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Vice President and Chief Accounting Officer



April 1, 2011

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Sir David Tweedie
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Via electronic submission: www.ifrs.org

Ms. Cosper and Sir David Tweedie:

Re: File Reference Number 2011-150, Financial Instruments – Impairment

We appreciate the opportunity to share with the Financial Accounting Standards Board (the “FASB”) and the International Accounting Standards Board (the “IASB”) (collectively, the “Boards”) our views on the recently published joint supplementary document, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities – Impairment* (the “Proposal” or “the Supplement”). CIGNA and its subsidiaries constitute one of the largest investor-owned health service organizations in the United States, and have operations in select international markets. As of December 31, 2010, CIGNA held \$38 billion in assets (excluding separate accounts). As investors in approximately \$21 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.

By way of background, CIGNA holds portfolios of heterogeneous debt securities and commercial mortgage loans that are individually managed for credit and other risks. Because our assets are individually managed, we don't believe the proposal, which focuses on groups of similar instruments managed collectively, would or should apply to the majority of CIGNA's investments. However, because the Boards have asked how the model could be applied to other financial instruments, including those that are managed individually, we are providing comments on the models presented. In summary, as expressed in previous communications to the Boards, we do not believe that current impairment guidance is theoretically broken. Rather, we believe the criticisms

File Reference No. 2011-150
April 1, 2011
Page 2

resulting from the financial crisis stem from failures to appropriately apply the existing guidance. Our letter also provides detailed comments on the proposed common and alternative models outlined in the Supplement.

The Boards' Objective and CIGNA's Historical Position on Impairment of Debt Securities and Mortgage Loans

We understand that a primary objective of the Boards is to address a perceived weakness (delayed recognition of credit losses) that many believe is inherent in current impairment guidance. In our view, impairments are event driven, are influenced by constantly evolving macro and micro-economics and therefore are inherently volatile. We believe that much of the perceived weakness associated with the credit crisis related to issues with application of existing guidance and was concentrated within certain industries and in investments with specific characteristics, predominantly subprime loans and securitization vehicles. With respect to securitization vehicles, many such investments were held indirectly and were not necessarily underwritten by the investor/company. For such investments, the nature of the underlying credit risk was not clear to the holder. From our perspective, even if an impairment model could have provided an allowance based on history and future expectations, there still would have been large write-offs recognized above any accrued amount during the significant economic down-turn in 2008/2009 because the underlying credit risks were not well understood. In addition, we believe that while the proposed common model may build a reserve for credit losses, that reserve will not avoid large write-offs during *future* significant down-turns and, therefore, does not satisfy the Boards' objective. It follows then that we do not believe the common or any proposed alternative proposal will eliminate failed judgment, belated second-guessing, or "too little, too late" criticism.

In our opinion, the current FASB model, particularly for debt securities, is not broken and could be leveraged for developing a common impairment solution particularly for assets managed on an individual basis. In the current model, fair value and expectations regarding cash flows are the key indicators of whether a security is impaired and the impairments are recognized *when they are incurred*. We believe this model, when properly applied, best reflects the inherently volatile economics of investment and credit risks and our investment principles that consider expected credit losses when initially pricing an investment. Therefore, any model that seeks to build or establish credit loss reserves prior to the occurrence of such a loss does not reflect investment economics and is at odds with the FASB's Concept Statements. This perspective is shared by our accountants and investment professionals. We again encourage the Boards to consider this feedback when re-deliberating an appropriate model for assets managed individually.

Comments on the Proposed Common and Alternative Models

As stated above, CIGNA generally does not agree with "allowance building" for impairments that have not been incurred because this does not reflect the economic event. However, because we recognize that this is the direction of the Boards and we want to help develop a workable model, we offer the following comments and suggestions on the Proposal:

