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October 22, 2010

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File Reference No. 1820-100

Dear FASB Technical Director,

CIGNA Corporation (“CIGNA”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“FASB”) proposed Accounting Standards Update *Revenue Recognition (Topic 605), Revenue from Contracts with Customers* (the “ED” or “proposals”). This proposal was separately exposed for comment by both the FASB and the International Accounting Standards Board (“IASB”) (collectively the “Boards”), and we understand that the Boards will share and jointly consider all comment letters received.

CIGNA and its subsidiaries constitute one of the largest investor-owned health service organizations in the United States, and have operations in selected international markets. As of June 30, 2010, CIGNA held \$37 billion in assets (excluding separate accounts). As investors in approximately \$20 billion of primarily investment grade public and private debt securities and commercial mortgage loans, CIGNA's management team is both a preparer and user of financial information on a daily basis. Our comments that follow represent the joint perspectives of our accountants/preparers and investment professionals/users.

### **General concerns and recommendations**

We support the Boards’ objective to create a robust framework for revenue recognition “to report useful information to users of its financial statements about the amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer.” The Boards indicate that a single revenue model would promote increased comparability between companies and across industries and capital markets and simplify the preparation of financial statements. However, we believe any changes to the existing U.S. GAAP or IFRS revenue accounting frameworks must also reflect the differing business needs of management and users across different entities. We are concerned that the single model put forward will over-complicate revenue accounting in some service industries by placing too much emphasis on the detail of multiple element arrangements - particularly if entities do not price or manage their integrated customer service contracts in such a disaggregated manner.

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Although the Boards are concerned that the U.S. GAAP piecemeal approach to guidance can result in different revenue accounting outcomes for contracts that are economically similar, we are concerned with the reverse: that these proposals will result in substantially the same revenue accounting for contracts in different entities that are in fact economically dissimilar. In addition, for entities that issue integrated customer service contracts, the requirements to identify and separately measure discrete performance obligations will significantly increase the complexity and cost of preparing financial statements without adding commensurate benefit to financial statement users.

To accommodate the diversity of contract pricing and business management practices across entities, we recommend the single revenue accounting model proposed in the ED be modified to provide preparers with sufficient flexibility to define the unit of account at a level that best depicts their business. Specifically, we recommend that the final standard more clearly define the concept of continuous transfer - and its application to customer service contracts - to explicitly acknowledge that integrated service offerings should not be disaggregated if this does not faithfully depict the manner in which a contract is priced and managed.

Furthermore, because the profitability of service contracts may ultimately be managed on a portfolio basis, we also recommend the assessment of onerous obligations should be performed at that singular level of pooled service contracts having similar economic characteristics (e.g. ASO or specialty as described below).

Our rationale for these general recommendations are set out in detail in the remainder of this letter. In addition, our views on specific issues raised by the Boards, including variable consideration, credit risk, and the time value of money are addressed in the attached Appendix.

**CIGNA's service model (integrated customer service contracts that are priced and managed as a single product offering)**

In addition to offering licensed insurance products, CIGNA contracts with employers, unions and other groups sponsoring self-insured plans on an administrative services only ("ASO") basis to administer claims and perform other plan related services. CIGNA collects administrative service fees in exchange for providing these self-insured plans with access to CIGNA's provider networks and for providing other services and programs including claim administration, quality management, utilization management, and cost containment. CIGNA may also sell specialty products such health advocacy, 24-hour help line, 24/7 call center, case management, disease management, and behavioral health care management services (through its provider networks) - or provide any combination of these services<sup>1</sup>. Each customer can select from a broad array of services that are combined and priced to achieve a reasonable aggregated profit margin and to leverage cost synergies across similar contracts.

CIGNA prices integrated customer contracts based on the specific combination of services being purchased as well as each customer's unique profile. Each package of products, whether

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<sup>1</sup> The self-insured plan sponsor is responsible for self-funding all claims, but may purchase stop-loss insurance from CIGNA or other insurers for either individuals or the entire group.

