

AMERICAN INTERNATIONAL GROUP, INC.



September 7, 2010

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

Re: File Reference No. 1830-100—Proposed Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820)*

Dear Mr. Golden:

AIG appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Fair Value Measurements and Disclosures* (the “Proposed ASU”). We support the Board’s and the International Accounting Standard Board’s overall objective of developing common requirements for measuring fair value and for enhancing disclosures related to fair value measurements. We believe the Proposed ASU will improve the understandability of the fair value measurement guidance in U.S. generally accepted accounting principles. However, we have several concerns with the Proposed ASU as discussed below.

Uncertainty Analysis for Level 3 Measurements

We believe the proposed requirement in paragraph 820-10-50-2f of the Proposed ASU to provide a measurement uncertainty analysis for fair value measurements classified as Level 3 of the fair value hierarchy will not provide financial statement users with meaningful information. We believe the assumptions underlying the calculations for the proposed disclosures would be too hypothetical and subjective and the results necessarily would be too highly aggregated for a company of AIG’s size and diversity to provide information that is useful in making investment or credit decisions. We also believe providing such quantification would suggest a level of precision in the calculations of fair value measurement uncertainty that does not exist and, therefore, would be misleading.

Instead, we suggest the Board require qualitative disclosures that will help financial statement users understand how changes in assumptions about and correlation of the unobservable inputs for each significant class of fair value measurement could affect the measurements. Such qualitative information, together with the Level 3 designation itself, would provide financial statement users with information about the extent of measurement uncertainty of the fair value

measurements. We believe such qualitative information would provide financial statements users with more meaningful information than highly-aggregated disclosures based on complex, hypothetical, statistical calculations. In our opinion, for such disclosures to be understandable, they would have to be presented at a level of detail that would overwhelm financial statement users. Further, we believe a measurement uncertainty analysis could prompt users to second-guess the fair value measurements and question the fair presentation, in all material respects, of the financial statements.

In addition, the Proposed ASU's requirements would present a number of operational challenges to "buy-side" financial statement preparers. While a company's management is responsible for the fair value measurements disclosed in the company's financial statements, buy-side financial statement preparers rely on third-party pricing services and brokers to provide pricing for Level 3 measurements. AIG interviews these parties to gain an understanding of the control processes and bases for assumptions used by these parties when preparing their pricing information. However, as a user of these pricing services, obtaining and processing all the underlying information used by the pricing services that would be needed to comply with the proposed disclosures is not feasible given the proprietary nature of some of the pricing-services' processes and time constraints related to the financial statement close process. Consequently, it is not operationally feasible to generate the information.

If the proposed measurement uncertainty analysis is retained in the final standard, we suggest the Board provide additional guidance and several comprehensive examples for a selection of fair value measurements by asset and liability class (for example, residential and commercial mortgage-backed securities, collateralized debt obligations, derivatives, etc.) to clarify the level of granularity required for the measurement uncertainty analysis (for example, by product type, collateral type, rating, vintage, year, etc.). Such examples should demonstrate how the measurement uncertainty analysis should be prepared and specifically how the quantitative and qualitative effects of changes in the unobservable inputs and the correlation of the inputs should be presented by a large, diversified, global financial institution.

Transfers between Levels

We believe the amendments set forth in paragraphs 820-10-50-2bb and c of the Proposed ASU will not provide significant additional benefit to financial statement users. The Proposed ASU would require financial statement preparers to disclose "any" transfers into or out of Level 3 and between Levels 1 and 2, rather than disclosing only "significant" transfers, as is currently required for Level 3 transfers. We believe this disclosure will lead to unnecessary detail unlikely to be of significant benefit to financial statement users. We believe the current requirement to disclose only significant transfers, and the reasons for those transfers, provides sufficient meaningful and useful information to financial statement users. The cost of providing information on all transfers (regardless of dollar amount) will exceed the perceived benefit of disclosing such information. Further, we believe requiring disclosure of the reasons for all transfers would detract from the most relevant leveling changes and would overwhelm users with insignificant detail.

