

AMERICAN INTERNATIONAL GROUP, INC.



October 17, 2013

Technical Director
Financial Accounting Standards Board
401 Merritt 7
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Norwalk, CT 06856-5116

Re: FASB File Reference No. EITF-12Gr, Proposed Accounting Standards Update, *Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity* (a consensus of the FASB Emerging Issues Task Force)

American International Group, Inc. (“AIG,” “we,” or “our”) appreciates the opportunity to comment on Proposed Accounting Standards Update, *Consolidation (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity* (a consensus of the FASB Emerging Issues Task Force) (“Proposed ASU” or “Proposal”). AIG supports the efforts of the Financial Accounting Standards Board (“FASB”) to develop guidance that would resolve the diversity in practice in the accounting for the difference between the fair value of the assets and the fair value of the liabilities of a consolidated collateralized financing entity (“CFE”). However, we are concerned that some of the guidance in the Proposed ASU could result in unintended consequences and lead to substantial changes to current classification and measurement guidance for assets and liabilities held by certain consolidated CFEs. We are also concerned companies could be affected by changes in guidance pertaining to interests in CFEs more than once in the near future due to potential revisions in the recognition and measurement guidance on financial instruments and as the result of the adoption of a standard potentially issued in connection with the consolidation project. These multiple amendments would confuse financial statement users and would not be cost-effective for preparers.

Interaction of Proposed Guidance with Ongoing Financial Instruments and Consolidation Projects

We agree with the proposed guidance to measure financial liabilities of the CFE based on the fair value of the entity’s financial assets and the carrying value of any nonfinancial assets when the fair value option was elected (or fair value was required) for both the assets and the liabilities of the CFE prior to the effective date of the Proposal.

However, we do not believe the proposed guidance properly addresses all of the classification and measurement issues for CFEs that did not elect the fair value option for both its financial assets and financial liabilities. For example, we hold investments in consolidated CFEs where the CFE’s assets are carried at fair value with changes in fair value recorded in other comprehensive income (“FV-OCI”) and the CFE’s liabilities are carried either at amortized cost or under the fair

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value option election. For these entities, we may elect the fair value option on certain liabilities to reduce the operational complexity of identifying and bifurcating complex embedded derivatives. In such a circumstance, prohibiting the fair value option for liabilities would not properly address the Board's comparability concerns because the income statement effect of bifurcating the embedded derivative would be substantially similar to electing the fair value option for the hybrid liability, while introducing unnecessary operational challenges for preparers. As a practical matter, we believe that bifurcating the embedded derivative and reporting it at fair value, in the absence of a fair value option, would be difficult and not cost-justified.

Under the FASB's Proposed ASU, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, nonrecourse financial liabilities with contractual terms that require the entire liability to be settled only with cash flows from related financial assets would be measured on the same basis as the assets. As a result, under that proposed guidance nonrecourse liabilities could be subsequently measured at either amortized cost, FV-OCI or at fair value with changes in fair value recognized in net income. In the Proposed ASU (paragraph BC15) the FASB acknowledges that "the Board's project on the recognition and measurement of financial instruments includes measurement guidance in circumstances in which financial assets would be used to settle nonrecourse financial liabilities. Therefore, that project, when finalized, may affect the amendments in this proposed Update." Further, under the financial instruments project, the FASB is proposing substantial changes to an entity's ability to elect the fair value option for its financial assets and financial liabilities. Thus, we believe the classification and measurement issues as well as the decisions about fair value option elections should be addressed by the FASB as part of the broader scope pertaining to all nonrecourse financial liabilities within the financial instruments project.

In addition, if adopted by the FASB as proposed, under the proposed principal versus agent consolidation guidance, a reporting entity may be required to deconsolidate its investment in a CFE. It would be operationally inefficient and burdensome to restate historical financial statements to comply with this Proposal only to subsequently deconsolidate the CFE upon the issuance of the final consolidation guidance.

As the FASB redeliberates the Proposed ASU, we suggest the Board consider whether this issue would be better addressed as part of the financial instruments project and the consolidation project to avoid any unintended consequences or cause reporting entities to potentially modify their accounting for these entities numerous times.

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Thank you for the opportunity to present our views. Please contact me at (212) 770-8997 if you have any questions.

Very truly yours,

/s/

Tom Jones

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American International Group, Inc.

cc: Jeffrey M. Farber
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