



American International Group, Inc.
70 Pine Street
New York, NY 10270

LETTER OF COMMENT NO.

78

Anthony Valoroso
Deputy Comptroller
Director of Accounting Policy

Tel: 212-770-6463
Fax: 212-770-6089
Anthony.Valoroso@AIG.com

May 23, 2006

Mr. Lawrence Smith
Director of Technical Applications and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116

**RE: Proposed Statement of Financial Accounting Standards, The Fair Value Option for
Financial Assets and Financial Liabilities, Including an amendment of FASB
Statement No. 115**

Reference No. 1250-001

Dear Mr. Smith:

American International Group, Inc. (AIG) appreciates the opportunity to offer the following comments to the Proposed Statement of Financial Accounting Standards, The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115 (the "Exposure Draft").

AIG is the world's leading international insurance and financial services organization, with operations in more than 130 countries and jurisdictions. AIG member companies serve commercial, institutional and individual customers through the most extensive worldwide property-casualty and life insurance networks of any insurer. In the United States, AIG companies are the largest underwriters of commercial and industrial insurance and AIG American General is a top-ranked life insurer. AIG's global businesses also include financial services, retirement services and asset management. AIG's financial services businesses include aircraft leasing, financial products, trading and market making. AIG's growing global consumer finance business is led in the United States by American General Finance. AIG also has one of the largest U.S. retirement services businesses through AIG SunAmerica and AIG VALIC, and is a leader in asset management for the individual and institutional markets, with specialized investment management capabilities in equities, fixed income, alternative investments and real estate.

While AIG strongly supports the Exposure Draft, which we believe will help simplify some of the issues in the current financial reporting process caused by a mixed attribute model and complex rules-based hedge accounting, we have some concerns which are highlighted below.

Insurance Contracts

We agree with the Board that fair value is the most relevant measure for many financial instruments. However, we find it a bit premature to allow insurance contracts to be measured at fair value while significant issues are still being debated and remain unresolved. Unlike many other assets and liabilities, insurance assets and liabilities have never been measured at fair value and therefore many unresolved issues exist. If the Board were to move forward with allowing insurance enterprises to fair value insurance contracts as currently proposed in the Exposure Draft, it would force practitioners and their independent accountants to determine exactly what constitutes an insurance "contract" and which aspects would fall under fair value. Significant issues remain with respect to deferred acquisition costs, premium revenue recognition, unit of account, and discounting and risk margins to name a few. We also note that the IASB currently under Phase II is debating these issues. It appears that little if any benefit can be achieved at this juncture in allowing fair value as an option as a lack of consistency in application will likely result. Rather, at this time we would advocate that disclosure only is appropriate.

AIG believes that for the most part insurance companies are holders of insurance risk with a long-term horizon, and should be viewed much like a company that portfolios risk that aggregates its risk and manages these risk on an ongoing basis. Insurance liabilities are neither measured off a bid-ask spread nor look at implied market values when measuring performance, but rather price products based off of long-term trends and historical data. Hypothetical transactions have little meaning or value to investors and not representative of fair value. AIG continues to question the usefulness of such information to users of financial statements, as insurance liabilities are not traded. We do not believe measuring insurance contracts at fair value can provide useful information to readers of financial statements.

If the Board's intent was to only allow the fair value option for insurance contracts that can be cash settled, i.e., financial instruments, to allow companies to overcome some of the issues as a result of a mixed attribute model, we would recommend that the Board clarify as such which contracts meet the definition of a financial instrument. Further, we would view any contract that contains anything but a cash settlement feature to not meet this definition unless there was only a modicum of insurance risk.

Scope

The scope of this Exposure Draft would also exclude an investment that would otherwise be consolidated, employers' and plans' financial obligations for pension benefits, other postretirement benefits (including health care and life insurance benefits), postemployment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements, and financial liabilities recognized under lease contracts as defined in FASB Statement No. 13, *Accounting for Leases*.

AIG agrees with the scope exclusion of the instruments listed above because of the significant issues cited in paragraph A6.b – A6.c in the Exposure Draft. AIG supports the FASB's view that any changes in the accounting for these areas should be addressed in the current FASB Technical Projects.

Physical Commodities

AIG believes that physical commodities that have characteristics of financial instruments should be included in the scope of the Exposure Draft. Physical commodities inventories are often actively risk managed as part of a company's trading activities and share the same economics and risks profile as cash settled contracts. Often the physical commodities and cash settled contracts are traded in combination as part of an overall strategy that the current mixed attribute accounting creates a mismatch in earnings. We also note that in many cases the physical commodities have observable market values, which is one major reason cited for not allowing for fair value in non-financial instruments. We believe that allowing the fair value election for physical commodities will better reflect the way these investments are managed and reflect the economics and risks of its activities.

Issuer's Own Credit

While changes in creditworthiness of an issuer continues to be debated, we are concerned that the Board would require the use of this measurement when clearly the result can only obfuscate an entity's operating performance. We do not believe that recognition of gain as a result of deterioration in a company's credit would be meaningful and present operational challenges for companies, its creditors and other users in evaluating a company's financial position and operating results. For example, for companies that participate in international credit markets that elect fair value a determination must be made as to the appropriate referenced market. Should a company reference its primary operating environment or the economic environment in which the liability was issued. For global insurance companies that issue liabilities this appears to be a significant issue. Therefore, we agree with certain Board members believe that changes in a company's own credit or changes in its credit spread should not be included in the measure of fair value gain or loss.

If the final standard were to include changes in credit, we would recommend that a suitable compromise would be that the change be a component of Other Comprehensive Income until a "realization event" occurs, likely liquidation or bankruptcy with appropriate disclosure.

Effective Date

AIG requests that the FASB not delay the effective date of the Exposure Draft or, if delayed, provide for early adoption for those companies that already have the existing infrastructure and capability. AIG believes that the Exposure Draft with consideration of our concerns and comments reflected above represents an improvement over the current financial reporting model.

Disclosure Requirements

AIG agrees with the presentation and disclosure guidelines in the Exposure Draft. We believe that the principles are consistent with the requirements of other projects where fair value option was granted. AIG believes that the disclosures are sufficient to enable users of financial

Financial Accounting Standards Board
May 23, 2006
Page 4

statements to understand and evaluate the impact of electing the fair value option in the Exposure Draft.

* * * * *

As you move forward with the final issuance of the Exposure Draft we hope that you will strongly consider our concerns and recommendations. If you have any questions please contact myself at 212-770-6463 regarding the contents of this letter, we would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Very truly yours,

/s/Mr. Anthony Valoroso
Deputy Comptroller
Director of Accounting Policy

cc:

Steve Bensinger
Executive Vice President and Chief Financial Officer

David Herzog
Senior Vice President and Comptroller
