



September 30, 2010

Technical Director
File Reference No. 1810-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities

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 May 26, 2010 concerning *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*. 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 and will be impacted by the final guidance resulting from this proposed ASU.

The Hartford supports the goal of establishing comprehensive principles to classify and measure all financial instruments in a way which would reflect the nature of the instruments and the way those financial instruments are used by the reporting entity. We believe that current accounting principles generally accepted in the United States (US GAAP) for financial instruments are well thought out and provide comprehensive guidance for financial statement users. We feel that either current US GAAP should be retained or, if convergence with international standards is the objective, a fully converged standard should be achieved, rather than a separate new US GAAP standard that differs from an international standard. If the FASB should choose not to retain current US GAAP, we are concerned with several aspects of the proposed ASU including:

- ❖ The default classification for all financial instruments to be classified at fair value through net income;
- ❖ The lack of clarity surrounding the guidance linking a company’s business strategy with the recognition and classification of changes in fair value;
- ❖ Certain aspects of the proposed ASU’s impairment accounting model;

- ❖ Operational challenges and costs necessary to implement the proposal's interest income recognition model;
- ❖ Inclusion of equity method accounting within the scope of the proposed ASU's guidance; and
- ❖ Conclusions reached regarding financial liabilities.

The Hartford offers the following comments regarding these issues:

Financial Instruments at Fair Value through Net Income

We do not believe the proposed ASU's default classification category for all financial instruments should be fair value through net income ("FV-NI"). Rather, we believe the determination of classification between FV-NI, fair value through other comprehensive income ("FV-OCI") or amortized cost should be based on how companies intend to use and settle these instruments in fulfillment of their obligations. For example, as an insurance and financial services company, The Hartford offers products to individuals and businesses that provide coverage and benefits, often over extended periods of time. Our businesses utilize asset-liability management principles to ensure the appropriate timing and adequacy of benefit and claim payments in the future. We do not believe that users of insurance company financial statements rely upon fair value as the principal measurement attribute of assets and liabilities. To force the majority of an insurer's financial assets and financial liabilities to be reported at fair value will create period to period accounting volatility that is not representative of the manner in which we manage our businesses.

Business Strategy

One of the proposed ASU's criteria for a financial instrument to qualify for FV-OCI is that the entity's business strategy for the financial instrument is to collect or pay the related contractual cash flows rather than sell or settle the financial instrument with a third party. Implementation Guidance paragraph IG 37 states that:

"An entity's strategy should be to hold instruments in a portfolio designated as held for collection or payment of contractual cash flows for a significant portion of their contractual term. Within a portfolio of financial instruments that is held for collection or payment of contractual cash flows, an occasional sale or settlement may occur without preventing an entity from considering instruments acquired in the future under the same business strategy as being held for collection or payment of contractual cash flows. However, a large number of sales or settlements may be an indication that an entity's business strategy has changed. As stated in paragraph 23, any instruments that previously met the criteria to recognize qualifying changes in fair value in other comprehensive income that were accounted for as such should not be reclassified"

We believe that this proposed guidance is too restrictive and will be difficult to interpret for companies with long duration liabilities. Varying interpretations of this proposed guidance may lead to diversity in practice and lack of comparability. As an insurance company, our business strategy with respect to investments is to maximize total portfolio returns in order to meet our future contractual obligations. Within that context, sales of securities within particular investment portfolios may occur over the course of an economic cycle, especially if there are

pronounced market swings within the interest rate and credit spread environments (as what happened in the latest recession). Prudent financial management may require selling certain debt instruments in reaction to changes in the external economic environment that were not contemplated at the time a particular debt instrument was purchased. A reporting entity may need to balance the impact of future investment income, realized capital gains and losses, liquidity, regulatory and/or rating agency capital, and potential future risk considerations in determining if it is prudent to hold or sell a particular debt instrument or portfolio consisting of debt instruments in light of changing economic conditions. In addition, we must manage our assets in response to the needs of asset-liability management with respect to our insurance and investment products. As asset-liability management needs evolve and change, debt instrument portfolios will change as well. In addition, cash outflows as a result of catastrophes may necessitate the sales of individual debt instruments. We believe these examples should not preclude an insurer's debt instruments from qualifying for FV-OCI, provided the criteria under paragraphs 21a and 21c of the proposed ASU are met.

