American International Group, Inc. (“AIG,” “we,” “us,” or “our”) appreciates the opportunity to comment on Proposed Accounting Standards Update, Financial Instruments—Credit Losses (Subtopic 825-15) (“Proposed ASU” or “Proposal”). We support the efforts of the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) (together “Boards”) to pursue changes to their previously-proposed impairment models. We believe the Boards should continue to work toward a comprehensive, single, high-quality standard addressing the accounting for credit losses and interest income recognition on financial instruments.

A summary of our most significant observations regarding the Proposal follows. Refer to our complete responses in the Appendix for our supporting rationale.

Proposed Current Expected Credit Loss (“CECL”) Model

We would like to reiterate our overall views on the credit impairment proposal as it pertains to investments in debt securities and to echo the concerns we expressed in our previous comment letters on credit impairment proposals issued by the FASB in 2010 and 2011. Although one of the objectives of the Proposed ASU is to create a single credit loss model for all debt instruments, whether they are measured at fair value with changes in fair value recognized in other comprehensive income (“FV-OCI”) or at amortized cost, we do not believe debt securities measured at FV-OCI should be included in the proposed credit impairment model. Debt securities are carried at fair value and the criticism of the “incurred loss” model and the resulting “too little, too late” credit impairment recognition was not directed at debt securities. The existing credit impairment model for debt securities (Accounting Standards Codification (“ASC”) Topic 320-10, Investments—Debt and Equity Securities) is based on relevant information including past events, current conditions and reasonable and supportable forecasts. This model has been tested in the market place and is working well. As a result, we do not believe the Proposed ASU is a comprehensive improvement to existing US GAAP for debt instruments carried at FV-OCI.
Under the proposed CECL model, credit losses would be estimated using multiple possible outcomes, including at least one that would result in a credit loss, based on a presumption that even though all of the contractual cash flows may be expected to be collected on each individual asset, there is a possibility that some level of loss in a group of assets with similar risk characteristics could occur. We believe it is inappropriate to recognize a credit impairment loss upon origination or purchase of a financial asset, whether an individual or portfolio method for evaluating credit impairment is used, if the financial asset is performing and we do not expect it to become impaired. To do so would indicate the financial asset was not originated or purchased at fair value, which is inconsistent with the substance of the origination or purchase transaction and does not reflect the perspective of a market participant. We believe the proposed requirement to assess debt investments at a portfolio level would present a significant challenge for debt securities because of the difficulty in defining homogeneous portfolios for such instruments, which can have many individual characteristics. We believe assessing debt securities for credit losses on a security-by-security basis results in more transparent and reliable information than would be obtained using, or overlaying, a portfolio-based approach.

Further, the proposed guidance appears to be contradictory by allowing companies to evaluate assets on an individual basis, and then, requiring the analysis to be performed on a portfolio basis. The Proposal would also result in a less precise credit loss measurement for debt securities if a general allowance would be applied on a portfolio basis. We also believe replacing the best estimate of credit losses with the CECL model, that would reflect both the possibility that a credit loss results and the possibility that no credit loss results, would introduce significant complexity into the credit impairment analysis for debt securities and would be counter to the Board’s objective to reduce the complexity of impairment models.

**Proposed Interest Income Recognition Guidance on Purchased Credit Impaired (“PCI”) and Non-PCI Assets**

We recommend the FASB reconsider the proposed interest income recognition guidance. We do not support the Proposal to recognize the favorable and unfavorable changes in the allowance for expected credit losses as bad-debt expense, rather than as yield adjustments on PCI assets. These assets are acquired for their enhanced yields as compensation for the uncertainty of future cash flows. Recording only the risk-free component of the discount on a PCI asset through investment income would result in the presentation of negative funding spreads after considering the interest crediting rates on insurance liabilities the PCI assets are backing, which would be misleading to financial statement users and would cause non-representative earnings volatility for our insurance operations.

Further, under the Proposed ASU it appears the accretion on non-PCI assets would be based on the acquisition yield. We do not support this proposed guidance because it would also apply to structured securities that have periodic changes in expected cash flows that are currently accreted through periodic yield adjustments.

