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January 15, 2009



Mr. Russell Golden
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

LETTER OF COMMENT NO. 61

Re: File Reference: Proposed FSP FAS 107-a.

Dear Mr. Golden:

American International Group, Inc. (AIG) appreciates the opportunity to provide comments and observations on the Financial Accounting Standards Board's ("FASB") Proposed FSP FAS 107-a, *Disclosures about Certain Financial Assets: An Amendment of FASB Statement No. 107* ("the proposed FSP").

We appreciate and support the Board's commitment to begin to address the recent concerns raised by preparers and financial statement users with respect to the impairment model for debt securities. The Securities and Exchange Commission (SEC) has also recognized the importance of this issue, by providing a specific recommendation for standard setters to readdress the impairment model for financial instruments in its December 2008 "Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-to-Market Accounting." AIG also supports the long-term strategic priority of the FASB and IASB to work toward the convergence of U.S. and international accounting standards through the development of a common set of high quality global accounting standards.

Notwithstanding the Board's commitment to begin addressing this issue in a timely manner, we are not convinced that the "broad brush" disclosures outlined in the proposed FSP, including pro forma effects on income under alternative measurement attributes for financial instruments, will improve the quality of information provided to users of financial statements, as they do not adequately address the concerns expressed by constituents. The concerns raised to date have specifically focused on the accounting for credit-only impairments for securities in dislocated markets, where the fair value decline far exceeds, in most cases, the credit-only decline or "incurred loss amount" due to risk aversion and lack of market liquidity for the security. The proposed disclosures go far

beyond highlighting these measurement differences to the point where such disclosures become much less meaningful to financial statement users. To this end, we urge the Board to instead focus on readdressing the impairment accounting models, as recommended by the SEC, rather than quickly implementing a high level disclosure that we believe will not accomplish the desired objectives.

If the Board decides that additional disclosure in the interim is desirable, we are concerned that the proposed FSP, as written, raises various implementation issues that would need to be addressed and resolved by the Board prior to the disclosure requirements becoming effective. The proposed guidance adds an additional level of complexity to financial reporting by requiring disclosure of a new measurement basis (i.e. the “incurred loss” amount) for debt securities. Certain of the more significant implementation concerns relate to the meaning of “effective yield,” the scope of securities for which the incurred loss amount needs to be calculated, intent-based impairments under FAS 115, and pro forma disclosures; all of which are explained more fully in this letter. In addition, we are very concerned that, even if all of the implementation issues were resolved or did not exist, companies, large and small, would need additional time to gather the required information and make the necessary changes to processes, systems and controls in order to comply with the new disclosure requirements. For SEC registrants, the placement of these disclosures in the 2008 year-end audited financial statements makes them subject to internal control testing under the Sarbanes-Oxley Act (“SOX”), which will undoubtedly be problematic for many companies, given the fact that processes and controls were most likely not in place at 2008 year-end for a proposed standard that registrants are not yet certain how to implement.

Significant Implementation Concerns

Effective Yield

The proposed FSP appears to require the “incurred loss” amount to be calculated based on the most recent estimate of future cash flows discounted at the debt security’s *original* effective yield, similar to the measurement basis in FASB Statement No. 114, *Accounting by Creditors for the Impairment of a Loan—an amendment of FASB Statements No. 5 and 15* (“FAS 114”) for determining the new carrying amount of a loan. Unlike a loan under FAS 114, there are several classes of debt securities for which a constant effective yield is not utilized for the recognition of interest income, thereby raising questions as to how “effective yield” should be interpreted. For example, asset-backed securities of higher credit quality, whose underlying assets are subject to prepayment risk, are generally accounted for under FASB Statement No. 91, *Accounting for Nonrefundable Fees and Costs Associated with Originating and or Acquiring Loans and Initial Direct Costs of Leases – an amendment of FASB Statements No. 13, 60, and 65 and a rescission of Statement No. 17* (“FAS 91”), which requires the effective yield to be adjusted

retroactively “each time” actual prepayments differ from anticipated prepayments. Likewise, EITF 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets (as amended)* (“EITF 99-20”), applicable to asset-backed securities of less than high quality, requires the effective yield to be adjusted prospectively each period based on changes in estimates of future cash flows. It is unclear in the proposed FSP, for these classes of instruments whether the Board intended the incurred loss amount to be measured based on the “original” effective interest rate at the date the investment was first recorded, the “latest” effective interest rate, or the effective interest in effect at the time of the most recent credit impairment, if any. For securities that are accounted for under these standards that are not otherwise credit-impaired, the incurred loss amount will not equal current amortized cost unless the “latest” effective interest rate is used. In addition, many popular investment accounting systems used today do not, as we understand, have the capability of retaining the effective interest rate on a historical basis, requiring a manually intensive process to obtain such information for what could be, in our case, thousands of securities for initial adoption. Until systems can be modified to accommodate this new measurement basis, companies would conceivably have to manually compute and maintain a separate measurement basis on an ongoing basis for these securities, in addition to fair value and amortized cost. If the Board decides to proceed with this disclosure initiative, this is a critical conceptual and operational issue that needs to be considered by the Board as it redeliberates the proposed FSP.

