December 4, 2008

Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Agenda Request to Revisit Impairment Model

Dear Mr. Herz:

American International Group, Inc. (AIG) would like to express its concern to the Board regarding the urgent need for reconsideration of the impairment accounting model for debt securities accounted for under FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115) and related interpretive literature. AIG and the insurance industry are significant investors in all classes of debt securities and have been, and continue to be, significantly adversely impacted by recent declines in fair value due to widening credit spreads and general illiquidity in the wake of the unprecedented turmoil in our financial markets. We believe that immediate action is required in order to stem further capital and liquidity concerns plaguing the banking and insurance sector with a spillover effect on the world-wide economy. We also believe that investors will benefit from a revised impairment model, as outlined more fully in this letter, which will improve the relevance of information provided to financial statement users in assessing the long-term financial performance of the enterprise, while at the same time enhancing comparability.

Recommended Improvements to the Impairment Model

We support the efforts underway by the Securities and Exchange Commission (SEC) to study the current fair value accounting framework, as required by the Emergency Economic Stabilization Act of 2008. While we do not believe that the core principles of fair value measurement for debt securities designated as available for sale are flawed, we do believe that the Board should immediately amend the impairment guidelines for debt securities accounted for under FAS 115 by:

- Requiring that only declines in fair value below cost attributable specifically to credit losses be recorded as an impairment charge to income when those losses become probable, with the remaining fair value changes being reported in Other Comprehensive Income until it becomes probable the security will be sold or matures. This approach
would better align the accounting guidance for debt securities with loan impairments under FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan—an amendment of FASB Statements No. 5 and 15* (FAS 114), while at the same time preserving the fair value measurement attribute for the entire instrument. This results in the impairment accounting guidance being based on the substance of the arrangement (a debtor/creditor relationship in both instances) as opposed to its form (a security vs. a loan).

- Eliminating the “ability and intent to hold” criteria for available-for-sale debt securities, and replacing it with a requirement to recognize an impairment charge, through a write-down to fair value, when it becomes probable that an investor will sell a security that is otherwise impaired. This approach would better align US GAAP with International Accounting Standards, which currently do not contain the “ability and intent to hold” requirement.

- Requiring disclosure with respect to changes in fair value attributable to incurred credit losses versus all other changes in fair value (e.g. liquidity discounts), providing additional transparency to financial statement users.

**Benefits to Improvements in the Impairment Model**

We strongly believe that the Board should act expeditiously to add a project to its agenda to address these concerns given the current economic conditions, supported by the following factors for the Board’s consideration, which we believe provide compelling arguments in support of our proposals:

- **IMPROVED FINANCIAL REPORTING**: Improved relevance of information provided to financial statement users without sacrificing reliability, while at the same time enhancing comparability

- **REDUCED COMPLEXITY**: Achieving the FASB and IASB’s stated goals of reducing the complexity with respect to the accounting and reporting of financial instruments by eliminating significant differences between loan and debt security impairment guidelines

- **IASB CONVERGENCE**: An opportunity to eliminate differences between US GAAP and International Accounting Standards

- **GREATER TRANSPARENCY**: Improved transparency for financial statement users in assessing the long-term financial performance of an enterprise, by only reflecting losses in the income statement that are probable of ultimately resulting in true economic losses for the enterprise in the long-term

- **ECONOMIC STABILITY**: Improve confidence in the financial stability of the markets

- **TECHNICAL FEASIBILITY**: Based on current guidance already contained in FAS 114 with further adaptation and consideration, we believe that an approach can be developed to isolate credit related losses that is technically feasible without the need to await the
completion of other Board projects or the SEC's fair value study. In fact, AIG, along with the insurance industry, has already taken significant credit-related impairments in recent quarters.

Conclusion

It is important to note that the positions outlined in this letter are gaining more widespread support from both the preparer and the audit community, based on similar requests from the Center for Audit Quality and others included in recent letters to the SEC in response to their fair value study. Further supporting our proposals, we observe that various analysts following the insurance industry have made comments supporting the concept that a significant portion of unrealized losses on debt securities in this market bear little relation to ultimate actual credit losses expected to be incurred.1

We cannot stress enough the importance of this matter being addressed as soon as practicable, as year-end 2008 financial reporting rapidly approaches. We would be pleased to discuss our comments with the Board members or the FASB staff in person at your earliest convenience and appreciate your prompt attention to this matter. If you have any additional questions, please contact Anthony Valoroso at (212) 770-6463.

Very truly yours,

David L. Herzog
Executive Vice President and
Chief Financial Officer
American International Group, Inc.

Anthony Valoroso
Vice President and
Chief Accounting Officer
American International Group, Inc.

Cc: Conrad W. Hewitt
Chief Accountant
Securities and Exchange Commission

Mark W. Olson
Chairman
Public Company Accounting Oversight Board

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