

## AMERICAN INTERNATIONAL GROUP, INC.



May 15, 2013

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

Re: FASB File Reference No. 2013-220, Proposed Accounting Standards Update, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*

American International Group, Inc. (“AIG,” “we,” “us,” or “our”) appreciates the opportunity to comment on Proposed Accounting Standards Update, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“Proposed ASU” or “Proposal”). AIG supports the efforts of the Financial Accounting Standards Board (“FASB”) and the International Accounting Standards Board (“IASB”) (together “Boards”) to pursue changes to their previous financial instruments proposals. We believe the Boards should continue to work toward a comprehensive, single, high-quality standard addressing the classification and measurement of 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 Model**

We support a mixed measurement attribute model for financial instruments. We believe companies should be permitted to decide whether to initially measure a financial instrument at fair value with changes in fair value recognized in income, at fair value with qualifying changes in fair value recognized in other comprehensive income, or at amortized cost because the classification and measurement attributes of financial instruments should reflect the company’s business strategies for such instruments. We also believe changes in business strategies could occur and, if they do, management should be permitted to change the initial accounting designations made for financial instruments, accompanied by comprehensive disclosures related to such decisions. We believe such changes in business strategies should be infrequent.

Therefore, we believe that financial assets a company intends to sell should be measured at fair value with changes in fair value reflected in income; financial assets a company may sell, but has not decided to sell, should be measured at fair value with changes in fair value recorded in other comprehensive income; and financial assets a company intends to hold for collection or payment(s) of contractual cash flows (in particular, loans) should be carried at amortized cost.

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Further, we believe it obscures important information to measure at fair value through income financial instruments that management has no need or intention to realize or settle.

We support the fair value through other comprehensive income category in the Proposal, however, the proposed guidance around the cash flow characteristics assessment and its application to investments in beneficial interests would result in a significantly greater use of the fair value through income category which, in turn, would create accounting mismatches for our financial assets and insurance liabilities, produce earnings volatility and would not faithfully represent our business strategy for such investments. As an alternative, we recommend retaining existing bifurcation guidance for financial assets, which is widely accepted and understood. Further, we support continuing to view the fair value through other comprehensive income category as a default category as it exists today, when a company does not plan to trade a financial asset or does not affirmatively intend to hold it for collection of contractual cash flows. We believe an accounting model that acknowledges the importance of presenting information about management's business strategy and how it intends to realize and settle its financial instruments, complemented with robust footnote disclosures, is superior to the model in the Proposed ASU.

### **Effective Date**

We would be affected by this Proposed ASU, by the Proposed Accounting Standards Update, *Financial Instruments – Credit Losses (Subtopic 825-15)* (“credit impairment proposal”), and by the upcoming proposal on Insurance Contracts. The proposed changes would affect our business decisions, policies, operations, and systems. Further, if one of the three standards were to be adopted earlier than the other two, it would not improve the 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, at a minimum, for the two Financial Instrument project proposals. Given the pervasive changes that are contemplated by the Proposed ASU and by the credit impairment proposal, we would need at least two years for their 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.

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Our responses to certain questions raised by the Board 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  
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## APPENDIX

### RESPONSES TO FASB QUESTIONS ON PROPOSED ASU

#### Scope

**Question 1: Do you agree with the scope of financial instruments included in this proposed Update? If not, which other financial instruments should be included or excluded from the guidance in this proposed Update and why?**

We generally agree with the scope of the Proposed ASU. However, certain products issued by insurance companies (e.g., guaranteed investment contracts (“GICs”), policy loans, unit-linked accounts, etc.) may fall within the definition of a financial instrument under the proposed guidance. We believe it is more appropriate for such products to be addressed within the Insurance Contracts project. To ensure the accounting for these products is not changed if the effective date of this Proposal precedes the Insurance Contracts standard, we suggest including a brief statement in the final standard to clarify that “products written by insurance companies that meet the definition of a financial instrument as specified within this standard (e.g., GICs) will be addressed in the Insurance Contracts standard and, consequently, accounting for such products should only be changed, if and when applicable, upon adoption of the Insurance Contracts standard.”

