

**Mary T. Hoeltzel**  
Vice President and Chief Accounting Officer



April 25, 2011

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Ms. Susan Cosper, Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116  
Via email: [director@fasb.org](mailto:director@fasb.org)

**File Reference No. 2011-175**

Dear Ms. Cosper:

CIGNA Corporation (“CIGNA”) appreciates the opportunity to share our views on the Financial Accounting Standards Board’s (“FASB,” or “the Board”) Invitation to Comment, *Selected Issues about Hedge Accounting (Including IASB Exposure Draft, Hedge Accounting)* (“ITC”). 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 \$46 billion in assets (including 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.

We fully support efforts to simplify hedge accounting requirements and to increase investor confidence in financial reporting by providing financial statement users with more relevant and reliable information about risk management strategies and the results of their application. However, as described in CIGNA’s attached response to the International Accounting Standards Board (“IASB”), we are concerned about several aspects of its Exposure Draft, *Hedge Accounting*. We also believe there are further opportunities for both the IASB and FASB (“the Boards”) to simplify the accounting for and more faithfully represent the economics of hedging programs in the financial statements. We believe that it is crucial for both Boards to work together to develop a single accounting model for financial instruments that can be applied universally, including hedge accounting. Finally, we believe it important that the FASB and IASB complete their joint projects on insurance accounting and financial instruments (other than derivatives) before finalizing principles for hedge accounting. The conclusions reached in these foundational projects will help to identify any accounting gaps that will then determine the need for hedge accounting by insurance entities.

Ms. Susan Cospier  
April 25, 2011  
Page 2

Our primary issue is that any changes by either Board should be focused on developing a comprehensive principles-based approach to hedge accounting, rather than making further rules-based changes that will require implementation time and costs without improving the communication of derivatives use in risk management strategies for companies across many different industries. These concerns are further discussed in our detailed responses to selected questions posed in the FASB's ITC below or by reference to our comments to the IASB in the attached letter.

\* \* \*

## **Responses to Questions Posed in the FASB's ITC**

### Risk Management

**Question 1:** *When an entity uses financial instruments to manage risk exposures in economic hedges but those instruments are not designated in hedging relationships for accounting purposes, do you believe that the proposed guidance would provide useful information about all of the effects of an entity's risk management objectives?*

We believe that the FASB's current approach to disclosures about derivatives used in risk management strategies is an appropriate balance of valuable information at a reasonable cost. The FASB requirement to place this information in one footnote helps to focus interested users and provides the needed context of intended use and financial impacts.

We also continue to urge the FASB to limit any sensitivity disclosures in the *footnotes* to avoid significant increases in litigation risk and expense to U.S. domestic companies because it doesn't provide commensurate benefits to users. Currently, forward-looking statements discussed in the MD&A are protected by the Safe Harbor for Forward Looking Statements under Section 21E of the Securities and Exchange Act of 1934. The protection provided under Section 21E deters frivolous and meritless suits in private securities litigation. Because this protection does not extend to the financial statements, we are greatly concerned that placement of sensitivity disclosures in the footnotes would subject the preparers, auditors and users of financial statements of public reporting entities to the costs of litigation when alternative assumptions selected for disclosure develop in a manner different than illustrated. The "safe harbor" protections are important in order to provide relevant, useful financial information in a cost beneficial manner. Without these protections, public reporting entities may not be able to access capital in a cost effective manner.

**Question 2:** *Do you believe that the proposed guidance and illustrative examples included in the IASB's Exposure Draft are sufficient to understand what is meant by risk management, how to apply that notion to determine accounting at a transaction level, and how to determine the appropriate level of documentation required? Why or why not?*

We support the IASB's objective to adopt a principles-based approach that will align hedge accounting more closely with an entity's risk management objectives. We believe that replacing the current complex rules-based models (under US GAAP and IFRS) with a less prescriptive model that can be interpreted and applied by management to reflect their specific risk management activities is a worthwhile effort. The IASB proposal moves toward this goal