- **Scope.** We do not believe the common proposal applies to portfolios of heterogeneous assets that are managed individually for credit risk. We believe this should be expressly stated in any final guidance. We do not believe it is appropriate to “simplify” impairment guidance by providing a one-size fits all model for financial assets regardless of how they are managed for risk.
- **Assets Managed Individually.** Unlike assets managed in large pools, assets managed individually have unique characteristics and require assessment for impairment at the individual security or loan level. For financial assets managed individually, impairment reserves should only be recorded for bad-book assets with no general reserve.
- **Common and Alternative Models.** If the common or alternative models were to be adopted, either for open portfolios or for an expanded scope of instruments, we believe:
 - It is appropriate to differentiate between good and bad book assets.
 - We support the flexibility the IASB provided in its recommended time-proportional loss calculation including optionality with respect to measurement methods, including discounting. We believe a company should be able to select from these methods for various classes of financial instruments held by that entity (for example – investment assets versus trade receivables) provided methods are properly disclosed.
 - We do not agree with a requirement to project losses for an undefined period characterized as the foreseeable future (referred to in the Supplement as “the Floor”). We believe the “foreseeable future” is too subjective, would be difficult to audit and would be open to criticism in market down-turns. We also believe such a period would not likely be static as is suggested in the Proposal and would likely vary by company affecting comparability. In addition, we believe an approach requiring dual calculations is not cost beneficial and makes it difficult to explain the objective of the allowance to readers of our financial statements.
 - Of the models presented, CIGNA would prefer the IASB Alternative Views Model because we view it as an operationally superior model. However, we do not believe this model, or the others proposed in the Supplement reflect the economics of impairment or provide more decision-useful information than results under current guidance, if properly applied.
 - As related to presentation and disclosure, we object to certain of the proposed disclosures about credit quality ratings because companies would be required to share competitive information.

We have expanded on these comments below in the context of specific questions raised by the Boards in the Proposal.

Question 1: Do you believe the proposed common approach for recognition of impairment deals with the weakness in the current impairment model (i.e. delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

While we believe the proposed common approach may mitigate, to some extent, the perceived weakness in the current impairment model, we do not believe it would have changed the “big bang”

File Reference No. 2011-150
April 1, 2011
Page 4

recognition of credit losses that occurred in 2008 during the financial crisis. Therefore, we do not believe it will eliminate the perception that there is delayed recognition of credit losses. Impairments are event driven, are influenced by constantly evolving macro and micro-economics, and are inherently volatile. We do not support over-reserving for possible future losses, and we don't believe there is a solution for resolving this criticism that would produce an accounting result that properly reflects economics. We believe the Boards' objective should be to properly measure incurred losses and properly disclose the risks and uncertainties inherent in a company's portfolio. We suggest that specific targeted disclosures be developed for subprime and securitized assets to address the lack of transparency that currently exists. We believe this approach would be most consistent with the FASB Concept Statements.

Question 2: Is the proposed common impairment model at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not? Is it important to have a single impairment approach for all relevant assets?

As stated above, we do not believe the proposed common model should be applied to groups of heterogeneous assets managed individually. CIGNA does not manage large blocks of homogeneous loans or other investments on a pooled, good book/bad book basis similar to large banks. Our investments are heavily weighted in public and private debt securities, and to a lesser extent, a diverse portfolio of commercial mortgage loans. Each instrument within our portfolio has different characteristics and risks, and these risks are evaluated on an individual asset basis when assessing for impairment. We believe a bad book approach (applied at the individual investment level) would be most appropriate to apply to these instruments. Except for the Boards' proposal to record expected losses (rather than incurred losses), this approach would be most in line with the accounting approach we follow today which we believe is representative of the economics of impairment. We do not support holding a subjective general reserve for impairment. Separately, we also believe any model should provide a practical expedient for collateralized financial assets; for instance if the fair value of tangible security backing a commercial mortgage loan is higher than its carrying value, we do not believe impairment should be required.

We do not agree that a single impairment approach should be required for all financial assets particularly if the assets are managed differently. As noted previously, the model does not seem to work well with assets individually assessed and it is not stipulated how the model would be applied to instruments carried at fair value through other comprehensive income.

Questions 3&5: Do you agree that for financial assets in the "good book" it is appropriate to recognize the impairment allowance using the proposed approach ("greater of time proportional/foreseeable future")? Would the proposed approach provide information that is decision useful? Why or Why not?

We do not support the proposed approach for the good book ("greater of time proportional/foreseeable future" expected credit losses). In our view this does not provide improved decision-useful information, is arguably not operational (given the "Floor requirement") and therefore is not cost-beneficial to implement.

Regarding the decision-usefulness of information, we do not believe building an allowance based on highly subjective information is particularly helpful to readers and investors looking for an enhanced understanding of a company's current financial position, results of operations and prospects for future cash flows. We believe the model could be confusing to readers because there is not a clear objective to help users understand the purpose of the allowance. Further, and as stated above, we do not believe this accounting measure is consistent with the economics of impairment. In fact, we believe providing the expectation that our allowance will be sufficient to cover future impairments for the instruments we hold could be misleading if an allowance proves to be inadequate. We believe it would be better to reflect losses on an incurred basis and supplement amounts recorded with disclosures. If impairments could be material to the financial statements and users are looking for further information about historical loss rates, or expectations for future periods and sensitivities, we believe it would be most appropriate for companies to include robust discussion about inputs, assumptions, expectations and sensitivities as part of their discussion about Critical Accounting Estimates in MD&A.

