AMERICAN INTERNATIONAL GROUP, INC.



September 13, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: FASB File Reference No. 2013-270, Proposed Accounting Standards Update, Leases (Topic 842), a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840)

American International Group, Inc. ("AIG," "we," or "our") appreciates the opportunity to comment on Proposed Accounting Standards Update, Leases (Topic 842), a revision of the 2010 proposed FASB Accounting Standards Update, Leases (Topic 840) ("Proposed ASU" or "Proposal"). AIG supports the efforts of the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") (together "Boards") to improve financial accounting and reporting standards related to leasing transactions. A summary of our most significant observations regarding the Proposal follows. Refer to our complete responses in the Appendix for our supporting rationale.

Our letter addresses our views based solely on AIG's facts and circumstances as a lessee. However, we recommend that the Boards either separate the lessor and lessee components of the project, because we do not think symmetry between lessor and lessee accounting is necessary since both parties view and enter into these transactions for dissimilar reasons, or discontinue the lessor project.

Key Observations

We believe the revisions in the Proposed ASU are a significant improvement to the 2010 proposed FASB Accounting Standards Update, *Leases (Topic 840)*, ("2010 Proposal"). We recognize and appreciate the Boards' substantial responsiveness to respondents' comments on that proposal and the meaningful changes and improvements reflected in the Proposed ASU, while at the same time developing a substantially-converged accounting standard.

We agree with the premise that long-term lease obligations and related right-of-use assets should be reflected on the balance sheet because the underlying economics are consistent with that of a financing. We also agree with the proposed dual-model approach for income statement recognition of expenses, which we believe will provide a faithful representation of the economics

of our lease transactions. While not without certain operational challenges, we believe the Proposal represents a significant simplification to the existing piecemeal lease-accounting framework and will result in the presentation of financial statement information that financial statement users will find easier to understand.

In particular, we generally support:

- The definition of a lease and the related scope exceptions;
- Lease classification;
- The separation of lease and non-lease components;
- The accounting for changes to contracts, although we believe the quarterly monitoring of leases for certain changes that could trigger a reassessment of the lease liability is not cost effective, as we discuss in the next paragraph and in our response to Question 6;
- The accounting for lease incentives;
- The elimination of leveraged lease accounting;
- The streamlining of sale and leaseback accounting; and
- The impairment of right-of-use assets under existing accounting standards.

We agree that significant changes to the lease term should result in timely reassessments of the lease liability. We disagree, however, with the proposed requirement to reassess the lease liability to reflect changes to the lease payments for changes in an index or a rate used to determine lease payments. While the Proposal does not explicitly state the frequency of such reassessments, it appears to us they would be required each quarter for public companies. We believe this requirement should be at most an annual requirement.

Although we support the consumption principle, the Proposal will cause office and other equipment with typical lease-term durations of less than three years that are high in volume but low in dollar value to be treated as financings. The resulting aggregate financial obligation would not provide meaningful transparency to our financial statement users compared with today's requirements. Consequently, we believe the ongoing compliance costs would exceed the benefits of applying the Proposal in these instances. We suggest the Boards consider extending the accounting policy election afforded to short-term leases to leases of Type A assets with contract durations, including renewal options, of up to three to four years to reduce the cost of compliance as further discussed in our response to Question 4.

Effective Date

We agree that a lessee should recognize and measure leases at the beginning of the earliest period presented. If the final standard has a December 31 effective date, which we believe it should, publicly-held companies could be required to prepare five years of *restated* income statements and five years of *restated* balance sheets (the balance sheet for the date of adoption will not be *restated*) to prepare the summary of selected data required by Securities and Exchange Commission Regulation S-K, Item 301, *Selected Financial Data*. The proposed requirements would affect, and require significant modifications to, our polices, procedures, operations, systems, and Sarbanes-Oxley-compliant internal controls. Additionally, the data collection, input, verification, control, and analysis will require significant time and effort. We

recommend the Boards provide a December 31 implementation date no less than three full years from the date a final standard is issued.

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Our responses to certain questions raised by the FASB of importance to AIG are included in the Appendix to this letter. Thank you for the opportunity to present our views. Please contact me at (212) 770-4816 if you have any questions.

Very truly yours,

/s/

Jeff Meshberg

Chief Accounting Officer and Global Head of Accounting Policy American International Group, Inc.

cc: Jeffrey M. Farber Senior Vice President and Deputy Chief Financial Officer American International Group, Inc.

> G. Thomas Jones Head of Corporate Accounting Policy American International Group, Inc.

APPENDIX

RESPONSES TO FASB QUESTIONS ON PROPOSED ASU

Question 1: Do you agree with the definition of a lease and the proposed requirements in paragraphs 842-10-15-2 through 15-16 for how an entity would determine whether a contract contains a lease? Why or why not? If not how would you define a lease? Please supply specific fact patterns, if any, to which you think the proposed definition of a lease is difficult to apply or leads to a conclusion that does not reflect the economics of the transaction.

We agree with the definition of a lease in the Proposed ASU.

Question 2: Do you agree that the recognition, measurement and presentation of expenses and cash flows arising from a lease should differ for different leases, depending on whether the lessee is expected to consume more than an insignificant portion of the economic benefits embedded in the underlying asset? Why or why not? If not, what alternative approach would you propose and why?

We generally agree with the Boards' approach to identifying and classifying leases, but we suggest the Boards consider simplifying the recognition, measurement and presentation of expenses for certain short-duration Type A assets as discussed in our response to Question 4.