Ms. Susan Cospier  
April 25, 2011  
Page 3

in a number of areas, including the level of guidance provided around defining, applying and documenting risk management activities. However, as described elsewhere in this letter and in CIGNA's comment letter for the IASB's Exposure Draft, *Hedge Accounting*, we believe that this proposal ultimately falls short because many of the rules that contribute to the complexities of hedge accounting have been retained. The FASB's proposal also retains far too many rules that are overly complex and contradict efforts to achieve a principles-based approach. For example, cash flow hedge accounting requires forecasted transactions (e.g. cash flows) to be highly probable of occurring and an entity's ability to achieve hedge accounting is heavily dependent upon predicting both the occurrence and timing of those cash flows. This rule assumes that the timing of cash flows is of primary importance and does not lend enough consideration to environmental or other business factors that might impact the transaction. Additionally, while existing U.S. GAAP for hedging forecasted transactions allows for an additional period of time for the transaction to occur, this time period is specifically quantified as a two month period. Such a time period is arbitrary and lends little to no consideration to the business environment or specific circumstances effecting the transaction. Lastly, in furthering the goal of developing a single global standard which simplifies hedge accounting for the benefit of preparers and users, we believe the guidance must be reduced to be concise and functional. The myriad of guidance that exists today (including over 600 paragraphs comprising the standard, implementation guidance and basis for conclusions, supplemented by nearly 200 very specific implementation issues for FASB alone) does not further the achievement of this goal.

**Question 3:** *Do you foresee an entity changing how it determines, documents, and oversees its risk management objectives as a result of this proposed guidance? If yes, what changes do you foresee? Do you foresee any significant difficulties that an entity would likely encounter in establishing the controls related to complying with the proposed guidance?*

While we support the IASB's proposal to allow qualitative effectiveness testing where appropriate, thereby improving the testing process, we are troubled by the proposed qualifying criteria and the notion of mandatory rebalancing. Requiring hedging relationships to produce unbiased results, to minimize expected ineffectiveness and to be continually rebalanced is overly complex and adds an accounting only exercise that may inappropriately lead to a different hedging relationship than is used for risk management purposes.

Please see CIGNA's attached comment letter to the IASB for further discussion and related example (Questions 6 and 7).

Ms. Susan Cospier  
April 25, 2011  
Page 4

### Hedged Items—Risk Components

**Question 7:** *Do you believe that the proposed criteria are appropriate when designating a component of an item as a hedged item? If not, what criteria do you suggest? Do you believe that the proposed guidance and illustrative examples are sufficient to understand how to determine when the criteria of separately identifiable and reliably measurable have been met? If not, please describe what additional guidance should be provided.*

**Question 8:** *Do you believe that “separately identifiable” should be limited to risk components that are contractually specified? Why or why not?*

We agree with the IASB's proposal that entities should be able to apply hedge accounting to risk components provided that the component is separately identifiable and reliably measurable. Accordingly, risk components eligible for hedge accounting should not be limited to only those that are contractually specified. However, we believe that it may be helpful to further clarify the guidance for non-contractually specified risk components to ensure that economic hedge programs that are effective are eligible for hedge accounting. The example below illustrates a highly effective economic hedge program used by CIGNA to reduce one element of risk (equity), although it does not qualify for hedge accounting under current guidance because it does not hedge all risks that comprise fair value changes (such as interest rates and volatility). While there is no current need to achieve hedge accounting, until the Boards complete their convergence projects for financial instruments and insurance contracts, accounting mismatches will not be known. Therefore, we believe the proposed guidance should remedy situations such as described below in order to most accurately display risk management activities and their impacts on the financial statements.

In order to substantially reduce the equity market exposures relating to guaranteed minimum death benefit (GMDB) reinsurance contracts, CIGNA operates a dynamic hedge program using exchange-traded futures contracts. The hedge program is designed to offset both positive and negative impacts of changes in equity markets on the GMDB reinsured liability. The hedge program involves detailed, daily monitoring of equity market movements and rebalancing the futures contracts within established parameters. While the hedge program is actively managed, it may not exactly offset changes in the GMDB liability due to, among other things, divergence between the performance of the underlying mutual funds and the hedge instruments, high levels of volatility in the equity markets, and differences between actual contractholder behavior and what is assumed.

This hedge program does not currently qualify for U.S. GAAP hedge accounting, in part, because the hedge does not seek to offset all changes in the fair value of the liability. However, we have designed it to reduce equity market exposures and have determined it to be highly effective in that objective and we believe that it should qualify for hedge accounting. We have also observed that equity hedges are a common risk management strategy in the industry for a GMDB book of business.

The Boards have currently limited hedge accounting for fair value hedges of financial instruments to the exposure of changes in the fair value of the entire hedged item. As described above, there are risk management strategies using fair value hedge applications that focus on one variable comprising fair value changes that should also be eligible for hedge accounting as they are separately identifiable and reliably measurable. We recommend that

Ms. Susan Cospers  
April 25, 2011  
Page 5

the Boards consider such a change in their redeliberations to align qualification for hedge accounting with a company's risk management strategy.

