AMERICAN INTERNATIONAL GROUP, INC.

December 15, 2016

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

Re: Proposed Accounting Standards Update—Financial Services—Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts

American International Group, Inc. ("AIG", "we", or "our") appreciates the opportunity to comment on Proposed Accounting Standards Update, Financial Services—Insurance Contracts (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts (the "Exposure Draft" or "ED"). AIG is an international insurance company with diverse product offerings including property/casualty, life, and annuities. We support the Financial Accounting Standards Board’s (the "FASB" or the "Board") efforts to target and provide specific accounting guidance on recognition, measurement, presentation and disclosure of long-duration insurance contracts issued.

General Observations

Overall, we support the proposed changes to the accounting for long-duration insurance contracts accounting and believe these changes represent an opportunity to mitigate, and perhaps eliminate, some diversity in practice and in the current standards themselves.

As the scope of the targeted changes is extraordinary and the ED impacts the earnings emergence of virtually all long-duration insurance products, the proposed changes to accounting for long-duration will have significant implications to insurers’ business and operations. Because the changes proposed in the ED require updates to financial and actuarial systems for virtually all insurance products, we view the ED as a business standard with consequences well beyond financial reporting. This proposal will affect all aspects of our business including product decisions, operations, business strategies, capital management, technology, investor relations, producer compensation, and other areas.

The ED is in response to the comments from the 2013 ED by the users and preparers and additional outreach performed by the Board especially as it relates to the balance sheet accounting of long-duration contracts. In several instances, the Board has taken positions that reduce operational complexity and cost or enhance the decision usefulness of the statement of comprehensive income and balance sheet to financial statement users. Fundamentally, the ED’s conclusions tend to be more weighted toward the balance sheet with the statement of comprehensive income often a consequence of technical conclusions on the balance sheet. This approach differs from current U.S. GAAP, which provides greater focus on the unique nature of an insurer’s income statement as a meaningful measure to assess an insurer’s operating performance.
In our answers to your questions about the ED, we offer several recommendations that we believe will make financial statements more meaningful to users at a more reasonable cost to preparers. In some instances, that involves a simpler but more reliable alternative to the proposed change. In other instances, it involves additional change at a modest cost that would enhance users’ ability to understand the performance of an entity. In general, the aim of our recommendations is to find an optimal relationship between cost and benefit of the changes, both at and after transition.

Below is a summary of our general thoughts and concerns regarding the direction of the proposed accounting for long-duration insurance contracts and key recommended changes to the ED. Our responses to the specific questions posed in the ED are included in the Appendix to this letter.

Key Observations and Concerns

While we support the targeted improvements project and its objectives, our observations and concerns, which are described more fully in the Appendix, are as follows:

Annual Updating of Assumptions for Non-participating Contracts

- We agree that cash flow assumptions should be reviewed periodically and updated for material changes, as this presents financial statements users with a more accurate representation of the insurance entity’s obligations. Due to the annual updates, we agree that provisions for adverse deviation (“PADs”) would no longer be included in future policy benefit reserves.

- We recommend that a prospective, rather than a retrospective basis of adjustment be used when updating the liability for future policy benefits. Both methods present challenges, but we believe the challenges of prospective unlocking can be more consistently addressed in ways that will provide more decision-useful information to financial statement users. A prospective approach would avoid the worst distortions of the retrospective approach (large catch-up adjustments that partially reverse past adjustments and occur with assumption change updates) and could reduce the use of additional non-GAAP measures developed to remove the impact of the catch-up adjustment.

- For transition, we encourage the Board to fully appreciate the wide scope of changes to insurance entities in its re-deliberation of the ED by introducing simplifications or practical expedients whenever feasible.

Discount Rate

- We generally agree with the use of a liability rate, however, we believe that using a high quality investment portfolio as a proxy for such a rate would not be representative of the liquidity and other characteristics of future policy benefits and would not be appropriate. If the Board continues to pursue an observable rate, we believe a discount rate of an investment grade fixed-income security versus a high quality fixed-income security, such as a single A security, would be more appropriate than a high quality, fixed-income security. We believe a single A rate would be consistent with assumptions used by many insurers in pricing their product offerings.