Finally, we believe the proposed nonaccrual requirements would not improve the current interest income recognition guidance in ASC 320-10, pursuant to which companies are allowed to accrete interest income post-impairment.
Effective Date

We would be affected by this Proposed ASU, by the Proposed Accounting Standards Update, Financial Instruments–Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“Recognition and Measurement Proposal”), and by the upcoming proposal on Insurance Contracts. These changes would affect our business decisions, policies, operations, systems and internal controls. Further, if one of the three standards were to be adopted earlier than the other two, it would not improve our financial reporting given the interrelationships between the Financial Instruments and Insurance Contracts projects. Therefore, we recommend the effective dates be aligned for all three proposals or, less desirably, for the two Financial Instrument project proposals. Given the pervasive changes that are contemplated by the Proposed ASU and by the Recognition and Measurement Proposal, we would need at least two years for implementation. We are currently assessing the implementation period of the upcoming proposal on Insurance Contracts, but we expect it to take longer than two years.

* * * * *

Our responses to certain questions raised by the FASB of importance to AIG are included in the Appendix to this letter. Thank you for the opportunity to present our views. Please contact me at (212) 770-4816 if you have any questions.

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.

Tom Jones
Head of Corporate Accounting Policy
American International Group, Inc.
APPENDIX

RESPONSES TO FASB QUESTIONS ON PROPOSED ASU

Scope

Question 1: Do you agree with the scope of financial assets that are included in this proposed Update? If not, which other financial assets do you believe should be included or excluded? Why?

We believe debt investments carried at FV-OCI should not be within the scope of the proposed guidance for the reasons discussed in our responses to Questions 9 and 11. Further, the allowance for credit losses on reinsurance recoverables will be estimated using the proposed guidance (i.e., by incorporating the time value of money concept). However, the reinsurance recoverable itself would continue to be measured using existing insurance accounting guidance (i.e., at an undiscounted amount for short-duration contracts) until it becomes subject to the upcoming proposed guidance on Insurance Contracts. Until the new Insurance Contracts standard is effective, we believe the collectibility of reinsurance receivables should continue to be evaluated for credit impairment under existing US GAAP (i.e., in accordance with ASC 450-20, Contingencies – Loss Contingencies).

Recognition and Measurement

Question 9: The proposed amendments would require that an estimate of expected credit losses be based on relevant information about past events, including historical loss experience with similar assets, current conditions, and reasonable and supportable forecasts that affect the expected collectibility of the financial assets’ remaining contractual cash flows. Do you foresee any significant operability or auditing concerns or constraints in basing the estimate of expected credit losses on such information?

We generally agree with the proposed guidance for assets carried at amortized cost that can be grouped into portfolios based on common characteristics. However, we disagree with the requirement to estimate expected credit losses based on the experience with similar assets for assets classified at FV-OCI, because the majority of these assets would be investments in debt securities. Our investments in debt securities, including mortgage- and asset-backed structured securities, are managed on an individual basis. Such assets have specific individual characteristics and therefore do not allow for a pooled methodology. There may be historical data that generally applies to various asset categories; however, it is not always applicable to the individual assets within those asset categories.

We believe the existing credit impairment guidance for debt securities measured at FV-OCI results in an appropriate, timely, and accurate recognition and measurement of credit impairment. The existing model is more operational, widely perceived as appropriate and well-understood by our financial statement users. We support the current credit impairment guidance for debt securities, which allows a company to use its best estimate in determining the collectibility of expected future cash flows using past events, current conditions and forward-
looking information that is available and objectively verifiable. The Proposed ASU would result in a significant change in practice, would require considerable judgment and would involve substantial resources to adjust existing processes and create auditable support, should our debt investments carried at FV-OCI be required to be evaluated for impairment in pools.

**Question 10:** The Board expects that many entities initially will base their estimates on historical loss data for particular types of assets and then will update that historical data to reflect current conditions and reasonable and supportable forecasts of the future. Do entities currently have access to historical loss data and to data to update that historical information to reflect current conditions and reasonable and supportable forecasts of the future? If so, how would this data be utilized in implementing the proposed amendments? If not, is another form of data currently available that may allow the entity to achieve the objective of the proposed amendments until it has access to historical loss data or to specific data that reflects current conditions and reasonable and supportable forecasts?

Refer to our response to Question 9. However, we presume that any currently-recorded available historical loss or other information would need to be adjusted to reflect the effect the adoption of the Proposed ASU would have on such historical loss or other information. Refer to our response to Question 20 for additional discussion. For debt securities, our credit impairment estimates already consider past events, current conditions and reasonable and supportable forecasts of the future, and their effects on future cash flows.

