

UNITEDHEALTH GROUP®

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May 15, 2013

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2013-220, Proposed Accounting Standards Update, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

Dear Ms. Cospers,

Thank you for the opportunity to comment on the Proposed Accounting Standards Update, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (the “Proposed Update”).

UnitedHealth Group Incorporated (the “Company”, “we”, or “our”) is a diversified health and well-being company whose mission is to help people live healthier lives and to help make the healthcare system work better for everyone. We are helping individuals access quality care at an affordable cost; simplifying health care administration and delivery; strengthening the physician/patient relationship; promoting evidence-based care; and empowering physicians, health care professionals, consumers, employers and other participants in the health system with actionable data to make better, more informed decisions. Revenues for the year ended December 31, 2012 were approximately \$111 billion.

Through our diversified family of businesses, we leverage core competencies in advanced, enabling technology; health care data, information and intelligence; and clinical care management and coordination to help meet the demands of the health system. These core competencies are deployed within our two distinct, but strategically aligned, business platforms: health benefits operating under UnitedHealthcare and health services operating under Optum.

UnitedHealthcare provides network-based health care benefits for a full spectrum of customers in the health benefits market. UnitedHealthcare serves employers ranging from sole proprietorships to large, multi-site and national and international organizations, as well as students and individuals; delivers health and well-being benefits to Medicare beneficiaries and retirees; manages health care benefit programs on behalf of state Medicaid and community programs and their participants and serves the nation’s active and retired military and their families through the TRICARE program. We offer both risk-based and fee-based health care benefit products. Our risk-based products are offered through licensed insurance companies and health maintenance organizations (collectively referred to herein as “regulated entities”).

As of March 31, 2012, we had total investments with a carrying value of \$21 billion, primarily in marketable debt securities. Our investments are principally classified as available-for-sale and are recorded at fair value. Our regulated entities are required to maintain specified levels of statutory capital

as defined by each jurisdiction. Investments are one of the primary tools by which capital levels are maintained.

Optum is a health services business serving the broad health care marketplace, including payers, care providers, employers, government, life sciences companies and consumers. Using advanced data, analytics and technology, Optum helps improve overall health system performance: optimizing care quality, reducing costs and improving the consumer experience and care provider performance. Optum includes the operations of Optum Bank, a Utah-chartered industrial bank (the “Bank”). The Bank, similar to our regulated insurance entities, 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, 2012, the Bank had approximately \$1.8 billion in customer assets under management.

Accordingly, the Proposed Update would have a significant impact on our business. The remainder of this letter provides our views on key aspects of the Proposed Update.

We do not believe the Proposed Update achieves the Financial Accounting Standards Board’s (“Board”) objectives of reducing complexity in the accounting for financial instruments and increasing the decision-usefulness of the information reported about those instruments.

We support the general concept that classification and measurement of financial assets and liabilities should be based on assessments of: 1) an entity’s business model for managing the instruments, and 2) the contractual cash flow characteristics of the instruments. However, the proposed “solely payments of principal and interest” (“SPPI”) criterion used to evaluate an instrument’s contractual cash flow characteristics introduces significant new complexity and rigidity into the ongoing process of assessing, testing, and classifying financial instruments. The proposed SPPI guidance appears to require evaluation of all potential cash flows of an individual instrument regardless of the fact that they may be inconsequential, lack economic substance, or have a remote chance of occurring. Without further refinements or accommodations, the SPPI test has the potential to: 1) result in differences in accounting classification of highly similar instruments that are managed in a consistent manner, and 2) add net income volatility that does not reflect an entity’s business model related to such instruments. We believe the resulting financial information would be less relevant, more complex, less intuitive, and potentially less comparable across entities for users of our and other similarly situated entities’ financial statements.

We acknowledge that certain aspects of the Proposed Update – most notably the Board’s decision to eliminate the bifurcation of hybrid financial assets – take positive steps forward in reducing complexity; however, we believe that significant benefits of those improvements will be recognized by a relatively small subset of entities and will be outweighed by the new complexity introduced by the proposed SPPI test upon all types of entities and financial instruments.

Operationalizing the Proposed Update will be burdensome and costly.