Participating Contracts

- We generally believe that applying a single reserving model for participating and non-participating contracts would not be appropriate due to the unique aspects of participating
contracts. The inconsistent treatment of interest rates, between cash flow projections and discounting, is especially problematic, causing participating contracts to incur non-economic volatility in an environment of changing rates. We recommend the Board either exclude participating contracts from the exposure draft or discount cash flows at a rate more reflective of the economics (e.g., dividend rate).

Amortization of Deferred Acquisition Costs ("DAC")

- We generally agree with the simplified amortization of DAC.
- We strongly recommend that the Board, rather than abandoning DAC impairment entirely, establish a simplified method of assessing impairment based on margins remaining in gross premiums and assessments.
- At transition, we believe that restatement of DAC balances should be permitted if necessary to avoid material distortions in post-transition financial statements.
- Application of the proposed DAC amortization standards to the unearned revenue liabilities ("URLs") would distort URL amortization. Front-end loads (the source of URL) are closer in substance to limited-pay period premiums than to acquisition costs. We believe that aligning URL with accounting for the limited-pay deferred profit liability would provide more meaningful information.

Market Risk Benefits

- We generally agree with the definition and valuation of Market Risk Benefits; but believe the scope should be expanded to include general account products that provide market-linked benefits (including fixed indexed annuities), exposing the insurance entity to other than nominal capital market risk.
- At transition, we believe a practical expedient will be needed to determine the fair value of benefits now valued under existing accounting guidance.

Disclosures

- While we believe enhanced disclosures are necessary to provide decision-useful information, the current proposed changes are significant in terms of volume and effort, which may result in information overload obscuring the usefulness of the disclosures. We offer several recommendations to reduce the cost of the disclosures and improve the disclosures as detailed in our response to question 19, as follows:
  - Since DAC amortization as currently proposed is no longer linked to product profitability, a roll forward by product type is not meaningful. As such, DAC disclosures should be focused on balances.
  - Reconsider the requirement for disclosing weighted average of assumptions, which would not be meaningful to users and would require judgment, which may lessen comparability across insurers.
  - Expected future net premiums and expected future benefits disclosures will require a significant detail that does not appear to provide useful information to the user.
Separate Account balance disclosures are not the most decision-useful information for decision making and the focus should be on the risk borne by the company (i.e., guarantees).

The proposed guidance requires disclosures for both interim and annual periods. We believe that interim disclosures should only be required when significant changes arise.

Other Considerations

During our review of the exposure draft we have identified several matters that are outside of the scope of the questions posed in the exposure draft, but we believe should be considered in order to improve the proposed guidance.

Reinsurance

The ED does not attempt to change any of the existing accounting guidance under U.S. GAAP for reinsurance. However, it is unclear as to how certain changes to the measurement of underlying future policyholder benefits and market risk benefits will be applied to the reinsurance of the same underlying liabilities and risks. For instance, changes in liability based discount rates in the valuation of future policyholder benefits are reflected in other comprehensive income ("OCI"). It could be interpreted but is unclear that any corresponding changes to interest rates on reinsurance recoverable balances would also be reflected in OCI. The accounting guidance under the ED provides that any change to instrument-specific credit risk in the fair valuation of qualifying market risk benefits will be reflected in OCI. However, it is unclear as to whether counter party credit risk should also be reflected in OCI if the qualifying market risk benefits are reinsured.

Profits Followed by Losses

The proposed changes extend testing for profits followed losses to additional liabilities for annuitization benefits, as well as death and other insurance benefits, and require regular testing along with assumption changes.

This expanded testing creates some ambiguities and will cause material distortions in financial statements. Especially significant are:

- Unlike death and other insurance benefits, contracts do not normally include explicit charges for annuitization benefits. Without explicit charges, there is no obvious way to determine whether profits will be followed by losses. This ambiguity is likely to result in inconsistent application.

- When assumption changes lead to expected future losses on contracts that had none before, the additional liability is likely to be much greater than the expected losses because the method of calculating the liability is designed (like other liabilities for future benefits) to match revenues and the cost of benefits.