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ASO, specialty, or a combination of both, provides the customer with continuous access to CIGNA's services and/or provider network. Because these contracts are typically sold to a sponsoring employer (or equivalent group), some of the sponsor's individual employees covered under the contract are reasonably expected to utilize both CIGNA's ASO and specialty services each and every day.

Excluding insurance risk business, CIGNA's non-insurance product offerings can therefore be broadly categorized into two groupings; ASO and specialty. In accordance with U.S. GAAP, CIGNA recognizes revenue for these contracts ratably over their duration consistent with the obligation to provide health-related services to individual members each and every day.

**Recommendation: Clarify that when integrated customer service contracts provide for similar continuously stand-ready services, one measurement unit should be identified and reported**

Under the Boards' proposals integrated service contracts would be accounted for as multiple element arrangements. This may be appropriate for contracts that deliver tangible products, or a combination of tangible products and services – for example providing “free” cell phones to telecoms consumers that are linked to corresponding network service contracts<sup>2</sup>. Although the product (cell phone) and service (network contract) purchased under this single customer contract are priced in aggregate, they are clearly different in nature and more importantly are delivered to the customer at different times: the cell phone at inception of the customer contract versus use of the network continuously over time. In this example, we would agree with the Boards' objective to allocate revenue amongst these distinct components, and to earn the revenue streams of each bundled component over different time periods that reflect the manner in which control of each component has been transferred. Furthermore, each model of cell phone has a readily determinable stand-alone sales price in the marketplace.

This can be contrasted with CIGNA's ASO and specialty contracts which, as described above, deliver a combination of health services throughout the contract period, based on individually underwritten transaction prices. The exact mix of bundled ASO and specialty services sold to each customer does not materially change the nature of a contract's stand-ready obligation and should not result in a revenue recognition model that unnecessarily breaks apart that integrated service contract into separate components that are not individually meaningful to financial statement users. Indeed, this level of granularity is not typically required even by CIGNA's customers. What matters to customers is the aggregate ASO fee, aggregate specialty fee and (if applicable) the premium charged for separate insurance risk products. The requirement to allocate the transaction price of an integrated customer services contract to individual performance obligations creates arbitrary measurement units that individually have little stand-alone relevance.

Accordingly, we are concerned that the Boards' proposals will result in an accounting model for each of these product groupings that does not reflect the reality of how CIGNA manages its non-insurance business. As explained throughout this letter, we believe the Boards'

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<sup>2</sup> This example was used by the IASB in a June 2010 Investor Perspective publication to support the objective and merits of the proposed revenue recognition model.

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proposals will result in the identification of performance obligations at too granular a level, creating individual contract elements that have no discernable value to users of CIGNA's financial statements and potentially changing the pattern of revenue recognition for those elements in a way that does not represent our overall obligation to the customer to stand-ready to perform over the contract term. We believe this level of granularity does not reflect the manner in which CIGNA prices its business or serves its customers.

**Recommendation: When price is determined on an aggregate basis reflecting the unique profile of each customer within a multiple element service contract, the unit of account should be the contract.**

The transaction price charged to a CIGNA customer reflects the unique risk profile of that customer and also the specific combination of services that CIGNA will provide. The ED presumes that a relative stand-alone sales price for each performance obligation is meaningful and furthermore that relative stand-alone sales prices are readily determinable, or can be reliably estimated by reference to a competitor's transaction prices. This theory may have merit for performance obligations that can easily be sold on a stand-alone basis as well as in combination with other performance obligations, and in a competitive environment where the product being sold is not readily distinguishable from a competitor's product offering. However, neither of these assumptions hold true for CIGNA's ASO or specialty products.

For example, consider the following illustrative example which assumes that a company sells two distinct products, A and B, separately and also as a bundled package. As prescribed by the ED, the implied discount of \$20 on the bundled offering is allocated to products A and B based on their relative stand-alone sales prices, resulting in the recognition of two separate performance obligations in the bundled contract measured at \$78 and \$52, respectively.

