AIG

80 Pine Street, 13th Fl
New York, NY 10005
www.aig.com

Daniel L. Rabinowitz
T 212 770 3068
F 855 665 8281
Daniel.Rabinowitz@aig.com

June 23, 2016

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Proposed Agency Information Collection (OMB No.7100-to be assigned)
FR 2085 - Consolidated Financial Statements for Insurance Nonbank Financial Companies

Dear Secretary Frierson:

American International Group, Inc. appreciates the opportunity to comment on the proposed FR 2085, *Consolidated Financial Statements for Insurance Nonbank Financial Companies* (hereinafter the **proposed FR 2085** or **schedules),** issued by the Board of Governors of the Federal Reserve System (the **Board** or the **Federal Reserve)** and applicable to insurance companies designated as systemically-important financial institutions (SIFIs). AIG acknowledges and appreciates the Board's progress in refining the proposed FR 2085, notably:

- Improved alignment with existing financial reports that insurance companies already file with other U.S. regulators;

- Efforts to leverage the data definitions and presentation of the Consolidated Financial Statements for Holding Companies (FR Y-9C) (OMB No. 7100-0128); and

- Technical modifications, based on previous discussions with the Federal Reserve Bank of New York, that align more closely with how an insurance company manages and reports its products and activities.

Notwithstanding this technical progress, AIG believes that the Board's recent decision to pursue a consolidated, factor-based approach as the basis for insurance SIFI capital requirements creates a valuable, indeed an indispensable, opportunity to align the development and implementation of FR 2085 requirements with the evolving capital framework. Such alignment, in our view, is required in order to serve the Board's public policy objective of establishing a cohesive, coherent regulatory and supervisory framework for insurance SIFIs, while also ensuring that both the Board's and the supervised institutions' implementation efforts are directed efficiently and instrumentally to the service of these objectives.

To this end, we strongly encourage the Board to significantly modify its current proposals in order to pursue a more evolutionary approach to the further development and implementation of FR 2085; one that is tied to the simultaneous evolution of the capital standards. We propose instead that the Federal Reserve initially implement relatively more aggregated reporting requirements than are currently proposed in FR 2085, enabling appropriate and incremental refinement in granularity that is wholly integrated into the progressive evolution of the SIFI consolidated capital standard and the related Federal Reserve stress testing program. To promote a successful and productive roll-out of FR 2085, we further urge the Board to consider an appropriate phase-in period, including the potential for confidential reporting of certain elements in the initial stages of implementation. Establishing a reasonable glide-path, with initial confidential reporting where relevant, would enable the Board to obtain the critical data necessary to performing its prudential responsibilities, provide an opportunity for supervisors and institutions to better assess the practical utility and competitive implications of the data generated and provide additional time for systems development to synthesize what will in several respects be a novel reporting standard.

The integrated, evolutionary approach to FR 2085 that we propose here has several important benefits:

- **More effective and coherent prudential outcomes.** The Board's decision to in future develop a consolidated, factor-based construct for insurance SIFIs has created an inextricable and valuable link between the capital rulemaking and FR 2085 reporting processes. We believe this linkage is essential to a successful policy outcome of establishing effective and coherent prudential standards. As one among many examples, the segmentation within the FR 2085 creates a potential and desirable basis for differentiating risks in the design of factor-based required capital charges. Premature implementation of a highly granular FR 2085 reporting standard, as currently proposed, would front-run important technical decisions in the regulatory capital and stress testing rulemaking processes, in ways that could undermine the quality and effectiveness of each. There is every reason not to rush; group-wide prudential supervision is already in place, and the capital and stress testing constructs should drive the reporting construct.

- **Utility of reported information.** In current form, FR 2085 is in several areas a novel standard that would require a level of granularity and precise characterization of data for certain line items that depart substantially from current regulatory and internal management reporting conventions and cannot yet, in the nature of things, be aligned with the Board's evolving prudential regulation and supervision of capital adequacy. We believe that an initially more aggregated approach, with incremental granularity incorporated in a way that is demonstrably instrumental to the Board's public policy objectives for evolving capital standards, is the wisest path to achieving a useful and practical reporting standard. An evolutionary path would also enable a more deliberative assessment of whether certain of the proposed disclosures might impose competitive harm, by providing peers with proprietary information about AIG's insurance businesses and operations - a particular concern for Property & Casualty, since AIG is the only company among all currently designated SIFIs with significant activity.