**Question 2: Do you agree with the industry-specific specialized guidance scope exceptions in paragraph 825-10-15-9? If not, why? What would you propose instead?**

We agree with the industry-specific specialized guidance scope exceptions, as proposed. However, we noticed as specified in paragraph 825-10-15-9-b.4, investment companies subject to ASC Topic 946 would continue to measure foreign currency gains or losses in accordance with ASC Subtopic 946-830 using the amortized cost basis versus the proposed requirement for all other industries to use the fair value basis for debt investments measured at fair value through other comprehensive income (“FV-OCI”). To provide comparability and for the additional reasons expressed in our response to Question 26, we recommend that all industries be allowed to have the flexibility to use amortized cost as the basis for remeasurement.

#### Recognition

**Question 4: Do the proposed amendments appropriately convey the principle associated with the contractual cash flow characteristics assessment? If not, why? What would you propose instead?**

We are concerned with the proposed principles associated with the contractual cash flow characteristics assessment and the application of the solely payments of principal and interest test (“SPPI test”). The guidance creates operational complexities and could cause insignificant contractual features to prevent the contractual cash flows from qualifying as solely payments of

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principal and interest. As a result, the proposed guidance might require the entire financial asset to be classified at fair value through net income (“FV-NI”), when the financial asset otherwise could qualify for the amortized cost (“AC”) or FV-OCI category based on the company’s business model. We support the existing US GAAP guidance on bifurcation of hybrid financial assets because it is well understood and operational. However, should the FASB retain the SPPI test in the final standard, we recommend it be revised to require *substantially* and not *solely* payments of principal and interest as the qualifying guidance to meet the test.

Additionally, refer to our response to Question 10.

**Question 5: The proposed amendments define *principal* as the amount transferred by the holder at initial recognition. Should the definition of *principal* be expanded to include repayment of the principal amount at maturity or other settlement? If so, what instruments would fail (or pass) the contractual cash flow characteristics criterion as a result of this change?**

We believe the expanded definition of *principal* would be more appropriate. Under the Proposal, an instrument with a prepayment option might fail the SPPI test (and cause the entire instrument to be classified at FV-NI) if the prepayment amount does not substantially represent unpaid amounts of principal and interest on the principal amount outstanding; for example if the prepayment amount includes reasonable additional compensation for the early termination of the contract. Further, the Proposed ASU does not define *substantially represents* and *reasonable additional compensation* nor does it provide related implementation guidance which, in turn, could lead to diversity in practice with different companies classifying the same or similar instruments differently. Refer to our response to Question 4 for our recommendations. However, should the FASB retain the guidance as proposed, we recommend additional clarification and implementation guidance be provided in the final standard.

**Question 6: Do the proposed amendments contain sufficient application guidance and illustrations on implementing the cash flow characteristics assessment? If not, why?**

Refer to our responses to Questions 4 and 5.

**Question 7: Should a financial asset with a contractual term that modifies the economic relationship (see paragraphs 825-10-55-17 through 55-20) between principal and interest be considered to contain cash flows that are solely payments of principal and interest? Should this be the case if, and only if, the contractual cash flows could or could not be more than insignificantly different from the benchmark cash flows as discussed in paragraph 825-10-55-19? If not, why? What would you propose instead?**

The proposed guidance is overly complex and does not provide simplification or more decision-useful information compared with existing US GAAP. It would require significant judgment in determining the *benchmark instrument*, *reasonably possible scenarios* and whether the cash flows of the instrument under assessment are *more than insignificantly different* from the cash flows of the benchmark instrument. We suggest this determination continue to be based on the

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existing *clearly and closely related* guidance on embedded derivatives, as specified in ASC Topic 815. It is operational and well understood by both preparers and users.

**Question 8: Do the proposed amendments contain sufficient application guidance in paragraphs 825-10-55-17 through 55-20 on assessing a modified economic relationship? If not, why?**

Refer to our response to Question 7.

**Question 9: For beneficial interests in securitized financial assets, the proposed amendments would require an entity to look through to the underlying pool of instruments in determining whether the tranche contains payments of solely principal and interest. Do you agree with this look-through approach? If not, why? What would you propose instead?**

We do not support the proposed guidance. We believe it is overly complex, would create unnecessary earnings volatility and would not result in decision-useful information. The proposed amendments related to investments in beneficial interests in securitized financial assets could potentially require a wider use of the FV-NI classification. This would result in an accounting mismatch because, under the Insurance Contracts proposal, changes in insurance liabilities (excluding those liabilities that are contractually linked to underlying assets) arising from changes in discount rates would be recognized in OCI, regardless of the classification and measurement applied to the assets intended to fund those liabilities.

