

AMERICAN INTERNATIONAL GROUP, INC.



August 13, 2010

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

Re: EITF Issue No. 09-G, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*

Dear Mr. Golden:

AIG is writing to express its concern with two aspects of the consensus reached by the FASB Emerging Issues Task Force (“EITF”) at its meeting on July 29, 2010 on EITF Issue No. 09-G, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (“the consensus”).

Transition

In Proposed Accounting Standards Update, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, the FASB stated that the “objective of this proposed Update is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs.” The FASB stated that “the amendments in this proposed Update would improve current U.S. GAAP by providing a clearer definition of a qualifying capitalizable acquisition cost and, therefore, limit the significant diversity in practice that has developed in this area. This revised definition also would improve consistency among insurance entities and financial institutions with respect to capitalizable costs because the definition is consistent with the types of costs that can be capitalized relating to loan originations . . .” We presume the FASB wishes to provide a clearer definition of qualifying capitalizable acquisition costs to promote greater consistency among insurance companies in the application of accounting principles.

Companies may adopt the consensus either prospectively or retrospectively. AIG is concerned that, while the consensus would narrow the types of costs that would qualify as deferred acquisition costs, any benefit to financial statement users likely would be more than offset by the greater inconsistency that would result from the alternative transition methods permitted.

Therefore, we believe the consensus will not achieve the EITF's initial objective of limiting diversity and enhancing consistency and, in fact, will exacerbate the inconsistent application of accounting principles, making financial statements less comparable. Further, because deferred acquisition costs may be amortized over decades, this inconsistent financial reporting will exist until the standard expected to result from the FASB's insurance contracts project becomes effective.

Companies that have disposed of insurance businesses may be unable to apply the consensus retrospectively because the historical information related to the types of costs incurred and the successful versus unsuccessful efforts may not be available from the businesses disposed of. Consequently, these companies will be at a competitive disadvantage for capital-market funding because of the higher capitalized acquisition costs they will be required to amortize and the consequent lower returns on investment they will generate when compared with their peers.

We therefore recommend a practical exception be permitted under which companies can make reasonable efforts to derive the historical information when they cannot obtain the required information from disposed-of entities. The FASB has occasionally permitted similar practical exceptions in the past.

Capitalization

Under the consensus, an insurance company would not be required to capitalize acquisition costs that would be in excess of what it would have capitalized under its existing accounting policies. We understand this provision is intended to provide a practical exception from the consensus guidance to companies that have limited their deferred acquisition costs to certain direct and incremental costs. These companies would be burdened with modifying their accounting systems to capitalize more types of costs while at the same time facing the possibility of modifying those systems again to capitalize a more limited range of costs when the FASB completes its insurance contracts project. We believe the practical exception implicitly acknowledges a view that fewer types of capitalized acquisition costs are preferable to more. However, we point out that the practical exception will result in continued diversity in practice regarding the types of capitalized acquisition costs.

Therefore, in light of the diversity in practice that will continue as a result of the practical exception, AIG suggests the consensus be amended to permit companies to capitalize only direct, incremental, third-party costs that can be easily identified with successful insurance contract acquisitions or renewals (e.g., premium taxes and commissions). AIG believes many insurance companies would elect such an option to simplify transition to the consensus, which would enhance the consistency of financial reporting and reduce the cost of implementing the consensus. If the consensus was so amended, AIG would support, as a practical matter, both the retrospective and prospective transition provisions in the consensus because we believe it would permit more companies to apply retrospective adoption.

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Thank you for the opportunity to present our concerns. Please contact me at (212) 770-8997 if you have any questions or need clarification with respect to the matters addressed in this letter.

Very truly yours,

/s/ Tom Jones, Director, Global Head, Office of Accounting Policy

Cc: Anthony Valoroso, Vice President, Chief Accounting Officer