- **Efficient and focused system implementation.** The current highly granular proposal represents, in AIG's view, an unnecessary "big bang" where a more incremental and instrumental approach would better serve both managements' and the Board's supervisory objectives. This unnecessary "big bang" could, and most likely would, misallocate resources and attention on creating the infrastructure to report items that are not yet integrated or even relevant to the evolving capital construct, and are not yet clearly useful to the Board's general prudential mandate.

We believe that the departure from long-established practices in statutory and consolidated financial reporting currently embedded in this iteration of FR 2085 merits a more deliberative assessment of the prudential utility of the information required, an assessment that, we suggest, should be performed in alignment with the evolving capital standard. FR 2085 would require significant resources to meet the proposed June 30, 2017, implementation date, which represents an unnecessarily aggressive timetable given the extensive public reporting available to the Board from extant requirements; the Board's ability to access additional information through the supervisory process; and the unclear rationale for certain items currently proposed.

As an alternative path, we strongly support an evolutionary approach to enable future systems development targeted to the areas that are most useful to the evolving capital construct, as well as the Board's analysis and supervision, as both evolve. An alternative path would also enable further and more measured consideration of key operational requirements. For example, the currently proposed 45 day timeline for submission seems narrow, and does not align with current statutory and U.S. RBC requirements and processes, potentially resulting in duplicative work and unwarranted costs.

AIG looks forward to the opportunity to engage with the Board and industry stakeholders to refine the initial form of a more aggregated and targeted initial reporting construct. We also strongly encourage the Board to more formally integrate its policymaking efforts to promote a co-evolution of the capital and reporting requirements for insurance SIFIs.

A summary of our technical comments is provided below, including general observations that are followed first by our technical suggestions for the supporting schedules in Appendix A: Life and Health Underwriting Related Schedules, Appendix B: Property and Casualty Underwriting Related Schedules, Appendix C: Investments Related Schedules and Financial Statements and Related Items, and second by our responses to the items on which the Board seeks comment in Appendix D: Comments on Information Collection Proposal.

Thank you for the opportunity to share our views. We would be happy to discuss our comments with you further at your convenience.

Respectfully Submitted,

Daniel L. Rabinowitz
Global Head of Regulatory Capital Policy

cc: Don Cummings
Global Corporate Controller

Elias Habayeb
Executive Vice President and Deputy Chief Financial Officer
American International Group, Inc.

David Parkes
Head of FRBNY Regulatory Reporting

AIG Technical Comments on FR 2085

The fundamental "first principle" of regulatory reporting design is to identify the types of data that the Board would find most useful to its prudential responsibilities, beyond the extensive information already provided in AIG's statutory and consolidated financial reports, as well as the significant additional information provided to the Federal Reserve Bank of New York through the supervisory process.

As a global insurer offering property and casualty as well as life, health and retirement products in multiple jurisdictions globally, AIG files quarterly (or semiannual) and annual statutory based reports in almost every jurisdiction in which we operate. The statutory-basis financial statements for U.S. life, health and retirement businesses contain a significant amount of detailed data, which is prepared on a standardized basis across the industry and is readily available from these filings. We also file financial reports under U.S. GAAP, which focus on best estimates of current and future profitability.

AIG has structured our data aggregation process and reporting systems to follow these reporting requirements prescribed for both U.S. GAAP and statutory, which differ in important respects from the Board's requirements as proposed. The level of granularity and categorization of data proposed under FR 2085 significantly exceeds our quarterly U.S. GAAP or statutory requirements, without an evident rationale for how this additional information would instrumental^ promote the Board's prudential objectives in supervising and regulating insurance SIFIs.

