credit risk in other comprehensive income (as opposed to in net income today), or early adoption in general.

Question 31: Should the effective date be the same for both public entities and nonpublic entities?

The Hartford has no opinion on this matter.

Questions for Preparers and Auditors

Question 32: How much time is needed to implement the proposed guidance?

We estimate The Hartford would need 24-30 months to implement the proposed guidance; however, if the proposed ASU on credit losses is also being implemented we believe The Hartford would need 30-36 months. Depending on the final changes required under the classification and measurement guidance, we may need to perform detailed, individual evaluation on thousands of debt investments to determine whether these instruments meet the cash flow characteristics assessment and evaluate features that modify the economic relationship between principal and interest against benchmark debt instruments under the proposed guidance. As a result, we would need an extended amount of time to adequately prepare processes and systems for these changes at the same time many changes may be occurring as a result of any new impairment guidance that is issued.

Question 33: Are the transition provisions in this proposed Update operable? If not, why?

The Hartford has no objection to the transition provisions which would report the cumulative effect of adoption in retained earnings as of the beginning of the period implemented. Furthermore, we believe the Board should permit insurance companies to be allowed to reclassify financial assets without restriction if a new insurance contracts standard is implemented subsequent to the standards on financial instruments. We encourage the Board to continue to evaluate the transition guidance for the ED as well as the interaction with the insurance contracts project to ensure that there is consistency between the two transition methods (as appropriate) in establishing the balances within other comprehensive income as well as the amount that will ultimately be reflected in net income.

Equity Method Accounting

Questions for All Respondents

Question 34: The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?

We do not believe entities should be required to classify equity method investments held for sale at FV-NI based on an assessment at initial recognition nor at any other time. As discussed in Question 19 we propose that entities be allowed an unconditional option to classify equity securities with readily determinable fair values at FV-NI, and we would also propose that unconditional option be provided for equity method investments.

Question 35: The proposed amendments would change the current two-step impairment model for equity method investments to a one-step impairment model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?

We do not agree that equity method investments should be impaired any time their fair value is below their carrying value. We believe the existing two-step impairment model that considers whether the decline in fair value is other than temporary should be retained.

Nonfinancial Hybrid Instruments

Questions for All Respondents

Question 37: The proposed amendments would eliminate the fair value option for hybrid nonfinancial instruments in current U.S. GAAP and would provide a new fair value option for hybrid nonfinancial liabilities. For a hybrid nonfinancial liability, an entity would apply the bifurcation and separate accounting requirements in Subtopic 815-15 and account for the embedded derivative in accordance with Topic 815. The financial liability host that results from separation of the nonfinancial embedded derivative would be subject to the proposed amendments. However, an entity would be permitted to initially and subsequently measure the entire hybrid nonfinancial liability at fair value (with changes in fair value recognized in net income) if after applying Subtopic 815-15 the entity determines that an embedded derivative that requires bifurcation and separate accounting exists. In contrast, for a hybrid nonfinancial asset the proposed amendments would require the hybrid contract to be measured at fair value (with changes in fair value recognized in net income) if the hybrid nonfinancial asset contains an embedded derivative that would have

required bifurcation and separate accounting under Subtopic 815-15. Do you agree with the proposed amendments? If not, why? What would you propose instead?

While The Hartford does not have hybrid nonfinancial assets or liabilities, we are concerned with the proposed guidance that would eliminate the bifurcation of embedded derivatives for assets. As noted in Questions 4, 7, 8 and 21, we recommend the Board retain bifurcation of embedded derivatives (including both financial and non-financial assets and liabilities). We believe the proposed guidance to remove bifurcation for assets and retain bifurcation for liabilities creates additional complexity and results in less decision-useful information to investors as a result of more instruments being reported in their entirety at FV-NI.