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May 2, 2008

Russell G. Golden
Director of Technical Application and Implementation Activities,
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401 Merrit 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116



LETTER OF COMMENT NO. 23

RE: Employers' Disclosures about Postretirement Benefit Plan Assets
Reference: Proposed FSP FAS 132(R)-a.

Dear Mr. Golden:

American International Group, Inc. (AIG) appreciates the opportunity to offer comments on the above proposed FASB Staff Position (FSP). AIG is the world's leading international insurance and financial services organization, with operations in more than 130 countries and jurisdictions, where we serve commercial, institutional and individual customers through the most extensive worldwide property-casualty and life insurance networks of any insurer. As a global organization, AIG supports the FASB's goal to increase transparency in financial reporting by continually improving disclosure. We offer the following comments in addition to responding to the specific questions raised in the Proposed FSP in the attached appendix.

Plan Assets

As a basis for issuing the FSP, the Board cites how the change in the value of plan assets could have a sizable effect on some employers' equity and cash flows due to the significance of the pension plan assets relative to the amount of the employers' total assets. Indeed, within a very short period of time, poor plan asset performance and/or interest rate declines can create unexpected and pressing needs for mandatory pension contributions. As a result, companies with large defined benefit plans can experience serious financial reporting and cash flow problems if the performance of the plan assets reduces stockholders' equity or strains cash flows generated by core businesses to fund the pension plans.

We do not believe such companies with pension plan assets of such significance are representative of the majority of plan sponsors. We also note that only a relatively small percentage of plan sponsor assets reside in the less liquid alternative investments (e.g., hedge funds and private equity) that are of concern to the Board, due to the lack of transparency associated with those asset classes.

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Because the companies the FASB is targeting with the FSP do not embody a significant portion of plan sponsors (i.e., sponsors of plans with a significant amount of plan assets compared with the size of the sponsor), we do not believe the proposed additional disclosures will provide investors with meaningful additional insight compared with the current disclosure requirements for the majority of plan sponsors, and we question whether the imposed costs to meet the proposed disclosures are justified in relation to the overall benefits.

Additionally, we believe compliance will be particularly burdensome for multinational employers, such as AIG, with dozens of non-US funded plans. Should the Board proceed with the FSP as drafted, we do not think there is sufficient time for large, multinational companies with many plans to properly implement the guidance for the 2008 annual reporting cycle. US plan sponsors were on a trajectory to implement FAS 157 in the summer of 2009. Not only would the FSP's year-end effective date accelerate the process, it would broaden the scope to include non-US plans, for which multinational employers had not previously anticipated or planned since audited financial statements are not required for these plans. We therefore suggest the Board postpone the effective date of the FSP for one year, as we discuss in further detail in the appendix.

We would be pleased to discuss our comments at your convenience.

Very truly yours,

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

cc:

David Herzog
Senior Vice President and Comptroller

APPENDIX

1. *Is the principle of disclosing categories by type of plan asset understandable?*

Yes. However, while the principle is understandable and achievable for the more straightforward products such as marketable corporate and asset-backed-securities and other marketable products, we believe the transparency the Board is hoping to achieve by disclosing various categories of plan assets may be more difficult than anticipated because of the way products are structured in today's market. This could result in diversity in practice and classifications that are misleading to financial statement readers.

For example, FAS 132 (R), *Employer's Disclosures about Pensions and Other Postretirement Benefits*, defines an equity security as "Any security representing an ownership interest in an enterprise..." and a debt security as "Any security representing a creditor relationship with an enterprise..." Under these definitions, a plan sponsor would classify investments in funds that invest only in debt securities as equity, because units of fund ownership are considered to be equity. If, however, a financial statement reader is trying to determine the long-term pension risk of an employer that disclosed a high percentage of equity-classified investments, he or she could erroneously decide that there is little exposure to interest rate risk, or, that the plan has more long-term risk than a pension plan with the same funded status that disclosed a high percentage of investment in debt securities. Similarly, FAS 115's¹ implementation guidance, Q&A #5 describes a situation in which a limited partnership or venture capital company whose securities meet the definition of an equity security (and would be considered a non-marketable Level 3 security), invest in assets that have readily determinable fair values (that are considered to be Level 1 marketable securities). For *classification* purposes, the guidance states that "an entity should not "look through" the form of an investment to determine the nature of the securities held by an investee."

In our view, the current disclosure and classification requirements do not provide readers with enough information for them to determine the true characteristics of the asset and we do not think the proposed disclosures offer much improvement. As such, we believe the current guidance should be enhanced to give employers a better perspective on how to classify indirect investments.

2. *Are the asset categories that must be disclosed, if significant, representative of the types of assets held in postretirement benefit plans? Should any other categories be added?*

We believe the FSP should include a category for certain annuity contracts. This is because many plan sponsors purchase annuity contracts to fund their pension plans, which may not represent a settlement of the pension obligation.

