AMERICAN INTERNATIONAL GROUP, INC.

April 25, 2011
Ms. Susan M. Cosper
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2011-175

AIG appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB") *Invitation to Comment* "**Selected Issues about Hedge Accounting**". AIG is exposed to market risks, primarily within its insurance and capital markets businesses, and is a frequent user of derivatives and hedge accounting. As such, we are pleased to provide our views. We express these views not only as a preparer, but also as a user of financial statements. We support FASB's and the International Accounting Standards Board's ("IASB") (collectively "the Boards") efforts to improve and simplify standards for accounting for and financial reporting of financial instruments and, at the same time, provide users with clearer and more complete information. We agree with many of the proposals put forth in the IASB's Exposure Draft ("ED"), *Hedge Accounting*. We also, however, believe there are several areas where the ED can be improved. Our comments and suggestions are summarized below and are discussed in more detail in our responses to the FASB's "Questions for Respondents" in the Appendix to this letter.

SUMMARY COMMENTS

Convergence

In our view, a converged standard must be one that can be applied broadly by preparers and yet have the transparency required by users. We understand that striking this balance is challenging so we recommend that the FASB give careful consideration to each area within the hedge accounting model. While we agree with many of the changes in the IASB's hedge accounting model we still have practice/implementation concerns that, if not addressed, result in multi-phase changes to the current derivative accounting requirements when convergence does occur. This will impose additional implementation and interpretation costs.

As discussed throughout our response, we believe the Boards are pursuing the right path by putting less reliance on prescriptive rule making and, instead, relying upon principles-based standards. However, there are areas we note below where the Boards are incorporating rules intended to limit the use of preparer judgment. If the objective of hedge accounting is to allow entities to better align the accounting with their risk management practices, then the proposed standard must allow for the appropriate use of judgment. In our view, preparers seek to mitigate risks and will design hedging programs to achieve that objective. For example, AIG uses derivatives and other financial instruments as part of its financial risk management programs and as part of its investment operations. Our objective in these programs is to ensure that risks related to interest, foreign exchange, credit, price, etc. are mitigated sufficiently such that the impact to our stakeholders is minimal.

Further, we believe that an accounting model that is consistent with an entity's risk management practices is more useful for users of financial statements. This will provide more transparency into the relationship between the accounting in the financial statements and the strategies behind those hedging relationships.

Hedging Instruments

We support the expansion in the ED of the types of financial instruments eligible to be designated as hedging instruments to include nonderivative financial assets and liabilities. We believe that by permitting greater flexibility in the use of hedging instruments, the ED better enables entities to more faithfully align their accounting with their risk management strategies. However, we would like to see this expanded further to nonderivative assets and liabilities measured at fair value through accumulated other comprehensive income and thus be consistent with the proposed objective of hedge accounting in the ED.

Hedged Item

We support the expansion in the ED regarding the types of items that may be designated as a hedged item. We agree with the proposal that an aggregated exposure that is a combination of an exposure and a derivative may be designated as a hedged item. This is consistent with the objective to align an entity's risk management strategies with the hedge accounting and disclosure and will provide a more accurate picture of risk management. We welcome this proposal because there has been an implicit assumption at times by financial statement users that if a derivative is not part of a designated hedging relationship, it must be being used for speculative purposes – which is not always the case. In addition, we believe that permitting hedge accounting for aggregate exposures will provide transparent, useful and more consistent information about derivatives used in an entity's risk management policies.

We also agree with the proposed guidance that would enable changes in the cash flows or fair value of an item attributable to a specific risk or risks (that is, a risk component) of both financial and nonfinancial items to be designated as hedged items. We agree that the appropriate level for designation is the risk component because it is consistent with the objective of the ED to align hedge accounting with an entity's risk management strategy as long as the risk component separately identifiable and reliably measurable. We believe this is an area the FASB should strongly consider converging to with the IASB. By taking this approach for both financial and nonfinancial assets and liabilities the FASB will create a standard that more accurately reflects entities' risk management practices and will reduce the complexity and operational issues for plain vanilla hedges caused by the elimination of shortcut method for fair value hedges.

