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Technical Director
File Reference No. 2015-350
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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Via e-mail to director@fasb.org

Reference: Proposed Accounting Standards Update: *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*

Dear Technical Director:

The Hartford Financial Services Group Inc. (“The Hartford” or “we”) appreciates the opportunity to comment on the Financial Accounting Standards Board’s (“FASB”) Proposed Accounting Standards Update (“ASU”) concerning *Fair Value Measurement (Topic 820) Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (“Proposed ASU”). The Hartford provides property and casualty and group benefits insurance, as well as investment products to both individual and business customers in the United States of America. We also continue to manage life and annuity products previously sold. As of December 31, 2015, we carried assets and liabilities at fair value on a recurring basis of \$182 billion and \$1 billion, respectively.

We support the FASB’s objective to improve the effectiveness of disclosures. However, in our view, disclosure of weighted averages of significant unobservable inputs (“Level 3”) for derivatives is not decision-useful and would be costly to prepare; disclosure of time periods used to develop Level 3 inputs is rarely applicable because the input is a current estimate and not a value calculated from data of a historical period; and, the Level 3 rollforward and the change in unrealized gains and losses for instruments held at the end of the period should be eliminated because these disclosures do not satisfy a clear objective and are costly to prepare.

Weighted averages of Level 3 inputs for derivatives

The Hartford’s Level 3 derivatives include freestanding equity derivatives and interest rate derivatives with optionality (like swaptions) or interest rates beyond observable periods (“freestanding derivatives”), as well as guaranteed embedded product and reinsurance derivatives (collectively, “product derivatives”). When we adopted the requirement to disclose the ranges for significant unobservable inputs in 2012, we considered weighted averages but concluded that such disclosure would not provide useful information for derivatives.

For our freestanding derivatives, significant unobservable inputs include: swap curve beyond 30 years, interest rate volatility and equity volatility. We do not believe that providing weighted averages would be decision-useful considering the inherent weakness in any method one can think of to weight the inputs. Applying the weighting based on either fair value or notional amount would produce a weighted average that was not a fair representation of derivatives included in the disclosure because they do not appropriately reflect the time period, strike price or other instrument terms. For example, a deep-in-the-money put option that is close to expiration will have a large fair value, but the valuation of that option is largely insensitive to volatility. Weighting the volatility input by fair value under the proposed guidance would cause that option to have an outsized contribution to the overall weighted average, despite the fact that the volatility assumption isn’t material for that option. As another example, consider two 1 year S&P 500 Index put options. The index level is 2,000 and you have 50,000 units of each option, one with a strike of 2,000 (at the money) and volatility of 20%, while the other has a strike of 1,500

(25% out of the money) and volatility of 25%. Weighting by notional under the proposed guidance, both have the same notional ($2,000 * 50,000 = 100$ million) resulting in a weighted average volatility of 22.5% but the price, market sensitivity and payoff profile are vastly different as would be apparent from their Vegas of 375,000 and 200,000, respectively. We considered other weighting bases that could convey sensitivity to the input such as Vega for volatility or duration for interest rate but these high-level math concepts are overly complex for general purpose financial statements. Therefore, we concluded only the range of unobservable inputs is useful for disclosure for derivative contracts.

For our product derivatives, significant unobservable inputs include: withdrawal utilization, withdrawal rates, lapse rates, reset elections and equity volatility. Like for our freestanding derivatives, we do not believe that providing weighted averages would be decision-useful given there is no appropriate way to weight the values of the inputs. In addition:

- Our reported fair values are based on thousands of long-term (40 year) projection scenarios, during which time the values of many of the unobservable inputs are projected as changing. The projected values of unobservable inputs depend on capital market level paths, interest rate curve points across time, ages of contract holders across time, etc. Therefore, providing a weighted average of a dynamic unobservable input for product derivatives would be even less of a fair representation, and also not decision-useful.
- We considered other possible bases for weighting unobservable inputs for product derivatives including base contract account value, net amount at risk, policy count and insurance benefit value and concluded all were flawed for purposes of calculating a weighted average. Furthermore, unless one particular basis was prescribed, insurers would likely differ in what basis they select which would degrade comparability across insurance industry companies.
- Because the fair valuation of a particular product derivative, such as guaranteed minimum withdrawal benefit policy riders, is dependent on multiple unobservable inputs (e.g., withdrawal utilization, withdrawal rates, lapse rates, reset elections and equity volatility), the disclosure of a weighted average for each input involved in a product derivative valuation will not yield useful information as to the overall valuation of the product derivative, or how the valuation would be impacted by different weighted averages.