**Question 11:** The proposed amendments would require that an estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results. This proposal would prohibit an entity from estimating expected credit losses based solely on the most likely outcome (that is, the statistical mode). As described in the Implementation Guidance and Illustrations Section of Subtopic 825-15, the Board believes that many commonly used methods already implicitly satisfy this requirement. Do you foresee any significant operability or auditing concerns or constraints in having the estimate of expected credit losses always reflect both the possibility that a credit loss results and the possibility that no credit loss results?

We believe an accounting impairment model should reflect the risk characteristics and economics of different asset classes. Thus, we do not support a “one size fits all” approach for all debt instruments. While the proposed CECL model might improve the existing incurred loss model for loans carried at amortized cost, we do not believe the proposed approach would improve the credit impairment guidance contained in ASC 320-10 or be operational for impairment of single financial assets classified as FV-OCI. We believe the ASC 320-10 credit impairment guidance for debt securities appropriately addresses the timeliness of credit loss recognition by using the best-estimate measurement approach. We also believe the existing impairment model for debt investments classified as FV-OCI is more operational and less complex.

The proposed model would present significant operational concerns and constraints should it be applied as proposed to individual debt securities held by insurance entities. We do not believe all financial asset classes held by entities in all industries could be grouped into portfolios because
they are not always managed in this manner. As part of our credit risk management process, our financial assets are not reviewed for impairment on a collective basis, but rather on an individual basis. Such assets have specific risk profiles and other characteristics—terms, collateral structures, geographic locations and guarantee arrangements, to name a few—and are generally large in size and therefore do not allow for a portfolio-based impairment methodology that might be more applicable to asset groups that are smaller in size, large in number, and homogeneous in nature. Thus, the Proposed ASU does not appear to reflect how an insurance enterprise manages credit risk on its investment portfolio. It would be impractical to implement and would not improve the accounting for financial assets.

For example, for our structured asset-backed and mortgage-backed securities, estimating credit losses using at least two outcomes will be overly complex and may not reflect management’s judgment about the collectibility of these assets. We assess expected cash flows using past events, current conditions, and reasonable and supportable forecasts. We see situations where even under the most severe stress cases, there are no credit losses expected on the individual structured securities due to the credit enhancements present in the structure. Also, for debt securities close to their maturity, it could be inappropriate to assume an expected credit loss for securities that had consistent payments of principal and interest over the course of their term. Management may find it difficult to assert that a credit loss, even if insignificant, is a possibility.

Further, we believe it is inappropriate to recognize a credit impairment loss upon origination or purchase of a financial asset, whether an individual or portfolio method for evaluating credit impairment is used, if the financial asset is performing and we do not expect it to become impaired. To do so would indicate the financial asset was not originated or purchased at fair value, which is inconsistent with the substance of the transaction and does not reflect the perspective of a market participant.

Additionally, we recommend the FASB further assess the operability and usefulness of the proposed model as it conducts subsequent outreach to the insurance industry preparer and user communities.

Question 12: The proposed amendments would require that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly. Methods implicitly reflect the time value of money by developing loss statistics on the basis of the ratio of the amortized cost amount written off because of credit loss and the amortized cost basis of the asset and by applying the loss statistic to the amortized cost balance as of the reporting date to estimate the portion of the recorded amortized cost basis that is not expected to be recovered because of credit loss. Such methods may include loss-rate methods, roll-rate methods, probability-of-default methods, and a provision matrix method using loss factors. Do you foresee any significant operability or auditing concerns or constraints with the proposal that an estimate of expected credit losses reflect the time value of money either explicitly or implicitly? If time value of money should not be contemplated, how would such an approach reconcile with the objective of the amortized cost framework?
We agree with the proposed amendments to require an estimate of expected credit losses to reflect the time value of money either explicitly or implicitly, except how the Proposal would apply to reinsurance recoverables as discussed in our response to Question 1.

**Question 13:** For purchased credit-impaired financial assets, the proposed amendments would require that the discount embedded in the purchase price that is attributable to expected credit losses at the date of acquisition not be recognized as interest income. Apart from this proposal, purchased credit-impaired assets would follow the same approach as non-purchased-credit-impaired assets. That is, the allowance for expected credit losses would always be based on management’s current estimate of the contractual cash flows that the entity does not expect to collect. Changes in the allowance for expected credit losses (favorable or unfavorable) would be recognized immediately for both purchased credit-impaired assets and non-purchased-credit-impaired assets as bad-debt expense rather than yield. Do you foresee any significant operability or auditing concerns or constraints in determining the discount embedded in the purchase price that is attributable to credit at the date of acquisition?

