



Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116
United States of America
Via email: director@fasb.org

January 31, 2011

Dear Ms. Cospers:

Re: Reference No. 1890-100 Discussion Paper - Effective Dates and Transition Methods

We are the five leading managed care companies in the United States: Aetna Inc., CIGNA Corporation, Humana Inc., UnitedHealth Group Inc. and WellPoint, Inc. As a group, we provide health insurance products and related services to more than 100 million medical members. Our customers include employer groups, individuals, college students, part-time and hourly workers, governmental units, government-sponsored plans, labor groups and expatriates. We also provide other insurance products, such as long-term care, dental, term life, short-term and long-term disability, and supplemental health insurance coverage and services. Collectively we reported annual premiums and fees of approximately \$225 billion in 2009 (equivalent to 1.6 percent of the gross domestic product of the United States). While we primarily report under the generally accepted accounting principles in the United States ("U.S. GAAP") today, we also take a significant interest in the ongoing development of the international financial reporting standards ("IFRS") given that the United States Securities and Exchange Commission (the "SEC") is currently considering whether IFRS should be incorporated into the United States financial reporting system, and each of our companies have operations in markets outside of the United States.

We appreciate the opportunity to provide our comments in response to the Financial Accounting Standards Board (the "FASB" or the "Board") Discussion Paper, *Effective Dates and Transition Methods* (the "DP"). Currently, the FASB has a significant number of projects on its agenda that will cause an unprecedented number of changes to U.S. GAAP. For our industry, the *Preliminary Views on Insurance Contracts* (the "Insurance Contracts" project), *Proposed Accounting Standards Update—Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)* (the "Financial Instruments" project), *Discussion*

Paper, Preliminary Views on Financial Statement Presentation (the “Financial Statement Presentation” project), *Proposed Accounting Standards Update—Leases* (Topic 840) (the “Leases” project), and the *Proposed Accounting Standards Update—Revenue Recognition (Topic 605): Revenue from Contracts with Customers* (the “Revenue Recognition” project) exposed by the FASB, if adopted, will represent fundamental changes to the accounting and reporting of our business operations. The current proposals introduce significant new complexity including, for example, probability weighted cash flows for the Insurance Contracts project, probability weighted variable consideration in the Revenue Recognition project, and estimates used to value contingent rents and residual value guarantees for the Lease project.

Concurrent with these potential changes to U.S. GAAP, in March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, “Health Care Reform”) was enacted. Health Care Reform prompts broad-based changes to the United States health care system which will significantly impact our business operations and financial results, including our medical benefit ratios. Components of the legislation will be phased in over the next seven years. We are and will continue to be required to dedicate material resources and incur material expenses during that time to implement and comply with Health Care Reform at the federal and state level.

The coupling of Health Care Reform and each of these proposed standards will overhaul the way in which we recognize and present the majority of our business results, requiring an unprecedented number of process, internal control and information system changes to comply with the new accounting requirements. The adoption of this legislation and the potential changes to U.S. GAAP is no small undertaking and will require significant time and effort on our behalf to make certain that these changes are appropriately examined and tested to validate that we are gathering, analyzing and presenting our financial information appropriately.

Similarly, we have observed very limited involvement from our investor community in the standard setting process, so we anticipate a great deal of investor education will be required, in addition to various corporate governance functions. We urge the Board to conduct extensive and diligent field testing to ensure the new standards are operational and truly what investors and other users need to make decisions.

Based upon the significance of the changes we anticipate with the Board’s current project plan, we again stress the importance of creating accounting standards that are fully converged between the FASB and the International Accounting Standards Board (the “IASB”) (collectively, the “Boards”). The Insurance Contracts and Financial Instruments projects are two examples of projects where fundamental aspects of the decisions reached to date are significantly divergent. We urge the Boards to diligently work together to eliminate all differences. We do not feel it imperative that any of these projects must reach conclusion by June 30, 2011. Rather, we are critically concerned that such an arbitrary date may produce standards of lower quality, built out of haste rather than thoughtful and transparent deliberations inclusive of all involved in the financial reporting environment (i.e., standard setters, users, preparers and regulators). Fully converged and high quality decisions on all projects must be an absolute priority for both Boards.

We recommend that the Boards deliberate the effective date and transition of the major convergence standards holistically, rather than on a standard by standard basis, taking into consideration the impact and interdependence of these standards to preparers. In consideration

of the concerns expressed above, we encourage the Board to provide a minimum of six and a half years following the release of the final fully converged standards before they are mandated for implementation. This date will allow us 18 months to interpret the new accounting guidance, educate our internal staff and develop the necessary system infrastructure and human capital, then five years to obtain and construct underlying data, run parallel systems and educate our corporate governance functions and external constituents on the changes. We believe parallel systems will be required due to the magnitude of pervasive changes proposed. If the Boards are able to finalize all of these standards by June 30, 2011, adoption should not be mandatory any earlier than January 1, 2018 (for companies with a fiscal year end at the calendar year end).