Hedge Effectiveness

AIG assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Regression analysis is often employed to assess the effectiveness of these hedges both on a prospective and retrospective basis. AIG does not utilize the shortcut method to assess hedge effectiveness. Given the operational complexity of application of the 80%-125% guidance in both ASC 815 and IAS 39, we welcome the proposal in the ED that hedge accounting and reporting should depict an entity's risk management objectives (and thus more accurately represent the economic substance of a hedge). The bright lines that have developed around the current requirements in both US GAAP and IFRS regarding "high effectiveness" often cause an inability to qualify for hedge accounting for a hedging relationship that an entity believes is necessary as part of a prudent risk management strategy.

Changes to a Hedging Relationship

The ED would permit and sometimes require an entity to adjust an existing hedging relationship (referred to as a "rebalancing" of the hedging relationship) and account for the revised hedging relationship as a continuation of an existing hedge rather than as a discontinuation. AIG believes that rebalancing should be optional and not a requirement. Requiring rebalancing would be counter to the objective that hedge accounting should be aligned with an entity's risk management practices. Only in the event that a risk management strategy or objective has changed should a rebalancing be required.

The ED states that the part of the hedging relationship that remains after the rebalancing would be reported as a continuing hedge, and the part that is no longer hedged after the rebalancing would be reported as a discontinued hedge. This creates additional complexity by requiring the hedging entity to track each piece of the hedging relationship that is otherwise in line with the current risk management objective. We also believe this requirement is unnecessary since any ineffectiveness would be captured in earnings if no rebalancing were required. Finally, we believe this will be confusing for users as it will be difficult to explain why the accounting no longer is consistent with the risk management objective. Economic realities of hedging relationships require flexible risk management techniques (such as adjusting hedge ratios) that can respond to dynamic markets. Therefore, guidance that recognizes the dynamic nature of certain hedging relationships by allowing the entity to treat the rebalancing as a continuation of the existing hedge is an improvement to the existing hedge accounting model.

We also see this as an important area for convergence in two ways. First, because hedge accounting is elective, we believe dedesignation should be voluntary. Secondly, the proposed FASB model for dedesignation (i.e., discretionary dedesignation is only allowed by entering into an offsetting derivative in the absence of selling, exercising or terminating the original hedging instrument) is complex and costly for entities to achieve. Ordinary changes in business can change the risk profile of the underlying hedged exposure, creating a need to remove, add, or change existing hedging relationships.

We therefore recommend that dedesignation be permitted at the discretion of the hedging entity and that the FASB eliminate the proposed restrictions on the subsequent designation of the original hedging derivative instrument or the offsetting derivative instrument when considering convergence.

Presentation

The hedged items in fair value hedges would no longer be adjusted for changes in fair value attributable to the hedged risk. Instead, those fair value changes would be presented as a separate line item in the statement of financial position. Additionally, the gain or loss on the hedging instrument and the hedged item (for changes in the hedged risk) would be recognized in other comprehensive income rather than through profit or loss, which is similar to the current cash flow hedge model.

We believe the proposed presentation of the gains and losses in other comprehensive income for both fair value and cash flow hedges will not provide users with more useful information. We cannot see the benefit of changing the current fair value hedge accounting recognition model to one that adds the step of including changes in other comprehensive income merely because it will present effectiveness for both cash flow and fair value hedges in one place on the balance sheet. We support the principle in the ED that hedge accounting should be consistent with an entity’s risk management objective. Disclosures for those strategies provide the transparency needed for users to determine an entity’s hedge accounting practices.

Therefore, we recommend that the Board not prescribe the presentation of gains and losses associated with hedging instruments. The prescription of the presentation of derivative gains and losses would be difficult, as derivative use varies among entities. Instead,we believe companies should have the flexibility to present the gain or loss on the hedging instrument in a manner that best reflects the objective of the hedging strategy.

