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

**Re: File Reference No. EITF090G—Proposed ASU—Financial Services—Insurance
(Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance
Contracts**

Dear Mr. Golden:

AIG appreciates the opportunity to comment on the Proposed Accounting Standards Update, *Improving Disclosures about Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (the “Proposed ASU”). We understand the issue began with considering whether advertising costs should be included as deferred acquisition costs (“DAC”). However, due to diversity in practice regarding the interpretation of what other costs should qualify as DAC, the issue was expanded to consider other types of costs.

The FASB and the International Accounting Standards Board (“IASB”) intend to publish an exposure draft of a comprehensive standard addressing the accounting for insurance contracts in 2010, and target the issuance of a final standard in 2011 (the “Joint Project”). We appreciate the FASB’s objective of narrowing the diversity in practice (on a timely basis) by issuing the Proposed ASU. Nevertheless, we are concerned the Proposed ASU would require significant time and resources to implement the necessary changes to systems and processes, only to be followed shortly after its adoption by a new comprehensive standard on insurance contracts that is likely to prohibit capitalization of all deferred acquisition costs. We believe the Joint Project is a better forum to determine what constitutes an acquisition cost, because the decisions would be made in connection with a comprehensive reconsideration of insurance accounting.¹ We do not

¹ In this regard, we point out that PricewaterhouseCoopers published a report in November 2009 titled *Making Sense of the Numbers: Analysts’ perspectives on current and future reporting in the insurance industry* in which

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believe the costs to implement the Proposed ASU would justify its perceived benefits as a short-term solution, as discussed further below.

The current requirement that costs must vary with and be primarily related to the acquisition of insurance contracts to be capitalized as DAC has led to insurance companies applying significant judgment when determining what constitutes an acquisition cost eligible for deferral. We believe practice has evolved to take into account the varying business models under which insurance companies currently operate. As a result, diversity in practice has occurred. For example, technological advances such as internet-based enrollments, increased use of direct marketing and new distribution channels have led to diversity in the types of costs eligible for deferral. However, we believe the methods adopted by each insurance company (based on its unique business model) are being consistently applied and are well understood by stakeholders. We also believe that for insurance companies that write long-duration contracts (e.g., 20 to 30 years in some cases), the effects of deferring and subsequently amortizing such costs do not materially affect the results of their operations.

We believe any diversity in practice is well understood by constituents, who are able to assess the effects of an insurance company's capitalization policy on the results of its operations. AIG has not received significant questions from investors, analysts or other stakeholders on the capitalization of acquisition costs or the application of its accounting policy. Further, we point out that U.S. GAAP serves as the basis for insurance accounting in many places around the world. If the U.S. standard for deferred acquisition costs is changed, it likely would affect the accounting for such costs throughout the world.

Finally, we do not believe the Proposed ASU is likely to reduce diversity in practice to the extent the FASB may expect. Insurance companies would still have to apply judgment to determine the types of costs eligible for capitalization. Under the Proposed ASU, insurance companies would also be required to estimate the costs applicable to the successful and unsuccessful acquisition and renewal efforts. Perhaps most significantly, the Proposed ASU would permit insurance companies to apply the requirements either retrospectively or prospectively. Insurance companies operate under varying business models and likely have differing capabilities to restate previously-reported results due to system and historical record limitations pertaining to differentiating between successful and unsuccessful efforts of long-duration contracts. Consequently, the proposed alternative transition methods could significantly affect the future reported results of operations, even for companies with similar business models and types of deferred acquisition costs, leading to less comparability than exists today. This may require analysts to adjust the financial statements to achieve the desired level of comparability.

To summarize, we believe the Proposed ASU with a shortened shelf life would lead to significant implementation costs that would not enhance comparability across the insurance industry. In our view, a requirement for more robust disclosures regarding the details of which

it states "In-depth interviews with 43 financial analysts who cover the insurance sector, found widespread dissatisfaction with the current insurance financial reporting framework and what analysts say they believe is inadequate disclosure of relevant information on balance sheets, income and cash flow statements, as well as management's discussion and analysis. . . . *A vast majority of analysts interviewed in the United States agreed that, on day one of a contract, insurance companies should recognize neither a profit nor a loss, and about four-fifths do not think insurers should record acquisition costs as an expense at the inception of a contract. Most felt that acquisition costs should be deferred. . . .*" [italics added].

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costs have been capitalized as acquisition costs would allow stakeholders to better understand management's application of the existing methodology for DAC and ascertain the diversity that exists among insurance companies. We urge the FASB to consider this approach until the Joint Project is completed.