Additionally, (and further to point 1) we believe the proposed FSP should include definitional parameters to ensure consistent asset classification and comparability among entities and to better achieve the Board's objective. For instance, if a REIT is a member of a public equity index, should a plan sponsor classify the REIT as public

¹ FAS 115, Accounting for Certain Investments in Debt and Equity Securities, (FAS 115).

equity or as real estate? Also, it would be helpful to provide a clear distinction between structured debt and asset-backed securities, because many structured credit instruments, such as collateralized debt obligations (CDOs), are commonly referred to as both structured debt and asset backed securities.

Within the investment industry, “private equity” generally refers to venture capital funds, leveraged buyout funds, mezzanine debt funds, and secondary funds. We suggest deleting the category for venture capital funds if a category for private equity funds is also listed in the disclosure requirements.

- 3. Is the requirement to disclose concentrations of risk arising within or across categories of plan assets from a lack of diversification understandable, and is this information useful? Would another disclosure principle be better?*

Based on the example given in paragraph A5 in the FSP’s Basis for Conclusions, the Board will require employers to “look through” the form of the investment to determine the underlying risk exposure. While the information would be useful, we believe it is not operationally practical--particularly for large multi-national employers, with many non-US based trusts. Measuring risk in general requires access to position holdings to perform a full analysis. Rather than invest in individual corporate securities, some non-US entities, including AIG, generally invest in funds and it is much more difficult to obtain detailed information about fund holdings to ascertain the underlying risks.

We also think further guidance is needed concerning what is considered to be a “concentration.” For instance, if a pension fund is invested in assets that are based, or originated, solely in Japan, we believe that likely would be considered a concentration. However, must a company aggregate other assets based or originated in Japan, but owned by a different fund or by a different pension plan in another country?

- 4. Would the disclosures about fair value measurements of plan assets provide decision-useful information?*

Yes. The growing spotlight on the problems of defined benefit pension plans in recent years that were triggered by falling interest rates, a distressed stock market and a number of bankruptcies (fueled in part by overburdened pension obligations), created a sense of mistrust and uncertainty among investors, analysts and regulators alike. In light of today’s volatile market environment, the determination of levels for FAS 157 assets based on observability and reliability of measurement inputs may give stakeholders meaningful insight about the marketability of the assets held in the pension plan. However, we do not expect there to be many significant Level 3 items, as pension plans do not typically invest in illiquid assets.

- 5. Would any of the required disclosures impose excessive incremental cost? If so, please describe the nature and extent of the additional costs.*

We believe many accounting and financial reporting systems are not currently designed to capture “concentration of risk” characteristics. Because it is currently not possible for multinational employers to retain a global custodian for all their pension funds, multinational plan sponsors do not have a single repository for their data collection

needs, and would have to incur significant additional cost to comply with the “concentration of risk” disclosure requirements.

6. *Is the time needed to compile the information required to support annual reporting disclosure sufficient given the proposed effective date for fiscal years ending after December 15, 2008? If not, please describe the nature and extent of the effort required and the time needed.*

We do not believe the time allotted is sufficient. The majority of US-based plan sponsors that did not early adopt FAS 157, *Fair Value Measurements*, (FAS 157) were preparing for its implementation in their US pension plan’s financial statements to be filed as of July 2009 (when the Form 5500s are due). Not only does the FSP effectively accelerate the implementation of FAS 157 by five months, but the scope of the application has been expanded for multinational employers. This is because employers are not required to file financial statements for their non-US pension plans and as a result did not consider them as they developed their FAS 157 implementation process for the regulatory filings.

Furthermore, the FSP contains additional requirements outside of FAS 157 (primarily, identification of risk concentrations) that will require modified reporting processes to accumulate such information. Because pension plan assets cannot be commingled with corporate assets and are held by a trustee or custodian, accessibility of the underlying investment information could prove to be extremely difficult. In particular, companies will need to ascertain whether the smaller domestic custodians as well as many non-US custodians, have the capability to provide the necessary level of detail required. Indeed, many of these custodians may have inadequate operational infrastructures that would preclude them from capturing the additional data; thus they will need more time to expand and update their systems to accommodate their clients. In particular, global employers may have multiple local custodians and trustees throughout several countries. We therefore anticipate major challenges in providing SOX-compliant information within the shortened timeframe. Accordingly, multinationals in particular, would need to expend more time and effort coordinating a course of action to ensure the reporting and categorization are consistent across countries, to improve the timeliness of reconciliations and to provide auditable information, given the added data.

We therefore believe it is unlikely that companies would be ready to comply with the guidance by the end of 2008 and suggest that if the Board proceeds with issuing the FSP, the effective date be postponed for one year to give companies more time to establish new processes both from the employer and custodian perspective.