



## UnitedHealth Group

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Technical Director  
Financial Accounting Standards Board  
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**File Reference No: 1810-100 - Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities***

Dear Technical Director:

Thank you for the opportunity to comment on the Financial Accounting Standards Board's (FASB) Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the "proposed ASU"). The current accounting guidance for financial instruments is overly complex and we are supportive of a standard that reduces complexity in accounting for financial instruments.

UnitedHealth Group Incorporated (the "Company," "we," or "our") is a diversified health and well-being company serving more than 75 million individuals worldwide. Our focus is on improving the overall health and well-being of the people we serve and their communities and enhancing the performance of the health system. We work with physicians and other health care professionals, hospitals and other key partners to expand access to high quality health care. We help people get the care they need at an affordable cost, support the physician/patient relationship, and empower people with the information, guidance and tools they need to make personal health choices and decisions. Revenues for the year ended December 31, 2009 were approximately \$87 billion and cash and investments as of December 31, 2009 total approximately \$24 billion.

The Company is organized with health benefits and health services businesses. Our Health Benefits businesses arrange for discounted access to care through a network of approximately 700,000 physicians and other health care professionals and approximately 5,200 hospitals across the United States. We do so by offering a comprehensive array of consumer-oriented health benefit plans and services for large national employers, public sector employers, mid-sized employers, small businesses and individuals nationwide, including federal and state sponsored programs. Our risk-based products are offered through licensed insurance companies and health maintenance organizations (collectively referred to herein as "regulated entities").

Our regulated entities are required by law to maintain sufficient risk-based capital levels that are driven by the inherent risks in an insurer's operations. Investments are one of the primary tools by which capital levels are maintained.

Our health services businesses: OptumHealth, Ingenix and Prescription Solutions include operations that provide administrative, technology and consulting services, and include sales of a wide variety of products and services related to the broad health and well-being industry. OptumHealth includes the operations of OptumHealth Bank, a Utah-chartered industrial bank (the “Bank”). The Bank, similar to our insurance businesses, is required to maintain certain statutory capital levels and does so by, among other things, investing in highly rated debt securities. As of December 31, 2009, the Bank had approximately \$860 million in assets under management.

Accordingly, the proposed ASU would have a significant impact on our business.

## **Executive Summary**

Our most significant comments follow:

- We are not supportive of a standard that results in International Financial Reporting Standards (IFRS) and U.S. Generally Accepted Accounting Principals (U.S. GAAP) differing on a number of important issues.
- We support the concepts that require assessment of business strategy and instrument characteristics for determining classification and measurement of financial assets and liabilities. However, we are not supportive of the restrictive business strategy criteria proposed.
- We are not supportive of the proposal to require all financial assets to be measured at fair value. A mixed measurement model that allows for the use of fair value and/or amortized cost for financial assets and liabilities allows financial instruments to be accounted for in a manner that is reflective of an entity’s business strategy and performance, which in turn will likely provide more useful information to the users of our financial statements.
- We are largely supportive of the FASB’s proposals regarding the changes to hedge accounting. However, we are not supportive of (1) the requirements to recognize ineffectiveness for “under hedges” and (2) the elimination of the ability to de-designate a hedge.

The following paragraphs expand on certain comments above.

## **Convergence**

We commend and are supportive of the FASB on the convergence initiative. Although we understand that the boards have faced different imperatives resulting in different timetables we are not supportive of a standard that results in IFRS and U.S. GAAP differing on a number of important issues. This is critically important in a standard as significant as financial instruments.

Implementation of new accounting standards with significant, far reaching impacts, such as the proposed ASU, consumes a significant amount of an entity’s resources. At some point, it appears convergence in accounting for financial instruments will occur. If convergence is not achieved with these proposals, entities will incur significant additional costs when convergence does occur. We applaud the commitment by FASB and the International Accounting Standards Board (IASB) to reduce differences. We believe that the FASB and IASB should re-expose the proposed ASU when the concerns raised in comment letters and in other feedback are addressed and convergence has been achieved.