It is therefore essential that the Board integrate insurance SIFI reporting requirements with its overall prudential objectives and the design of still evolving regulatory capital and stress testing requirements, particularly in light of the considerable systems reconfiguration and implementation costs of what in current proposed form is a substantial departure from extant insurance sector disclosure practices. The proposed FR 2085 product reporting in certain instances differs meaningfully from current segmentation conventions, in turn requiring extensive modification to our general ledger and code block account structure. The departures from U.S. GAAP and statutory reporting mean that, absent major systems reengineering, the process to collect, aggregate and report the proposed information as proposed would be highly manual. Achieving consistency with, and reconciliation to, our well-controlled U.S. GAAP and statutory reporting processes would entail significant resource commitment.

As an example, neither the SEC nor the National Association of Insurance Commissioners (NAIC) require the property and casualty business to report underwriting results as proposed in FR 2085, due in part to the nature of affiliated and unaffiliated reinsurance treaties and the availability of alternative and, we believe, more useful data. AIG currently reports certain of its insurance underwriting results in accordance with U.S. GAAP. AIG and other multi-national insurance companies have multiple affiliated and unaffiliated reinsurance treaties, which cover multiple blocks of business for the purpose of allocating capital and mitigating and managing insurance and timing risk. Due to the complexity of reinsurance accounting and a variety of business processes tailored to each reinsurance treaty, settlement and reinsurance accounting is performed quarterly on an aggregate basis, a convention in the industry. As a result, these underwriting results in the form currently proposed is unavailable in our ledger or systems.

Similarly, we do not currently report or record product and line of business breakdowns for our actuarial assumptions and methodologies, as this type of information is typically proprietary and based on industry or entity experience. The proposed level of granularity and characterization of data is not consistent with the way AIG and others in the industry typically manage our businesses or risks. Significant effort and resources would be required to build out, revise and enhance our current data aggregation, system configuration, reporting processes, and control environment, to enable production of data at the required level of granularity across our products and lines of business in a controlled and consistent way.

We therefore urge that, as part of an evolutionary reporting approach aligned with the development of insurance SIFI capital standards, the Board develop an initially more aggregated product reporting approach for both results of operations and balance sheet data (further details on our suggested product aggregation are described in Appendices A and B). In addition to advancing the primary objective of integration and co-evolution with the SIFI consolidated capital and stress testing rulemaking process, a more aggregated approach would enable the Board to gain valuable practical experience with the utility of the data submitted and its interplay with extant public reporting, obviating an unnecessary leap to a highly granular reporting whose prudential value has not yet been demonstrated. An initially more aggregated approach would also enable further assessment of the sensitivity of publishing the granular data proposed, and whether its public release would impose competitive harm by providing competitors with proprietary information about AIG's insurance businesses and operations, particularly in the Property and Casualty space where AIG is the only SIFI with material operations.

Another important benefit of an evolutionary approach is to design practical implementation requirements, including reporting cadence and deadlines. For example, AIG currently files various financial statements with supplemental information and statutory reports, based on reporting timelines prescribed by the SEC and other regulators. The U.S. legal entity-based statutory financial statements are finalized 60 days after year-end, with the combined statutory annual statement prepared by May 1 following year-end. Deadlines for overseas jurisdictions vary. AIG prepares U.S. statutory financial statements on a quarterly basis 45 days after quarter end; however, the quarterly information provided is limited and high-level, and as such is sourced through manually intensive processes and adjustments. It is worth noting that none of the statutory filings described above include our full international insurance operations, as international statutory requirements vary significantly by jurisdiction and are on a distinct accounting basis. Further, there is no comparable combined statutory annual statement for our life, health and retirement insurance companies.

Additionally, the proposed reporting deadlines are challenging, given the novelty of much of the current FR 2085 granularity. We would strongly urge an extension of time beyond the currently-proposed 45 days, consistent with our other simultaneous reporting obligations, to enable high quality submission. AIG's proposals to initially apply a more aggregated, high-level basis, including reporting results net of reinsurance by product, would help to reduce the time required to complete the filing, although, at least initially, would still require more than 45 days after quarter close.

Based on AIG's high-level assessment of the changes entailed by FR 2085 in processes and procedures, staffing and expertise, systems, and associated costs of implementation, we believe that the time needed for initial implementation would far exceed the Federal Reserve's estimates. We agree with the current industry consensus that a resource-intensive, multi-year implementation would be required to comply with the requirements of the schedules as currently proposed.

