

AMERICAN INTERNATIONAL GROUP, INC.
70 PINE STREET
NEW YORK, NY 10270

ANTHONY VALOROSO
DEPUTY COMPTROLLER
DIRECTOR, ACCOUNTING POLICY

TEL: 212-770-8463
FAX: 212-770-6121
ANTHONY.VALOROSO@AIG.COM

March 2, 2007
Mr. Larry Smith
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 48

Re: File Reference No. 1510-100, Proposed Statement of Financial Accounting Standards, *Disclosures about Derivative Instruments and Hedging Activities*

Dear Mr. Smith:

American International Group, Inc. (AIG) appreciates the opportunity to offer the following comments to the Proposed Statement of Financial Accounting Standards, *Disclosures about Derivative Instruments and Hedging Activities*, (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.

With over \$500 billion of investments in fixed maturity and equity securities, held directly and through AIG-managed funds, we offer our comments from the perspective of not only a preparer and end user of derivative instruments, but also as a significant user of financial statements.

We appreciate the FASB's stated objectives to improve existing disclosure requirements with respect to the accounting and reporting for derivative instruments. However, we believe that the proposed disclosure requirements go well beyond these stated objectives. Specifically, we believe the disclosures for derivative instruments included in the Exposure Draft would not improve the overall usefulness of the financial statements because such disclosures are at

benefit of integration with the standalone requirements for financial instruments as separately required by the recently issued Statements of Financial Accounting Standards:

- No. 155, *Accounting for Certain Hybrid Financial Instruments – An Amendment of FASB Statements No. 133 and 140*, (SFAS 155)
- No. 156, *Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140*, (SFAS 156)
- No. 157, *Fair Value Measurements*, (SFAS 157) and
- No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159).

Should the FASB decide to issue disclosure guidance with respect to derivative instruments and hedging activities as proposed, we ask that it consider our recommendations for the Exposure Draft in the Appendix which follows. We hope you find our comments helpful.

I would be pleased to discuss our comments with the Board or the FASB staff at your convenience. If you have any questions please contact me at 212-770-6463 regarding the contents of this letter.

Very truly yours,

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

cc:

David Herzog
Senior Vice President and Comptroller

Appendix

Scope

Issue 1: The Board concluded that prescriptive guidance about how derivative instruments should be presented and classified in the financial statements should be excluded from the project's scope. Including presentation and classification guidance could potentially delay issuing a standard that would significantly improve the transparency about derivative instruments and hedged items. In addition, various presentation and classification issues related to derivatives and hedged items have an impact on the Board's current project on financial statement presentation and also would need to be addressed in the context of that project.

Do you agree with the Board's decision to exclude from the scope of this proposed Statement prescriptive guidance about how derivative instruments should be presented and classified in the financial statements? Why or why not? (See paragraphs B5–B11 for the basis for the Board's conclusions.)

We agree with the Board's decision not to include prescriptive guidance about how derivatives instruments should be presented and classified in an entity's financial statements. We believe that the extensively detailed information being requested by the Exposure Draft provides more than sufficient information for financial statement users. In fact, we believe that the Exposure Draft would lessen the value of information currently provided under existing rules.

Issue 2: Statement 133 applies to both public and private entities. The requirements in this proposed Statement also would apply to both public and private entities.

Do you agree that this proposed Statement should apply to both public and private entities? Why or why not?

We agree that that this proposed Statement should apply to both public and private entities to allow financial statement users to evaluate publicly held companies and privately held companies having the same degree of information. If the Board believes the additional information is necessary, consistency and comparability of financial statements requires both publicly and privately held companies to adhere to the same standards.

Costs of Implementing the Proposed Statement's Disclosure Requirements

Issue 3: This proposed Statement would require an entity to provide information on derivative instruments (including, but not limited to, notional amounts and fair value amounts), hedged items, and related gains and losses, by primary underlying risk, accounting designation, and purpose in the tabular format shown in Appendix A.

Do you foresee any significant operational concerns or constraints in compiling the information in the format required by this proposed Statement? Are there any alternative formats of presentation that would provide the data more concisely? (See paragraphs B18–B20 for the basis for the Board’s conclusions.)

Users of a significant number of derivative strategies would be required to present tables not only on interest rate risk as shown in the example, but also tables to represent foreign currency, equity and equity derivative, commodity, and credit risk management strategies. Strategies used in various combinations would require yet additional tables for such permutations of the risks managed. Due to the fact that that all the information required could result in more than 8 to 10 additional tables of information, it is anticipated that the Exposure Draft’s requirements would create significant operational concerns and constraints. The high number of tables is the result of the Exposure Draft’s requirement that the information be presented by risk management strategy used.