We encourage the Boards to strive for a uniform implementation date for all converged accounting standards. We believe that one ultimate date for implementation will result in less confusion for both the investor and preparer communities, helping to make the adoption process and recovery from the associated market confusion swift and efficient. Investor education will be streamlined as we can communicate to our investors all of the changes to our accounting and reporting model at one time, making this process smoother and more efficient than having multiple discussions with investors over several years and avoiding users from having to update their financial models each time a standard becomes effective. Although this will be a massive undertaking for both preparers and investors, it should contain the expected significant disruption to the market to a defined period, rather than spreading it over several years. For the same reasons, we believe that early adoption should not be permitted.

Additionally, preparers will attempt to gain efficiencies in system updates/upgrades to comply with the new standards and a one-time restatement of historical financial statements. Because these standards will require recognition and reporting changes, system upgrades will be necessary to our internal and external reporting tools. Therefore, we will gain the benefit of updating all systems once to make these necessary changes and hopefully creating efficiencies in the reporting process going forward. Furthermore, a single date "big bang" approach will result in a one-time restatement to implement all new accounting standards versus the sequential approach which would require restating multiple filings over several years which would impact comparability and create inefficiencies (multiple education sessions with investors, redundant implementation disclosures, etc.).

Once a timeline for implementation has been established, we agree with the FASB that retrospective adoption is the most appropriate transition for these accounting standards. Retrospective adoption provides the user comparative information for all years on the same basis of accounting, therefore, increasing comparability and transparency. However, we do not agree that full retrospective adoption should be required. Instead, the FASB should necessitate a limited retrospective approach to the earliest period presented which can be up to five years depending upon the financial reporting obligations of the respective entity. Picking one specific date will still provide the benefits of retrospective adoption without the additional cost and effort of restating history from the beginning of time.

Finally, we urge the FASB to consider the SEC's roadmap for international convergence as it determines an effective date for these projects. Our greatest concern in regards to the implementation is the risk that the FASB and IASB will not fully converge their newly released standards, require us to adopt a FASB standard, then, shortly thereafter under SEC mandate, we are forced to implement the alternative standard promulgated by the IASB. The coupling of

these two factors would cause us to adopt standards that require wholesale changes to our accounting twice within a short period of time. In addition to the challenges of multiple adoptions of accounting standards experienced by the preparer, we do not believe that changing accounting models that quickly will provide any additional benefit to the user. In fact, we believe these iterative changes will increase investor confusion and require additional cost and time for enhanced investor education. In summary, we believe the Board should consider the differences between the FASB and IASB's comparable standards, the IASB's effective date of their associated standards and the SEC's decision on international convergence when determining the effective date and transition method for each of the convergence standards.

Thank you for your attention to our concerns. Attached to this letter, we also included our responses to the detailed questions proposed by the FASB in the DP. We hope that these perspectives are of value to your deliberation processes. If we can provide further information or clarification of our comments in the meantime, please call any of the signatories listed below.

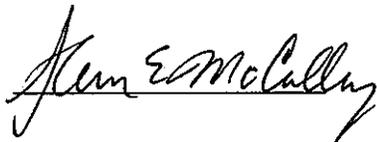
Sincerely,



Rajan Parmeswar
Aetna Inc.
Vice President, Controller and Chief Accounting Officer
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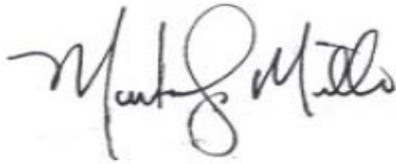
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APPENDIX - Responses to the "Questions for Respondents"

Q1. Please describe the entity (or the individual) responding to this Discussion Paper. For example:

- a. Please indicate whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor, or other user of financial statements (such as a regulator). Please also indicate whether you primarily prepare, use, or audit financial information prepared in accordance with U.S. GAAP, IFRSs, or both.*
- b. If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant metric), and whether you have securities registered on a securities exchange.*
- c. If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public companies, private entities, or both.*
- d. If you are an investor, creditor, or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialize in, if any.*
- e. Please describe the degree to which each of the proposed new standards will likely affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors might explain the significance of the transactions to the particular industries or sectors they follow).*

We represent the five leading publicly traded health insurers in the United States. While we primarily report under the U.S. GAAP today, we also take a significant interest in the ongoing development of the IFRS given that the SEC is currently considering whether IFRS should be incorporated into the United States financial reporting system, and each of our companies have operations in markets outside of the United States.

As insurance companies with an aggregate of approximately \$80 billion of investment holdings (as of September 30, 2010), the Insurance Contracts and Financial Instruments projects are undoubtedly the most significant proposals to us as these projects impact the fundamental accounting models for our business. In addition, given the large size of our companies and considering the other aspects of our business, the Financial Statement Presentation, Leases and Revenue Recognition projects will also significantly impact our accounting and financial reporting systems and processes. The impact of these projects is expressed in further detail in the attached cover letter.