#### Hedged Items—Aggregated Exposures and Groups of Items

**Question 12:** *Do you believe that the proposed guidance on aggregated exposures will provide more transparent and consistent information about an entity's use of derivatives? Why or why not?*

Yes, we do believe that addressing this commonly used risk management strategy (i.e. aggregating identified risks and managing the related exposure) will provide more transparent and consistent information about the use of derivatives. In the very least, the proposed guidelines will provide a framework for preparers to work with when reporting these types of risk management strategies, which will promote more consistent information provided to users of the financial statements.

#### Hedge Effectiveness

**Question 14:** *Do you foresee any significant operational concerns, including auditing issues, in determining how to assess whether a hedge achieves other-than-accidental offset? If yes, what concerns do you foresee and how would you alleviate them?*

No, we do not foresee any significant operational concerns in determining how to assess whether a hedge achieves other-than-accidental offset.

#### Changes to a Hedging Relationship

**Question 16:** *Do you foresee any significant operational concerns or constraints in determining whether (a) a change to a hedging relationship represents a rebalancing versus a discontinuation of the hedging relationship or (b) an entity's risk management objective has changed? If yes, what concerns or constraints do you foresee and how would you alleviate them?*

**Question 17:** *Do you foresee any significant operational concerns or constraints relating to the potential need to rebalance the hedging relationship to continue to qualify for hedge accounting? If yes, what concerns or constraints do you foresee and how would you alleviate them?*

As explained in our response to Question 3 above, we believe that a requirement to rebalance a hedge more frequently for accounting purposes when not demanded by the risk management strategy introduces additional trading and management costs to a hedging program and results in accounting requirements driving economic outcomes, which is inappropriate.

With regard to discontinuation of a hedge, we do not view the present ability to voluntarily de-designate hedge relationships to be problematic. We disagree with both Boards' decisions to prohibit voluntary de-designation as we believe it is appropriate for companies to be able to adjust hedging strategies in a cost effective manner as economic conditions, business needs and related risks change.

Ms. Susan Cospier  
April 25, 2011  
Page 6

Please also see CIGNA's attached comment letter to the IASB for further discussion and related example (Questions 6 and 7).

### Hedge Accounting and Presentation

**Question 19:** *Do you believe that the proposed presentation of the gains and losses in other comprehensive income will provide users of financial statements with more useful information? Why or why not?*

**Question 20:** *Do you believe that the proposed presentation of a separate line item in the statement of financial position would increase the transparency and the usefulness of the information about an entity's hedging activities? Why or why not?*

We do not believe these proposed presentations will increase the transparency and usefulness of financial information about hedge activities. Please also see CIGNA's attached comment letter to the IASB for further discussion (Question 9).

### Disclosures

**Question 22:** *Do you foresee any significant auditing issues arising from the inclusion of risk management disclosures in the notes to the financial statements? If yes, what issues do you foresee and how would you alleviate them? Do you believe that it is appropriate to include risk management disclosures in the notes to the financial statements rather than in other information in documents containing financial statements? Why or why not?*

Please refer to our answer to Question 1 above.

### Other

**Question 23:** *Do you believe that the changes proposed by the IASB provide a superior starting point for any changes to U.S. GAAP as it relates to derivatives and hedging activities? Why or why not? Should the FASB be making targeted changes to U.S. GAAP or moving toward converging its overall standards on derivatives and hedging activities with the IASB's standards?*

We support the development of a comprehensive principles-based model for hedge accounting that allows entities to more faithfully represent their risk management activities in the financial statements and eliminates complex rules that disqualify effective economic hedge programs from hedge accounting. Accounting guidance should not cause a disjoint between underlying hedge programs used and the reporting of such programs in the financial statements. While we applaud the IASB's efforts in creating a principles-based model, we believe the proposed model retains a number of complex rules that limit an entity's ability to reflect its risk management programs accurately in the financial statements. Meanwhile, the FASB's proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*, is limited to targeted

Ms. Susan Cospier  
April 25, 2011  
Page 7

changes to its existing rules-based model and does little to simplify or improve hedge accounting.

We encourage the Boards to jointly develop a converged and comprehensive principles-based model for hedge accounting to simplify the accounting for and more faithfully represent the economics of hedging programs in the financial statements. Changes by either Board should be focused on significantly improving the current IASB proposal for a principles-based approach to hedge accounting, rather than making any further rules-based changes that will require implementation time and costs without improving the communication of derivatives use in risk management strategies by companies across many different industries, including insurance and financial services.

