

## AMERICAN INTERNATIONAL GROUP, INC.



December 23, 2013

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

Re: FASB File Reference No. EITF-13G, Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity*

American International Group, Inc. ("AIG") appreciates the opportunity to comment on Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity* ("Proposed ASU").

We support the FASB's efforts to reduce the diversity that currently exists in the evaluation of whether the nature of the host contract within a hybrid financial instrument issued in the form of a share is more akin to debt or to equity. We believe the evaluation of the nature of the host contract should consider all of the hybrid instrument's terms and features, with the weighting on each feature being based on the relevant facts in one host evaluation (the "Whole Instrument Approach").

This approach is consistent with the preferred method referenced in the Securities and Exchange Commission ("SEC") Staff's guidance that was codified into ASC 815-10-S99, *SEC Staff Announcement: Determining the Nature of a Host Contract Related to a Hybrid Instrument Issued in the Form of a Share Under Topic 815*, which states that "the consideration of the economic characteristics and risks of the host contract should be based on all of the stated or implied substantive terms and features of the hybrid financial instrument" (the "SEC Guidance"). While the SEC Guidance also recognizes the Chameleon Approach as an acceptable evaluation approach, the Whole Instrument Approach results in a single conclusion about the nature of the host contract and would not be subject to different interpretations based on the features of the host instrument being evaluated. For example, under the Chameleon Approach, a preferred share host contract with a put option and a conversion to equity option can be viewed as being more akin to equity when the put option is assessed. However, when the conversion feature is assessed, the host contract can be viewed as being more akin to debt.

The Chameleon Approach is subjective and creates the opportunity for different conclusions about the nature of a hybrid instrument based on the feature being evaluated for bifurcation and, thus, being excluded from the evaluation of the nature of the host instrument. Because the economics of a hybrid financial instrument remain unchanged, all features of the host instrument should be evaluated on a consistent basis. We support the use of one consistent approach in evaluating hybrid financial instruments issued in the form of a share; however, the FASB and EITF should ensure that the conclusions reached in the final amendments to this topic are consistent with the guidance provided by the SEC on this topic.

Financial Accounting Standards Board  
December 23, 2013

\* \* \* \* \*

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) 770-8997 if you have any questions.

Very truly yours,

/s/

Tom Jones

Head of Corporate Accounting Policy  
American International Group, Inc.

cc: Jeffrey M. Farber  
Senior Vice President and Deputy Chief Financial Officer  
American International Group, Inc.

## APPENDIX

**Question 1: Should the scope of the proposed amendments be extended beyond hybrid financial instruments issued in the form of a share? If yes, please explain why and identify other hybrid financial instruments that should be considered by the Task Force.**

We support the FASB's efforts to reduce the diversity that exists in evaluating embedded derivative features for bifurcation from a hybrid financial instrument. We believe, however, that the scope of the proposed amendments should be extended beyond hybrid financial instruments issued in the form of a share. While such instruments often encompass characteristics that have both equity and debt features, other hybrid financial instruments contain features that encompass equity and debt characteristics as well (e.g., convertible debt and trust preferred securities). These types of financial instruments can contain complex features that have debt and equity characteristics and result in the requirement to evaluate the host contract in a manner similar to hybrid financial instruments issued in the form of a share.

**Question 2: Do you agree that a reporting entity should consider all terms and features – including the embedded derivative feature being evaluated for bifurcation – when determining whether the nature of a host contract is more akin to debt or to equity? If another method should be used, please explain that method and why it would be an improvement.**

We agree that a reporting entity should consider all terms and features – including the embedded derivative feature being evaluated for bifurcation– when determining whether the nature of a host contract is more akin to debt or to equity.