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We suggest the Board retain the current requirement to disclose and discuss only “significant” leveling transfers for Level 3 and extend those requirements to significant transfers between Levels 1 and 2. Disclosing “significant” transfers will, in our opinion, provide financial statement users with sufficient meaningful information related to transfers between levels.

Leveling of All Fair Value Measurements

We believe the proposed amendment to paragraph 825-10-50-10, which would require the classification by fair-value-hierarchy level of assets and liabilities that are not measured at fair value in the statement of financial position, but for which fair value is required to be disclosed, would not provide sufficient additional benefit to financial statement users to justify the additional operational burden of providing the proposed disclosure. We believe the current requirement to disclose the methods and significant assumptions used to estimate the fair values of financial instruments not measured at fair value provides users of financial statements with sufficient information about how the fair value measurements were derived to assess the level of uncertainty in those measurements.

In addition, we believe the Board’s current project on Financial Instruments likely will broaden substantially the scope of assets and liabilities measured at fair value in the statement of financial position, which will therefore necessitate the leveling disclosures in accordance with Topic 820. As a result, the requirements in the Proposed ASU will likely be met when companies adopt the proposed ASU for Financial Instruments and, therefore, need not be addressed in the Proposed ASU.

Calibration of Models

We suggest the language in paragraph 820-10-35-35C of the Proposed ASU be revised to state that “. . . a reporting entity shall consider the need to calibrate the valuation technique(s) used” We do not believe calibrating valuation models each quarterly reporting period is necessary if there have been no changes to the model and the economic circumstances that might affect the inputs have not changed.

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Our responses to questions raised by the Board 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

Question 7: The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?

We believe the proposed requirement in paragraph 820-10-50-2f of the Proposed ASU to provide a measurement uncertainty analysis for fair value measurements classified as Level 3 of the fair value hierarchy will not provide financial statement users with meaningful information. We believe the assumptions underlying the calculations for the proposed disclosures would be too hypothetical and subjective and the results necessarily would be too highly aggregated for a company of AIG's size and diversity to provide information that is useful in making investment or credit decisions. We also believe providing such quantification would suggest a level of precision in the calculations of fair value measurement uncertainty that does not exist and, therefore, would be misleading.

In addition, the Proposed ASU's requirements would present a number of operational challenges to "buy-side" financial statement preparers. While a company's management is responsible for the fair value measurements disclosed in the company's financial statements, buy-side financial statement preparers rely on third-party pricing services and brokers to provide pricing for Level 3 measurements. AIG interviews these parties to gain an understanding of the control processes and bases for assumptions used by these parties when preparing their pricing information. However, as a user of these pricing services, obtaining and processing all the underlying information used by the pricing services that would be needed to comply with the proposed disclosures is not feasible given the proprietary nature of some of the pricing-services' processes and time constraints related to the financial statement close process. Consequently, it is not operationally feasible to generate the information.

Question 8: Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

We recommend the Board require qualitative disclosures that will help financial statement users understand how changes in assumptions about and correlation of the unobservable inputs for each significant class of fair value measurement could affect the measurements. Such qualitative information, together with the Level 3 designation itself, would provide financial statement users with information about the extent of measurement uncertainty of the fair value measurements. We believe such qualitative information would provide financial statements users with more

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meaningful information than highly-aggregated disclosures based on complex, hypothetical, statistical calculations. In our opinion, for such disclosures to be understandable, they would have to be presented at a level of detail that would overwhelm financial statement users. Further, we believe a measurement uncertainty analysis could prompt users to second-guess the fair value measurements and question the fair presentation, in all material respects, of the financial statements.

Question 9: The Board has decided to require limited retrospective transition. Do you think that proposal is appropriate? If not, why not?

We agree with the Board's decision to require limited retrospective transition.