		<b>4. Allocation of discount to determine relative sales prices</b>			<b>5. Allocated transaction price</b>	
<b>1. Stand alone sales price</b>						
Product A	\$90	60%	+	(\$12)	=	\$78
Product B	\$60	40%	+	(\$8)	=	\$52
Sum of separate stand-alone sales prices	<u>\$150</u>	<u>100%</u>		<u>(\$20)</u>		<u>\$130</u>
<b>2. Bundled price</b>						
	\$130					
<b>3. Implied discount</b>						
	(\$20)					

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Now consider the application of this model to a bundled customer service contract that CIGNA sells containing two separate specialty health services also for \$130. The following issues arise:

- Product A and product B may never actually be sold separately based on their relative risk characteristics, but instead are only sold together or in combination with additional services. Therefore, attempting to allocate revenue to these separate performance obligations is arbitrary and likely not meaningful;
- Even if a competitor were to sell services A and B separately (for say \$140), CIGNA and the competitor will have a different risk appetite and cost structure, as well as differences in the quality and cost of their respective provider networks. These factors mean that the competitor's price is not an accurate proxy for CIGNA to allocate its transaction price to separate performance obligations;
- Services A and B are offered continuously with materially similar utilization. The transfer of control is similar for both services and therefore separate accounting for each performance obligation does not result in a different measurement outcome, but does introduce unnecessary complexity for preparers to arbitrarily allocate revenues and costs, and confusion for financial statement users to understand these arbitrary allocations;
- If the same service were sold by CIGNA to a different customer, the transaction price would be a function of that customer's risk profile. Therefore, even if both contracts were disaggregated, performance obligations A and B would not be comparable between these customers (unlike the price charged by different companies for the same model cell phone and network coverage); and
- Because the differences in pricing between two customers is the result of a risk-based underwriting process it does not mean that the price differential is analogous to a "discount" based on a standard menu of prices as may be the case in other industries.

Accordingly, we propose a clarification for service contracts that defines the unit of account (i.e., the performance obligation) at the contract level to the extent that a customer contract comprises broadly similar services. We believe this is consistent with the objective described in paragraph 24 of the ED which acknowledges that disaggregation should not be necessary if in substance the accounting outcome would be the same if performance obligations remained aggregated. To the extent that a service contract contains specific obligations that are not representative of the overall stand-ready obligation, these may warrant separate accounting treatment.

**Recommendation: When customer contracts are priced using a pooled view of risk, the evaluation for onerous contracts should occur at a portfolio level, not at the level of individual performance obligation**

CIGNA prices customer contracts based on a pooled view of risk and profitability. As described above, separate services are bundled to meet a customer's requirements and are typically priced at a level intended to generate a customer contract that is profitable in the aggregate. However, individual ASO contracts may also be sold without specialty products and may occasionally be priced at an expected loss. This could occur, for example, because the service activity generated by the ASO contract contributes to volume utilization in the provider

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network and therefore ultimately helps CIGNA negotiate lower per unit fees to access the provider network. In turn, these lower costs influence the pricing of bundled or unbundled contracts sold to other CIGNA customers. Accordingly, CIGNA manages the ASO book of business as a portfolio, recognizing that individually unprofitable (or highly profitable) customer contracts may exist, but that pricing is managed using a pooled view of risk for a portfolio of similar contracts. If management expects to incur an aggregate loss for a grouping of similar products or services then it would be appropriate to recognize a corresponding liability and expense. However, requiring a company to recognize individual loss-making contracts, let alone loss-making performance obligations, takes a one-sided view of risk, overstating both initial losses and future profits.

**The cost to track and report information required by this ED will impose a burden on issuers of customer service contracts that far exceeds any possible benefit to financial statement users**

Disaggregation of customer contracts into separate performance obligations will exponentially increase the volume of measurement attributes that need to be recorded for financial reporting purposes. Each performance obligation will also need to be integrated with contract pricing data in a manner that permits the systematic and consistent allocation of transaction prices on a relative stand-alone basis to each obligation. CIGNA does not currently track data at this level of detail because it is neither used by management to run the business, nor required under existing U.S. GAAP for customer service contracts. The cost of developing systems and processes to adequately capture this data for each customer contract will therefore be significant. We do not believe the costs of implementing and maintaining the Boards' proposals are justified when, as articulated in this letter, the accounting result does not faithfully represent the economic substance of customer service contracts.