As stated in our introductory comments, we do not agree with a requirement to project losses for an undefined period labeled the foreseeable future (referred to in the Supplement as "the Floor"). We believe the "foreseeable future" is too nebulous and would be open to criticism in market downturns. Consider that within our own investment team several different views on the foreseeable future surfaced. While the most prevalent view was that foreseeable future would translate to a period of 12-15 months (this is far less than the Board may be expecting, per review of the supplement), other views were that in periods of great economic volatility, the foreseeable future (especially for assets managed for credit on an individual basis) could be as short as two weeks. This point also illustrates that, contrary to the views of Board members, the foreseeable future could change for the same collection of instruments in different economic conditions. For these reasons, we believe the foreseeable future floor requirement would produce significant operational challenges and that an approach requiring dual calculations is not cost-beneficial. Because of the subjectivity inherent in the "floor," if required to record a good book general reserve we recommend that the allowance for the good book be based simply on a time proportional estimate of expected credit losses like the IASB proposes as an Alternative View.

Question 4: Would the proposed approach to determine the impairment allowance on a time-proportional basis be operational? Why or why not?

CIGNA's investment professionals did not raise significant objections with respect to whether the time-proportional basis would be operational (assuming we were required to use a portfolio approach for individually managed assets and provided we were permitted to create an aggregate portfolio of "public" or "private" securities, or of "commercial mortgage loans"). It would be challenging and meaningless for CIGNA to artificially create pools of assets at a lower level (such as "asset class") as suggested in the disclosure requirements when we do not assess credit risk at this level. Please see our concerns regarding required disclosures in our response to Questions 17 and 19.

File Reference No. 2011-150
April 1, 2011
Page 6

We believe that flexibility with regard to the approaches used for individual classes of instruments is best. For instance, simply because an entity elects an annuity approach for certain investments, that entity should not be required to apply an annuity approach to short-term receivables (should they enter the scope of the final standard).

Questions 6-8: Is the proposed requirement to differentiate between “good book” and “bad book” clearly described? Is the requirement to differentiate operational and auditable? Do you agree with the proposed requirement to differentiate between the two groups?

While we do not believe a “good book” general reserve is appropriate for groups of heterogeneous assets that are managed individually, if we were required to book such a reserve, we believe the proposed requirement to differentiate between a “good” and “bad book” should be clarified for the following circumstance. For example, though certain instruments may be displayed on an internal watchlist (so they can be more closely monitored as investments with characteristics that may develop credit problems – or “potential problem” investments), this does not mean our expectations for related cash flows, nor our mode of managing the instruments has yet, in each case, changed to “recovery.” We believe the Boards should clarify that assets that are being “watched” but are not managed for recovery should not be included in the bad book.

Question 9 a-f: Do you agree with the proposal to require a floor for the impairment allowance? Do you agree that the floor should be based on the “foreseeable future”? Would the period defined as the foreseeable future be likely to change alongwith economic conditions? Is the foreseeable future typically greater than 12 months? Should the Boards consider a “ceiling” to promote comparability across issuers?

Please see our response to Questions 3 and 5 for detailed comments on the following points. While we would not object to a “floor” in principle, we do not agree with a requirement to project losses for such an undefined period. We believe the period characterized as the foreseeable future would be likely to change along with economic conditions. Some of our investment professionals would likely define the foreseeable future as a period ranging from 12-15 months, but there was some disparity amongst our investment team which highlights that comparability across issuers may be a problem. CIGNA does not believe instituting a ceiling would solve the problem of defining the foreseeable future. We believe the most logical and cost beneficial solution to addressing this problem would be to define the period explicitly, or to simply remove the floor as per the IASB Alternative Views proposal.

Question 10: Do you believe the floor will typically be equal to or higher than the amount calculated as the “time proportional of lifetime expected credit losses” amount? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe will be the case.

For CIGNA's portfolios, principally public and private debt securities and commercial mortgage loans, we do not believe the floor will typically be higher than the time-proportional allowance, largely because CIGNA's portfolios do not exhibit early loss emergence patterns.

Questions 11: Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the straight line approach under the time-proportional expected loss calculation? Do you agree with permitting flexibility in the selection of discount rate when using a discounted expected loss amount? Why or why not?