Although a literal reading of the Proposed ASU would result in only the most senior tranches being eligible for the AC or FV-OCI classification (i.e., pass the SPPI test), the implementation guidance appears to allow some judgment. It could be interpreted that an acceptable approach would be to compare the credit rating of the underlying pool to the beneficial interest's credit rating and, if the former is below the latter, the SPPI test is passed. It is unclear which guidance the FASB intended to be applicable for these investments.

We also do not agree with the inconsistency in the guidance in terms of how credit risk should be used for the classification and measurement of investments in beneficial interests but not for other debt instruments with a similar credit risk profile. This could result in two instruments with a similar credit profile – one issued in a securitization and the other not – being classified differently (FV-NI for the former and FV-OCI or AC for the latter). We do not see a conceptual reason for the difference and believe this guidance will be confusing to financial statement users. Further, there could be embedded credit derivatives in the structure that have de minimis value to the instrument and, under the Proposal, the entire beneficial interest would be required to be classified as FV-NI.

We believe a company should be able to carry a debt instrument at FV-OCI or at AC, regardless of whether it is a beneficial interest issued in a securitization, assuming it meets the business strategy model and passes the other criteria of the SPPI test (i.e., the instrument itself and the underlying pool meet the SPPI test). The credit risk component should be considered and addressed under the impairment model and the embedded derivatives should continue to be subject to the existing guidance in ASC Topic 815.

**Question 10: Do the proposed amendments appropriately convey the principle associated with the business model assessment? If not, why? What would you propose instead?**

We do not believe the proposed amendments appropriately convey the principle associated with the business model assessment. As an insurance company we generally invest for the longer term and would like to use the FV-OCI classification and measurement category more broadly than proposed. For the most part our business model dictates asset-liability matching, with financial assets backing insurance contract liabilities. By recognizing both fair value gains and losses and changes in the discount rate on financial assets and related insurance contract liabilities, respectively, in OCI, the FV-OCI classification for financial instruments would allow us to reduce accounting mismatches.

Further, requiring the cash flow characteristics criteria to be performed before the business model assessment might result in a more narrow use of the FV-OCI category than is the case today. We believe if a company does not intend to trade a financial asset in the near term, it should not be required to carry it at FV-NI and the FV-OCI category would result in a more representationally faithful presentation of the company's business model. On the other hand, if a company holds the asset with an intent to sell, we do not agree it must perform the detailed and time-consuming SPPI test first. This is a notable difference between the Proposed ASU and IFRS 9. We believe this area needs convergence, especially because the Boards acknowledge the result would be the same under both US GAAP and IFRS, and recommend the business model assessment be performed before the cash flow characteristics test, as proposed under the *Limited Amendments to IFRS 9*.

Further, if a company does not meet the past-sales criterion as outlined in paragraph 825-10-55-28-c of the Proposal it could be precluded from using the FV-OCI classification and would result in using the AC classification. We believe a company should have the ability to classify a debt instrument at FV-OCI when the instrument otherwise would be determined to be classified at AC, if fair value provides a more representationally faithful presentation of the instrument than the AC measurement. If the FV-OCI classification is precluded for such debt instruments, we believe it would result in a classification not intended by the Proposed ASU.

**Question 11: Do the proposed amendments provide sufficient application guidance and illustrations on how to distinguish among the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the proposed guidance provided to describe those business models? If not, why?**

We are concerned with the application guidance around the AC category, which appears to be more restrictive than the held to collect business model, would imply. For instance, under the Proposal, the sale of a financial asset other than due to significant credit deterioration (i.e., due to changes in overall credit profile/risk appetite in an investment policy) would be inconsistent with the held to collect (AC) model and should be infrequent. Sales due to regulatory requirements specific to a company would also be inconsistent with the held to collect model, and only regulatory requirements affecting the entire industry would be allowed. We believe it could be

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difficult for management to know at acquisition whether the regulatory guidance might require the company to sell an asset in the future.