Thank you for your attention to our concerns. If we can provide further information or clarification of our comments, please call me (215-761-1170) or Nancy Ruffino (860-226-4632).

Sincerely,



Mary T. Hoeltzel  
CIGNA  
Chief Accounting Officer

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### **Detailed responses to the questions posed in the ED**

Detailed responses to the Boards' questions are set forth below. We have not responded to either question 15 (warranties) or question 16 (intellectual property) which we believe not to be applicable to the operations of CIGNA.

**Question 1 – Price interdependence:** *Paragraphs 12–19 propose a principle (price interdependence) to help an entity determine whether to: (a) combine two or more contracts and account for them as a single contract; (b) segment a single contract and account for it as two or more contracts; and (c) account for a contract modification as a separate contract or as part of the original contract.*

*Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?*

The principle of price interdependence is to combine (or segment) contracts based on their collective economic substance. We believe this principle has merit if the objective is to prevent arbitrage between accounting standards, or to prevent the structuring of accounting outcomes for transactions where their legal form may be significantly different from their economic substance. However, as noted in our response to Question 7, the Boards proposals fail to recognize that although an entity may provide several services to a customer these should not be measured separately when they are priced as single commercial arrangement. We believe the criteria in paragraph 23 for determining a distinct performance obligation will result in measurement units that are simply too granular to be of meaningful value to financial statement users. We recommend that companies should be permitted to aggregate obligations at the contract level if that best depicts economic substance for the purpose of recognizing revenue, and we do not believe the final accounting standard should prescribe the way in which a preparer is forced to make this determination based a presumption that the lowest level of aggregation is always superior. However, the final standard should also include guidance preventing the abuse of this flexibility to achieve structured accounting outcomes that do not reflect commercial substance.

We agree with the proposals to record the cumulative effect of a contract modification in the period in which the modification occurs. We also agree with the concept that the price of a contract modification should be interdependent with the existing contract, otherwise such a modification in substance represents extinguishment of an existing contract and creation of a new contract. Although the ED lists factors that indicate interdependence for the purposes of aggregating customer contracts, it does not clarify what interdependence means when assessing contract modifications. We believe that interdependency in this context means that a price change is reflective of changes in expected future cash flows due to either (i) changes in economic factors affecting the original contract terms (such as price inflation) or (ii) changes in contractual terms that do not materially alter the substance of performance obligations committed to in the original contract.

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**Question 2 – Distinct performance obligations:** *The Boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?*

One of the two criteria for determining whether a performance obligation is distinct is whether an identical or similar good or service is sold separately. We are concerned about the application of this criterion to bundled service contracts. For example, CIGNA may provide a variety of ASO or specialty services (such as health advocacy and disease management) in a single customer contract. Each of these would be considered a separate performance obligation under the proposed ED because they can be sold to other customers and may have a distinct function. There also may be situations where CIGNA may sell a particular health service only in combination with other behavioral health services, and never by itself. In this situation it would not be meaningful to classify every service within a customer contract as a separate performance obligation because this approach does not reflect the manner in which CIGNA prices an integrated customer service contract. Individual services are combined to form part of a single customer service contract that continuously stands ready to provide health services to our members. We view this combination of health services to be the appropriate unit of account because this best reflects the manner in which CIGNA manages its business. Therefore, we recommend the final standard provide preparers the flexibility to define a unit of account for recognition and remeasurement that faithfully represents the provision of integrated services.

**Question 3 – Transfer of control criteria:** *Do you think that the proposed guidance in paragraphs 25–31 and related implementation guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?*

The satisfaction of a performance obligation is based on the transfer of control. This concept is more difficult to apply to a service-based business than, for example, a manufacturing or retail business model. We believe the guidance on how to recognize revenue for service contracts is ambiguous. Paragraphs 33 and 34 address suitable methods for recognizing revenue on a continuous basis but, notwithstanding example 16 (paragraph IG67), do not provide adequate guidance in determining whether or not the transfer of services provided under a customer service contract is in fact continuous.