The SPPI test, as proposed, will be impractical to apply in practice and we have significant concerns about its operability and resulting cost/benefit proposition. The Proposed Update would create significant operational and cost complexity through the assertion that “a financial asset with terms that **could** result in cash flows that are not solely payments of principal and interest does not satisfy the contractual cash flow characteristics criterion...” As currently proposed, this guidance does not seem to allow for any consideration of the **probability and/or materiality** of a financial asset’s terms and provisions that could create cash flows beyond payments of principal and interest. In practice, complying with this principle

would require an entity to spend an inordinate amount of time and effort to evaluate every contract provision that could result in future cash flows, regardless of its relative magnitude or likelihood.

Additionally, this burden is magnified by the Proposed Update's requirement to perform the SPPI test **on an instrument-by-instrument basis** upon initial recognition which would require an entity to scrutinize every financial instrument contract for provisions or features that could result in cash flows that are not solely payments of principal and interest. This requirement alone would create significant new administrative burdens and costs with little obvious benefit for the majority of instruments the Company holds. For example, our investment portfolio contains debt securities with over 7,000 unique CUSIPs. In reality, there are subgroups of securities within this portfolio (e.g., certain groups of government bonds and corporate obligations, etc.) that share substantially the same cash flow characteristics. Entities should be given the flexibility to use judgment to apply the SPPI test at a higher level to groups of similar assets that should naturally be classified consistently for accounting purposes. A model that would require an entity to perform robust, time-consuming accounting analyses before transacting in anything other than the simplest instruments in order to avoid unexpected accounting results is simply not practical.

The SPPI test increases the risk of financial statement misstatement, as compared to the less prescriptive existing model, because the outcome of the SPPI test has a direct impact on whether changes in fair value are recorded through net income or other comprehensive income. To mitigate the risk of misstatement, an entity would likely need to commit significant resources and dollars to ensure proper classification and could also expect its audit costs to increase as auditors focus on this perceived risk. Additionally, based on the current proposed language – primarily the restrictive treatment of insignificant contract terms or remote payment provisions – it is likely that the proposed guidance would be interpreted very strictly by preparers, regulators, and auditors consequently resulting in: 1) additional time, resources and costs consumed on this evaluation, and 2) a fair value through net income (“FV-NI”) classification for many more instruments than currently contemplated by the preparer community or the Board.

If the SPPI test is to be retained as the prescribed model for assessing an instrument's cash flow characteristics, we believe the Board should allow for: 1) consideration of probability and materiality in evaluating the terms of an instrument that can create cash flows beyond payments of principal and interest, and 2) application of the SPPI test at a higher level than the individual asset if instruments are highly similar.

The Proposed Update does not significantly increase the decision-usefulness of financial information yet could reduce comparability among entities or highly similar securities.

We believe that users of financial statements are best served when reported financial information is comparable from entity-to-entity. Therefore, if entities have substantively consistent instruments managed under similar business models, those instruments should be accounted for in a similar manner. As discussed above, the potential requirement to classify financial assets based on non-substantive or economically insignificant contract features with no consideration of probability or materiality could result in different accounting for two highly similar instruments managed under similar business models. For example, the existence of contract terms or features that could give rise to additional cash flows **only in highly improbable circumstances** would result in a failure to satisfy the SPPI test and an instrument classification of FV-NI. This outcome would make entities' financial statements less comparable and would require users to understand the complex or nuanced differences in contract terms that resulted in the accounting differences in order to fully understand and be able to compare the ways in which such entities' financial instruments were reported. This unintended side effect is exacerbated when considering the number of financial instruments that contain cash flow features that are immaterial to the relative principal and interest amounts (e.g., certain annual or administrative fees) and/or are triggered by

contingent events that are highly unlikely to occur (e.g., a penalty if an issuer fails to file its financial statements on time).

The Proposed Update also introduces a new definition of the term principal, as “the amount transferred by the holder when the holder initially recognizes an instrument,” that differs from other uses in the Codification that equate to an instrument’s par or face value. The proposed definition used in the context of the SPPI test introduces an element of entity-specific information (e.g., the price an entity paid to acquire the instrument) into the cash flow characteristics analysis that should instead focus on the features of the instrument itself. Debt instruments acquired at a significant premium or discount, for example, could fail the SPPI test if such instruments contain prepayment features that could result in repayment of a principal amount (based on the instrument’s par value) that is different than the new “principal” amount based on the holder’s acquisition price. We do not believe that highly similar instruments held for consistent business purposes should be reported in significantly different ways (FV-NI vs. fair value through other comprehensive income (“FV-OCI”)) based on the holder’s acquisition price relative to par value – or based on other insignificant distinctions related to immaterial or highly unlikely non-SPPI cash flows. The potential net income volatility resulting from FV-NI classification of securities that we and other entities intend to hold to collect *contractual* cash flows would present users of financial statements with a misleading view of investment holdings and strategies, and further erode comparability of financials among entities.