If we can provide further information or clarification of our comments, please call 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

**Mary T. Hoeltzel**  
Vice President and Chief Accounting Officer



March 9, 2011

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Sir David Tweedie  
International Accounting Standards Board  
30 Cannon Street  
London ED4M.6XH  
United Kingdom

Re: Exposure Draft, *Financial Instruments: Hedge Accounting*

Dear Sir David:

CIGNA Corporation (“CIGNA”) appreciates the opportunity to comment on the International Accounting Standards Board’s (“IASB” or “Board”) Exposure Draft, *Financial Instruments: Hedge Accounting* (“ED” or “proposal”). 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.

We applaud efforts to simplify hedge accounting requirements and to increase investor confidence in financial reporting by providing financial statement users with more relevant and reliable information about risk management strategies and the results of their application. We believe, however, that while the proposals may further these goals for certain hedging programs (particularly for non-financial items, such as commodities), they do not appear to simplify hedge accounting requirements or improve presentation of the effects of risk management strategies for financial risks such as those used by CIGNA. In summary, we have provided the comments below in an effort to highlight the concerns we have with:

- the lack of convergence with existing and proposed U.S. GAAP and the timing of these proposals in relation to unfinished foundational projects,
- the lack of changes to significant rules-based elements of the current model, and
- the specific changes to certain hedge accounting criteria and their potential impact on forthcoming guidance for macro hedging applications.

Sir David Tweedie  
March 9, 2011  
Page 2

### **Convergence and Timing**

First and foremost, we recognize that this proposal is significantly different from the proposals made by the Financial Accounting Standards Board (FASB) in their project for financial instruments. In order to achieve the stated goals of the G20 leaders and international regulatory bodies to improve global investor confidence, we believe it imperative that the IASB and FASB work together to develop a single accounting model for financial instruments that can be applied universally, including hedge accounting. Without convergence, financial reporting will not provide users with comparable financial information for comparable business operations worldwide, placing public companies domiciled in the United States at a disadvantage in raising capital in global markets. Furthermore, dissimilar proposals are distracting and discouraging. Preparers are concerned that the basis for financial statements could change repeatedly in the coming years with adoption of FASB amendments and then IASB standards. We believe it imperative for the IASB and FASB to work together to minimize disruption in financial reporting and the additive costs that would be required of companies domiciled in the United States if convergence is not achieved.

Also, in order to be successful in conveying information as to financial results and condition that is relevant to users of financial statements of insurance entities, we believe that it is important that the IASB and FASB finalize their joint projects on insurance accounting and financial instruments before finalizing principles for hedge accounting. The conclusions reached in these foundational projects establishing financial asset and insurance liability models will help identify the accounting gaps that will then determine the need for hedge accounting by insurance entities. For example, when managing interest rate risk, the need and form of hedge accounting would differ under the following scenarios:

- changes in the values of insurance liabilities are reflected in the income statement while changes in the values of assets are not (e.g. assets held at amortized cost), or
- changes in the values of insurance liabilities are reflected in the income statement as are changes in the values of assets (e.g. assets are fair valued through the income statement).

Therefore, we recommend that the IASB and FASB commit to reviewing the hedge accounting guidance when the guidance related to insurance contracts and financial instruments is complete or to delay the completion of their hedge accounting proposals until that time.

### **Principles-Based Approach (Question 1)**

We support the IASB's objective to adopt a principles-based approach that will align hedge accounting more closely with an entity's risk management objectives. Although the proposal moves toward this goal in a number of areas, we believe that ultimately the proposal falls short because many of the rules that contribute to the complexity of hedge accounting have been retained. Cash flow hedge accounting requires forecasted transactions (e.g. cash flows) to be highly probable of occurring and an entity's ability to achieve hedge accounting is heavily dependent upon predicting both the occurrence and timing of those cash flows. For example, if an entity owns a foreign-denominated bond and employs a simple strategy to hedge foreign currency cash flows with a currency swap, achieving hedge accounting is still unnecessarily complicated by the strict forecasting thresholds. The objective of this hedge is to mitigate variability in cash flows and the entity can manage this risk with great confidence.

Sir David Tweedie  
March 9, 2011  
Page 3

However, the current rules-based model requires that the amount and timing of future cash flows be predicted with a level of certainty that is not required to meet the risk management objective.