It is therefore unclear how to apply this guidance to CIGNA's non-insurance products. CIGNA collects administrative service fees in exchange for providing self-insured plans with access to CIGNA's participating provider network and for providing other services and programs such as claim administration and health advocacy. CIGNA is ready to provide service on any given day regardless of the volume of transactions that are received from customers. CIGNA prices services without regard to fluctuations in volume that naturally occur during the contract period. In our view, these products provide a continuous service to CIGNA's customers during the contract period and revenue should be recognized on a straight line basis. We also believe that revenue for each individual product in a bundled offering of services should be earned using the same straight-line basis – and, if the ED were issued in its current form, that these

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separate performance obligations are therefore eligible for the aggregation in accordance with paragraph 24 of the ED, which states:

“When an entity transfers promised goods or services to a customer at the same time, it is not necessary to apply the proposed recognition and measurement requirements to each performance obligation separately if accounting for those performance obligations together would result in the same amount and timing of revenue recognition as if they were accounted for separately. For example, if an entity transfers two distinct services to a customer over the same time period, it could account for the promises to transfer those services as a single performance obligation if applying the same revenue recognition method to both services would faithfully depict the transfer of services to the customer.”

We believe that CIGNA's non-insurance products should not be viewed as performance obligations with differing recognition patterns (and therefore recognized on a basis that is other than continuous). Factors such as variability or seasonality in network utilization do not change the fact that CIGNA is providing a stand-ready obligation to each of its customers or members throughout the duration of the contract. Any requirement to disaggregate the transaction price of bundled products would fail to recognize the economic substance of our non-insurance products and also result in significant additional cost to separately track the satisfaction of each performance obligation, for each customer contract. We recommend the final standard contain interpretive guidance clarifying contracts that provide administrative services or access rights are presumed to transfer control on a continuous basis (unless specific facts or circumstances exist in the contract to indicate that the application of a straight line recognition pattern would be materially misrepresentative of their economic substance).

Whether or not consideration is refundable is also an important consideration in determining if control has been transferred under a service contract. Refundability implies the transfer of control is less certain. By analogy, we are concerned that the ED may have implications to the accounting model for performance guarantees. In some cases, CIGNA provides performance guarantees associated with meeting certain service-related and other performance standards. If these standards are not met, CIGNA may be financially at risk up to a stated percentage of the contracted fee or a stated dollar amount. In accordance with U.S. GAAP, a liability is established for estimated payouts associated with these guarantees based on our assessment of the probability of payment in accordance with FASB Codification Topic 450, *Contingencies*. Paragraph 37 of the ED requires an entity to recognize a refund liability if it expects to refund some or all of the customer's consideration, measured on a probability-weighted basis. As a matter of clarification, we consider performance guarantees to be separate and distinct from the initial recognition of contract revenue. Upon entering into a customer contract, CIGNA typically expects to comply fully with the stated service terms and therefore does not anticipate payment under the terms of the performance guarantees. If, however, subsequent information indicates that CIGNA may not in fact be able to comply fully with those service standards we make a determination, at that time, as to whether or not a liability should be accrued. We do not believe the guidance proposed in the ED intends to change the accounting for performance guarantees and recommend that fact be clarified in the final Standard.

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**Question 4 – Recognition of variable consideration:** *The Boards propose that if the amount of consideration is variable, an entity should recognize revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.*

*Do you agree that an entity should recognize revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognizing revenue when the transaction price is variable and why?*

We agree with the Boards' proposal that an entity should not recognize revenue if it cannot be reasonably estimated based on all relevant economic factors included in the customer contract(s). However, in addition to this requirement we also believe that revenue should not be recognized unless it is reasonably assured that the economic benefits of the customer contract will flow to the seller. The ED does not clearly include this concept of "probability" and we are concerned this will result in companies recognizing revenue in situations where significant uncertainty exists regarding the amount and timing of future cash flows.