It should also be noted that this is in addition to the significant information requirements engendered by SFAS 155, SFAS 156, SFAS 157, and SFAS 159 becoming effective within a short period of time.

Issue 4: This proposed Statement would require disclosure of (a) the existence and nature of contingent features in derivative instruments (for example, payment acceleration clauses), (b) the aggregate fair value amount of derivative instruments that contain those features, and (c) the aggregate fair value amount of assets that would be required to be posted as collateral or transferred in accordance with the provisions associated with the triggering of the contingent features.

Do you foresee any significant operational concerns or constraints in compiling that information for this disclosure? (See paragraphs B39–B42 for the basis for the Board’s conclusions.)

The information envisioned by the Exposure Draft is neither collected currently in the groupings required for financial reporting purposes nor collected in the same automated systems. Such contingent features are frequently the result of bilateral negotiations and are used in the credit and collateral monitoring process. Collection of such information in a manner suited for financial reporting purposes would entail significant operational challenges, capacity constraints and changes in current information gathering processes as a result.

Disclosure of Notional Amounts

Issue 5: This proposed Statement would require disclosure of notional amounts in tables that also will include fair values of derivative instruments by primary underlying risk, accounting designation, and purpose.

Do you agree that this proposed Statement should require the disclosure of notional amounts? Why or why not? (See paragraphs B21–B25 for the basis for the Board's conclusions.)

As the Board is probably aware, derivative contract notional amounts are not accurate indicators of the risk contained in the underlying contract. As a result of leveraging or deleveraging of the risk contained therein and depending on the duration of the derivative instrument, the presentation of notional amounts in the tables would not provide additional information on the risks inherent in such contract. In fact, if presented without additional information, notional amounts can be misleading. In contrast, current disclosures of derivatives' impact on risks being hedged and the amount of gains and losses from such contracts during a specific accounting period provides the financial statement user with accurate information on the results of using derivatives in the risk management strategies identified by an entity.

Issue 6: This proposed Statement would require disclosure of gains and losses on all derivative instruments that existed during the reporting period regardless of whether those derivatives exist at the end of the reporting period. This proposed Statement would not require disclosure of the aggregate notional amounts related to those derivatives that existed during the reporting period but no longer exist at the end of the reporting period.

Do you agree that this proposed Statement should not require the disclosure of the aggregate notional amounts related to derivatives that no longer exist at the end of the reporting period? Why or why not?

We do not understand the perceived value of this additional information to the financial statement user community. Under the fair value model required for all derivative instruments, we do not expect this particular disclosure to provide information of any significance. At the same time, it raises operational and capacity concerns given the new processes an entity would be required to put in place to capture previously unused information.

Disclosure of Gains and Losses on Hedged Items

Issue 7: This proposed Statement would require disclosure of the gains and losses on hedged items that are in a designated and qualifying hedging relationship under Statement 133. The Board decided that an entity would not be permitted to include

information in the tables on "hedged items" that are not in designated and qualifying Statement 133 hedging relationships because "economic hedging" means different things to different people.

Do you agree that information about "hedged items" that are not in designated and qualifying Statement 133 hedging relationships should be excluded from the disclosure tables? Alternatively, should the tables include gains and losses on "hedged items" that are recorded at fair value and are used in hedging relationships not designated and qualifying under Statement 133? Why or why not? Would your answer be affected by the forthcoming FASB Statement on the fair value option for financial assets and financial liabilities, which will provide the option to report certain financial assets and liabilities at fair value? (See paragraphs B33–B35 for the basis for the Board's conclusions.)

We agree that presenting information about economic hedges along with that of FAS No. 133 qualified hedge relationships provides financial statements a more detailed and comprehensible view of managements risk management strategies and objectives. Without such information, the risk management activities presented within the table would present only a partial picture of the entity's efforts to manage risk. We appreciate the Board's invitation to provide additional tables as encouraged by FAS No. 133's paragraphs 44 and 45 to present this information, but we believe it would be more useful to readers to simply allow the disclosure to be included in one place.

We do not believe that information about economic hedges should be prohibited from being disclosed along with FAS No. 133 hedges simply because "economic hedging" means different things to different people. Similar to the "management approach" underlying segment disclosure requirements in FAS No. 131, we believe it is relevant for users to see how the company is mitigating various market risks through management's eyes, recognizing that different companies will view economic hedging in different ways. We note that the advent of the fair value option under FAS No. 159 will only increase the level of economic hedging that companies engage in.

