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LETTER OF COMMENT NO. 18

November 11, 2008

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Mr. Russell Golden
Technical Director
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference Nos. 1610-100 and 1620-100

Dear Mr. Golden:

CIGNA Corporation appreciates the opportunity to share our views on the FASB Exposure Drafts (EDs), *Accounting for Transfers of Financial Assets, an amendment to FASB Statement No. 140* (SFAS 140) and *Amendments to FASB Interpretation No. 46(R)* (FIN 46R). We support the Board's objective to improve the relevance and transparency of the information that a reporting entity provides in its financial statements about a transfer of financial assets and variable interest entities. However, we do not support *issuance of the EDs as currently drafted, specifically*, the requirement for participating interest holders to have the same priority in order to report a transfer of a portion of a financial asset as a sale and the requirement for ongoing assessments of an entity's status as a variable interest entity. The rationale for our positions is discussed below.

<u>Participating Interest</u>
Paragraph 9 of the SFAS 140 ED permits a transfer of a portion of an individual financial asset to be accounted for as a sale only if it meets the definition of a participating interest in paragraph 8. For an interest to qualify as participating, the rights of each participating interest holder (including the transferor if it retains a participating interest) must have the same priority. No participating interest holder is subordinated to another, and no participating interest holder is entitled to receive cash before any other participating interest holder. This additional criterion would inappropriately prohibit sale treatment for some transactions that meet both the legal definition of a true sale as well as all of the conditions in paragraph 9. For example, it is common practice in commercial real estate lending for a holder of a mortgage loan to sell, through a participation arrangement, a junior or senior interest in the asset. This may be attractive for capital management purposes or to reduce exposure to certain real estate investments or borrowers. The seller of a senior interest may also want the opportunity to enhance investment yields on the junior portion retained by allowing the senior interest holder preference to the first cash flows. In this arms-length transaction, a third-party buyer will pay fair value for a senior interest that will earn a market rate of interest commensurate with the level of risk associated with the asset.

In this circumstance, the transfer can meet all of the conditions in paragraph 9 of the SFAS 140 ED to be accounted for as a sale:

- the transferred financial assets have been isolated from the transferor and are not available to the transferor's creditors, even in bankruptcy or other receivership; and
- the transferor does not maintain effective control over the transferred financial assets:
  - the transferor does not have the unilateral ability to reacquire the assets sold,
  - the transferee has the right to pledge or exchange the transferred financial asset it receives, and
  - the transferee does not have the right to require the transferor to repurchase the transferred financial assets.

However, the new conditions in paragraph 8 of the proposed amendment would require such a transaction to be treated as a secured borrowing under paragraph 12, while a similar transaction where the participating interest holder's share in cash flows on a pro rata basis may be accounted for as a sale. This will create inconsistent accounting and recognition of assets and liabilities when the seller in both transactions no longer has the right to cash flows from the asset sold, nor the obligation to return the funds received. It is not clear to us why derecognition of the portion transferred in a senior/junior arrangement would be prohibited. We believe the conditions for sale treatment should be based on the substance and legal form of the transaction, regardless of whether retained interests in the financial asset are fully proportionate.

In addition, it is not clear how a transaction that meets the legal definition of a true sale and all of the conditions set forth in paragraph 9 could be considered equivalent to a secured borrowing. In a secured borrowing arrangement, the transferor maintains control over the assets pledged and agrees to repay the amount borrowed. In the junior/senior transaction described above, control of the asset (in this case, specific cash flows) has been transferred and the seller has neither the obligation nor the right to reacquire the assets sold or repay the funds received. The proposal would require sellers to continue to recognize assets for cash flows that are no longer available to satisfy the claims of their creditors and to which they no longer have legal rights. More importantly, the proposal would require sellers to report liabilities for debt they have no obligation to pay as the risk of loss has been fully transferred to the buyer. This would result in financial statements that communicate potentially misleading assets, liabilities and liquidity and will inappropriately have a negative impact on a company's debt to equity ratio, increasing the cost of capital and reducing shareholder returns. We believe that participating interests need not have the same priority to cash flows subsequent to a transfer for a true sale to occur and recommend that this condition be eliminated in any final amendment.

Reconsideration of Variable Interest Entities and Primary Beneficiaries

The proposed amendment to FIN 46R would require reconsideration of an entity's status as a variable interest entity and its primary beneficiary on an ongoing basis. We believe reconsideration should be required only if significant events have occurred that were not anticipated at the

prior assessment date. This would be more cost effective for companies to implement than ongoing reconsiderations of every entity and its primary beneficiary each reporting period, while ensuring significant changes are addressed appropriately in a timely manner.

Convergence with International Financial Reporting Standards
The International Accounting Standards Board (IASB) recently moved its project to develop a new standard on derecognition to its active agenda and, together with the FASB, intends to issue a converged derecognition standard. Rather than finalizing an amendment to SFAS 140 as proposed, we believe it would be most beneficial for preparers and users of financial statements if the FASB worked together with the IASB to develop a single derecognition model with a coordinated plan of transition. This would avoid potential successive changes in accounting standards as reporting by U.S. companies converge with international standards.

If we can provide further information or clarification of our comments, please call me or Nancy Ruffino at 860.226.4632.

Sincerely,

Annmarie T. Hagan