More fundamentally, the requirement is in stark contrast to the measurement of other assets and liabilities. Other asset and liability measurements (including the traditional liability for future benefits, fair value liability of market risk benefits and of embedded derivatives, expected credit losses on assets held to maturity, and fair value of other invested assets) do not depend on a test for profits followed by losses.
Requiring an additional liability without testing first for profits followed by losses would be consistent with the rest of the balance sheet and would eliminate the ambiguities and distortions that result from expanded testing.

*Additional Liability Calculations and Net Premium Ratio Cap*

The revisions to paragraphs 944-40-35-10 and 944-40-35-14 call for immediate loss recognition by capping the benefit ratio at 100%. However, if applied as written the cap does not actually result in the immediate loss recognition since the reserve is not calculated on a present value basis and is calculated as an accumulation in relation to actual assessments.

To comply with the intention of immediate loss recognition, we suggest that these two paragraphs be rewritten to express the additional liability as (a) the present value of future benefits minus (b) the current benefit ratio multiplied by the present value of assessments.

*Other Improvements*

We have identified additional items that might substantially enhance the targeted improvements:

- The current proposal appears to result in less meaningful accounting for deferred annuities. During the deferral phase, we believe that it is appropriate to move closer to investment contract accounting guidance rather than trying to preserve the current combination of insurance and investment contract accounting.

- Insurance accounting might be further improved by a clearer distinction between the time value of money (borrowing and investment aspects of the business) and the assumption of insurance risk (insurance revenues and benefits). In particular, financial statements might be more meaningful if interest spread were removed from universal life assessments. This tends to obscure investment performance and insurance performance by partially combining the two.

We think clarifications are necessary to remove any ambiguity and diversity in practice related to the measurement aspects of the instances cited above and other areas that are potentially impacted. The matters we have identified are not all inclusive and we would like an opportunity to discuss these matters with you and provide more detailed explanations for our conclusions.

We believe that this standard will require significant costs to implement, requiring changes to actuarial and financial systems and processes. Substantial efforts will be required to educate and inform senior management, analysts and other financial statement users regarding the impact of the proposed changes. Further, resource constraints associated with competing statutory, International Standard Adoption and other U.S. GAAP standards will pose a challenge in the next few years. We anticipate that 5 years will be required between the date of final adoption and the standard effective date.

For each of the questions posed by the Board in the ED, we have included in the Appendix detailed responses to address the concerns we have noted above.

Thank you for the opportunity to have input into this important project for the life insurance and annuity industry. My colleagues and I would be happy to discuss our comments with you, other staff members, and Board members at your convenience. Please contact me at (212) 770-5815, or one of the persons listed below, if you would like to set-up a meeting to discuss or have any questions.
Financial Accounting Standards Board
December 15, 2016

Very truly yours,

[Signature]

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APPENDIX

Liability for Future Policy Benefits—Contracts Other Than Participating Contracts

Question 1—Scope: Do you agree with the scope of the proposed amendments on the accounting for the liability for future policy benefits for contracts other than participating contracts? If not, what types of contracts, contract features, or transactions should be included in or excluded from the scope and why?

Comment
Yes, we agree that the scope of the proposed amendments on the accounting for the liability for future policy benefits should include traditional and limited-payment insurance contracts.

Question 2—Cash flow assumption update method and presentation: Do you agree that the effect of updating cash flow assumptions should be calculated and recognized on a retrospective basis in net income? If not, what other approach or approaches do you recommend and why?

Comment
No. While we agree that cash flow assumptions should be reviewed periodically and updated for material changes, we believe the updates should be done on a prospective basis.

Together with a cap on the net premium ratio, current assumptions will ensure that the liability is sufficient to cover expected future benefits without having to perform separate testing for premium deficiency. Together with appropriate disclosures (addressed later) this will also enable users of financial statements to assess the portion of future revenue available for other purposes (expense, DAC recovery, profit, etc.).

We believe the retrospective method will result in a "catch-up" adjustment which when combined with the volatile nature and the long-duration of these insurance contracts, will result in significant liability adjustments that have more to do with past cash flows than with a change in the estimate of future cash flows. Further, we believe that large retrospective "catch-up" adjustments may result in the proliferation of non-GAAP measures for investors and analysts similar to what is currently being done to explain DAC amortization under the expected gross profit method.