Disclosures

We believe that any proposed disclosures must be both relevant and rational. While we agree that disclosures should help users identify how hedge accounting has affected the entity’s financial statements, we are concerned that in the interest of “transparency” the proposed disclosures would provide information that is considered proprietary. That is, each entity has its own risk management strategies and views on markets and rates. To require an entity to disclose the percentage of total risk hedged, for example, could put companies at a competitive disadvantage. Entities will not always seek to hedge 100% of all risks. As such, disclosure requirements should not require an explanation for each unhedged risk. We therefore disagree with the assertion that a user needs to understand an entity’s risk management strategy in detail in order to understand the accounting. Requiring an explanation of the risk management strategy for each category of risk provides insight into day-to-day management decisions that are not relevant to hedge accounting.

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Our responses to questions raised by the FASB in this Invitation to Comment of importance to AIG 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

Questions for Respondents

Risk Management

Question 1: When an entity uses financial instruments to manage risk exposures in economic hedges but those instruments are not designated in hedging relationships for accounting purposes, do you believe that the proposed guidance would provide useful information about all of the effects of an entity's risk management objectives?

While we agree with the proposed objective that hedge accounting should represent the effect of an entity's risk management activities, we believe it is not the intent of the guidance to provide insight on all risk management activities. That is, only relationships where hedge accounting is elected should be subject to the standard. Economic hedges should not be within the scope of guidance on hedge accounting. For example, an entity may wish to hedge interest rate risk of a portfolio of assets on a "macro" basis. Since accounting for macro hedges has not yet been considered by the Boards, this would require entities to explain why this economically rational hedging strategy does not align with the accounting in the financial statements.

As stated in the summary section of this letter we are users of financial statements in addition to being preparers. We believe that both the existing disclosures under Accounting Standards Codification 815-10-65 and IFRS 7 are sufficient for users to understand the impact of hedge accounting on the financial statements.

Disclosures should help users identify how hedge accounting has affected the entity's financial statements. However, we are concerned that in the interest of "transparency" the proposed disclosures would provide information that may be considered proprietary. That is, each entity has its own risk management strategies and views on markets and rates. To require an entity to disclose the percentage of total risk hedged for example would put companies at a competitive disadvantage. Requiring an explanation of risk management strategy for each category of risk provides insight into day to day management decisions that are not relevant to hedge accounting. We therefore disagree with the assertion that a user needs to understand an entity's risk management strategy for economic hedges as well as accounting hedges in detail in order to understand the accounting. In our view, any detailed discussion on risk management for both hedged and unhedged risks are best presented in the MD&A section of the financial statements for public companies.

Question 2: Do you believe that the proposed guidance and illustrative examples included in the IASB's Exposure Draft are sufficient to understand what is meant by risk management, how to apply that notion to determine accounting at a transaction level, and how to determine the appropriate level of documentation required? Why or why not?

We believe the proposed guidance is appropriately principles based. As stated in the summary section of our letter, we believe allowing the appropriate exercise of judgment when describing what is meant by risk management is vital to the proposed standard.

Therefore, on the discussion of what risk management is and the level of granularity it should be applied at, are best resolved by allowing each company to describe this in their financial statements.

Question 3: Do you foresee an entity changing how it determines, documents, and oversees its risk management objectives as a result of this proposed guidance? If yes, what changes do you foresee? Do you foresee any significant difficulties that an entity would likely encounter in establishing the controls related to complying with the proposed guidance?

We believe that entities will not change how risk management objectives are determined, or overseen.

Question 4: Do you foresee any significant auditing issues arising from the proposed articulation of risk management and its link to hedge accounting? For example, is the information required to be disclosed regarding an entity's risk management strategies measurable and objective? Could the inclusion of an entity's risk management objectives create an expectation gap that the auditor is implicitly opining on the adequacy of an entity's risk management objectives?

We have no comment on this question.