In our research, we note it is a rare occurrence in U.S. GAAP where a specific quantitative disclosure is expressly prohibited. Accordingly, we ask that the Board reconsider the prohibition of providing additional information on "economically hedged" items along with FAS No. 133 hedged items in whatever form the required disclosures ultimately take because doing so will result in improved financial information for users.

Disclosure of Overall Risk Profile

Issue 8: Under this proposed Statement, quantitative information about non-derivative instruments used as part of an entity's overall risk management strategy would not be included in the disclosure tables. However, paragraphs 44 and 45 of Statement 133 would permit an entity to provide qualitative and quantitative information about the derivatives included in the disclosure tables as those derivatives (a) relate to the overall context of its risk management activities and (b) are related by activity to other financial instruments.

Do you agree that information that could be provided in the qualitative and quantitative disclosures encouraged by paragraphs 44 and 45 of Statement 133 would be sufficient to appropriately inform users of financial statements about the risk management strategies of an entity? If not, should additional information about an entity's overall risk management strategies be provided as part of the tabular disclosure required by this proposed Statement?

The final standard should allow for the provision of qualitative disclosures about an entity's overall risk management strategies to allow the financial statement user to have a complete description of the entity's activities and how effective they were in producing the desired results. Again, standalone derivative instrument information presented out of the context of the overall risk management strategies and objectives does not represent an improvement in financial reporting. The alternative of providing the encouraged information per paragraphs 44 and 45 would not be an improvement either; instead, there would potentially be two sets of multiple tables, which could lead only to confusion.

Examples Illustrating Application of This Proposed Statement

Issue 9: This proposed Statement includes examples of qualitative disclosures about objectives and strategies for using derivative instruments, contingent features in derivative instruments, and counterparty credit risk. Those examples are intended to illustrate one potential way of communicating information about how and why an entity uses derivatives and the overall effect of derivatives on an entity's financial position, results of operations, and cash flows. The examples are not intended to be construed as the only way to comply with the disclosure requirements.

Are those examples helpful in communicating the objectives of providing information on how and why an entity uses derivatives and on the overall effect of derivatives on an entity's financial position, results of operations, and cash flows? Or, do you believe those examples would be viewed as a prescribed method to comply with the requirements of this proposed Statement?

We believe that the provision of detailed disclosure examples would be viewed as prescriptive thus presenting a limited model for expressing complex objectives and strategies. This could lead to a decrease in the quality of financial information currently being disclosed in accordance with SFAS No. 133 as companies attempt to comply with inappropriate and unintentionally comprehensive guidance.

Amendments Considered but Not Made

Issue 10: The Board considered but decided against requiring additional disclosures as described in paragraphs B55–B63. Those disclosures focused on providing information on an entity's overall risk management profile, methods for assessing hedge effectiveness, and situations in which an entity could have elected the normal purchases and sales exception.

Do you agree with the Board's decisions not to require disclosures in those areas? Why or why not?

Given the Board's perceived need for an issued standard in the immediate future, we believe the Board's omission of requirements for disclosure of Overall Risk Profile, Assessment of Hedge Effectiveness, and Normal Purchase and Sales Exception is appropriate, as well as necessary. As discussed, we believe that the Board would be best serving both the financial statement user and preparer communities if a project were designed to consider the disclosures for all financial instruments. Despite the additional time required for a full scope project such as this, the resulting usefulness would compare quite favorably to a piecemeal approach.

Effective Date

Issue 11: The Board's goal is to issue a final Statement by June 30, 2007. The proposed effective date would be for fiscal years and interim periods ending after December 15, 2007. At initial adoption, comparative disclosures for earlier periods presented would be encouraged, but not required. Beginning in the year after initial adoption, comparative disclosures for earlier periods presented would be required.

Does the effective date provide sufficient time for implementation? (See paragraphs B50–B53 for the basis for the Board's conclusions.)

We do not believe adoption for fiscal years and interim periods ending after December 15, 2007 should be required as the information being requested is not currently collected for management reporting purposes, there would be significant systems and operational efforts and related costs incurred to comply the proposed Standard. In addition, both FAS No. 157 and FAS No. 159 have January 1, 2008,

effective dates and these Statements will require significant systems and operational efforts and related costs. We recommend that the Board delay implementation until fiscal years ending after November 15, 2008.