AMERICAN INTERNATIONAL GROUP, INC.

AIG

March 31, 2009

Mr. Russell Golden Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116



LETTER OF COMMENT NO.

281

Re: Proposed FASB Staff Position FAS 157-e, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed

Dear Mr. Golden:

American International Group, Inc. ("AIG") appreciates the opportunity to provide comments on Proposed FASB Staff Position FAS 157-e, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed (the "Proposed FSP"). We appreciate and support the Board's commitment to address the recent concerns raised by preparers and financial statement users with respect to determining whether a market for a financial asset is not active and a transaction is not distressed for purposes of determining fair value measurements under FASB Statement No. 157, Fair Value Measurements. The Securities and Exchange Commission ("SEC") has also recognized the importance of this issue by providing a specific recommendation for additional measures to be taken to improve the application and practice related to existing fair value requirements in its December 2008, Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-to-Market Accounting.

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 sharp declines in prices for these securities due to widening credit spreads and general illiquidity in the wake of the unprecedented turmoil in the global financial markets. We support the guidelines presented in the Proposed FSP that are designed to allow preparers to identify markets for financial assets that are not active and to place less emphasis, when determining fair value, on price quotes and recent transactions in such markets that are not indicative of an orderly transaction between market participants. We believe that using values that are more indicative of an orderly transaction will provide investors with more relevant information with which to assess the financial condition and long-term expected financial performance of an entity. We also believe that immediate action from

the FASB, through the issuance of the Proposed FSP, will contribute to improving investor confidence and ultimately market stability.

Two-Step Process

We support the process outlined in the Proposed FSP for (i) identifying if a market is not active ("Step 1") and (ii) presuming that indicated prices or transactions in such a market are "distressed" ("Step 2"). With regard to Step 1, we believe the factors identified for determining whether a market is not active are appropriate and we agree they are not all inclusive. Fixed income markets have become highly specialized and, depending on the asset class or subclass at issue, some of the factors may or may not be present, evidence of other factors may not be readily available or directly measurable, and still other factors may have more or less relevance or weight. In some cases, it may only be possible to demonstrate that information used to be available when the market was considered active such that the lack of this information in the current market provides evidence that the factor is present. In the end, the assessment in Step 1 regarding what markets are considered not active should remain a matter of judgment based on all of the available evidence in order to be operational.

We are concerned with Step 2, because in a market that is not active it will be difficult to obtain evidence that these factors are present. In addition, we do not believe that the factors identified are necessarily indicative of a transaction that is not distressed. For example, there could be a distressed seller who must sell an asset at a price that is so attractively low that there are multiple bidders, taking advantage of the seller's position. That clearing price, which only the winning bidder will likely be aware of, could still be considered a distressed price. Due to these and other concerns, we do not believe Step 2 is operational or even necessary, and therefore recommend that it be removed from the final FSP to improve operationality and understandability.

However, if the Board believes Step 2 is necessary in some form, our recommendation is to modify Step 2 to indicate that once a market has been determined to be "not active" in Step 1, it is presumed that all price quotes obtained for assets in that particular market are distressed, unless the investor has sufficient evidence that a particular price quote or transaction did not exhibit the overall characteristics identified for that market in Step 1. This will allow preparers to exercise judgment when evaluating whether a financial asset's price is associated with a distressed transaction.

Scope of the Guidance

We believe the scope of the Proposed FSP should be clarified to ensure it is operational and to avoid potential unintended consequences. The objectives section of the Proposed FSP clearly indicates that the Proposed FSP is providing guidance specifically for financial assets; however, the proposed amendments to FAS 157 (specifically paragraph 29A) indicate that the guidance applies to all assets and liabilities measured at fair value. We believe, given the nature of the factors in Step 1, that this guidance appears to be aimed at financial assets for which the market is no longer active, rather than to those assets and liabilities for which the market is inherently not active, such as certain over-the-counter derivatives and certain private securities. To include such instruments in the scope of this guidance may lead one to the inappropriate conclusion that the market for such instruments is distressed or dislocated. We believe that additional guidance on fair value

measurements is not necessary at this time for financial assets and liabilities in markets that are inherently not active. We believe this scope clarification will provide users and preparers with a clearer understanding of what fair value measurements will be amended as a result of the adoption of this guidance. As indicated in our comments above with respect to the two-step process, in some cases it may only be possible to demonstrate that information used to be available when a market was considered active such that the lack of this information in the current market provides evidence that the factor in Step 1 is present.

Example

The Proposed FSP amends Example 11 in FAS 157, which is intended to assist preparers in determining the fair value of a financial asset when the market for that asset is not active. We have several comments on the example, which we believe will make it more operational.

First, we believe the example should be very clear that the ultimate determination as to whether a market is not considered active is not necessarily based on the number of factors that exist nor is it based on the mere existence, or non-existence, of any one or more factors. In contrast, the example should clarify that the determination in Step 1 is made based on judgment of all relevant facts and circumstances. We recommend that the Board utilize language that already resides in U.S. GAAP literature to introduce the examples, such as the language used in Exhibit 96-16A, Examples of How to Assess Individual Minority Rights Under the Consensus in Issue 96-16, which states:

"The Task Force agreed that the following examples would facilitate the understanding of how to assess whether the rights of the minority shareholder should be considered protective or participating and, if participating, whether the rights are substantive. Although these examples illustrate the possible assessments of individual minority rights, the evaluation of minority rights should consider all of the factors identified in "Factors to Consider" to determine whether the minority rights, individually or in the aggregate, provide for the minority shareholder to effectively participate in significant decisions that would be expected to be made in the "ordinary course of business."

Secondly, we believe the construction of the appropriate rate of return to be used in the discounted cash flow analysis discussed in paragraph A32E should be clarified. Specifically, we believe the second component of the rate identified in the example, "(2) credit spreads for current issuances for similarly rated securities," should be removed because the next component, "(3) reasonable assumptions regarding liquidity and nonperformance risks...," already takes the credit spread component into account. Furthermore, incorporating credit spreads for current issuances of similar securities in a distressed market (to the extent there is any level of current issuances because the market is not active) would seem counterintuitive if the goal is to derive a rate of return that includes a reasonable risk premium for bearing uncertainty that would be considered by willing buyers and sellers in pricing the asset in a non-distressed transaction (i.e., a transaction not in the current dislocated market).

Effective Date and Transition

AIG supports the effective date and transition provisions of the Proposed FSP. We believe the amendments to the fair value literature can be implemented by calendar year-end companies in time for filing Quarterly Reports on Form 10-Q as of March 31, 2009. If the Board decides to delay the

implementation of the Proposed FSP to June 30, 2009, for calendar year-end companies, we strongly encourage the Board to permit early adoption *Conclusion*

We support the guidelines presented in the Proposed FSP, taking into consideration our recommendations outlined above. We believe application of this guidance will provide investors with more relevant information with which to assess the financial condition and long-term expected financial performance of the entity, contributing to improved investor confidence and market stability. Please do not hesitate to contact me at (212) 770-6252 should you have any questions or need clarification with respect to any matters addressed in this letter.

Very truly yours,

s/Steve Belcher Director and Global Head of Accounting Policy American International Group, Inc.

Cc: Anthony Valoroso

Vice President and Chief Accounting Officer

American International Group, Inc.