We support the proposed amendments that cash flows and expenses related to Type A leases should be presented as the amortization of the right-of-use assets and interest expense on the lease liabilities and, conversely, Type B leases should present the combined right-of-use asset amortization and related interest expense on the lease liability as one net number in the income statement. We also agree with the proposed approaches to presenting expenses and cash flows related to Type A and Type B leases in the statement of cash flows. While we see some conceptual inconsistency in the proposed approach to presenting expense-related cash flows on Type B leases as an operating activity while treating lease-obligation-related cash flows as a financing activity when there is not substantial consumption of the asset, we believe the Boards have developed a practical solution to a theoretical conflict that financial statement users will be able to understand.

Question 4: Do you agree that the principle on the lessee's expected consumption of the economic benefits embedded in the underlying asset should be applied using the requirements set out in paragraphs 842-10-25-5 through 25-8, which differ depending on whether the underlying asset is property? Why or why not? If not, what alternative approach would you propose and why?

We generally agree with the proposed approach to classifying a lease based on the lessee's expected consumption of the economic benefits embedded in the underlying asset. Our primary concern with the 2010 Proposal related to the distortion in the income statement of our linear economic consumption of the benefits of our primary leased assets—i.e., property—compared to the accelerated recognition of expense that would have resulted under the 2010 Proposal. We

believe the Boards were responsive to respondents' comments to the 2010 Proposal and developed a practical solution to that concern.

However, the consumption principle will cause the leasing of smaller office and other equipment to be accounted for as financings. Specifically, assets such as printers, copiers, and small information-technology equipment are generally procured under master lease agreements that are short in duration, high in volume, and low in dollar value. We believe the difference in the amounts recognized in income under the interest and amortization model (Type A) compared with the straight-line model (Type B) would not be relevant and the significant cost and effort to administer a system to comply with the Proposal for such leases would exceed the benefits to our financial statement users. We suggest the Boards consider extending the accounting policy election afforded to short-term leases to leases of Type A assets with contract durations, including renewal options, of up to three to four years to reduce the cost of compliance.

Question 5: Do you agree with the proposals on the lease term, including the reassessment of the lease term if there is a change in relevant factors? Why or why not? If not how do you propose that a lessee and a lessor should determine the lease term and why?

We agree with the Proposal regarding the determination of the lease term.

Question 6: Do you agree with the proposals on the measurement of variable lease payments, including reassessment if there is a change in an index or a rate used to determine lease payments? Why or why not? If not, how do you propose that a lessee and a lessor should account for variable lease payments and why?

We agree that significant changes to the lease term, including those that result from changes in significant economic incentives to exercise or not exercise an option to extend or terminate the lease, respectively, and amounts expected to be payable under residual value guarantees should result in timely reassessments of the lease liability. We believe these changes could result in material changes to balance sheet amounts, but that they are likely to be comparatively infrequent, reducing the operational burden. We disagree, however, with the proposed requirement to reassess the lease liability (which we interpret to mean quarterly for public companies) to reflect changes to the lease payments for changes in an index or a rate used to determine lease payments because these changes could occur often and generally would not result in material changes to recognized right-of-use assets and lease liabilities each quarter. We believe reassessment should be at most an annual requirement to mitigate the operational burden that would result from the continuous monitoring required by the Proposal.

Question 7: Subparagraphs 842-10-65-1(b) through (h) and (k) through (y) state that a lessee and a lessor would recognize and measure leases at the beginning of the earliest period presented using either a modified retrospective approach or a full retrospective approach. Do you agree with those proposals? Why or why not? If no what transition requirements do you propose and why?

We agree that a lessee should recognize and measure leases at the beginning of the earliest period presented. If the final standard has a December 31 effective date, which we believe it

should, publicly-held companies could be required to prepare five years of *restated* income statements and five years of *restated* balance sheets (the balance sheet for the date of adoption will not be *restated*) to prepare the summary of selected data required by Securities and Exchange Commission Regulation S-K, Item 301, *Selected Financial Data*. The proposed requirements would affect, and require significant modifications to, our polices, procedures, operations, systems, and Sarbanes-Oxley-compliant internal controls. Additionally, the data collection, input, verification, control, and analysis will require significant time and effort. We recommend the Boards provide a December 31 implementation date no less than three full years from the date a final standard is issued.

Question 8: Paragraphs 842-10-50-1, 842-20-50-1 through 50-10 and 842-30-50-1 through 50-13 set out the disclosure requirements for a lessee and a lessor. Those proposals include maturity analyses of undiscounted lease payments, reconciliations of amounts recognized in the statement of financial position, and narrative disclosures about leases (including information about variable lease payments and options). Do you agree with those proposals? Why or why not? If not, what changes do you propose and why?

We agree with the proposed lessee disclosures.

Question 12 (IASB only): The IASB is proposing amendments to other IFRSs as a result of the proposals in this revised Exposure Draft, including amendments to IAS 40 Investment Property. The amendments to IAS 40 propose that a right-of-use asset arising from a lease of property would be within the scope of IAS 40 if the leased property meets the definition of investment property. This would represent a change from the current scope of IAS 40, which permits, but does not require, property held under an operating lease to be accounted for as investment property using the fair value model in IAS 40 if it meets the definition of investment property.

Do you agree that a right-of-use asset should be within the scope of IAS 40 if the leased property meets the definition of investment property? If not, what alternative would you propose and why?

We agree with the proposed amendments to IAS 40, *Investment Property*, proposed in Appendix D of the Exposure Draft. We believe such an approach provides consistency with the accounting treatment for investment properties owned and provides decision-useful information for users of financial statements.