Paragraph 38 of the ED requires only the following two conditions to be met in order to conclude that a transaction price is reasonably estimable: (1) an entity's own experience with similar contracts (or experience of other entities), and (2) that experience is relevant because no significant changes in circumstances are expected relative to the customer contract being measured. Assuming these criteria are met, the variable consideration would be measured on a probability-weighted basis (paragraph 35).

It is unclear how paragraph 35 and 38 of the ED interact with each other. For example, consider a customer contract where the probability-weighted estimate combines only scenarios that individually have a less than 50 percent probability of occurrence. This may be deemed "reasonably estimable" because each scenario has been identified and probability weighted, yet the aggregated likelihood of outcome is still less than the existing U.S. GAAP or IFRS thresholds of "reasonably assured" or "probable", respectively. We do not believe it would be prudent to recognize revenue when the probability-weighted outcome of variable consideration in aggregate is less than reasonably assured, and instead recommend that the concept probability be introduced as a necessary criterion to conclude that the transaction price can in fact be reasonably estimated.

**Question 5 – Measurement of credit risk:** *Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognizes when it satisfies a performance obligation rather than whether the entity recognizes revenue? If not, why?*

We do not agree with the Boards' proposal that credit risk should affect the amount of revenue recognized at inception of a customer contract. We have reviewed the Boards' reasoning (as set forth in paragraphs BC96 – BC 101 of the Basis of Conclusions) that recognition of revenue on a probability-weighted basis is superior to the existing U.S. GAAP and IFRS models which instead delay recognition until probability is assessed as "reasonably assured" or "probable", respectively. In particular, we note the Boards' view that the existing recognition thresholds

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may be considered to be an arbitrary bright line, and that a probability-weighted approach avoids situations where revenue may otherwise be delayed due to uncertainty. However, we do not believe this approach is a better alternative to recording revenue based on the contractual terms and separately assessing collectability, with corresponding adjustments to recognize credit risk as a bad debt expense when deemed probable. In contrast to the Boards' view, we believe it is prudent to retain a separate determination of credit risk that does not impact the amount of revenue initially recognized.

The application of a day one estimate of credit losses also artificially also reduces revenue compared to the amounts that may actually be collected under the contract. For example, if an entity sells a contract with an assumed day one credit loss, but subsequently collects 100 percent of the contract consideration, the differential is recorded as a negative expense – effectively a reversal of an “impaired” receivable - and is therefore never recognized as revenue. Furthermore, the requirement to recognize revenue earlier on a probability-weighted basis is likely to exacerbate the disconnect between an initial estimate of collectability and amounts actually received.

***Question 6 – Time value of money:*** Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We agree that if the time value of money is material to the period of time between satisfying a performance obligation and receiving cash, the amount of revenue recorded should reflect this fact (i.e., charge interest expense on cash received in advance and accrete interest income on cash received in arrears). However, the ED requires an entity to measure the time value of money using the discount rate that would be applied to a separate financing transaction between the entity and its customer (i.e., reflecting both credit risk and the risk free rate). In practice this will be difficult to determine if the entity and customer do not in fact enter into financing transactions in their ordinary course of business. We believe a more appropriate alternative would be to require companies to discount a transaction using their own cost of capital rate which is clearly a relevant consideration for negotiating a financing arrangement.

***Question 7 – Allocation of the transaction price to performance obligations:***

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the standalone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

We disagree with this proposal. The Boards' approach assumes that each performance obligation has a separate observable sales price, or otherwise requires a seller to estimate separate sale prices. As noted in our response to Question 3, CIGNA frequently bundles together multiple performance obligations into a single customer contract priced as a packaged product offering. This does not necessarily imply the customer receives a “discount” (which would be allocated amongst the performance obligations). Instead, CIGNA's non-insurance products are individually underwritten and priced to reflect the facts and

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circumstances unique to each customer. This makes it difficult in practice to quantify observable relative sales prices in any meaningful way across different customers, or to use competitor relative pricing as a proxy.