This approach is consistent with the preferred method referenced in the SEC Guidance. While the SEC Guidance also recognizes the Chameleon Approach as an acceptable evaluation approach, the Whole Instrument Approach results in a single conclusion about the nature of the host contract and would not be subject to different interpretations based on the features of the host instrument being evaluated. For example, under the Chameleon Approach, a preferred share host contract with a put option and a conversion to equity option can be viewed as being more akin to equity when the put option is assessed. However, when the conversion feature is assessed, the host contract can be viewed as being more akin to debt. As illustrated in this example, the Chameleon Approach is subjective and creates the opportunity for different conclusions about the nature of similar hybrid instruments based on the feature being evaluated for bifurcation and, thus, being excluded from the evaluation of the nature of the host instrument.

**Question 3: Do you agree that no single feature should be determinative in concluding whether the host contract is more akin to debt or to equity? Furthermore, do you agree that a fixed-priced, noncontingent redemption option held by an investor embedded in a share is not, in and of itself, determinative in concluding that the nature of the host contract is more akin to debt? If not, please explain why.**

We agree that no single feature should be determinative in concluding whether the host contract is more akin to debt or to equity. Certain features, however, should have more weighting in the evaluation than others. For example, the existence of a fixed-price noncontingent redemption option or a requirement to settle in cash should have more weighting in the evaluation because these features are stronger indicators that the host contract is more akin to debt.

However, we agree that a fixed-price noncontingent redemption option held by an investor embedded in a share should not, *in and of itself*, be determinative in concluding that the nature of the host contract is more akin to debt. While this feature should have more weighting in the evaluation, the redemption

Financial Accounting Standards Board  
December 23, 2013

option gives the holder the choice, and not the requirement, to redeem the host contract for a fixed price. Other factors such as economic characteristics (e.g., whether the option is “in-the-money” or whether the holder has downside protection) and the risks of the entire hybrid financial instrument should be evaluated in conjunction with the fixed-priced noncontingent redemption option to result in a representationally faithful conclusion about whether the host contract is more akin to debt.

In the absence of stated or implied terms, we believe it is appropriate to consider all the features of the hybrid instrument, the issuer and the market in which the instrument is issued, as well as other factors, to determine the characteristics of the host contract.

**Question 4: Will the proposed amendments help reduce diversity in practice with respect to determining the nature of the host contract within hybrid financial instruments issued in the form of a share? If not, please explain why.**

Having one method to evaluate the nature of the host financial instrument will naturally reduce the diversity in practice in determining the nature of the host contract within hybrid financial instruments issued in the form of a share. Because the economics of a hybrid financial instrument remain unchanged, all features of the host instrument should be evaluated on a consistent basis. We support the use of one consistent approach in evaluating the nature of hybrid financial instruments issued in the form of a share; however, the FASB and EITF should ensure that the conclusions reached in the final amendments to this topic are consistent with the SEC Guidance provided on this topic. We also believe amending the current guidance to require the Whole Instrument Approach will reduce the complexity of applying generally accepted accounting principles in this area.

**Question 5: Do you agree that the effects of the proposed amendments should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the annual reporting period in which the proposed amendments are effective? Do you further agree that retrospective application should be allowed?**

To obtain greater consistency among companies, we support the application of the Proposed ASU on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the annual reporting period in which the proposed amendments are effective. While we also support the permitted retrospective adoption of the Proposed ASU, we do not believe it is beneficial to apply the proposed amendments to hybrid financial instruments issued in the form of a share on a retrospective basis when the company no longer holds the hybrid financial instrument(s) in the period of adoption of the proposed amendments.

**Question 6: Do you agree that an entity should be permitted to early adopt the proposed amendments? If not, please explain why.**

We agree that an entity should be permitted to early adopt the proposed amendments.

**Question 8: How much time would be needed to implement the proposed amendments and would the implementation period differ for nonpublic entities versus public entities? Please explain why.**

We do not believe it would require a significant amount of time to implement the proposed amendments because we believe the Whole Instrument Approach is the dominant approach used in practice. We believe that an effective date encompassing annual and interim periods beginning after January 1, 2015 is reasonable. This implementation period assumes that the SEC would have ample time to conform their guidance under ASC 815-10-S99 to require a consistent evaluation approach (i.e., the Whole Instrument Approach) to evaluating hybrid financial instruments issued in the form of a share.