# AMERICAN INTERNATIONAL GROUP, INC.



October 12, 2009

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

Re: File Reference No. 1710-100—Proposed Accounting Standards Update, *Improving Disclosures about Fair Value Measurements* 

Dear Mr. Golden:

American International Group, Inc. ("AIG") is a leading international insurance and financial services organization with operations in more than 130 countries and jurisdictions. AIG companies serve commercial, institutional and individual customers through extensive worldwide property-casualty and life insurance networks. AIG companies also are leading providers of retirement services around the world.

AIG appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Improving Disclosures about Fair Value Measurements* (the "Proposed ASU"). We support the Board's objective of enhancing disclosures related to fair value measurements. However, we believe the disclosures in the Proposed ASU will not meet the objectives the Board set out to achieve.

We believe the quantitative disclosures of weighted average inputs and reasonably possible ranges of inputs, disaggregated in accordance with the existing qualitative accounting guidance, would not be statistically valid and would not faithfully represent the characteristics of the instruments included in the disaggregated classes of assets and liabilities. Additionally, the extent of judgment necessary to determine a range of reasonably possible inputs is similar to the extent of judgment necessary to determine the reported fair value measurements themselves. Absent a reliable statistical approach to developing these proposed disclosures, the disclosures intended to lend credence to the judgments used to measure fair values will themselves be based on the use of significant judgment.

In our view, a reliable statistical approach is essential when quantitative disclosures are used to gauge the degree of reliability of the reported fair value measurements. While a rigorous statistical approach can rectify the shortcomings discussed above, such an approach likely will be prohibitively costly and will not be economically justifiable when other equally effective

approaches are available. We believe the Board should allow companies to qualitatively discuss any potentially significant variances detected in a company's price verification process and how those variances are related to changes in market factors or positions owned. These disclosures, which would align with business models and risk management strategies, would provide meaningful and relevant insight into the quality of the reported fair value measurements.

Further, AIG, as a user of pricing vendor information, cannot directly influence the availability of the information needed to comply with the proposed disclosures and it is not operationally feasible for AIG to generate the information itself. Moreover, meaningful disaggregation of assets and liabilities is not static over time and should change in response to changes in positions held, market conditions, etc. Finally, to provide comparative disclosures, AIG would need to restate relevant prior-period quantitative disclosures based on the current disaggregation. The information to do this may not be available and could be operationally challenging to obtain, with questionable value added to a user of the financial statements.

To produce meaningful disclosures at a justified cost and eliminate operational infeasibility, we urge the Board to consider a qualitative approach rather than the quantitative approach in the Proposed ASU. If the Board continues to pursue a quantitative approach, we urge the proposed effective date for the sensitivity analysis be postponed for at least twelve months and the effective date for the other disclosures be changed to the beginning of an annual reporting period to provide preparers with sufficient time to obtain the information in a SOX-compliant environment.

Our responses to specific issues raised by the Board are included in the Appendix to this letter. Thank you for the opportunity to present our views. Please do not hesitate to contact me at (212) 770-8997 if you have any questions or need clarification with respect to any matters addressed in this letter.

Very truly yours,

/s/Tom Jones Director and Global Head of Accounting Policy American International Group, Inc.

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

#### **APPENDIX**

Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures), comment on the operationality and implementation costs.

The proposed disclosures for Level 3 sensitivity analyses are operationally challenging and potentially costly to implement.

#### Data availability and cost

AIG measures the fair value of its investment portfolios by obtaining price quotes from third-party pricing vendors and brokers at the CUSIP level. To comply with the proposed sensitivity disclosures AIG would have to obtain from these vendors information about reasonably possible ranges of alternative inputs that consider correlation. This information is not currently provided by these pricing vendors and we understand these pricing vendors do not aggregate CUSIP-level information into classes. Based on discussions with several pricing vendors, AIG believes it is unlikely the information will be available from these pricing vendors by the proposed effective date, if ever.

There is a similar data-availability issue with the proposed weighted-average-input disclosures. The information on significant inputs used in fair value measurements is available at each CUSIP level but is not available at a disaggregated class level as specified in FASB Accounting Standards Codification (ASC) Topics 320 and 815.