To understand this concern, consider that the incidence of insurance claims is inherently volatile, no matter how well we anticipate ultimate levels. This volatility can obscure—sometimes for several years—substantial differences between actual and expected experience. The retrospective update method implicitly treats every deviation from expected claims as random and redistributes that cost (or savings) between past and future in proportion to expected revenue.

For purely random variations, this is not a problem. The effects of adverse experience in some quarters will be offset by the effects of favorable experience in others. If, however, a persistent bias is obscured within the random variances, these redistributions from past cash flow to future reserve accruals can accumulate to very large amounts. When an assumption is changed, the cumulative catch-up adjustment will have to push this accumulating deferral back into the past along with the change in estimate of future cash flows.

We believe that the prospective update method would provide more meaningful information to financial statement users by avoiding the accumulated deferral of biased variances that is characteristic of the retrospective method. Any variance from expected cash flow would flow directly to net income as it
occurs. Since some variances are random, that will increase earnings volatility, but this volatility is
directly caused by the actual cash flows.

In overcoming the above issue with the retrospective method, the prospective method also happens to
delay recognition (in the liability) of a change in estimate. However with the new disclosure requirements
users of financial statements will be able to see the magnitude of the change in estimate and its anticipated
effects on future earnings.

The prospective method would also improve the balance between costs and benefits of the standard
updates. One of the most costly aspects of the changes would be reconstructing the history needed for
retrospective restatement of existing liabilities. With the prospective update method, that is not needed.

Question 3—Cash flow assumption update frequency: Do you agree that cash flow assumptions
should be updated on an annual basis, at the same time every year, or more frequently if actual experience
or other evidence indicates that earlier assumptions should be revised? If not, what other approach or
approaches do you recommend and why?

Comment
Yes. Although we agree with the frequency of cash flow assumption updates, we suggest the language in
the final standard be revised so as to require a review of assumptions at least annually, or more frequently
if actual experience or other evidence suggests, and to make any updates if material.

Question 4—Discount rate assumption: Do you agree that expected future cash flows should be
discounted on the basis of a high-quality fixed-income instrument yield that maximizes the use of current
market observable inputs? If not, what other approach or approaches do you recommend and why?

Comment
No. We generally agree that expected future cash flows should be discounted using a liability based
discount rate that maximizes the use of current market observable inputs. We also agree that the discount
rate should be based on liquidity and other characteristics of the discounted liabilities, as opposed to the
investments supporting those liabilities. Such a rate would provide more useful information regarding the
insurance entity’s interest spread and potential duration risk. However, we do not believe that the discount
rate associated with a high-quality (AA or higher) fixed-income portfolio necessarily provides a rate
closely associated with the characteristics of insurance liabilities. Additionally, we believe using a AA
rate could potentially be misleading to investors, regulators and others who use the financial statements to
measure solvency. Because the spreads between the various ratings, such as between AA and A, can be
volatile, the AA rates could result in a large and unrepresentative decrease in U.S. GAAP equity. If the
board continues to pursue an observable rate, we believe a discount rate of an investment grade fixed-
income security, such as a single A security, would be more appropriate than a high quality, fixed-income
security and would be consistent with assumptions used by many insurers in pricing their product
offerings.

Question 5—Discount rate assumption update method and presentation: Do you agree that the effect
of updating discount rate assumptions should be recognized immediately in other comprehensive income?
If not, what other approach or approaches do you recommend and why?

Comment
Yes, we agree that the effect of updating discount rate assumptions should be recognized immediately in
other comprehensive income ("OCI"). We believe that reflecting the discount rate changes in OCI for
future policyholder benefit liabilities will create a better match for available-for-sale securities backing
those liabilities which are currently recorded at fair value with changes in fair value going through OCI.
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Question 6—Discount rate assumption update frequency: Do you agree that discount rate assumptions should be updated at each reporting date? If not, what other approach or approaches do you recommend and why?

Comment
Yes, we agree with updating of the liability discount rate assumptions at each reporting date.