In pricing a bundled package of services we may contemplate cross-product subsidies between individual product offerings (and therefore performance obligations) comprising that bundled package. However, our underwriting and pricing approach is intended to create a bundled product offering that is profitable in the aggregate. Accordingly, the requirement to allocate a contract's transaction price based on relative sales price is at best arbitrary, and at worst creates artificial onerous performance obligations that would require immediate loss recognition in the income statement. Similarly, revenue allocated to non-onerous performance obligations would result in an overstatement of their profitability. As previously noted, we believe preparers should be able to determine that a contract itself is an appropriate measurement of the performance obligation if further disaggregation creates separate units of account that do not reflect the manner in which the entity prices and manages its business.

In addition, we believe the proposals will lead to structuring opportunities for companies that may re-distribute allocated overhead amongst performance obligations to create positive margins on individual performance obligations that might otherwise be determined onerous upon application of this ED.

***Question 8 – Recognition of contract costs:*** Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, Topic 330 or IAS 2; Topic 360 or IAS 16; and Topic 985 on software or IAS 38, Intangible Assets), an entity should recognize an asset only if those costs meet specified criteria. Do you think that the proposed guidance on accounting for the costs of fulfilling a contract is operational and sufficient? If not, why?

We agree with the Boards' approach which provides a preparer with the ability to capitalize expenditures that create a tangible or intangible asset necessary to support fulfillment of the customer contract (for example creating a supporting infrastructure). We also believe this guidance is operationally practical and is consistent with the way we currently view costs for service contracts under U.S. GAAP.

***Question 9 – Definition of certain contract costs:*** Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognizing an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognized for an onerous performance obligation.

*Do you agree with the costs specified? If not, what costs would you include or exclude and why?*

We agree with the proposed costs as defined paragraph 58.

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**Question 10 – General disclosure requirements:** *The objective of the Boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?*

We agree with Boards' stated disclosure objectives. However, we are concerned that the ED does not provide clearer guidance about the level of aggregation at which disclosures should be made. Paragraph 70 states that useful information should not be obscured by inclusion of too much insignificant detail, nor should information with different characteristics be aggregated. In practice this will lead to a wide range of diversity in the level of detail provided by different issuers even within the same industry.

For example, paragraph 77 requires a description of performance obligations in customer contracts. A detailed description of performance obligations may be relevant to an entity that has a small volume of perhaps highly customized contracts (e.g. the construction industry) where performance obligations may be individually more significant, as well as more diverse across different contracts. For a company such as CIGNA that has a large volume of customer contracts that are similar in nature, this disclosure requirement would necessarily be aggregated to a level that could essentially become a boiler plate description of product types. Such disclosures would not provide the user with useful information regarding uncertainty and inherent risk.

We believe that meaningful disclosure of product groupings, and therefore the types of performance obligations to which an entity is committed, is best achieved outside of the financial statements in a management commentary of business developments and results. For U.S. public companies this objective is adequately achieved in Management's Discussion and Analysis included in the quarterly and annual SEC Form 10-Q and Form 10-K filings, respectively. We believe this commentary operates effectively and is widely understood by financial statement users. Therefore, we do not believe that additional product-based information should be presented in the financial statement footnotes.

Paragraph 79 requires extensive disclosures related to onerous performance obligations, including a discussion of the nature of the onerous performance obligation, and the factors that caused the performance obligation to become onerous. This disclosure is again meaningful for individual onerous performance obligations that may be significant to an entity, but has limited relevance to users evaluating the financial statements of a preparer such as CIGNA that enters into a high volume of similar customer contracts, and does not typically experience abnormal or volatile credit losses. We believe the Boards' objective of communicating uncertainty and potential loss is better achieved through disclosure of changes in bad debt reserves and related bad debt expense, if material, under our preferred approach to measuring credit risk described in our response to Question 5. Furthermore, as noted in our response to Question 7, the ED as currently drafted would result in the creation of artificial onerous performance obligations on overall profitable customer arrangements, and therefore disclosure of such "onerous" performance obligations would have no relevance to financial statement users, and could even be characterized as misleading.