Furthermore, the Proposed ASU's new disclosures would impose unreasonable incremental costs. In order to calculate weighted averages for our product derivatives, we would need to program complex model changes, run the model across thousands of scenarios, test and review the data, and implement control procedures over these new requirements. These costs would be in the form of employee hours, diverted resources, programming changes, computer processing time and management review and oversight. We do not believe the weighted averages are useful so the cost is not justified.

Time periods used to develop Level 3 inputs

Time periods used to develop Level 3 inputs are rarely applicable because the input is a current estimate and not a value calculated from data of a historical period. Our Level 3 fair values include securities, freestanding derivatives and product derivatives. We do not rely solely on historical data over a specific time period to develop inputs. Generally, we use a combination of market observable data, historical data, and applied judgment. For securities and freestanding derivatives examples of this are:

- prepayment rates observable for a number of years with greater weight placed on recent years and judgment applied to reflect the current interest rate market outlook; and
- implied volatility, which is directly market observable for shorter time periods, but requires use of judgment and other market data points to construct a volatility input assumption for longer tenors.

For product derivatives, we analyze historical experience data over a number of years, but when setting our assumptions, we generally place more credibility on the most recent years, and may also make adjustments for specific circumstances or market conditions that we believe might make the historical data less representative of future expected behavior. For these reasons, we do not believe the proposed requirement to disclose the time period used to develop significant unobservable inputs is relevant. In summary, we believe it would be misleading to disclose a historical period of data used as it would suggest that was the basis for selecting the range of input values when, in fact, inputs are more heavily weighted to recent period and factor in judgment for

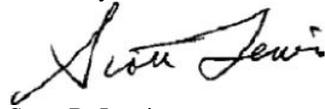
evolving market conditions. Therefore we recommend the FASB not include a time period disclosure in any amendments to the fair value disclosures in ASC 820.

Level 3 rollforward and change in unrealized gains and losses for instruments held at the end of the period

The Level 3 rollforward and the change in unrealized gains and losses for instruments held at the end of the period should be eliminated because these disclosures do not satisfy a clear disclosure objective and are costly to prepare. We believe that the Level 3 rollforward reconciliation requirement does not meet the objectives of the FASB's own proposed concepts statement on disclosures because we do not believe the rollforward information rises to the threshold of being "most important to users of each entity's financial statements." We understand that users indicated to the Board that the Level 3 rollforward "...allows them to gain insight into management's decisions, especially across different economic cycles" and the change in unrealized gains and losses "provides information about the volatility of fair value measurements." While investors and other users of our financial statements are, indeed, interested in the sensitivity of financial results to changes in fair value, we see no evidence they are gaining useful information from the Level 3 rollforward or change in unrealized gains and losses for instruments held at period end. Under other existing disclosure requirements, we provide financial statement users with a vast amount of information on financial instruments at fair value, including disclosures that break down fair values by type of security and by fair value hierarchy level. As of each balance sheet date, we also give information on gross unrealized gains and gross unrealized losses by type of security. We question whether there is sufficient value in these disclosures given the significant cost and time expended every reporting quarter in preparing the detailed Level 3 rollforward and the change in unrealized gains and losses. Presently it takes 48 working hours to prepare this information each quarter that occupies four pages of our Form 10-Q and Form 10-K and we incur other costs including review, auditor, and filing costs. Accordingly, we encourage the FASB to consider the information disclosed about financial instruments in its totality and eliminate the requirement to provide the Level 3 rollforward or the change in unrealized gains and losses for instruments held at the end of the period.

Thank you for the opportunity to provide input on the proposal. Please contact me at 860-547-4848 or scott.lewis@thehartford.com if you would like to discuss our suggestions.

Sincerely,



Scott R. Lewis