AMERICAN INTERNATIONAL GROUP, INC.

April 22, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116, Norwalk, CT 06856- 5116
director@fasb.org

Re: File Reference No. EITF-13A: *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*

American International Group, Inc. ("AIG") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB" or "the Board") exposure draft EITF-13A: *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*. We support the overall objective of adding OIS ("Overnight Index Swap Rate") as a U.S. benchmark rate for hedge accounting purposes.

We commend the Board for applying the flexibility provided in the definition of "benchmark interest rate" and for recognizing the developments in the financial markets for OIS discounted interest rate derivatives[1].

In our view, adding OIS as an additional benchmark interest rate will improve the hedge accounting model by synchronizing OIS discounted swaps with the underlying risk management strategy of hedging interest rate risk. It eliminates the artificial ineffectiveness resulting from differences in the OIS and LIBOR swap curves resulting in a more accurate and appropriate picture of a company's interest rate risk.

Our comments and suggestions are discussed in detail in our responses to the specific questions in the Appendix to this letter.

* * * * *

[1] According to the ISDA Publication: *Non-Cleared OTC Derivatives: Their Importance to the Global Economy*, at year-end, there were 110,000 overnight indexed swaps outstanding, totaling $53.3 trillion in notional principal amount.

Thank you for the opportunity to present our views. Please do not hesitate to contact me at (212) 770-4816 if you have any questions or need clarification with respect to any matters addressed in this letter.

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.

APPENDIX

Questions for Respondents

Question 1: Do you agree that the Fed Funds Effective Swap Rate (OIS) should be included as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR? Why or why not?

Yes. We agree that OIS should be included as a U.S. benchmark interest rate for hedge accounting purposes.

Valuation of Collateralized Swaps

As an end-user of derivatives, AIG enters into collateralized swaps where the overnight Fed Funds Rate is used to determine the return on U.S. dollar collateral. In our experience, the use of the Fed Funds Rate with respect to collateral is quickly replacing three-month LIBOR[2].

Collateral requirements directly affect valuations for derivatives. For example, the value of an interest rate swap is calculated by discounting its projected net cash flows to present value. The appropriate discount rate to be used when the swap is fully collateralized with highly liquid assets is the OIS curve. Discounting derivatives using a LIBOR curve misstates the required collateral on an interest rate swap and its related valuation. In this regard, AIG has adjusted our valuation models to value interest rate swaps using OIS as the discount rate. In sum, we believe that the OIS curve is the most appropriate curve to use to value our cash collateralized interest rate swaps.

Hedge Ineffectiveness

The LIBOR curve does not always correlate with the OIS curve and the spread between the two has recently become more volatile. Therefore, if LIBOR were to be the designated benchmark interest rate used in a hedging relationship, the differences in the curves will cause ineffectiveness in an otherwise sound risk management strategy.

For example, if we were to hedge the interest rate risk of our fixed rate debt, we would do so with a cash collateralized interest rate swap. The cash flows of the swap would be discounted using an OIS curve. However, the rate used to calculate the change in fair value of the debt due to change in the benchmark interest rate would be a LIBOR rate. Since there would most likely be a mismatch between the rate curve used to calculate the fair value of the swap (OIS curve) and the rate used to calculate changes in the fair value of the debt due to changes in interest rates (LIBOR curve), ineffectiveness will result. That is, ineffectiveness will always occur in this example unless OIS becomes a designated benchmark interest rate for hedge accounting

[2] ISDA recently introduced a standardized credit support annex (CSA), based on OIS discounting, in response to the increase in demand for a more accurate method for pricing OTC interest-rate swaps.

purposes. If LIBOR and UST continue to be the only acceptable benchmark interest rates, then we will show increased ineffectiveness in our financial statements due to the OIS/LIBOR curve basis differences. This result is misleading to our investors as the accounting and reporting of an otherwise highly effective hedge strategy, would appear to be less so if OIS is not included as an acceptable U.S. benchmark rate.

Flexibility of Benchmark Interest Rate Definition

In the Basis for Conclusions in Statement 138, the Board stated that any definition of the benchmark interest rate "should be flexible enough to withstand potential future developments in financial markets." As noted above, the interest rate swaps market has developed to the point that overnight indexed swaps have become more prevalent. Given this development, we believe that adding OIS as a benchmark interest rate is consistent with the Board's intention of allowing flexibility in the definition of benchmark interest rate if the conditions warrant.

Question 2: Do you agree that no additional disclosures should be required? If not, please explain why.

Yes. We agree that no additional disclosures should be required. In our view, the extensive quantitative and qualitative disclosure requirements in ASC 815-10-50 provide considerable transparency for our derivative and hedging activities.

Those requirements do not include disclosure of the benchmark interest rate used in hedging activities. Further, we have yet to receive an inquiry from analysts and other users of our financial statements on the benchmark rates used – an indication to us that the benchmark interest rate used in our hedging activities is not a focus of users of our financial statements. We therefore see no reason to add the choice of benchmark interest rate as an additional disclosure.

Question 3: Do you agree that the proposed amendments only should be applied on a prospective basis for qualifying new or redesignated hedging relationships? If not, please explain why.

In our view, the proposed amendments should be applied on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after the date of adoption.

We believe that prospective application is most appropriate because the formal designation and documentation requirements of ASC 815 for qualifying hedge relationships include contemporaneous assessment of hedge effectiveness prior to application of hedge accounting.

Question 4: Should the effective date of the amendments in the proposed Update coincide with the issuance date of a final Update? If not, when should the amendments be effective? Please explain why.

The effective date should coincide with the issuance date of the final Update.

Question 5: If the effective date of the amendments in the proposed Update does not coincide with the issuance date of a final Update, should early adoption be permitted? If not, please explain why.

Early adoption should be permitted as of the issuance date of a final Update to allow for ongoing risk management practices of companies using OIS discounting.