Hedging Instruments

Question 5: Should cash instruments be eligible to be designated as hedging instruments? Why or why not? If yes, is there sufficient rigor to prevent an entity from circumventing the classification and measurement guidance in other relevant accounting guidance (for example, IFRS 9, Financial Instruments, and IAS 21, The Effects of Changes in Foreign Exchange Rates)? Are there any operational concerns about designating cash instruments (such as items within a portfolio of receivables) as hedging instruments?

We agree that non-derivative financial instruments (cash instruments) should be permitted as eligible hedging instruments. In order to be consistent with this concept however, the range of eligible hedging instruments should be extended to all financial instruments used in hedging strategies. That is, instruments measured at fair value through accumulated other comprehensive income that are used as part of an entity's risk management strategy should be eligible hedging instruments. For example, in AIG's insurance operations, the asset-liability exposures are predominantly structural in nature, and not the result of speculative positioning to take advantage of short-term market opportunities. The asset and liability profiles are managed so the cash flows resulting from invested assets are sufficient to meet policyholder obligations when they become due without the need to sell assets prematurely into a potentially distressed market. The assets used in this hedging relationship (e.g., corporate debt securities classified as available for sale) would be ineligible for hedge accounting under the ED. This is in direct contrast to the stated objective that hedge accounting should represent the effect of an entity's risk management activities that use financial instruments to manage exposures arising from risks affecting profit or loss. We note that in paragraph BC39 of the IASB's ED, the IASB views using a hedging instrument that is measured at fair value through accumulated other comprehensive income as inconsistent with the decision to not allow hedge accounting for investments in equity instruments designated as fair value through other comprehensive income. We do not believe the comparison is at all similar. In fact, by making nonderivatives ineligible for use as hedging instruments, the Board is creating an exception to the principle in the ED that the objective of hedge accounting is to resolve asymmetry in recognition and measurement of a hedge relationship.

In our view, the guidance in the ED provides sufficient rigor to prevent circumventing the guidance in IFRS 9 (as it relates to classification of cash instruments) and IAS 21 as it relates to items that would otherwise be remeasured in transaction gain or loss in the income statement. Again, a principles-based standard such as the ED should provide management with the flexibility to identify, design, and disclose its risk management strategies. Any additional guidance that seeks to prevent circumventing the guidance is contrary to that concept and would only have the effect of turning the guidance into a rules-based standard.

We do not anticipate operational concerns about designating cash instruments as hedging instruments as long as they are used in an entity’s risk management strategy for that hedge.

Hedged Items—Overall

Question 6: Do you believe that the proposed guidance is sufficient to understand what constraints apply when determining whether an item in its entirety or a component thereof is eligible to be designated as a hedged item (for example, equity instruments measured at fair value through profit or loss, standalone derivatives, hybrid instruments, and components of instruments measured at fair value through profit or loss that are not permitted to be bifurcated)? If not, what additional guidance should be provided?

We believe the proposed guidance is sufficient to understand what constraints apply when determining whether a component is eligible to be designated as a hedged item. Our view is that an entity’s risk management objective and strategy would include a measureable component that is being hedged. We believe that as long as the standard provides the flexibility for each entity to align the hedge accounting with its risk management strategies, the entity can include an eligible component as a hedged item. Our concern is that if within redeliberations the Board(s) believe that more restrictions should be included in this area that, as noted in the summary section of this letter, the Boards should strongly consider additional field testing prior to adding additional restrictions on eligible hedged items.

Hedged Items—Risk Components

Question 7: Do you believe that the proposed criteria are appropriate when designating a component of an item as a hedged item? If not, what criteria do you suggest? Do you believe that the proposed guidance and illustrative examples are sufficient to understand how to determine when the criteria of separately identifiable and reliably measurable have been met? If not, please describe what additional guidance should be provided.

We believe the proposed criteria are appropriate when designating a component of an item as a hedged item. We agree that the appropriate level for designation is the risk component because it is consistent with the objective of the ED to align hedge accounting with an entity's risk management strategy.