We also noted that there are application differences between the Proposed ASU and the *Limited Amendments to IFRS 9*, with IFRS 9 being less restrictive in this area. We suggest the FASB and the IASB work to converge this guidance and allow sales from the AC category to be less restrictive than proposed in the ASU. Specifically, we recommend allowing sales that are infrequent (even if significant) or insignificant both individually and in aggregate (even if frequent), as provided in paragraph B4.1.3 of the *Limited Amendments to IFRS 9*.

**Question 12: Should the classification and measurement model for financial instruments contain an explicit tainting notion or should it rely on the principle and exercise of professional judgment? Why?**

We believe an explicit tainting notion should not be included in the guidance. We believe companies should be able to rely on the principles-based guidance and exercise professional judgment. However, as expressed in our response to Question 11, the restrictive parameters around the AC business model could limit the use of the AC classification. There could be sales of assets classified as AC due to unforeseen changes in circumstances, and it appears under the Proposal questions could be raised around management's initial judgment with respect to using this category. We believe sales should be permitted with appropriate comprehensive disclosure.

**Question 13: The proposed amendments would require loan commitments, a revolving line of credit, or a commercial letter of credit (the potential creditor) to be measured on the basis of the likelihood of exercise of the commitment and the classification of the underlying loan that would be made upon exercise of the commitment. Do you agree with the proposed classification of loan commitments? If not, why? What would you propose instead?**

We agree with the proposed classification of loan commitments. However, it is not entirely clear in the Proposal how loan commitment fees for loans that are funded and classified as FV-OCI should be accounted for. We suggest these fees be recognized over the life of the funded loan similar to the commitment fees on loans measured at AC.

**Initial Measurement**

**Question 14: Do you agree with the initial measurement principles for financial instruments? If not, why?**

We agree that the initial measurement should follow the same principles as the subsequent measurement, as proposed.

## Subsequent Measurement

### **Question 16: Should financial liabilities subsequently be measured at amortized cost, unless certain exceptions are met? If not, why?**

We agree that financial liabilities should subsequently be measured at amortized cost. We believe most companies settle liabilities based on the amounts contractually due and, therefore, amortized cost provides the most useful information for financial statement users. We also agree with the Proposal to measure financial liabilities at FV-NI when certain criteria are met, and we believe financial liabilities should be permitted to be measured at fair value when management concludes that fair value is the most relevant measurement attribute for the liability (for example, when it is hedging an asset classified as FV-NI or when it is included in a trading portfolio).

### **Question 17: The proposed amendments would require a nonrecourse financial liability that is settled with only the cash flows from the related financial assets (see paragraph 825-10-35-11) to be measured on the same basis as those assets. Do you agree with the proposed amendments? If not, why? What would you propose instead?**

We agree that a nonrecourse financial liability that is settled with only the cash flows from the related financial assets should be measured on the same basis as those assets. More clarification is needed, however, about whether certain products, such as unit-linked accounts issued by insurance companies (e.g., contracts with a guaranteed minimum benefit), may fall into this category. While the current treatment for reporting the unit-linked account asset and liability is consistent with the proposed guidance, we believe it would be more appropriate for unit-linked accounts to be considered in the Insurance Contracts project, because these products are issued by insurance companies and participate in the same pool of assets as the associated insurance contracts.

### **Question 18: The proposed amendments would require financial assets measured at amortized cost that are subsequently identified for sale to continue to be classified and measured at amortized cost less impairment and would prohibit recognition of the gain, until the sale is complete. Do you agree with the proposed classification and measurement requirements? If not, why?**

Under the Proposed ASU, if a company identifies an asset or a group of assets classified at AC as held for sale, the asset(s) will continue to be reported at AC, but would need to be marked down to fair value through earnings if the fair value is below AC. It is unclear if a decision to sell an asset that was made after the balance sheet date but before the financial statements were issued would be reflected at the balance sheet date or in the period the decision was made. We propose any impairment and held-for-sale classification be reflected in the financial statements in the period when the decision is made. Also, it is unclear whether assets classified as FV-OCI and identified to be sold would be subject to this guidance as well. To avoid potential diversity in practice, we suggest clarifying this topic in the final standard.