PCI financial assets are defined in ASC 310-30, *Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality* as assets with evidence of credit deterioration since origination for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. Under the Proposed ASU, the PCI financial asset definition would change to include within the Proposal’s scope acquired assets that have experienced a significant deterioration in credit quality since origination. We believe more guidance is required to appropriately apply the “significant deterioration” in credit quality concept and how to interpret the removal of the probability of collection of all contractual cash flows requirement. However, it appears the change in the definition could result in more assets designated as PCI than under existing US GAAP.

We do not support the proposal to recognize the favorable and unfavorable changes in the allowance for expected credit losses as bad-debt expense, rather than a yield adjustment on PCI financial assets. Generally, these assets are acquired for the purpose of generating enhanced yield as compensation for the uncertainty of future cash flows. Recording in investment income only the risk-free component of the discount recognized on a PCI asset would result in presenting negative funding spreads after considering the interest crediting rates on insurance liabilities the PCI assets are backing. This presentation would be misleading to financial statement users and could cause unrepresentative earnings volatility for our insurance operations. Further, the nonaccrual guidance in the Proposed ASU is unclear in terms of its applicability to PCI assets and whether a PCI asset would ever qualify for an accrual status.

Also, for variable-rate PCI assets, guidance in ASC 310-30 requires changes in the cash flows expected to be collected resulting directly from a change in a variable rate to be separated from all other factors when such assets are evaluated for credit impairment and for interest income recognition purposes. However, this area is not addressed in the Proposed ASU. We believe it would be helpful to clarify the guidance in the final standard.
Refer to our response to Question 15 for additional concerns we have on the proposed interest income recognition and nonaccrual guidance.

**Question 14:** As a practical expedient, the proposed amendments would allow an entity to not recognize expected credit losses for financial assets measured at fair value with qualifying changes in fair value recognized in other comprehensive income when both (a) the fair value of the individual financial asset is greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset are insignificant. Do you foresee any significant operability or auditing concerns or constraints in determining whether an entity has met the criteria to apply the practical expedient or in applying it?

Refer to our responses to Questions 9 and 11 for our recommendations on the impairment guidance for financial assets measured at FV-OCI. However, we have the following observations should the FASB retain the proposed practical expedient for these financial assets in the final standard.

In periods of rising interest rates, the proposed practical expedient would not provide the intended relief for these investments because their fair value might be less than their amortized cost solely due to the increase in interest rates. As a more viable alternative, we propose replacing the requirement of having **both** (a) the fair value of the individual financial asset be greater than (or equal to) the amortized cost basis of the financial asset and (b) the expected credit losses on the individual financial asset be insignificant with **either** (a) the fair value of the individual financial asset be greater than (or equal to) the amortized cost basis of the financial asset or (b) the expected credit losses on the individual financial asset be insignificant for financial assets measured at FV-OCI. Further, we believe implementation guidance would be needed regarding the “insignificant expected credit losses” requirement such as, for instance, using an investment grade credit rating (or its equivalent) at the assessment date as a satisfactory parameter for this criterion.

**Question 15:** The proposed amendments would require that an entity place a financial asset on nonaccrual status when it is not probable that the entity will receive substantially all of the principal or substantially all of the interest. In such circumstances, the entity would be required to apply either the cost-recovery method or the cash-basis method, as described in paragraph 825-15-25-10. Do you believe that this proposal will change current practice? Do you foresee any significant operability or auditing concerns with this proposed amendment?

We have several concerns about the interest income recognition guidance and the nonaccrual status requirements contained in the Proposed ASU.

*Proposed Interest Income Recognition Model*

Although the Proposed ASU would allow an immediate reversal of credit losses for any subsequent cash flow improvements, we are not confident this guidance would be desirable because it would negatively affect our future yield on these investments. We purchase structured securities and PCI assets specifically for their enhanced yield. Because analysts and investors use
investment income as an important metric of our overall performance, we do not believe the Proposal would provide decision-useful information for insurance company financial statement users.