We believe that the illustrative examples are helpful but suggest including the following to improve clarity of the application of this principle:

> An interest rate swap is not designed to offset changes in cash flows that result from swap spread risk and credit spread and non-interest-rate components. Therefore, only the benchmark interest-rate component of the hedged debt instrument's cash flows should be analyzed to ensure the analysis is consistent with the economic function of the hedge – i.e., to hedge ("unlock") changes in fair value of the benchmark interest rate component cash flows of the hedged item. The objective of the hedge is not to hedge changes in the fair value of the overall hedged item due to only changes in a single underlying (the current guidance in IAS 39) but instead is to hedge that specific component of the cash flow.

As discussed in the response to Question 6, as long as a risk component is identified in the risk management objective of the hedge it should be considered "separately identifiable and reliably measureable".

Question 8: Do you believe that "separately identifiable" should be limited to risk components that are contractually specified? Why or why not?

In our view, a separately identifiable risk component should not be limited to those that are contractually specified. Risks that are identified by an entity for a hedging program should be allowed to be the "layer component" in a hedge accounting relationship. We believe entities should be allowed to identify a clear and distinct hedged risk as part of their risk management objectives. If that component can be identified, we see no need for a requirement that only contractually specified risks are eligible to be a layer component in a hedge accounting relationship.

We also believe that a layer component such as a prepayment option within a financial asset should be allowed to be designated as the hedged item. Paragraph B23 of the ED explicitly prohibits a layer component containing a prepayment option from being eligible as the hedged item. We point to the current literature in ASC 815 that allows for an instrument with a prepayment option to be a hedged item in a hedging relationship provided there is a mirror option on the hedging instrument. The prepayment option in the hedged item (e.g., mortgage backed security) is reliable and measurable; and as such is hedged by the swap. The option within the swap is typically used as a proxy for the option in the financial instrument. However, this is clearly an example of where a non-contractual component (prepayment option in mortgage backed security) is separately identifiable and reliably measurable.

[Question # 9 omitted by FASB]

Hedged Items—Layer Component

Question 10: Do you believe that the proposed guidance is sufficient to understand what constraints apply to determining a layer component from a defined, but open, population? (For example, do you believe that the sale of the last 10,000 widgets sold during a specified period could be designated a layer component in a cash flow hedge?) If not, what additional guidance should be provided?

We believe that the proposed guidance is sufficient to understand what constraints apply to determine a layer component from a defined, but open, population. Risks that are separately identifiable and reliably measurable should be allowed to be designated as a hedged item. We believe this will more closely align the accounting for a transaction with the economics and risk management strategy. This is sufficiently clear for cash flow hedges. However, for fair value hedges, we disagree with exclusion of a prepayment option from eligibility as a hedged item for the reasons stated above in the response to Question 8 as long as it can be separately and reliably measured.

Hedged Items—Aggregated Exposures and Groups of Items

Question 11: Do you foresee any operational concerns applying other guidance in IFRS (for example, guidance on impairment, income recognition, or derecognition) to those aggregated positions being hedged? For example, do you foresee any operational concerns arising when an impairment of individual items within a group being hedged occurs? If yes, what concerns do you foresee and how would you alleviate them?

We believe it is difficult at this time to determine the impact because this guidance is still in the proposal stage. However, we encourage the Boards to continue their outreach efforts as they develop this guidance to determine any residual impact to other existing accounting guidance.

Question 12: Do you believe that the proposed guidance on aggregated exposures will provide more transparent and consistent information about an entity's use of derivatives? Why or why not?

We believe that the proposed disclosure guidance on an aggregated exposure that is a combination of another exposure and a derivative will provide transparent and consistent information about derivatives used in an entity's risk management policies. This is consistent with the objective to align an entity's risk management strategies with the hedge accounting and disclosure and will provide a more accurate picture of risk management.