Liability for Future Policy Benefits—Participating Contracts

Question 7—Scope (participating contracts): Do you agree with the scope of the proposed amendments on the accounting for the liability for future policy benefits for participating contracts, including closed block contracts issued by a demutualized insurance entity? If not, what types of contracts, contract features, or transactions should be included in or excluded from the scope and why?

Comment
No. We generally believe that applying a single model for participating and non-participating traditional and limited pay contracts would not be appropriate due to the unique aspects of participating contracts. For example, while changes in interest rates would generally affect the profitability of traditional contracts, participating contracts would not be similarly affected due to a corresponding change in dividend levels.

Question 8—Cash flow assumption update method and presentation (participating contracts): Do you agree that the effect of updating cash flow assumptions should be calculated and recognized on a retrospective basis in net income? If not, what other approach or approaches do you recommend and why?

Comment
No. As indicated in our response to Question 2, we generally believe that a prospective approach would be a more cost effective method and more readily understood by financial statement users than a retrospective basis of updating cash flow assumptions. More importantly, as indicated in our previous comment, we do not believe that the liability model proposed for traditional contracts is appropriate for participating contracts.

Question 9—Cash flow assumption update frequency (participating contracts): Do you agree that cash flow assumptions should be updated on an annual basis, at the same time every year, or more frequently if actual experience or other evidence indicates that earlier assumptions should be revised? If not, what other approach or approaches do you recommend and why?

Comment
No. As indicated in the response to Question 8, we believe there is a fundamental problem with applying the proposed liability model to participating contracts. Changes in interest rates can affect dividend crediting rates, which impacts future cash flows. Thus, for participating contracts, cash flows assumptions would need to be updated quarterly, consistent with updates to discount rates to maintain an accurate estimate of future policy benefits.

Question 10—Discount rate assumption (participating contracts): Do you agree that expected future cash flows should be discounted on the basis of a high quality fixed-income instrument yield that maximizes the use of current market observable inputs? If not, what other approach or approaches do you recommend and why?
Comment
No. We disagree with the proposed discount rate assumption for participating contracts.

For truly participating business, the dividend interest rate is a better measure of a liability rate since it accounts for the participating features of the contract. This connection is just as strong as the connection between a universal life liability and its interest crediting rate.

Inconsistent treatment of the discount rate and interest in a participating contract’s expected cash flows would produce misleading financial statement results.

Question 11—Discount rate assumption update method and presentation (participating contracts): Do you agree that the effect of updating discount rate assumptions should be recognized immediately in other comprehensive income? If not, what other approach or approaches do you recommend and why?

Comment
No. We believe that discount rate should mirror the dividend rate as per our response in Question 10 above. The effect of updating the dividend rate and the discount rate (which should be the same) should flow directly through earnings, with no portion in other comprehensive income.

Question 12—Discount rate assumption update frequency (participating contracts): Do you agree that discount rate assumptions should be updated at each reporting date? If not, what other approach or approaches do you recommend and why?

Comment
No, the discount rate for participating contracts should be updated concurrently with the dividend rate.

Market Risk Benefits

Question 13—Scope: Do you agree with the scope of the proposed amendments on the accounting for market risk benefits? If not, what types of contracts or contract features should be included in or excluded from the scope and why?

Comment
No. While we generally agree with the amendments on the accounting for market risk benefits, we believe that the scope should be expanded to include certain general account products, such as fixed index annuities. This expansion would require a revision of the definition of market risk benefits to include situations in which the contract holder can benefit from capital market experience and the insurance entity is exposed to other than nominal capital market risk. Whether the contract holder is protected from adverse capital market risk or allowed to benefit from favorable capital market performance, in essence, the insurance entity is exposed to bearing the cost of the associated guarantee in either situation and thus, a consistent accounting model would be appropriate.

Question 14—Measurement: Do you agree that all market risk benefits should be measured at fair value, with fair value changes attributable to a change in the instrument-specific credit risk recognized in other comprehensive income? If not, what other alternative or alternatives do you recommend and why?