### **Question 19: The proposed amendments would provide a practicability exception for measuring equity investments without readily determinable fair values that do not qualify**

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**for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. Do you agree with the proposed amendments? If not, why?**

We agree with the practicability exception for measuring equity investments without readily determinable fair values that do not qualify for the practical expedient in paragraph 820-10-35-59 (that is, the net asset value per share expedient) and a one-step impairment model for all equity investments subject to the practicability exception. However, it is unclear whether qualified limited partnership investments in affordable housing projects (ASC 323-740) or real estate investment property entities that are not investment companies would be subject to this guidance. We suggest these types of investments be explicitly excluded from the Proposed ASU and be addressed under other applicable US GAAP.

Further, it is unclear whether the proposed one-step impairment model would contemplate impairments solely due to changes in foreign exchange rates for equity investments denominated in a non-functional currency.

**Question 20: Should an entity evaluate the need for a valuation allowance on a deferred tax asset related to a debt instrument measured at fair value with qualifying changes in fair value recognized in other comprehensive income separately from the other deferred tax assets of the entity (rather than combined and analyzed together)? If not, why?**

We support the proposal to evaluate the need for a valuation allowance on a deferred tax asset related to a portfolio of debt investments that are measured at FV-OCI separately from the other components comprising the deferred tax assets. Because the tax effects of any unrealized losses on debt instruments that are recognized in OCI will reverse over time, we believe the proposed guidance is appropriate to the extent we have the ability and intent to hold such investments to recovery, which could be to maturity.

**Question 21: Under the amendments in this proposed Update, hybrid financial assets would not be required to be analyzed for bifurcation under Subtopic 815-15 and would be assessed in their entirety on the basis of the proposed classification requirements. In contrast, hybrid financial liabilities would be assessed for bifurcation and separate accounting under Subtopic 815-15, and the financial liability host contract would be subject to the proposed amendments. Do you agree with this proposal? If not, why? What would you propose instead?**

We do not agree with this proposal. In our view, it is not appropriate to bifurcate embedded derivatives for liabilities only. Under current US GAAP, we are required to review both assets and liabilities for bifurcation of embedded derivatives. This results in hybrid financial instruments being accounted for similarly regardless of whether the instrument is an asset or a liability and achieves consistent accounting for those financial instruments where the fair value option is not elected.

Under current US GAAP, certain hybrid financial assets with embedded derivatives (e.g., convertible debt instruments, commodity-linked notes, indexed bonds whose return is tied to a

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specified equity security or index) require bifurcation. Under the proposed guidance these and similar instruments would likely be measured at FV-NI in their entirety. However, the embedded derivative would be bifurcated from a similar liability thus creating asymmetry in measurement.

The proposed guidance would result in symmetry being distorted between assets and liabilities. For example, a hybrid instrument containing significant leverage (e.g., a stated coupon of two times LIBOR) would most likely fail the contractual cash flow characteristics criterion if such an instrument is an asset. However, under the Proposed ASU, the same instrument would require bifurcation if it is reported as a liability. Thus, the asset would be recorded in one unit of account while the liability would be bifurcated. As such, we believe hybrid assets should be accounted for similarly to hybrid liabilities. That is, we believe the current guidance for hybrid instruments should be retained, under which both hybrid assets and hybrid liabilities should be reviewed for bifurcation. We also support retaining the fair value option election for both hybrid financial assets and hybrid financial liabilities.

**Question 22: The proposed amendments would require reclassification of financial assets when a change in business model occurs and prescribes how those changes should be subsequently accounted for. Do you agree with the proposed amendment on reclassifications? If not, why?**

The parameters allowing debt investments to be reclassified between AC, FV-OCI and FV-NI only due to business model changes appear to us to be too restrictive and could be interpreted as “never” allowing such reclassifications. Additionally, while the IASB’s proposal requires reclassifications to be effective on the first day of the reporting period following the business model change, the Proposed ASU requires them to be effective on the last day of the reporting period in which the change is effective. Because we have subsidiaries that report under both US GAAP and IFRS (for some of our non-US based subsidiaries), we believe the FASB and the IASB should work to achieve convergence in terms of when the business model changes should be accounted for.