Further, the proposed ASU is unclear as to whether certain sales or levels of sales of securities qualifying for FV-OCI pursuant to the examples above will affect the accounting for future debt instruments regarding FV-OCI as opposed to FV-NI. It is also unclear as to which level of the reporting entity's segments or investment portfolios are relevant in the determination of business strategy. As such, we believe clarifying guidance is necessary.

In contrast, the classification guidance in paragraphs B4.1 through B4.6 of IFRS 9 is more useful in clarifying how certain types of sale transactions may or may not be consistent with a business model of holding financial assets to collect contractual cash flows. We would suggest using the IFRS 9 guidance as a starting point in convergence efforts as well as the development of clarifying guidance. In addition, we believe that the guidance should make it clear that a business model whose objective is to manage financial assets on a fair value basis means that assets are purchased and held primarily for selling within a short time period.

Impairment accounting

The Hartford agrees with the proposed ASU's objective of establishing a single impairment model for financial assets, from both an individual and pooled asset perspective. However, we believe there are problems with certain aspects of the proposed ASU's impairment model.

First, the proposed ASU's impairment model does not allow for future events or economic conditions to be forecasted. Basing impairments on historical experience and current economic conditions without allowing consideration of future events or economic conditions will produce counterintuitive results within economic cycles. For instance, at the end of a period of market growth, and even in the beginning of an economic slowdown period, companies may expect impairment indicators to worsen over the short term; however, impairment recognition would be delayed because of the ASU's prohibition on the consideration of future events or economic conditions. Therefore, we expect the application of the proposed guidance will delay recognition of impairments during the aforementioned phases of economic cycles. Likewise, we believe the proposed guidance may cause companies to impair investments as economic conditions improve. Therefore, we do not believe the ASU's proposed guidance meets the proposal's objective to reduce delays in recognizing credit impairments. The Hartford

recommends that the ASU's credit impairment evaluation guidance be modified to allow for the forecasting of future economic conditions within the relevant economic cycle.

Second, we believe that requiring a pooled asset impairment model using an impairment trigger based on historical loss experience that reflects cash flows that the entity does not expect to collect will exacerbate the issue of producing counterintuitive results described above. Unlike the trigger based on probable losses used in the establishment of pools of loan loss reserves, we believe the proposed requirement to evaluate pools of assets for expected losses is overly conservative and redundant when applied to financial assets carried on the balance sheet at fair value and measured for individual impairment based on an expected loss trigger. The Hartford recommends that the impairment evaluation of pools of assets be based on a probable, rather than expected, loss trigger. We believe this modification, along with our recommendation to allow for forecasting of future economic conditions in the evaluation of impairment losses for individual as well as pooled assets, will result in a conservative impairment model that allows for a more appropriate timing of the recognition of impairment losses.

In addition, The Hartford disagrees with the ASU's proposal to immediately recognize expected losses on financial assets, based on credit losses over the lives of the assets, at the time of asset origination. We agree that such an approach may be appropriate for a large number of asset types consisting of small dollar balances (e.g., certain types of accounts receivable), but we do not feel that this model would be appropriate for asset groups consisting of larger dollar individual assets that undergo rigorous individual impairment analysis, such as investments in debt securities or mortgage loans. We also believe that the proposed ASU's concept of pre-reserving based on expected losses is inconsistent with other current US GAAP loss recognition guidance (for example, loss recognition guidance for costs associated with exit or disposal activities, as well as the prohibition on recognizing pre-event catastrophe losses for property-casualty insurance companies).

Adjustment of interest income yield through impairment allowance account

The Hartford agrees with conceptual framework that does not allow interest income to be recognized on amounts that an entity does not expect to collect. However, the ASU's proposed interest income recognition guidance is highly mechanical in nature and would require significant operational changes and educational efforts in order for users to understand how interest income would be reflected in entities' financial statements. Specifically, we do not agree with the recognition of changes in interest income via adjustments to the allowance for credit losses as a result of changes in cash flow expectations for three reasons. We believe this approach will confuse users of financial statements as the allowance will not represent solely credit or impairment losses. Because of the complexity of the proposed ASU's interest recognition guidance, significant and costly system and process changes would be required to accommodate such a drastic change from current practice, especially as interest income is processed at an individual asset level. For entities with hundreds or thousands of individual investment assets, such as debt securities, the costs and complexities associated with employing the proposed ASU's interest income account will be exacerbated. The Hartford believes there is a huge cost/benefit disconnect in the exposure draft because of the proposed ASU's prescriptive guidance as it relates to mechanics of adjusting interest income.