Comment
Yes. We agree with reporting all market risk benefits at fair value, with fair value changes attributable to changes in the instrument-specific credit risk recognized in OCI. This simplification change will eliminate much of the complexity that currently exists in analyzing whether certain products contain embedded derivatives, are insurance contracts, or a hybrid contract for which different accounting models are
applied. Thus, most of the diversity in practice that often results under current accounting standards should be eliminated. The use of a fair value model should also eliminate the current disincentive to economically hedge certain market risk benefits accounted for under an insurance accrual model, since the reporting of the hedging instrument at fair value currently creates income statement volatility.

**Deferred Acquisition Costs**

**Question 15—Scope:** Should the scope of the proposed amendments be expanded to include investment contract acquisition costs currently amortized using the interest method in Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs?

**Comment**

No. We do not believe the scope of acquisition cost amortization should be expanded to include investment contract acquisition costs. As we noted in our comment letter under “Other Improvements”, the proposal may result in less meaningful accounting for deferred annuities. To apply the proposed amendments to investment contract acquisition costs would aggravate that concern.

**Question 16—Amortization:** Do you agree with the proposed amendments that would simplify the amortization of deferred acquisition costs? If not, what other simplified and reasonably estimable amortization approach or approaches do you recommend and why?

**Comment**

Yes. We agree with proposed amendments to simplify the amortization of deferred acquisition costs.

We do not agree, however, with continuing the application of deferred acquisition cost amortization standards to unearned revenue amortization (paragraph 944-605-35-2). Aligning front-end load amortization to the DAC model in the ED would severely distort the performance of affected contracts and would introduce a significant ambiguity to the measurement of additional liabilities for annuitization, death, or other insurance benefits on the affected contracts.

In substance, front-end loads (the source of unearned revenue) on universal life-type contracts are analogous to limited-pay premiums on traditional contracts. It would be more appropriate to apply deferred profit liability principles to unearned revenue. That includes all aspects—deferral, amortization, and the relationship to the basic contract liabilities. Doing this would eliminate both the distortion and the ambiguity.

**Transition**

For some products, failure to restate the unamortized DAC balance at transition according to the new standards could lead to distortions in subsequent financial statements. We recommend optional retrospective application of the new DAC standards so that entities who find this to be a material concern can avoid such distortions.

**Question 17—Impairment:** Do you agree that deferred acquisition costs should not be subject to impairment testing? If not, what alternative or alternatives do you recommend and why?

**Comment**

No. We generally believe that DAC should be subject to impairment testing.

The decision to eliminate DAC impairment was based on an analogy between insurance contracts and debt and on the complexity of measuring impairment value. Two significant differences between
insurance contracts and debt make impairment both more important and easier to measure for insurance contracts.

First, insurance contracts typically incur much higher acquisition costs—to evaluate the insurance needs of each individual contract buyer, to evaluate available insurance products and select the most appropriate contract, and then to underwrite the extent of risk posed by that buyer.

Second, while debt is designed to produce a profit for the lender, insurance products are designed to produce a profit to the insurer in exchange for performing all of those activities and for assuming financial responsibility for the insured risks.

The magnitude of insurance acquisition costs makes impairment testing of the deferred cost asset important to users of insurers’ financial statements and the profit margin built into insurance contracts provides a convenient source for assessing and measuring impairment.

We support that net premium ratios should be capped at 100% of the gross premiums for future policy holder benefits. In so doing, losses would not be deferred through the reserving process. However, there would be a need for a DAC recoverability test because future DAC amortization could still result in a future loss. For example, when no future margin is expected (e.g., neither a gain nor loss), the net premium ratio would be 100% of gross premium. Under this scenario, gross premiums and expected benefits would be expected to result in neither a gain nor loss. However, once DAC amortization is considered, it would result in an expected future loss. As such, a DAC recoverability test must be performed to retain the long-standing loss recognition concept under which expected future U.S. GAAP losses are not deferred but recognized immediately.

We would suggest that the Board should further consult with actuaries and accountants on the exact methodology to be adopted for an impairment test as a part of its outreach activity.

Presentation and Disclosure

Question 18—Proposed requirements: Do you agree that the presentation and disclosure requirements included in the proposed amendments would provide decision-useful information? If not, which presentation and/or disclosure requirement or requirements would you change and why?

