

AMERICAN INTERNATIONAL GROUP, INC.



March 31, 2009



LETTER OF COMMENT NO. 237

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

**Re: Proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, Recognition and Presentation of Other-Than-Temporary Impairments**

Dear Mr. Golden:

American International Group, Inc. ("AIG") appreciates the opportunity to provide comments on the proposed FASB Staff Position FAS 115-a, FAS 124-a, and EITF 99-20-b, *Recognition and Presentation of Other-Than-Temporary Impairments* (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 the other-than-temporary-impairment ("OTTI") model for debt securities. The Securities and Exchange Commission ("SEC") has also recognized the importance of this issue by providing a specific recommendation for standard setters to readdress the impairment model for financial instruments 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 also supports the long-term strategic priority of the FASB and IASB to work toward the convergence of U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS") through the development of a common set of high quality global accounting standards.

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. In many cases the current price declines are not indicative of ultimate expected economic losses, particularly when the investor has no intent to sell the securities and will most likely not be required to sell them prior to the time they recover in value. For those securities where it is probable the investor will not collect all amounts due, a writedown through earnings is appropriate only to the extent of expected credit losses; such measure provides far more relevant information than a writedown through earnings to the current depressed price in a dislocated market and is more consistent with the impairment model for

financial instruments with similar economic characteristics such as whole loans. We believe investors will benefit from this revised impairment model, as discussed more fully in this letter, because it will improve the relevance of information provided to assess the long-term financial performance of the enterprise, while at the same time enhancing comparability and reducing complexity, with no loss of information currently presented in the financial statements. We believe immediate action from the FASB, through the issuance of the Proposed FSP, will provide significant additional transparency and ultimately improve investor confidence and market stability.

#### *Intent and Ability to Hold to Recovery*

The current “intent and ability” criteria within the OTTI model have become increasingly difficult in the current economic environment for preparers to apply and for users to understand, based on the diversity in practice with respect to its interpretation. We believe the proposed amendment to the “intent and ability” criteria within the OTTI model is operationally easier for preparers to implement and for users to understand, because it removes the requirement for investors to (1) estimate when an impaired debt security will recover in value and (2) affirmatively determine whether the preparer has the intent and ability to hold the security to recovery. Our only recommendation is that the final guidance in paragraph 12 of the Proposed FSP clarify that an OTTI shall be recognized in earnings if “the entity intends to sell the security or it is more likely than not that the entity will have to sell the debt or equity security before recovery of its cost basis.” The “have to” language appears to be the Board’s intention elsewhere in the document, although it does not appear in the actual body of the Proposed FSP.

#### *Credit Impairments*

The Proposed FSP requires that the credit component of the OTTI of a debt security be recorded in earnings and be determined using the best estimate of the amount of the impairment that relates to an increase in the credit risk associated with the specific instrument. This will require investors to estimate cash flows for unsecured debt, which has the potential to pose operational challenges. The Proposed FSP suggests, however, that FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan* (FAS 114) be used for this purpose in most cases. The use of estimates is widespread throughout the accounting literature, and, therefore, we believe the guidance in FAS 114 is clear and would not pose operational issues to preparers. In addition, the use of a FAS 114 model would reduce complexity for preparers and users by better aligning the impairment models for debt securities and loans.

#### *Improvements to Financial Reporting*

We agree with the Board that the Proposed FSP would improve the financial reporting of OTTI in several ways. We believe the Proposed FSP would result in entities disclosing useful analytical information for financial statement users by presenting the amount of cash an entity expects to lose if it holds an investment to maturity (expected credit losses) in the income statement while at the same time presenting the fair value of the investment in the balance sheet, with the difference presented in other comprehensive income (“OCI”), when an entity does not expect to sell the investment and it will most likely not be required to sell the investment prior to the time it recovers in value.

The Proposed FSP would achieve this enhanced disclosure without losing any information currently presented in the financial statements. That is, total impairment will be disclosed on the face of the income statement, as will OTTI (distinguishing between credit and all other OTTI), with temporary impairment recognized in OCI.

We also agree that recognizing in income the difference between the carrying value and the fair value of an investment is the best measure of expected losses when the entity expects to sell the investment or it is more likely than not it will be required to sell the investment prior to the time it recovers in value.

We believe reflecting in the financial statements the financial consequences of management's expectations and intentions regarding the realization of an investment provides useful information to financial statement users about management's intended stewardship of an entity's assets (i.e., its business model)—a key differentiating factor among two or more entities.

The current guidance related to OTTI does not recognize the important and real effects that different managements' intentions—based on different business models—can have on expected future cash inflows to an entity. For example, an entity that intends to sell an investment should recognize the loss currently in an appropriately-captioned income statement line such as “Unrealized investment losses.” However, we do not believe such accounting provides the most useful information to financial statement users when an entity does not intend to sell the investment or will not be required to sell it prior to recovery. Rather than recognize a loss in Unrealized investment losses in one accounting period and recognize income attributable to the accretion of the investment in the income statement caption “Net investment income” in subsequent periods, we believe it is more useful to record only expected credit losses in income while at the same time reporting the fair value of the investment on the balance sheet and temporary impairment in OCI. We believe this accounting would result in more meaningful information about yields on debt securities, which is a key metric for financial services companies.

The Proposed FSP also would improve the usefulness and uniformity of information presented in financial statements by recognizing impairments of debt securities and loans in a consistent manner when an entity expects to hold the investment to recovery of its cost basis as well as when the holder expects to sell the investment in the foreseeable future.

#### *International Convergence*

We understand the guidance in the Proposed FSP will not, by itself, lead to convergence with IFRS. However, we do believe it is a significant improvement over current U.S. GAAP impairment rules and it does move closer to IFRS in some respects.

#### *Effective Date and Transition*

AIG supports the effective date and transition provisions of the Proposed FSP. We believe the amendments to the OTTI 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*

For the reasons outlined above, AIG strongly supports the issuance of the Proposed FSP. 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.