We agree with the guidance provided in the example in paragraph B9 regarding 10-year fixed rate debt denominated in a foreign currency. In that example, the entity requires fixed rate interest exposure in its functional currency for two years, with floating rate exposure in its functional currency for the remaining term to maturity (eight years). To achieve this, the entity will enter into 1) a 10-year fixed-to-floating cross-currency interest rate swap to hedge the foreign currency risk and 2) an interest rate swap (in its functional currency) to convert the short-term interest rate exposure from a floating to a fixed rate. In effect, the entity has converted its fixed rate foreign currency exposure to fixed rate functional currency debt for the first two years and floating rate functional currency debt for the remaining eight years. Under the current guidance in IAS 39, the entity would be required to designate the cross-currency swap as a hedge of foreign exchange risk only while the interest rate swap is a hedge of interest rate risk only. This common risk management strategy will result in an overstatement of hedge ineffectiveness under IAS 39 on the cross-currency interest rate swap. This result can be misleading to users of financial statements because it could seem to a reader that the entity did not properly manage its risks. Therefore, we agree with the proposal on hedging aggregated exposure as it would provide users with more transparent and consistent information about an entity’s use of derivatives.

We also welcome this proposal because there has been an implicit assumption that if a derivative is not part of a designated hedging relationship, it must be being used for speculative purposes. AIG uses derivatives and other financial instruments as part of its financial risk management programs. In managing interest rate risk for example, AIG may choose to offset an exposure created by an interest rate swap by using a fixed income security or other interest-rate-sensitive assets and liabilities. The non-derivative financial instruments are effective economic hedges of the derivative exposures they are meant to offset.

Question 13: Do you believe that an entity should be permitted to apply hedge accounting to a group of cash instruments or portions thereof that offset and qualify as a group under the proposed guidance and satisfy the proposed hedge effectiveness criteria? Why or why not?

We believe that an entity should be permitted to apply hedge accounting to a group of cash instruments that offset and qualify as a group because this concept is more closely aligned to a company’s risk management practices. We do, however, disagree with the condition in paragraph 34(c) of the ED that only offsetting cash flows that affect profit or loss in the same period can be grouped as the hedged item. Our concern is that this requirement could be interpreted to disqualify hedge accounting from initial designation (i.e., the hedged group never met the criteria to be considered a hedge item) if the timing of the one of the gross cash flows hedged as part of a net position changed such that all cash flows did not occur in the same reporting period. We believe this exception is inconsistent with a principles-based standard. We therefore recommend that the condition limiting cash flow hedges of instruments qualifying as a group be removed from a final standard.

Hedge Effectiveness

Question 14: Do you foresee any significant operational concerns, including auditing issues, in determining how to assess whether a hedge achieves other-than-accidental offset? If yes, what concerns do you foresee and how would you alleviate them?

AIG supports "other than accidental offsetting" criterion because it is consistent with the objective of aligning an entity's accounting with its risk management strategy. In our view, a hedge of eligible risks that is economically designed to mitigate risk should always be eligible for hedge accounting. However, we are concerned with the lack of clarity as to how an entity might identify offsetting that is other than accidental. We therefore suggest an additional example to clarify the Board's intent to avoid the development of quantitative bright-lines regarding correlation.

Question 15: Do you believe that the proposed guidance and illustrative examples are sufficient to understand how to analyze hedge effectiveness (for example, how to measure the change in the value of the hedged item attributable to the related hedged risk for nonfinancial items)? If not, what additional guidance is needed?

We believe the hedge effectiveness requirements in paragraphs B27-B39 are an improvement to IAS 39 and are more consistent with a principles-based approach to hedge accounting. Specifically, we welcome the removal of the bright line (80% – 125%) guidance. This will significantly reduce the operational burdens and costs resulting from the required quantitative analysis for achieving hedge effectiveness in IAS 39. This will also result in fewer de-designations for hedging relationships that are economically sound but intermittently run afoul of the 80%-125% test.