Comment

No. We agree that some of the presentation and disclosure requirements, especially the roll forward of liabilities at the appropriate levels of disaggregation, would provide decision-useful information. The proposal significantly increases the disclosure requirements in terms of volume of information and amount of effort to produce, both for interim and annual periods. Given the amount of time required to produce the disclosures, the Board should focus on the most effective and useful information to the users of the financial statements, including the timing of when such disclosures should be provided.

This can be achieved by eliminating some of the more costly and less meaningful disclosures, reducing the disclosures required for interim periods and expanding the simpler disclosures to make them more meaningful, as follows:

- Roll forwards are useful, though the level of detail currently proposed does not provide significantly more useful information, especially considering the amount of time and effort to provide such information.
Weighted averages do not provide meaningful information to financial statement users and such measures are not comparable across reporting entities. It is unclear how such averages would be calculated for mortality or lapse rate assumptions and even if specific guidance were provided on how to perform these calculations, it would not be meaningful and could potentially be misleading.

As amortization of DAC and deferred sales inducements is no longer linked to product profitability, the roll forwards of these product types is not useful and should be excluded from the disclosure.

The inclusion of risk management strategies for market risk benefits and hedging strategies of such products may not be appropriate in the footnotes.

Because separate accounts represent risks borne by the policyholder and not by the insurance entity, separate accounts do not present risk to the company. Risks borne by the insurance entity with regards to separate accounts arise when guarantees are provided, —and such market risk benefits will have their own disclosure requirements. As such, we recommend that the roll forward requirement associated with separate account liabilities be removed as well.

Question 19—Additional requirements: Are there any additional presentation or disclosure requirements that would provide decision-useful information? If so, please describe them and explain why.

Comment
The usefulness of the paragraph 944-40-50-6 disclosures can be greatly enhanced by the addition of other liabilities and more complete premium information, and by more comprehensive margin and duration analyses. We would be happy to work with you at your discretion on these improvements:

- A more complete picture of liability development can be achieved by requiring roll forward of: additional liabilities for annuitization, death and other insurance features; deferred profit liabilities; and unearned revenue liabilities. Also, the roll forwards of the present values of expected net premiums and benefits will not reconcile to reported liabilities without an additional line to show the effect of the liability floor (zero) when the present value of net premiums exceeds the present value of benefits.
- The disclosures could be enhanced with the addition of a margin analysis. This would enable users of the financial statements to see the amount of margin remaining in gross premiums and assessments, to observe trends in available margin, and to estimate the portion of future margins that will be reduced by DAC amortization. A margin analysis would also provide the detail to assess DAC impairment as we recommend in or response to question 17.
- To remain aligned with the expanded roll forwards, the reconciliation of the net liability for future policy benefits to the liability in the consolidated statement of financial position (paragraph 944-40-50-6 c) would have to be expanded to include the liabilities added to the roll forward disclosure.
- The undiscounted ending balances, recognized gross premiums, and weighted-average duration would provide more meaningful information if consolidated into a comprehensive duration analysis.

Effective Date and Transition

Question 20—Implementation date: The Board is interested in understanding the key drivers affecting the timing of implementation. What are those key drivers, and how do they affect the time it will take to implement the proposed amendments? Should the effective date be the same for both public entities and nonpublic entities?
Comment
Many of the changes, including the requirement to review cash flow assumptions annually for traditional and limited pay products, quarterly updates to the liability discount rate, changes to DAC amortization and model changes for certain Market Risk Benefits will require changes to actuarial and accounting systems, and documentation of revised processes and internal controls. Further, field testing will be required to ensure that the modeled results are understandable and consistent with expectations. In addition, time will be required for educational efforts to help management and financial statement users better understand Company results post-implementation. Finally, resource constraints will present an additional challenge, as the Company will have to simultaneously prepare to implement Principle Based Reserving ("PBR") requirements affecting statutory reporting, IFRS accounting implementation projects and FASB Accounting Standards Updates, which include Financial Instruments, Revenue Recognition and Leasing. We estimate that we would likely require 5 years beyond the issuance of the final standard to implement the significant changes. If a prospective method was adopted for updating cash flow assumptions at transition, the time required to implement the standard would likely be reduced to some extent.