## Classification and Measurement

### *Business Strategy Criteria*

We support the concepts in the proposed ASU that require assessment of business strategy and instrument characteristics in determining classification and measurement of financial assets and liabilities. However, the proposed business strategy criterion would not result in net income reflecting the business strategy of the Company because the focus on holding period related to contractual maturity and frequency of sales is too restrictive and rules based.

We manage our liquidity and financial position in the context of our overall business strategy. We continually forecast and manage our cash, investments, working capital balances and capital structure to meet the short- and long-term obligations of our business while maintaining liquidity and financial flexibility. Our regulated entities are subject to regulations and standards in their respective states of domicile. These standards, among other things, require these entities to maintain specified levels of statutory capital, as defined by each state. After considering expected cash flows from operating activities, we generally invest cash of regulated entities that exceeds our expected short-term obligations in longer term, investment-grade marketable debt securities to improve our overall investment return. We invest in assets to maintain appropriate risk-based capital levels for our regulated entities. Our primary business strategy is to earn a return on investments in debt securities by collecting the related contractual cash flows as opposed to trading securities or managing the portfolio on a fair value basis. However, in certain instances we do buy and sell instruments to (1) manage duration and credit risk, (2) respond to changing liquidity needs, and (3) in more limited circumstances, respond to opportunities in current market environments. Our historical level of buying and selling may be considered to be more than infrequent and, therefore, may not meet the business strategy criteria in the proposed ASU, resulting in our portfolio being measured at fair value with changes recognized through net income. We do not believe this outcome is consistent with or reflective of our primary business strategy, nor is it reflective of the economics of the Company, as further discussed below under “Mixed Measurement Model.” Therefore, we do not agree with the proposed business strategy criterion.

We suggest that the business strategy criteria should be changed such that the criteria would be met if entities do not hold their financial assets or liabilities for trading purposes, such as would be the case for entities that actively buy and sell securities under a trading strategy, or manage a portfolio and primarily evaluate performance on a fair value basis.

### *Mixed Measurement Model*

We believe that to most appropriately reflect business strategy and financial instrument characteristics across a wide range of industries; amortized cost should be available for the measurement of both financial assets and financial liabilities. Therefore, we do not support the proposal requiring fair value for all financial assets. However, we are not opposed to a measurement model that also provides that financial instruments with characteristics similar to available-for-sale securities under current U.S. GAAP be measured at fair value through other comprehensive income.

We believe that our investments in debt securities related to our insurance operations should be measured either at fair value through other comprehensive income or amortized cost. Recording the changes in fair value of these securities through net income does not present useful information for users of our financial statements for the following reasons:

- It is not consistent with our business and investment strategy as noted above.
- Given the short duration of our products, investment income is not a component in determining the price of our various insurance products or in management’s assessment of the profitability of those products. Introducing unrealized investment gains and losses into net income would not be useful to financial statement users in assessing the results of our insurance operations.

- An accounting mismatch and artificial volatility would be created by requiring invested assets to be recorded at fair value through net income, even though our insurance liabilities would continue to be reported at estimated payment amounts. The amortized cost model and the current accounting model of reporting unrealized changes in fair value in other comprehensive income avoid this mismatch and presents a more appropriate measure of our insurance operations because our insurance contracts are largely short-term in nature and are not linked to the underlying performance of an invested asset portfolio. We are unable to predict how insurance liabilities will ultimately be measured under the FASB's Insurance Contract standard project, and we are concerned the Insurance Contract standard project could create similar or new accounting mismatches when coupled with the proposed restrictive business model criteria in the proposed ASU.
- It is not uncommon for entities that hold instruments primarily to collect related contractual cash flows to (1) manage risks, (2) have changing liquidity needs, and (3) be conscious of current market conditions - all of which can result in sales or occasional replacement of certain instruments with others. Sales as a result of the foregoing do not imply that such instruments are managed on a fair value basis or that the primary business strategy is other than to hold the instruments to collect contractual cash flows.