We also, as health insurance companies, are in the midst of executing significant changes to our businesses in an effort to comply with the provisions of recently enacted Health Care Reform legislation. These changes are ongoing and will take several years to fully implement. As a result, our implementation efforts will intersect with the many changes required to adopt the proposed new accounting standards, creating additional complexity.

Q2. Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):

- a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard?*
- b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?*

Based upon the Board's current exposure drafts, we would recommend an effective date of no earlier than January 1, 2018. This date will allow us 18 months to interpret the new accounting guidance, educate our internal staff and develop the necessary system infrastructure and human capital, then five years to obtain and construct underlying data, run parallel systems and educate our external constituents on the changes. We believe parallel systems will be required due to the fundamental changes proposed to high transaction processes. This recommendation is only appropriate if all standards are fully converged and final by June 30, 2011. If these standards are not fully converged, the effective date should be consistent with the SEC's final decision on international convergence.

Additionally, we expect to incur significant costs for the following activities in order to appropriately implement any new significant accounting standard; however, it is too early for us to be able to quantify these impacts.

- Internal staff training
- Additional investor education
- Modification of existing information technology systems and/or implementation of new information technology systems
- Costs to modify any legal agreements with U.S. GAAP references. These agreements include debt covenants, earnings-based arrangements, incentive compensation arrangements and contracts with vendors.
- Education of senior management and board members (particularly members of audit committees)
- Hiring of outside consultants to assist in implementation efforts (similar to our adoption of the requirements of the Sarbanes-Oxley Act of 2002 and recently enacted Health Care Reform legislation)
- Additional audit fees for retrospective adoption (audits of two bases of accounting for multiple years)

Q3. Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Significant change to the current U.S. GAAP accounting model will have broader impacts to the financial reporting process for us as we also maintain separate books and records for taxes in accordance with regulations of the Internal Revenue Service and statutory requirements

promulgated by the National Association of Insurance Commissioners as well as international insurance regulators. Tax and statutory regulations are fundamentally based upon the current U.S. GAAP model. When changes to U.S. GAAP are made, regulators of these organizations assess whether changes to their accounting models are required. Typically, this causes a lag between the effective date of U.S. GAAP and tax and statutory regulations. So regardless if their accounting models align with U.S. GAAP in the future, additional temporary or permanent differences between these bases of accounting and U.S. GAAP will have to be maintained and reconciled. These impacts will be significant and costly.

Q4. In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

We agree with the FASB that retrospective adoption is the most appropriate transition for these accounting standards. Our support for this transition method is detailed within the cover letter attached.

Also, we do have concerns over the transition method proposed by the IASB in their exposure draft on Insurance Contracts. As described in our comment letter to the FASB dated November 30, 2010 in response to the *Preliminary Views on Insurance Contracts*, we are currently not supportive of the transition method in this proposal. We do not believe that this model is appropriate as it will distort the future earnings pattern for our existing book of business at the date of adoption. Therefore, we urge the FASB to strongly oppose this transition method during its redeliberations of this topic.

Q5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- a. Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).*
- b. Under a single date approach, what should the mandatory effective date be and why?*
- c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.*
- d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.*

We recommend a single date approach for implementation. Based upon the significance of the upcoming changes to U.S. GAAP, we believe that it will be more efficient to adopt all of the

accounting standards at the same time in lieu of a sequential approach. A single date "big bang" approach will provide a one-time restatement to implement all new accounting standards versus the sequential approach which would require restating multiple filings over several years which would impact comparability and create inefficiencies (multiple education sessions with investors, redundant implementation disclosures, etc.).

Based upon the Board's current exposure drafts, we would recommend an effective date of January 1, 2018. Our arguments in support of this date are included in our response to Q2.

Q6. Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Our recommendation for a single date "big bang" approach that does not allow for early adoption is expressed in the attached cover letter.

Q7. For which standards, if any, should the Board provide particular types of entities a delayed effective date? How long should such a delay be and to which entities should it apply? What would be the primary advantages and disadvantages of the delay to each class of stakeholders (financial statement preparers, financial statement users, and auditors)? Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

We have substantial investment portfolios that support our liabilities and capital. These investments include private company investments accounted for under the equity method of accounting or consolidated within our financial statements. As a result, we believe it is imperative that all entities should have the same effective date. Varying effective dates would require significant time and effort to adjust the financial statements of those investments to align with the accounting standards embedded in our financial statements.

Q8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

As we expressed in our cover letter, the consistency of effective dates and transition methods should be dependent upon the SEC's decision on how to incorporate IFRS into U.S. GAAP as well as the FASB's and IASB's ability to have fully converged standards. The outcomes of both of these issues are necessary to opine on whether the FASB and IASB should require the same effective date and transition methods.