Yes, CIGNA agrees with permitting flexibility both with respect to the use of discounting and the selection of the discount rate to reflect the characteristics of the instruments and a company's systems and level of sophistication. We believe that flexibility with regard to the approaches used for individual classes of instruments is best. As above, simply because an entity elects an annuity approach for certain investments, that entity should not be required to apply an annuity approach to short-term receivables (should they enter the scope of the final standard).

Question 12: Would you prefer the IASB's approach for open portfolios of financial assets to the common proposal in this document? Why or why not?

Of the three models presented in the Supplement, we prefer the IASB's approach to measuring an impairment allowance for open portfolios. We believe the IASB approach is the simplest and most cost-beneficial to apply, we do not disagree that it has some theoretical merit and we believe its allowance objective would be easiest to articulate to financial statement users.

Relative to the Boards' objective and the three models presented, we believe this proposal sufficiently addresses delayed recognition of credit losses (recognizing no model provides a perfect solution as we indicate in our response to Question 1). We also prefer this model because it does not include a requirement to calculate "the floor." As stated above in our responses to Questions 3&5, and Question 9 we do not support incorporating a floor that measures an allowance based on an unspecified period described as the foreseeable future because this would pose significant operational and reliability challenges.

Question 13: Same as question 12 but related to the FASB's alternative view.

We do not prefer the Alternative View supported by minority FASB Board members. The FASB model requires companies to recognize expected credit losses for all financial instruments for the foreseeable future. We do not support use of an arbitrary, undefined period that could differ by issuer and present operational challenges. From our perspective, because no impairment model is going to be perfect and immune to risk of future criticism, we believe it makes sense to apply a model that we can articulate to readers, promotes comparability and is most cost beneficial to apply. We therefore support the model presented as the IASB Alternative View.

File Reference No. 2011-150
April 1, 2011
Page 8

Question 14: Do you agree that the determination of the effective interest rate should be separate from the consideration of expected credit losses, in contrast to the original IASB proposal? Why or why not?

We agree that separation of expected credit losses from the effective rate is appropriate. The inherent volatility of investment activity reflected through impairments should be reported separately. As stated in our original comment letter, the initial IASB proposal was not operational. Further, contractual interest is an important metric for users of financial statements and should not be subjectively adjusted particularly when counterparties continue to pay interest.

Questions 15 & 16: Should loan commitments and financial guarantee contracts be included in scope? Would the proposed requirements be operational for those instruments?

CIGNA does not have financial guarantee contracts. Further, consistent with our comments submitted to the FASB on the Board's financial instrument exposure draft, for our commercial mortgage loans, we do not believe that loan commitments should be measured at fair value, reported on the balance sheet and evaluated for impairment unless the issuer intends to sell the underlying loans.

Questions 17-19: Do you agree with proposed disclosure requirements?

CIGNA objects to the proposed disclosure requirement to provide information about internal credit ratings assigned to assets. We believe this information (including how companies identify, weigh and assess risk) if combined with detailed information about our portfolios could provide competitively sensitive information about a strategic competency. Further, CIGNA objects to the disclosure requirement to provide a rollforward of the allowance for the good and bad books at a potentially lower level than that at which the portfolio is defined. The Supplement requires rollforward information at the asset class level, which may in fact be a lower level than our defined portfolio. We believe there should be consistency between disclosures and how a measurement model is applied. We would not support such a disparity between measurement model and disclosures and do not believe it would provide cost-beneficial information to users.

Thank you for soliciting user and preparer perspectives; we appreciate your attention to our comments. Apart from our direct comments on the Proposal, we would also like to highlight that given the volume of projects currently on the Boards' plate, it is a challenge for companies like CIGNA, to keep up with the pace of the Boards. Releasing multiple exposure drafts on important topics with relatively short comment periods puts tremendous time pressure on the accountants and business areas reviewing and digesting the exposed materials and their implications. We share the concerns of others that companies may not be provided adequate time to evaluate exposure drafts, especially considering commenting timeframes often overlap regular reporting cycles. We would not want lack of or limited attention by constituents to translate into a poorly constructed standard. In this regard, we would also like to reiterate that preparers should be given adequate time to digest and implement any final standards that are released. We would ask that you consider this as you move forward on your various joint and individual projects.

File Reference No. 2011-150
April 1, 2011
Page 9

If we can provide further information or clarification of our comments, please contact me (215-761-1170) or Nancy Ruffino (860-226-4632).

Sincerely,

A handwritten signature in cursive script that reads "Mary T. Hoeltzel".

Mary T. Hoeltzel
Vice President and Chief Accounting Officer