Additionally, the Bank's investment strategies are similar to the Company's strategies as noted above. If the Bank's investments in debt securities were required to be recorded at fair value through net income, the proposed ASU would add a tremendous amount of volatility to its regulatory capital. This added volatility would likely require the Bank to hold excess capital. For instance, if the Bank had accounted for all of its financial instruments on a fair value basis by recognizing changes in fair value through net income, its regulatory capital would have fluctuated as a percent of equity as follows: down 25% from 2007 to 2008, rebounding more than 40% from 2008 to 2009. However, during this time of high market volatility the Bank's core business and risk profile did not significantly change. The Company is also concerned about the impact of the Proposed ASU on the commercial loan banking industry in general. Because commercial loans are typically individualized with no active market, different banks will likely use different unobservable assumptions to value their loans, making a comparison across banks very difficult, and the costs to such banks to produce and support loan fair values will be significant and ongoing.

We suggest a measurement model that allows for the use of amortized cost for both financial assets and liabilities when doing so would be consistent with the business strategy of an entity and the characteristics of the instrument. We are also supportive of a model that would (1) require investments in debt instruments to be measured with changes in fair values recognized through other comprehensive income if those instruments have characteristics similar to available-for-sale securities under current U.S. GAAP, and (2) for equity instruments not held for trading purposes allow an entity an irrevocable, instrument-by-instrument election at inception to recognize changes in fair value in other comprehensive income, similar to IFRS 9. The selected measurement model should be based on the primary business strategy, as discussed above, and instrument characteristics. If classification at amortized cost or at fair value through other comprehensive income is not elective, the fair value option should be allowed to provide relief from any accounting mismatches that may arise. Additionally, consistent with the business strategy objectives, we believe that reclassification of financial instruments should be permitted if the Company's business model changes due to changes in circumstances.

#### *Impairment and Interest Income*

We agree with the proposed ASU that one impairment model should be used for all financial assets. Additionally, we agree that credit impairments are not necessarily permanent and should be able to be reversed if facts and circumstances change. However, we do not agree with the credit impairment model requiring only consideration of past events and existing conditions and immediate recognition of expected credit losses. Inherently, estimates of impairment and fair values include assumptions about the future. Requiring that an entity assume past events and current conditions will continue into the future is illogical and can misrepresent how the entity and the market view its credit risk.

The current interest income model based on effective contractual interest rates is well understood and is consistent with how we manage our investments, and we expect that our users would prefer the current model. The proposed approach will be confusing to users and introduces significant complexity without resulting benefits.

### **Hedge Accounting**

We support the FASB's efforts to simplify hedge accounting and support much of the proposed guidance. Specifically, we support the replacement of the highly complex, quantitative-based hedging requirements with more qualitative ones, modifying the effectiveness threshold from highly effective to effective, and removal of quantitative re-assessment of hedge effectiveness.

#### *Under-hedging and Dedesignation*

We do not agree with the proposal requiring that ineffectiveness be measured on "under-hedges." If the change in fair value of the hedged item is greater than the change in the hedging instrument, it is logical that no ineffectiveness should be measured due to the "under-hedge."

In addition, we do not agree with the elimination of the election to dedesignate a hedging relationship. Hedging should be reflective of strategy, and if strategy changes due to changes in hedged risks, economic conditions or otherwise, the entity should have the option to dedesignate. We believe adequate disclosure would sufficiently address any of the FASB's "abuse" concerns.

### **Conclusion**

We are supportive of the convergence initiative, and we are therefore not supportive of a standard that results in IFRS and U.S. GAAP differing on a number of important issues. We are supportive of a mixed measurement model that allows for the use of fair value and amortized cost for financial assets and liabilities, which would enable an entity to account for financial instruments in a manner that is truly reflective of the entity's business strategy and performance, and will likely provide more useful information to the users of the entity's financial statements. Finally, we are largely supportive of the changes to hedge accounting, except for (1) the requirements to recognize ineffectiveness for "under-hedges," and (2) the elimination of the ability to de-designate a hedge.

Yours truly,



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