Thus we believe this principle is sufficient for entities to understand how to analyze hedge effectiveness. In our view, entities such as AIG, design hedge relationships to reduce volatility and exposure to risk. As a result of this, a well constructed hedge relationship would most likely be considered highly effective. Therefore, additional guidance in the form of specific rules for analyzing hedge effectiveness is not necessary. We also believe that entities would not intentionally create a poorly constructed hedge design to merely circumvent the hedge accounting guidance. It is in an entity's own economic interest to design the most effective hedge relationship possible.

Changes to a Hedging Relationship

Question 16: Do you foresee any significant operational concerns or constraints in determining whether (a) a change to a hedging relationship represents a rebalancing versus a discontinuation of the hedging relationship or (b) an entity's risk management objective has changed? If yes, what concerns or constraints do you foresee and how would you alleviate them?

We do not foresee significant operational concerns or constraints in determining whether a change in a hedging relationship represents a rebalancing, discontinuation, or change in risk management objective. Economic realities of hedging relationships require flexible risk management techniques (such as adjusting hedge ratios, discontinuing a hedge, or changing risk management strategies, etc.) that can respond to dynamic markets. Therefore, guidance that recognizes the dynamic nature of certain hedging relationships is an improvement to the existing hedge accounting model. However, we believe that rebalancing should be optional and not a requirement. Requiring rebalancing would be counter to the objective that hedge accounting should be aligned with an entity's risk management practices.

We also disagree with the requirement that an entity can only discontinue hedge accounting when it no longer reflects the entity's risk management strategy. We believe that an entity should be permitted to discontinue hedge accounting for any hedging relationship – even those that still meet the risk management objective and strategy. By not allowing elective de-designation, entities will incur additional costs and complexity in their risk management strategies by entering into offsetting hedging.

Question 17: Do you foresee any significant operational concerns or constraints relating to the potential need to rebalance the hedging relationship to continue to qualify for hedge accounting? If yes, what concerns or constraints do you foresee and how would you alleviate them?

As stated in our response to Question 16, we disagree with the requirement to rebalance in order to continue to qualify for hedge accounting.

Accounting for the Time Value of Options

Question 18: Do you believe that capitalizing the time value of an option as a basis adjustment of nonfinancial items (in other words, marking the asset or liability away from market) will improve the information that is provided in an entity's statement of financial position? Why or why not?

We believe that capitalizing the time value of an option as a basis adjustment of financial and non-financial items will improve the information provided in the statement of financial position for both financial and non-financial instruments because we view time value as a cost of entering into a derivative contract.

Insurers use purchased options to protect against downside market risks such as interest rate fluctuations or price risk. Insurers also use reinsurance contracts to protect against downside risk on insurance obligations. Both contracts call for payment of premiums. The option premium currently is accounted for differently than the reinsurance contract premium – even though they both protect against downside risks.

The current inability to defer and ratably amortize the option component over time has dissuaded insurance companies from using options. We therefore believe that the change in time value should be recognized consistent with current GAAP (pre-codification issue DIG G20 "Assessing and Measuring the Effectiveness of a Purchased Option Used in a Cash Flow Hedge"). That guidance allows an entity to defer the time value component of a purchased option used in a cash flow hedge in other comprehensive income and record no ineffectiveness in earnings related to the time value component if certain criteria are met, including critical terms matching of the hedging instrument and the hedged transaction. Many entities use DIG G20 to measure and record ineffectiveness for cash flow hedges using a purchased option. Therefore, we believe this practice should survive the final guidance as it is consistent with a principles-based hedge accounting standard.

Hedge Accounting and Presentation

Question 19: Do you believe that the proposed presentation of the gains and losses in other comprehensive income will provide users of financial statements with more useful information? Why or why not?

We believe the proposed presentation of the gains and losses in other comprehensive income for both fair value and cash flow hedges will not provide users with more useful information. We cannot see the benefit of changing the current fair value hedge accounting recognition model to one that adds the step of including changes in other comprehensive income. We support the principle in the ED that hedge accounting should be consistent with an entity’s risk management objective. Disclosures for those strategies provide the transparency needed for users to determine an entity’s hedge accounting practices.