Additionally, the existing interest income recognition guidance for beneficial interests in securitized financial assets carried at FV-OCI (codified under ASC 325-40, Investments – Other – Beneficial Interests in Securitized Financial Assets) would be superseded under the Proposed ASU. As a result, interest income on these securities would be recognized based on the instrument’s original effective interest rate and gross amortized cost. These securities have expected cash flows that fluctuate every period and currently these fluctuations are accounted for as prospective yield adjustments. We do not support the proposed guidance and we believe prospectively accreting interest income on such investments using their expected cash flows presents more decision-useful information for financial statement users.

Further, the Proposal does not specify how the proposed interest income recognition guidance would apply to higher credit quality structured securities subject to ASC 310-20-35-26, which are currently subject to the retroactive yield adjustment. It is unclear whether it was the FASB’s intent to leave existing guidance unchanged. We recommend the existing US GAAP be retained for these securities.

Finally, the proposed guidance specifies that the effective interest rate as determined at acquisition would remain constant over the life of the PCI assets. While we have general concerns with the interest income recognition on PCI assets as expressed in our response to Question 13, we understand how this guidance might be relevant to fixed-rate assets. However, we do not see how the Proposal could be applied to variable-rate securities and loans, whose effective interest rates fluctuate based on the contractual variable-rate movements. We suggest the application to variable-rate securities be clarified in the final standard.

Proposed Nonaccrual Status Requirements

The Proposed ASU requires an entity to stop accruing interest income when it is not probable a company will receive substantially all of the principal or interest. Specifically, cost recovery accounting would be required if collection of substantially all principal is not probable, and cash basis accounting would be required if collection of substantially all interest is not probable. However, it is unclear whether a company should consider the contractual or expected cash flows and how to apply the probable and substantially all requirements. Also, it appears that to recognize a credit loss allowance on an asset the probable criterion would not be applicable, but to record interest income the probable criterion would be applicable. The use of the probable criterion in some instances, but not in others, could result in inconsistencies in judgment and measurement. Further, it is unclear whether this guidance would result in a temporary or permanent nonaccrual status, and whether it would be applicable to PCI assets. We believe the proposed nonaccrual requirements would not improve the current interest income recognition guidance in ASC 320-10. We recommend that companies be allowed to accrete interest income post-impairment as required in existing guidance.
Question 16: Under existing U.S. GAAP, the accounting by a creditor for a modification to an existing debt instrument depends on whether the modification qualifies as a troubled debt restructuring. As described in paragraphs BC45–BC47 of the basis for conclusions, the Board continues to believe that the economic concession granted by a creditor in a troubled debt restructuring reflects the creditor's effort to maximize its recovery of the original contractual cash flows in a debt instrument. As a result, unlike certain other modifications that do not qualify as troubled debt restructurings, the Board views the modified debt instrument that follows a troubled debt restructuring as a continuation of the original debt instrument. Do you believe that the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant? Why or why not?

We believe the distinction between troubled debt restructurings and nontroubled debt restructurings continues to be relevant, because a troubled debt restructuring results in a modification of terms with a continuation of the original relationship with a borrower, whereas certain nontroubled debt restructurings result in a new debt instrument and an extinguishment of the old one. However, we do not support the proposed guidance in paragraph BC47 of the basis for conclusions. The Proposal requires a write-off adjustment to the cost basis of the debt instrument, which in turn would result in the original effective interest rate being unchanged for the post-restructured troubled debt. We do not believe this guidance would properly reflect the true economics of a troubled debt restructuring and believe the existing guidance, whereby the effective yield is prospectively adjusted based on the modified terms of the post-restructured instrument, is more meaningful for financial statement users.

Disclosures

Question 18: Do you foresee any significant operability or auditing concerns or constraints in complying with the disclosure proposals in the proposed Update?

We do not foresee any significant operability concerns or constraints in complying with the disclosure requirements in the Proposal.

Implementation Guidance and Illustrations

Question 19: Do you believe that the implementation guidance and illustrative examples included in this proposed Update are sufficient? If not, what additional guidance or examples are needed?

As expressed in our response to Question 13, it is unclear how to apply the proposed change in the PCI asset definition and there is no implementation guidance provided in the Proposal. We believe it would be helpful to have an illustration of the concept.