APPENDIX A - Life and Health Underwriting Related Schedules

Life and Health Underwriting Related Schedules - General Comments

The Life and Health roll forward schedules propose to break down domestic general account insurance reserves and DAC into 14 product categories, and international reserves into 9 categories, with 10 or more lines of detail each (subtotals and totals excluded), plus another 84 data points for variable annuities, resulting in a significant expansion of two balance sheet line items into over 450 discrete data points. In contrast, Form Y9-C requires banks to break deposit liabilities into just 14 data points on Schedules HC and HC-E.

This highly granular product breakdown for life insurers is at a level of detail far greater than typically disclosed by the industry on a U.S. GAAP basis in Form 10-K or 10-Q reporting or publicly available quarterly financial supplements. This level of granularity raises the following issues and concerns:

- Potentially front-runs important technical design and segmentation issues in the development of Federal Reserve group capital and stress testing standards
- Could reveal proprietary or competitive information, such as interest pricing assumptions
- Increases the risk of inconsistency in reporting and is not aligned with detailed supporting data, an impediment to the Federal Reserve's review and testing. This potential inconsistency is a particular concern for international operations (i.e., gathering the 300-400 data points required by the schedules on a consistent basis across global operations would be a significant challenge for all international insurers)
- Insurers may lack systems capability to conform to prescribed breakdowns, requiring significant investments and an extended implementation period to modify processes
- Limited flexibility for emerging products that may have hybrid characteristics

As a result of the concerns outlined above, AIG suggests that the proposed FR 2085 Life and Health forms for the domestic business be modified as discussed below.

Schedule IRC-I, Section II, Part A-l, A-2, and A-3 - Future Policy Benefits (FPB) Roll Forward by Line of Business and Schedule IRC-I, Section II, Part B-l, B-2, and B-3 - Policyholder Account Balance (PAB) Roll Forward by Line of Business

AIG suggests that lines of business be reported for both domestic and international businesses by the major categories of Life, Accident and Health, Annuities, Regulatory Closed Block and Other. This presentation would ensure consistency and comparability, protect proprietary information, and facilitate timely implementation of the new reporting. With these product categories, delineated by the various forms between domestic vs. international and future policy benefits vs. policyholder account balances, general account reserves would be segmented into a reasonable number of product categories to facilitate consistent review, as well as analysis and testing.

Future Policyholder Benefits Roll Forward Line Items

- **Combine Line 6 Interest accrued, Line 8 Changes in actuarial assumptions and methodologies (includes loss recognition) and Line 10 Other into one line called 'Other**

Reserve Changes' - This change would protect proprietary information such as interest pricing assumptions and enhance reporting consistency with insurance nonbank financial companies and with existing SEC footnote disclosures. Actuarial assumptions include proprietary data and will differ by company based on the respective product and entity experience. The effects of changes in assumptions are generated by actuarial models and may not be isolated in an insurer's general ledger.

- **Embedded Derivatives - report on either Line 16(e) Embedded Derivatives at Schedule IRC-I, Part A1-A3 Future Policyholder Benefits Roll forward, or on Line 13(d) Embedded Derivatives at Schedule at Part B1-B2 Policyholder Account Balance Roll Forward by Line of Business** - There is currently diversity in insurance industry practice as to which balance sheet line includes embedded derivative liabilities. Insurers should have the ability to report the embedded derivative on the schedule corresponding to the balance sheet line where currently classified in their GAAP presentation.

- **Combine reconciling items Line 16(a) Deferred Profit on limited payment contracts, Line 16(b) Short duration unearned premium reserve, 16(c) In course of Settlement/Incurred but not reported and Line 16(f) Other into one Line called 'Other'** - The balances included in the proposed reconciling lines represent less than 5% of the overall FPB balance, have limited risk exposure and are currently not separately disclosed in our SEC disclosures. Additionally, there is some diversity in practice as to whether certain of these items are presented in Future Policyholder Benefits or Other Policyholder Funds. The additional disclosure requirement provides limited usefulness.