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**Question 11 - Disclosure of unsatisfied performance obligations:** *The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year. Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?*

We do not believe this should be a required disclosure, and it implies that a one-year time horizon is a meaningful bright line for financial statement users. Preparers should be allowed to determine whether or not disclosures about unfulfilled contracts provide meaningful information to financial statement users based on their respective business models and industries. Where such disclosures are deemed useful, the appropriate time horizon will likely vary significantly by industry and company.

**Question 12 – Disaggregated revenue disclosures:** *Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors? If not, why?*

We agree with the objective of providing some flexibility so that preparers can present information that best reflects the economic substance of their businesses. However, we are concerned by the amount of flexibility provided in the standard. For example, it would be acceptable for company X only to provide disaggregated revenue disclosures by geography, and company Y only to provide disaggregated disclosures by product type. This broad diversity will limit consistency between preparers and therefore make it difficult for users to compare entities even within the same industry. Accordingly, we suggest the Board revise these provisions to establish a minimum set of required disclosures that would enable financial statement users to understand an enterprises' revenue generating activities and therefore promote comparability. We believe these disclosures should be based primarily on the types of products sold, supplemented by geographical presentation where a company's operations differ significantly between material locations. These disclosures should closely align with existing segment disclosures required by public companies under both U.S. GAAP and IFRS<sup>3</sup>.

**Question 13 – Transition provisions:** *Do you agree that an entity should apply the proposed guidance retrospectively (that is, as if the entity had always applied the proposed guidance to all contracts in existence during any reporting periods presented)? If not, why?*

*Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think it is better.*

We agree in principal with the proposal to require full retrospective application of the revenue recognition standard. However, in practice, full retrospective application would impose significant cost, complexity and data challenges in identifying and measuring performance obligations for customer service contracts that have already been fulfilled. These concerns will be largely mitigated if the final standard acknowledges that an integrated customer service

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<sup>3</sup> Paragraph B92 in the ED contains only a general requirement to show how disaggregated revenue disclosures relate to existing disclosure required by other applicable accounting standard, rather than expressly linking disaggregated revenue disclosures to existing segment disclosures.

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contract is the appropriate level at which to define a performance obligation, and that control is transferred to the customer on a continuous basis.

**Question 14 – Implementation guidance:** *The proposed implementation guidance is intended to assist an entity in applying the principles in the proposed guidance. Do you think that the implementation guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?*

The implementation guidance contained in the ED provides sufficient detail to operationalize the Boards' proposals, with one important exception: The application guidance does not provide clear examples of *how* to assess whether a service contract provides continuous transfer of control.

**Question 17 – Consequential amendments:** *The Board' propose that in accounting for the gain or loss on the sale of some nonfinancial assets (for example, intangible assets and property, plant, and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?*

The Basis of Conclusions to the ED states that these consequential amendments are not expected to result in any changes to measurement for real estate transactions that are not in an entity's ordinary course of business. Moreover, an entity would continue recognize a gain or loss on such transactions rather than revenue. Therefore we do not object to the Boards' proposed consequential amendments. However, given the absence of any change in measurement or disclosure, it is not readily apparent why the Boards believe these consequential amendments to be necessary.

**Question 18 – Applicability to nonpublic entities:** *Should any of the proposed guidance be different for nonpublic entities (private companies and not-for-profit organizations)? If so, which requirement(s) and why?*

We do not believe that any aspects of the Boards' proposal should be changed, or rendered inapplicable, for nonpublic companies. While we acknowledge that many nonpublic companies would benefit from a simpler accounting and disclosure framework, we do not believe that any distinction should be made between public and nonpublic enterprises with respect to an issue as fundamentally important as revenue recognition. In addition, public and nonpublic companies will often compete in the same industry, and accordingly there should be a level playing field that results in the application of the same GAAP model to all participants. For example, as a public company in the managed care industry, CIGNA also competes with nonpublic providers of health services such the Blue Cross Blue Shield Plans and users of both companies' financial statements should be able to compare financial condition, results of operations and liquidity for similar lines of business.

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