We also believe the implementation guidance should have comprehensive illustrations for a purchased individual structured debt security (e.g., RMBS or CMBS) with allowance, subsequent recovery, and interest income recognition calculations over the life of the instrument, similar to the implementation guidance and illustrations currently provided for debt investments.
subject to ASC 325-40, Investments – Other – Beneficial Interests in Securitized Financial Assets and ASC 310-30, Receivables – Loans and Debt Securities Acquired with Deteriorated Credit Quality, which would be superseded by the Proposed ASU without new implementation guidance.

We also believe it would be useful to have numerical examples in the final standard to illustrate the credit impairment and interest income recognition guidance as it would apply to non-PCI and PCI variable-rate debt instruments.

Finally, we believe there is useful application guidance provided in the Frequently Asked Questions document (“FAQs”) on the Proposed ASU that was issued by the FASB on March 25, 2013. We suggest it be included in the final standard, should the guidance provided in the FAQs become final.

Transition and Effective Date

**Question 20: Do you agree with the transition provision in this proposed Update? If not, why?**

We do not believe the proposed transition guidance is comprehensive. The Proposed ASU does not provide clear guidance on how to calculate the cumulative effect adjustment. We assume we would be required to retroactively reverse all previously-taken credit-related impairments on all amortized cost and FV-OCI (unless they fit the proposed practical expedient) positions outstanding upon adoption and replace them with the newly calculated allowance/impairment amounts. Also, it appears, as part of the cumulative effect calculation, we would be required to reverse previously recorded non-credit related impairments (i.e., taken due to intent/requirement to sell and foreign currency declines) on FV-OCI debt securities held at adoption. Further, the Proposal does not specify how the proposed changes pertaining to interest income recognition and nonaccrual guidance should be accounted for upon adoption, and whether they would need to be incorporated in the cumulative effect adjustment as well.

Also, it is unclear how the proposed change in the PCI financial asset definition would apply at transition. There are multiple questions that would need to be addressed in the final standard regarding transition for the PCI assets – i.e., whether the existing PCI assets would be “grandfathered,” whether there would be additional debt investments included under the new PCI definition, or whether the definition would need to be applied prospectively.

Further, we presume the cumulative effect would incorporate any direct effects of the change in accounting principle. For an insurance company, this would include deferred acquisition cost (“DAC”) and shadow DAC unlocking, as well as any offsets to sales inducement charges related to investment type insurance contracts. However, the transition guidance is lacking in this respect as well.

Finally, we believe the transition guidance should be expanded to incorporate the interactions between the Proposed ASU, the Recognition and Measurement Proposal, and the upcoming proposal on Insurance Contracts.
Financial Accounting Standards Board
May 31, 2013

Question 21: Do you agree that early adoption should not be permitted? If not, why?

We do not believe early adoption should be permitted in the final standard on credit losses, given that it is not allowed, for the most part, under the Recognition and Measurement Proposal, whose guidance interacts closely with this Proposal, and in the upcoming Insurance Contracts proposed standard.

Question 22: Do you believe that the effective date should be the same for a public entity as it is for a nonpublic entity? If not, why?

To promote comparability, we believe the effective dates should be aligned for public and nonpublic entities.

Question 23: Do you believe that the transition provision in this proposed Update is operable? If not, why?

We do not believe the transition provision would be operable because the historical information required to calculate the cumulative effect adjustment would not be available for every debt investment in our portfolio. Given the operational complexities around the calculation of the cumulative effect adjustment as described in our response to Question 20, we recommend prospective application.

Question 24: How much time would be needed to implement the proposed guidance? What type of system and process changes would be necessary to implement the proposed guidance?

We would be affected by this Proposed ASU, by the Recognition and Measurement Proposal, and by the upcoming proposal on Insurance Contracts. These changes would affect our business decisions, policies, operations, systems and internal controls. As currently drafted, we would be required to substantially revise our credit review processes, cash flow modeling, and investment accounting systems. Further, if one of the three standards were to be adopted earlier than the other two, it would not improve financial reporting given the direct linkage between the Financial Instruments and Insurance Contracts projects. Therefore, we recommend the effective dates be aligned for all three proposals or, less desirably, for the two Financial Instrument project proposals. Given the pervasive changes that are contemplated by the Proposed ASU and by the Recognition and Measurement Proposal, we would need at least two years for implementation. We are currently assessing how long it will take us to implement the upcoming proposal on Insurance Contracts, but we expect it to take longer than two years.