## **Presentation**

**Question 26: The proposed amendments would require an entity to separately recognize in net income changes in fair value attributable to foreign currency gain or loss on foreign-currency-denominated debt securities measured at fair value through other comprehensive income (see paragraphs 825-10-45-14 through 45-15). Is the proposed fair-value-based method provided for computing the foreign currency gain or loss component operable? If not, why? What would you propose instead?**

We support the proposed amendments to require a company to recognize in income changes in fair value attributable to foreign currency gains or losses on foreign-currency-denominated debt securities measured at fair value through other comprehensive income. However, we do not agree with the proposed guidance to calculate the effects of remeasurement based on the instrument’s fair value. The Proposal would result in a different remeasurement basis for debt investments measured at FV-OCI compared with the basis used for the remeasurement of non-functional-currency-denominated debt investments carried at AC. Further, there would be no

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convergence achieved between US GAAP and IFRS, because under the IAS 21, gains and losses on remeasurement are based on the AC of the debt instrument. We believe, at a minimum, companies should be allowed to have a choice between the AC and fair-value-based methods and provide disclosures on the method used.

## **Disclosures**

**Question 29: Do you agree with the proposed disclosure requirements? If not, which disclosure requirement would you change and why?**

We generally support the proposed disclosure requirements.

## **Transition and Open Effective Date Information**

**Question 30: Should an entity be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option under the proposed requirements? If not, why?**

We support the proposed guidance because it attempts to resolve the concern about how unrealized gains and losses attributable to the changes in an entity's credit standing for financial liabilities measured at fair value under the fair value option could affect the entity's financial performance. Therefore, we believe an entity should be permitted to early adopt only the proposed presentation requirements related to changes in instrument-specific credit risk for hybrid financial liabilities that would qualify for the fair value option.

**Question 32: How much time is needed to implement the proposed guidance?**

AIG would be affected by this Proposed ASU, by the credit impairment proposal, and by the upcoming proposal on Insurance Contracts. The proposed changes would affect our business decisions, policies, procedures, and systems. Further, if one of the three standards were to be adopted earlier than the other two, it would not improve the 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, at a minimum, for the two standards on Financial Instruments. Given the pervasive changes that are contemplated by the Proposed ASU and by the credit impairment proposal, we would need at least two years for their 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.

**Question 33: Are the transition provisions in this proposed Update operable? If not, why?**

We do not see specific concerns with the transition provisions in the Proposal. However, the transition guidance should be expanded to incorporate the interactions between the Proposed ASU, the credit impairment proposal and the upcoming proposal on Insurance Contracts.

## Equity Method Accounting

**Question 34: The proposed amendments would require investments that qualify for the equity method of accounting in Subtopic 323-10, Investments—Equity Method and Joint Ventures—Overall, to be subsequently measured at fair value with changes in fair value recognized in net income if the investment is held for sale at initial recognition. Are the proposed indicators/conditions operable? If not, why? What would you propose instead?**

It is unclear how to apply the “held-for-sale” criteria (e.g., when the investor identified potential exit strategies or defined the time at which the investor expects to exit the investment) to our limited partner interests in investment company partnerships if we have no intention or ability to sell the investment in the near term. Further, under the Proposed ASU, we no longer will be able to carry an equity method investment in a publicly-traded company (with a readily determinable fair value) at FV-NI, unless the held-for-sale criteria are met. Currently, we could elect the fair value option for such an investment to remove the complexities of applying the equity method of accounting. Therefore, we suggest FV-NI be an allowed category for such an investment, even if a company does not intend to sell it in the near term, because the observable fair value is the most faithful representation of our investment in the entity.

Further, it is unclear whether qualified equity method limited partnership investments in affordable housing projects (ASC 323-740) or equity method real estate investment property entities that are not investment companies would be subject to this guidance. We believe these types of investments should be explicitly excluded from the scope of the Proposed ASU and addressed under other applicable US GAAP.

**Question 35: The proposed amendments would change the current two-step impairment model for equity method investments to a one-step impairment model for all equity investments. Do you agree with the proposed one-step equity impairment model? If not, why? What would you propose instead?**

We agree with the replacement of the current two-step impairment model for equity method investments with a one-step impairment model. However, similar to our comments on Question 34, it is unclear whether qualified limited partnership investments in affordable housing projects or non-investment company real estate investment property entities accounted for under the equity method would be subject to this guidance. We suggest these types of investments be excluded from the impairment model in the Proposal and addressed under other applicable US GAAP.

Further, it is unclear whether the proposed one-step impairment model would contemplate impairments solely due to foreign currency for equity method investments denominated in non-functional currency.