In addition, for fair value hedges, the fair value changes recorded in other comprehensive income will always have a net impact of zero at any balance sheet date. This is because fair value hedges impact the income statement in the same period – unlike cash flow hedges where the income statement is impacted in a future period. We do not see how that benefits a reader of financial statements.

Further, this change will increase operational complexity for what we perceive to be no benefit. We believe that the current recognition model for fair value hedges provides less complex accounting for preparers and more relevant information to financial statement users.

Question 20: Do you believe that the proposed presentation of a separate line item in the statement of financial position would increase the transparency and the usefulness of the information about an entity’s hedging activities? Why or why not?

We believe that the proposed presentation of a separate line item in the statement of financial position would not increase the transparency and the usefulness of the information about an entity’s hedging activities because it does not provide incrementally beneficial information that is not already contained in ASC 815-10-65.

Further, requiring entities to prepare this non-essential information adds unnecessary complexity to financial statement reporting. While we recognize that the Board’s rationale in paragraph IN30 (a) attempts to eliminate a mixed measurement of the hedged item on the balance sheet, we believe that readers understand this measurement given the extensive disclosures provided.

We suggest that the Board better articulate its rationale for this reporting requirement and the reasons why this is a disclosure that users require.

We recommend that the Board not prescribe the presentation of gains and losses associated with hedging instruments. The prescription of the presentation of derivative gains and losses would be difficult, as derivative use varies among entities. We believe companies should have the flexibility to present the gain or loss on the hedging instrument in a manner that best reflects the objective of the hedging strategy.

Question 21: Do you believe that there is sufficient guidance to specifically link the hedging adjustments to the hedged assets and liabilities that compose a hedged net position with respect to presenting a separate line item in the statement of financial position?

As stated in our response to Question 20, we disagree with the requirement to present changes in fair value hedges as a separate line item in the statement of financial position next to the line item that includes the hedged asset or liability. As such we have no further comment on whether there is sufficient guidance to link a hedge of a net position with its separate line item presentation in a fair value hedge.

Disclosures

Question 22: Do you foresee any significant auditing issues arising from the inclusion of risk management disclosures in the notes to the financial statements? If yes, what issues do you foresee and how would you alleviate them? Do you believe that it is appropriate to include risk management disclosures in the notes to the financial statements rather than in other information in documents containing financial statements? Why or why not?

We are not in a position to comment on whether there will be significant auditing issues.

While we agree that disclosures should help users identify how hedge accounting has affected the entity's financial statements, we are concerned that in the interest of "transparency" the proposed disclosures would provide information that is considered proprietary. That is, each entity has its own risk management strategies and views on markets and rates. To require an entity to disclose the percentage of total risk hedged for example would put companies at a competitive disadvantage. Entities will not always seek to hedge 100% of all risks. As such, disclosure requirements should not require an explanation for each unhedged risk.

We therefore disagree with the assertion that a user needs to understand an entity's risk management strategy in detail to understand the accounting. Requiring an explanation of risk management strategy for each category of risk provides insight into day to day management decisions that are not relevant to hedge accounting.

Other

Question 23: Do you believe that the changes proposed by the IASB provide a superior starting point for any changes to U.S. GAAP as it relates to derivatives and hedging activities? Why or why not? Should the FASB be making targeted changes to U.S. GAAP or moving toward converging its overall standards on derivatives and hedging activities with the IASB's standards?

We believe that the changes proposed by the IASB are a superior starting point for any changes to US GAAP because these changes have been considered on a broader scale as opposed to the FASB's more targeted approach. A converged standard must be one that can be applied broadly by preparers and yet have the transparency required by users. We understand that striking this balance is challenging so we recommend that the Board give careful consideration to each area within the hedge accounting model. We believe that our comments in the summary section of our letter and the responses to the above questions would provide significant improvement to the hedge accounting model and strike the right balance between transparency and implementability.