Further, AIG expects the disaggregated disclosures it would present would vary from those other financial statement preparers would present based on the characteristics of each preparer's portfolio. It is not clear to us how pricing vendors would operationally be able to aggregate input information differently for all of their clients.

### Disaggregation and disclosure usefulness

We are concerned that the statistical approaches to developing the proposed disclosures would not result in meaningful quantitative disclosures. Because disaggregation of assets and liabilities is based on the qualitative accounting guidance provided in ASC Topics 320 and 815, there is no assurance these disaggregated assets and liabilities are statistically homogeneous such that the weighted average inputs and reasonably possible ranges of inputs would be reliable proxies of the significant characteristics of each of the instruments included in the class. A simple weighted average of inputs and reasonably possible alternative ranges of inputs for a group of assets or liabilities that are considered to be homogeneous for accounting purposes may actually be diversified if further statistical analysis is performed. Quantitative disclosures made for such an aggregated class will not be meaningful and may even be misleading. For example, depending on the collateral, seasonality of the mortgage loans, geographic locations, etc., there can be multiple classes within the class of residential mortgage-backed security ("RMBS") non-agency prime mortgages and each of these multiple classes may or may not be affected by changes in market

factors consistent with the entire class of RMBS non-agency prime mortgages. The intended quantitative disclosures should only be provided if disaggregation is statistically homogeneous, which could result in voluminous and potentially misleading disclosures.

## Use of judgment

While the purpose of the quantitative disclosures is to provide information about the reliability of the judgment exercised over measuring fair values, the same degree of judgment is exercised in determining what reasonably possible alternative inputs should be disclosed. Therefore, the quantitative disclosures are as subjective as the reported fair values. We question how much value the proposed disclosures would add to the reported financial results.

Issue 2: With respect to the reconciliation (sometimes referred to as a roll forward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

Tracking purchases, sales, issuances, and settlements separately will require information system changes. Although it is feasible to make these changes, sufficient time is needed to plan, implement and test the changes in a SOX-compliant environment. In our view, the effort to comply with these proposed disclosures outweighs any benefits. We do not believe decision-useful information is provided through a rollforward of gross cash flows.

We also do not believe it is necessary for a principles-based standard to specify the date (i.e., the beginning of a period) at which transfers between Levels should be presumed to have occurred. AIG assumes transfers occur at the end of the period, consistent with the date of pricing, and we believe our approach is followed by other financial statement preparers. If the proposed change is effective for the 2009 fourth quarter, companies currently following an end-of-period approach for Level transfers will need to develop quarterly transfer information from January 1, 2009 for all Levels that have had transfers in to or out of Level III. This will involve significant operational and system changes. The benefit of this requirement is unclear to AIG and we suggest the Board continue to permit companies to determine for themselves how the requirement should be implemented. An alternative may be that the Board requires disclosure of a company's method for transfer date. If the Board retains the proposed changes to the rollforward requirement, we urge the Board to change the effective date of the Proposed ASU to the beginning of an annual reporting period to provide preparers with sufficient time to make the necessary system changes in a SOX-compliant environment.

Additionally, to clarify the requirements of the Proposed ASU, we believe the Board should state that a net presentation for transfers of derivatives between Levels I and II is permitted, as currently is permitted for transfers of derivatives in to and out of Level III. We also suggest the Board clarify that the significant transfer disclosures for Levels I and II are not required to be made in a tabular roll forward schedule.

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Issue 3: Is the proposed effective date operational? In particular, will entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements for interim reporting periods ending after March 15, 2010?

We believe the effective dates contained in the Proposed ASU are not operational. We expect the Board will not issue a final ASU until late November or early December, which we believe will not provide financial statement preparers with sufficient time to implement the ASU in a SOX-compliant environment. We believe companies will find the proposed effective date to be challenging, particularly considering the significant resources many global financial services companies are using to implement Statement of Financial Accounting Standards (SFAS) No. 166, Accounting for Transfers of Financial Assets, and SFAS No. 167, Amendments to FASB Interpretation No. 46(R).