AMERICAN INTERNATIONAL GROUP, INC.



February 15, 2012

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

Re: FASB File Reference No. 2011-220, Proposed Accounting Standards Update, Consolidation (Topic 810): Principal versus Agent Analysis

AIG appreciates the opportunity to comment on Proposed Accounting Standards Update, *Consolidation (Topic 810): Principal versus Agent Analysis* ("proposed ASU" or "proposal"). We support the Board's effort to move to a principles-based approach that more closely aligns consolidation conclusions for both variable interest entities ("VIEs" or "VIE") and voting interest entities ("VOEs" or "VOE") through the proposed guidance on the decision maker's ability to act as either a principal or an agent as well as the consideration of kick-out and participating rights. However, we are concerned that some of the concepts in the proposed ASU could result in unintended consequences and could also leave too much room for interpretation, which in turn could lead to significant diversity in practice.

Our comments on the issues of importance to AIG are provided below.

Principal versus Agent Analysis

We agree with the Board's proposal to evaluate a decision maker's capacity by considering the rights held by other parties, the compensation to which the decision maker is entitled in accordance with its compensation agreement(s) as well as the decision maker's exposure to variability of returns from other interests that it holds in the entity. However, we believe the proposed factors for assessing whether a decision maker is a principal or an agent should be limited to assessing whether an entity should be consolidated. When a reporting enterprise does not act in the role of a decision maker in the entity – i.e., its interest in the entity is limited to a passive investment or otherwise it cannot unilaterally direct the decisions of the entity – we do not believe these criteria should be required as part of an assessment whether an entity is a VIE or a VOE. For passive investors, it may be challenging to obtain all relevant information to determine the decision maker's capacity, especially the decision maker's exposure to variability from other interests the decision maker holds in the entity, and ultimately the determination of

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whether an investee is a VIE or a VOE seems irrelevant when the investor's interest in the entity is passive in nature (i.e., the investor acts in an agent capacity).

Further, from the implementation examples provided in the proposal on the evaluation of the principal versus agent determination, it is unclear how each fact pattern should be interpreted to arrive at a VIE or a VOE conclusion. If not clarified in the final standard, these illustrations could lead to inconsistent judgments and significant diversity in practice. In addition, the examples seem to create bright lines, which are counter to the principles-based qualitative approach intended by the Board and could potentially cause reversion to the quantitative VIE assessment required under FIN 46(R) and superseded by FAS 167.

Therefore, should the Board retain the principal versus agent analysis criteria for the VIE/VOE determination in the final standard, we suggest the Board amend the proposal to include examples that do not contain bright line rules and clarify the VIE versus VOE conclusions for each fact pattern provided.

Money Market Funds Deferred by Accounting Standards Update No. 2010-10, Consolidation (Topic 810): Amendments for Certain Investment Funds ("ASU 2010-10")

We understand it was not the Board's intent to cause money market funds currently deferred under ASU 2010-10 to be consolidated under the proposed ASU and we agree with the Board's view on this point. However, we believe a potential interpretation of the guidance contained in Case F (paragraphs 810-10-55-3AY through 810-10-55-3BK of the proposal) could result in a money market fund being consolidated by its manager due to the implicit or explicit financial guarantee provided to its investors to maintain the fund's net asset value from falling below \$1 (i.e., keeping the NAV from "breaking the buck"), however remote it is. Therefore, to avoid unintended consequences and diversity in interpretation we suggest the Board to clearly state in the final standard that money market funds and other similar investment funds subject to Rule 2a-7 of the Investment Company Act of 1940 are specifically excluded from this analysis and have Case F clarify the FASB's intent and the scope-out.

Interests Held by Related Parties

We agree in principle with the requirement that a decision maker should include its proportionate indirect interest held through its related parties for the purpose of applying the principal versus agent analysis, because it is consistent with the requirement to do so when assessing whether a reporting enterprise is a primary beneficiary under the VIE model. However, we are concerned that this may not be operationally feasible, because reporting entities may not have transparency into interests held by all entities that are deemed related parties.

Additionally, it is unclear how the proposed consideration of the related parties' interests interacts with the principles laid out in the Accounting Standards Update No. 2010-15, *Financial Services – Insurance (Topic 944): How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments* ("ASU 2010-15"). Specifically, under the guidance of the ASU 2010-15, the insurer may not combine any separate account interests held for the benefit of the unrelated policy holders with the insurer's general account interest in the same investment when assessing whether the insurer is required to consolidate an investment held by the separate account. However, under the proposed ASU it appears that such interests

might be viewed as indirect interests held through related parties and could result in a change to current GAAP. Therefore, we urge the FASB to clarify in the final standard that the ASU 2010-15 guidance continues to apply.

Evaluation of Partnerships and Similar Entities and Disclosure Implications

We support the Board's proposal to evaluate the general partner's or managing member's relationship with a partnership or a partnership-like entity, respectively, by applying the same principal versus agent analysis required for evaluating VIEs to determine whether it controls the entity. This approach results in a consistent evaluation, because the relationships, rights and economics are similar regardless of the entity's legal structure.

However, because this analysis brings the VOE and VIE models more in line with one another, the VIE versus VOE determination loses its relevancy, especially when the reporting enterprise holds a non-controlling passive (limited partner or non-managing member) interest in a partnership/partnership-like structure and therefore does not consolidate the entity. It appears the only time such a distinction matters is when a company has a limited partner/non-managing member interest in a VIE that it does not consolidate but is still required to provide the disclosures under the existing guidance.

We suggest the Board amend the disclosure guidance for VIEs to exclude such situations from its requirements, because the non-controlling variable interests in a VIE are no different from the non-controlling equity investments in a VOE, and the risk of loss for the reporting enterprise is limited only to the carrying value of its investment. The burden of this disclosure, as currently written, far outweighs its benefits and does not provide useful information to financial statement users. At the same time, we argue, a corresponding disclosure requirement for such VOE interests would be neither operational nor informative and therefore should not be proposed by the Board.

Effective Date and Transition

Although there is no specific mention of the effective date in the proposed ASU, we recommend the Board allow companies sufficient time (a period of at least 18 months) to implement the final standard given its operational complexity and overreaching implications, and especially in light of the two other interrelated exposure documents on investment companies and investment property entities. Further, we do not believe early adoption should be permitted in the final standard on consolidation, given the fact that it is prohibited in both the investment companies and the investment property entities proposals, whose guidance interacts with this proposal and with one another. Additionally, early adoption of this proposed ASU will result in lack of comparability among reporting entities.

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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.