Our responses to specific questions raised by the FASB are included in the Appendix to this letter. Thank you for the opportunity to present our views. Please do not hesitate to contact me at (212) 770-8997 if you have any questions or need clarification with respect to any matters addressed in this letter.

Very truly yours,

/s/ Tom Jones, Director, Global Head, Office of Accounting Policy

Cc: Anthony Valoroso, Vice President, Chief Accounting Officer

APPENDIX

Question 1: The amendments in this proposed Update would revise the definition of an acquisition cost of an insurance entity to be costs that are directly related to the acquisition of new and renewal contracts and include those costs that are (1) incremental direct costs of contract acquisition and (2) directly related to specific activities performed by the insurer for the contract.

a. Do you agree with this conclusion? If not, what criteria do you think should be used as the basis for capitalization of acquisition-related costs?

We disagree with the proposed definition, and believe the current paradigm, which allows for capitalization of acquisition costs that vary with and are primarily related to the acquisition of insurance contracts, is conceptually sound and well understood. Consequently, we do not believe the costs to implement the Proposed ASU would justify its perceived benefits, particularly in light of the Joint Project, which is targeting a final standard in the same year the Proposed ASU would become effective, and which would require all acquisition costs to be expensed as incurred. Accordingly, we believe the FASB should not modify the current definition until the Joint Project is complete, and all the conceptual questions regarding accounting for insurance contracts have been addressed within a single framework.

b. Is the proposed guidance operational or is further guidance necessary to implement the proposed guidance?

We believe the Proposed ASU is operational. However, it would require significant implementation costs and is not likely to reduce the diversity in practice that has evolved on the accounting for DAC. The application of the Proposed ASU would continue to require significant judgments in order to determine the types and amounts of costs eligible for capitalization as DAC. The alternative transition methods would lead to significant new elements of diversity in the accounting for and reporting of DAC.

Question 2: Do you agree that for a cost to meet the definition of a deferred acquisition cost, it must relate to successful efforts (that is, a new or renewal contract)? Please provide the reasons for your view.

We agree conceptually that DAC should relate to successful efforts for acquiring or renewing insurance contracts. We acknowledge that the proposed guidance is similar to the guidance that exists for the accounting for loan origination costs. However, because underwriting an insurance contract is considerably different than underwriting a loan, we do not agree with the objective of the Proposed ASU to converge the accounting for DAC with that of the loan origination costs.

Question 3: Do you agree with the amendments in this proposed Update that specify that advertising costs incurred by insurance entities should not be included as part of deferred acquisition costs but, rather, should follow the guidance for advertising in Topic 720 or Subtopic 340-20, as applicable? Please provide the reasons for your view.

We believe advertising costs, when they meet the criteria for capitalization under Statement of Position 93-7, Reporting on Advertising Costs, (SOP 93-7) should be included as part of DAC.

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As a result of technological advancements such as internet-based enrollment, insurance companies have adopted varying business models and the types of advertising costs incurred by one insurance company may be different than those incurred by others. We believe advertising costs should be eligible for deferral if they meet the existing criteria (i.e. they vary with and are primarily related to the acquisition of insurance contracts) and they meet the criteria of SOP 93-7. This accounting practice has not been of any significant concern to our investors, analysts and other stakeholders.

Question 4: Do you expect to incur significant costs as a result of the amendments in this proposed Update? If so, please be specific about the nature of the costs you expect to incur.

We believe the costs to implement the Proposed ASU would be significant. Our information systems currently do not have the capability to capture and bifurcate all cost data by successful and unsuccessful efforts, and would need to be modified. The modification costs would be incurred to accommodate an accounting standard that is expected to be short-lived and, in our view, is unlikely to achieve its stated objective of reducing diversity in practice. Furthermore, if an election is made for retrospective application, cost studies would need to be carried out on the existing DAC balance (that may have accumulated over many years) to determine those amounts that should be written off.

Question 5: Do you believe that the proposed effective date is operational? Please provide the reasons for your view.

The level of effort necessary to implement the Proposed ASU is likely to be significant and would depend on the choice of transition method. The implementation efforts to apply the standard would be required at the same time companies are implementing several other complex standards related to transfers of financial assets, accounting for variable interest entities, accounting for embedded credit derivatives and enhanced disclosures on fair value measurements as of the date of this letter. These efforts will follow a year (i.e., 2009) in which companies diverted significant information-technology-personnel time and incurred significant costs implementing standards that became effective during 2009. In our case, this use of information-technology-personnel time required us to defer other important information technology projects into 2010. Nevertheless, we believe the effective date is operational, but would come at a significant cost for the industry.