Question 21—Transition methods: Are the proposed transition provisions operable and do they provide decision-useful information? If not, what would you recommend and why?

Comment
No. We do not believe that all of the proposed transition provisions are operable. The following areas present practical challenges with the transition itself or with subsequent financial statements. We would be happy to work with you at your discretion on reasonable approaches to address these concerns.

For traditional contracts, retrospective restatement would release accrued provisions for adverse deviation from the liability for future policy benefits but prospective transition of DAC would fail to release the interest that has accrued on the deferred acquisition cost asset. In current U.S. GAAP financial statements, these tend to offset. Removing only one of them at transition will leave an imbalance, overstating U.S. GAAP equity and impairing subsequent earnings.

For many universal life-type products, the simplified DAC amortization will significantly accelerate DAC amortization in the early years. Prospective transition of the existing DAC asset will carry over higher balances because of the slower early year amortization and the interest accretion. After transition, amortization will effectively be doubled for several years.

Though the reasons are different, the result is similar to the distortion anticipated in ASU 2010-26. In that instance, the Board’s solution was optional retrospective application to unamortized deferred acquisition costs. (Retrospective application to traditional contracts’ DAC should only be allowed on those where the liability is restated.)

If the final standards retain the retrospective liability assumption update method, we see little value in attempting to reconstruct actual history for more than a few years before the transition date, even if using the approximation techniques described in the transition provisions (paragraph 944-40-65-2 d.i.i.). For many products, a much simpler approach would be just as valuable to the provision of decision-useful information and would be more valuable than the prospective transition approach (paragraph 644-40-65-2 d.2.). Overall, a simple approach would provide more decision-useful information for such products and would reduce transition costs.
For some products, companies have previously increased liabilities for premium deficiency. Where interest rate changes were a factor in that loss recognition, retrospective restatement of the liability for original issue date discount rates would effectively move that prior loss recognition out of accumulated earnings into other comprehensive income. Subsequent earnings would again be impaired as ongoing investment income falls short of that needed to support the higher discount rate again charged in earnings. This concern could be solved either by prospective application or by retrospective adjustment to the date of the loss recognition rather than the original issue date.

For market risk benefits not already at fair value, it would be impracticable to compile all the relevant data needed to develop the fair value at transition using the same techniques commonly applied to new sales. At transition, we believe a practical expedient will be needed to determine the fair value of benefits now valued under the insurance standards.

**Question 22—Transition disclosure:** Do the proposed transition disclosure requirements provide decision-useful information? If not, what would you recommend and why?

**Comment**

No. We believe that the requirements to disclose the impact of transitioning from the existing to the new guidance on a disaggregated basis would not be meaningful to users of the financial statements. As an alternative, we would suggest disclosing the cumulative impact of adoption in the roll forward disclosures.

**Costs and Complexities**

**Question 23—Costs and complexities:** Describe the nature of the incremental costs of adopting the proposed amendments, distinguishing between one-time costs and ongoing costs. Explain which aspects of the proposed amendments are driving those costs and include ideas to make the proposals more cost effective.

**Comment**

The proposed targeted accounting changes will affect virtually all of our financial and reserving processes. Because the scope of the significant simultaneous changes to financial and operating systems is unprecedented for the insurance industry, an accurate estimate of total costs to implement the proposed ED cannot be made at this time. Needless to say, with AIG’s international presence and numerous product offerings, the costs will be immense and implementation a major challenge. These efforts and costs will be further increased by simultaneous changes to international accounting standards that are divergent, as well as the implementation of other FASB standards affecting insurers, such as Financial Instruments, Credit Impairments, and Leases.

Most of the incremental costs will be related to developing systems, processes and controls to review and unlock the assumptions at least annually, track and build yield curves for liability-based interest rates and fair valuation of market risk benefits. Some of the costs and complexities can be alleviated by adopting a prospective, rather than a retrospective method of updating the liability for future policy benefits, both at transition and subsequently. It is to be noted that there will be other additional costs to be incurred to implement the guidance that are not directly related to the preparation of financial statements, which include training, changes to budgeting and forecasting processes, changes to enterprise risk management procedures, changes to underwriting and pricing procedures, product decisions, business strategies, etc.