We acknowledge the Board's concern that it is inappropriate for an entity to accrue interest on an amount that it does not expect to collect, but believe that minor modifications to the current US GAAP recognition guidance would be a more appropriate and cost-effective way to address this concern. Further, we would agree that yields should be based on an effective rate applied against an asset's net carrying value as it pertains to assets for which impairment was evaluated and recorded on an individual asset basis. However, we do not believe that this guidance is workable within current accounting systems for assets that are impaired on a pooled, rather than individual basis. We recommend that yields be based on the assets' carrying values gross of any pooled allowances for assets that have not been individually impaired.

In summary, we believe the proposed guidance will be confusing to financial statement users and will require significant and costly system changes for which we believe is at a price which delivers little to no added benefit. Furthermore, we are not aware of any significant user issues regarding interest income recognition or classification under current US GAAP.

Equity method of accounting

We believe the requirement that an investee's operations be related to the reporting entity's operations adds additional complexity and we believe the requirement to use fair value accounting if the equity method criteria in the proposed ASU are not met will prove costly and operationally challenging for entities to implement and maintain. In light of the magnitude and complexity of other changes in the proposed ASU compared to current US GAAP, we recommend that this proposed guidance be removed from the final Financial Instruments standard. We suggest that any changes in current equity method accounting be examined by FASB and the IASB through convergence efforts.

If the Board chooses to retain this proposed guidance, we believe it would be appropriate to add another criterion to paragraph 130 regarding the determinants of operations considered related to the investor's consolidated operations. Insurance companies operations consist not only of underwriting functions (selling insurance products and settling claims) but also investing the proceeds generated by the underwriting process. Investing in different asset sectors, including investments in limited partnerships and other funds currently accounted for under the equity method, are an integral part of our business. We believe this business aspect should be included as qualifying criteria for applying the equity method of accounting in the proposed ASU.

Financial Liabilities

We believe the scope of financial liabilities within the ASU is highly uncertain given the FASB Discussion Paper on Insurance Contracts. It is important for the FASB to clearly define the scope of financial liabilities included within the Insurance Contract Discussion Paper and the Financial Instruments proposed ASU. Otherwise, it is highly likely that diversity in practice regarding classification and measurement will emerge. The classification of insurance contracts within the Insurance Contracts Discussion Paper requires transfer of insurance risk. Presumably, insurance and investment contracts issued by an insurance company that are not within scope of the Insurance Contract Discussion Paper are within the scope of this Financial Instrument proposed ASU, however, there are areas requiring additional clarity.

- The classification of account values that are required to be unbundled for insurance contracts within the scope of the FASB's Insurance Contract Discussion Paper is uncertain.
- We are also unclear whether policy loans on insurance contracts are within scope of this proposed ASU or the discussion paper on Insurance Contracts. Policy loans are a critical component of insurance contract cash flows; however, policy loans are currently carried as a financial asset on the books of an insurance company.

In addition, we believe the arbitrary bright lines for classifying financial liabilities at amortized cost are unnecessary and are likely to be inconsistently applied based upon the size and composition of the entity rather than any theoretical concept or transactional basis. Specifically, they will serve, for similar accounting transactions, to preclude amortized cost accounting for financial services companies whose balance sheet would be predominantly at fair value as a result of the proposed guidance but will permit amortized cost for non financial services companies whose balance sheet would not be predominantly at fair value. The Hartford believes those financial liabilities in which a company intends to settle at its contractual cash flows and not transfer to a third party should be recorded at amortized cost.

Finally, the inclusion of an entity's own credit risk for financial liabilities carried at FV-NI is perceived to be an area of confusion for users of financial statements. We do not agree that own credit risk should be a component of valuation for financial liabilities rather amortized cost is a better representation of the financial liability measurement.

Hedge Accounting

We support the Board's simplification of hedge accounting. We encourage the Board to permit early adoption of these provisions.

We appreciate the Board's attention to these comments and hope that they have been helpful in illustrating the concerns we have about the accounting required under the proposed ASU. We would be happy to discuss our comments in more detail with the Board. Please feel free to call me at (860) 547-4135 if you have any questions regarding this comment letter.

Very truly yours,



Beth A. Bombara
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The Hartford Financial Services Group, Inc.