To further expand on this example, assume an entity has a hedging instrument that closely matches the terms of a prepayable bond. If that bond were prepaid, the hedging instrument could be immediately terminated - thereby fully satisfying the risk management objective. Under neither the current nor proposed model would this hedge qualify for hedge accounting due to the disconnect between the risk management objective (mitigating cash flow volatility due to foreign currency risk during the holding period of the bond) and the rules-based model (requirement to predict cash flows as to timing and magnitude). We recommend that the IASB remove these strict criteria governing the probability of cash flows and allow for a principles-based model that places greater importance on the risk management objective, along with the nature of the risk being hedged and the basis for expectation that the hedge would be effective. We believe increasing the rigor around the substance of the qualitative aspects of the hedge documentation at inception, as well as the related disclosures, will provide for an improved model with transparency for users and appropriate cost/benefit balance for preparers and shareholders.

### **Specific Proposals**

Although limited in scope to general hedges, we are concerned that the proposed changes in the hedge effectiveness requirements will not meet the IASB's stated objectives and will set an unacceptable precedent for the IASB's upcoming decisions regarding macro hedging. In addition, we are not convinced that the proposal to present the results of fair value hedges in a manner similar to that used for cash flow hedges provides additional transparency of hedge results.

*Hedge Effectiveness (Question 6)* - To qualify for hedge accounting, the proposals require that the hedge relationship produce an unbiased result and minimize expected hedge ineffectiveness. The criteria to minimize ineffectiveness replace the current requirement for a "highly effective" hedge relationship. The IASB proposes these new criteria to prevent systematic underhedging that entities have historically accepted to avoid inadvertent failure to meet hedge criteria. We agree with the IASB that a principles-based approach to assessing hedge effectiveness linked to the risk management strategy is appropriate. We note that the FASB has proposed that the current "highly effective" criteria be replaced with "reasonably effective" and that all ineffectiveness be recognized in earnings. We believe that the FASB's proposal will better achieve the objective of simplifying hedge accounting and more clearly convey the results of an entity's chosen risk management strategy.

In addition, we note that certain hedging strategies seek to balance the objective of minimizing risk with the costs of rebalancing hedge instruments. For example, in a dynamic delta portfolio hedge, an entity may set a threshold of mismatch between the sensitivity of the hedged items and that of the hedging instruments that must be reached before hedge instruments are rebalanced. In such a case, it appears that hedge accounting may be prohibited under the current proposal since ineffectiveness will result from market movements that do not cause a mismatch to reach the selected threshold, i.e. acceptable ineffectiveness as defined by the entity. These restrictions will prevent the proposal from achieving its objective to improve users' understanding of the effects of risk management

Sir David Tweedie  
March 9, 2011  
Page 4

strategies if hedge accounting is prohibited for such a hedge application. We recommend that the IASB remove this requirement or clarify that balancing limited ineffectiveness and hedge adjustment costs is acceptable under this hedge criteria when the strategy is clearly defined in the hedge documentation.

*Mandatory Rebalancing (Question 7)* – For the reasons noted above in our example of a dynamic delta portfolio hedge, we believe it is not appropriate to mandate rebalancing of hedge relationships. If the hedge is not rebalanced, it will not meet the proposed effectiveness criteria and hedge accounting will be discontinued or hedge ineffectiveness will result and should be recognized in earnings. As noted above, we believe that the FASB's approach to identifying and reporting such a condition better achieves the objectives of simplifying hedge accounting and improving the transparency of hedge results.

*Voluntary De-designation (Question 8b)* - We do not view the present ability to de-designate hedge relationships to be problematic. We disagree with the Board's decision to prohibit voluntary de-designation as we believe it is appropriate for companies to be able to adjust hedging strategies in a cost effective manner as economic conditions and related risks change. We believe any concern that de-designation may be used by an entity to manage earnings is unwarranted because existing guidance requires that de-designation and re-designation be documented contemporaneously and therefore *in advance of* any anticipated market movements. Further, any ineffectiveness prior to the de-designation needs to be measured and reflected in earnings. As such, the impact of de-designating a hedge is only recognized prospectively and could not be used to mask the current period results.

*Fair Value Hedge Presentation (Question 9)* - Recognizing the gain or loss on the hedging instrument and hedged item in other comprehensive income (except for the ineffective portion, which is reported in the income statement) appears to add unnecessary complexity for preparers and result in less transparency for users. The current requirement to recognize fair value changes in income each period is simple and can be presented clearly. And we believe that a presentation of the basis adjustment separate from the hedged item will add unnecessary and distracting detail to the statement of financial condition. Disclosing additional details about the hedged item with and without hedging effects may improve users' understanding of the hedged item and help to resolve the IASB's concern that the basis adjustment confuses users about the measurement basis of the hedged item.

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