We believe that an entity’s business model for managing financial assets should be the primary driver of the classification and measurement of instruments within the scope of the Proposed Update.

We believe that the proposed SPPI test will result in unintended failures and automatic classification of numerous instruments as FV-NI despite an entity’s business model for such instruments. As discussed above, the Board could partially address this issue by: 1) clarifying that the SPPI test may be applied at a higher level than the individual asset, and 2) adding a practicability exception for instruments with insignificant and/or remote contract features that could create non-SPPI cash flows. This would help avoid scenarios in which instruments are classified as FV-NI when an amortized cost or FV-OCI classification would be more representative of the entity’s business model for those instruments.

Additionally, the Proposed Update does not allow for any consideration of an entity’s business model with respect to **equity investments** because equity securities, by definition, fail the SPPI test and therefore must be classified as FV-NI. We believe that this one-size-fits-all approach to equity investments will make financial statements less representative of some entities’ businesses and investment strategies, making such financial statements less decision-useful to users and investors. In order to comply with statutory capital requirements, certain of our regulated entities invest in pools of high-quality equity securities that are held for purposes of long-term capital appreciation and dividend collection. While this business model is fundamentally the same as our model for investments in debt securities that we hold to collect cash flows as well as sell, there is no path in the Proposed Update for these similar investments to be classified as FV-OCI.

In order to allow an entity’s business model to play a part in its classification of equity investments, the Board should consider (among other potential solutions) allowing entities an irrevocable option to elect to measure equity investments not held for trading purposes at FV-OCI upon initial recognition consistent with the International Accounting Standards Board’s (IASB) proposed updates in International Financial Reporting Standards (IFRS) No. 9, *Financial Instruments*. In addition to further promoting convergence, this would result in financial reporting that is more decision-useful and representative of an entity’s underlying business models and strategies.

We believe the Board should give additional consideration to the following items if it continues forward with the Proposed Update in a substantially similar form:

Presentation and Disclosure

Relative to the composition of our investment portfolio, we believe that current financial statement disclosure requirements related to financial instruments and fair value measurements provide users with enough information to understand our business at a level necessary for making investment decisions. We believe that the additional disclosure requirements in the Proposed Update will result in lengthier, more complex disclosures without additional value to the users of financial statements. Specifically, the requirements to: 1) incorporate parenthetical disclosures on the face of the statement of financial position that are duplicative of disclosures already presented in the footnotes in accordance with Accounting Standards Codification Topic 820, 2) disclose additional expansive information about Level 3 fair value measurements for instruments carried at amortized cost for which there is already significant disclosure, and 3) include significant amounts of new disclosures at each interim period (where a requirement to disclose only significant changes from the prior year-end would be more appropriate) do not provide users with incremental decision-useful information for our, and likely other entities', relatively simple investment portfolios.

Transition

Given the potential complexity of the new classification and measurement guidance for financial instruments, along with the concurrent work being done on credit impairment, hedging, insurance contracts, and other significant accounting standards, we believe the Board should not require an effective date earlier than January 1, 2016 in order to allow preparers adequate time to implement the new accounting framework and ensure that interactions among the various new standards are fully understood, captured, and vetted.

Convergence

We are supportive of the Board's ongoing convergence initiative, and we are therefore not supportive of a standard that results in IFRS and U.S. GAAP differing on a number of significant issues. We encourage the Board to continue to work with the IASB to develop a financial instruments model that is substantively converged.

Conclusion

We are supportive of a classification and measurement model for financial instruments that is based on assessments of an entity's business model for managing the instruments and the contractual cash flow characteristics of the instruments, as long as the model enables an entity to account for financial instruments in a manner that is truly reflective of its business strategy and performance. We do not believe that the Proposed Update, in its current form, achieves this objective; nor do we believe that the proposal would reduce accounting complexity while providing more useful information to the users of financial statements.

* * *

We appreciate the opportunity to comment on this Proposed Update. If you have any questions regarding the Company's comments please contact me at (952) 936-5778.

Yours truly,

A handwritten signature in blue ink that reads "Eric S. Rangen". The signature is written in a cursive style with a large, stylized "E" and "R".

Eric S. Rangen
Senior Vice President and Chief Accounting Officer
UnitedHealth Group Incorporated