Scope for Incurred Loss Amount Calculation

It is unclear whether the Board intended for the incurred loss amount to be calculated only for debt securities that would have otherwise been credit-impaired under FAS 115 or, alternatively, for all debt securities. If the Board intended the scope to include all debt securities, regardless of whether they have experienced a credit-related impairment, the implementation issue mentioned above with respect to effective yield becomes that much more significant. If the Board’s intent was for the incurred loss amount to be calculated only for those securities that would have otherwise had a credit-impairment under FAS 115, additional issues arise that need to be resolved for initial adoption, including, but not limited to the following:

- What is the appropriate incurred loss amount for securities that are not credit-impaired? Would it simply be amortized cost?
- Would the incurred loss amount need to be calculated for securities that (1) have ever had a credit impairment since inception, (2) have only had a credit impairment in the past quarter or year, or (3) only those that would be considered to be credit-impaired at the balance sheet date?

To be consistent with what we believe to be the intent of the proposed FSP, it would be appropriate to report the amortized cost of the debt security as the incurred loss amount, until there was a credit impairment. If this was the intent of the Board, with respect to initial adoption, we still believe the Board would need to provide additional guidance to addresses the other issue discussed above.

Intent-Based Impairments Under FAS 115

The reporting of an incurred loss amount for credit-impaired FAS 115 securities provides relevant information for financial statement users with respect to the decline in fair value attributable solely to credit by providing a more accurate indication of the ultimate cash flows expected to be received by the investor for that security. We have a concern with respect to the relevance of reporting the incurred loss amount in situations where a debt security is written down under FAS 115 solely due to intent not to hold to recovery (i.e. not credit-impaired). If a debt security has declined in value due to interest rates and not due to credit, but the investor lacks the intent to hold to recovery, an other-than-temporary impairment write-down would be required under FAS 115. The incurred loss amount, as if this security had been subject to the FAS 114 impairment model, can be calculated. However, if this security had been accounted for as a loan and originally been subject to the impairment model under FAS 114, it would have been reclassified as a loan held-for-sale and written down to the lower of cost or fair value upon a change in intent (similar to FAS 115). As such, we question the relevance to financial statement users of reporting an incurred loss amount in this circumstance, because it represents a measurement basis that would not be used under any impairment model. Furthermore, we do not believe such an amount provides an accurate indication of the ultimate cash flows to be received by the investor for that security, as it would for a security (or a loan) for which there was an intent to hold to recovery. We believe it would be more relevant for the incurred loss amount to reflect the lower of cost or fair value in this circumstance.

Pro forma Amounts

Regardless of the Board's interpretation with respect to the issues described above, there are implementation concerns with respect to the pro forma requirements, two of which are highlighted below. We are not sure that the Board contemplated these, and perhaps other, implementation concerns with respect to the development and presentation of pro forma information.

- Because an impairment amount under a FAS 114 model would most likely be different than an impairment amount under a FAS 115 model, for purposes of completing pro forma disclosures, it would be necessary for companies to maintain two amortized cost bases for every debt security in order to properly reflect the pro forma effects of different income recognition, for example, due to accreting different amounts.

- Secondly, different impairment amounts and subsequent income recognition on a pro forma basis may have an indirect effect on other amounts in the financial statements. For example, there are certain insurance products for which the amortization of deferred acquisition costs (DAC) is impacted by the timing and amount of profits that emerge on the underlying business, including realized losses. The pro forma effects of the incurred loss model for debt securities or fair value for loans could have significant effects on insurance company DAC amortization, for which process, systems and controls would need to be implemented outside the primary accounting system to ensure such amounts were measured properly for disclosure purposes.

In summary, we believe the disclosures outlined in the proposed FSP, including pro forma effects, will not improve the quality of information provided to users of financial statements without significant revisions, as they do not adequately address the concerns expressed by constituents with respect to differences in the impairment models for financial instruments. If the Board decides that additional disclosure in the interim is desirable, we are concerned that the proposed FSP, as written, raises various implementation issues that would need to be resolved by the Board prior to the disclosure requirements becoming effective, as the proposed guidance adds an additional level of complexity to financial reporting by requiring disclosure of a new measurement basis for debt securities. Finally, we are very concerned that, even if all of the implementation issues were resolved or did not exist, most companies would need additional time to gather the required information and make the necessary changes to processes, systems and controls in order to comply with the new disclosure requirements, with a particular concern for SEC registrants subject to SOX audits as of year-end 2008.

We would be pleased to discuss our comments with the Board members or the FASB staff in person at your earliest convenience and appreciate your prompt attention to this matter. If you have any additional questions, please contact me at (212) 770-6252.

Very truly yours,

s/Steve Belcher
Director and Global Head of Accounting Policy
American International Group, Inc.

Cc: Anthony Valoroso
Vice President and Chief Accounting Officer
American International Group, Inc.