Policyholder Account Balance Roll Forward Line Items

- **Combine Line 13(a) Unearned revenue, Line Item 13(b) Persistency Bonus, Line Item 13(c) Short duration accrued experience refund and Line Item 13(e) Other into one Line 'Other' -** The balances included in the proposed lines represent less than 5% of the total PAB balance sheet line, have limited risk exposure and are currently not separately reported in SEC disclosures. Additionally, there is some diversity in practice as to whether certain of these items are presented in FPB, PAB or Other Policyholder Funds.

Schedule IRC-I, Section II, Part C - Variable Annuities

- **Delete column D(2) Notional Amount** — AIG believes that account value subject to guarantee and the net amount at risk are the relevant measures of the notional amount of embedded derivatives. It is not clear what "notional amount" would represent in this context, since embedded derivatives are measured based on the fair value of projected cash flows over the expected lives of the contracts.

Schedule IRC-I, Section II, Part E-l and E-2 - Deferred Policy Acquisition Costs (DAC) and Value of Business Acquired (VOBA) Roll Forward by Line of Business

- **Line of Business Breakdowns** — The DAC schedule should be presented in a manner consistent with the liability roll forwards discussed above, including columns for Life, Accident and Health, Annuities, Regulatory Closed Block and Other.

DAC and VOBA Roll Forward Line Items

- **Combine Line 7 Amortization — impact of assumption and experience unlocking and true-ups, Line 8 Amortization - all other** and **Line 9 Write-off due to loss recognition testing into one line, 'Amortization'** - There is not specific U.S. GAAP accounting guidance for differentiating changes in amortization between true-ups, unlocking and other refinements, and as a result there is diversity in practice. AIG proposes to combine these lines. Changes in DAC and VOBA balances resulting from the update of actuarial judgments and assumptions, which are currently subject to a review process by the Federal Reserve, are complex and may be offsetting, which can mask the significance of individual assumption updates. Simply breaking out these two lines would not provide meaningful information about the drivers of such changes. Activity that is outside the amortization run rate could be captured and described in more depth within each company's quarterly variance analytics.

APPENDIX B - Property and Casualty Underwriting Related Schedules

Schedule IRC-I, Section I, Part A - Loss and Loss Adjustment Expense (LAE) Reserves by Line of Business

Line of Business Breakdown - Implementation of the quarterly reporting for the Property and Casualty (P&C) Underwriting Schedules do not align with current industry practice and would require significant capital investments in IT infrastructure and business process reengineering, a resource commitment that would be better channeled to the work involved in co-evolving the reporting and group regulatory capital standards. As an alternative for initial aggregated reporting, we propose the following breakdown of the Property and Casualty Insurance Underwriting Results by lines of business:

- Long Tail Commercial Lines
- Short Tail Commercial Lines
- Personal Insurance Lines
- Accident and Health Lines
- Mortgage Guarantee
- Other

These groupings disclose the products by different underwriting risks and valuation methods and provide the Federal Reserve the ability to aggregate the property and casualty products by risk profile. For example, long tail commercial lines (e.g. commercial general liability, workers compensation, etc.) generally have higher associated risk than short tail commercial lines, as the ultimate loss amounts may develop over a number of years. AIG believes the above presentation would enhance comparability while mitigating implementation burden.

- **Run-off Lines** - We suggest including Run-off lines for both domestic and international to capture legacy business that currently do not generate revenue for a company. The lack of a category to present run-off lines will distort core business underwriting performance.

- **Undiscounted Loss and Loss Adjustment Reserve, Gross and Loss and Loss Adjustment Expense (LAE) Reserve, Gross** - The breakdown of the Loss and LAE gross of reinsurance by the required lines of business presents operational challenges, since this disclosure is not currently provided in either regulatory or internal management reporting. We suggest the information for Loss and LAE reserves be presented on a net basis, based on the comments summarized in Schedule IRI-C. Focusing on the net results is a better assessment of the underwriting performance of each company and we are unaware of other large multi-line companies performing a detailed calculation of gross reserves quarterly. The credit exposure from reinsurance would be more effectively handled separately.

Schedule IRI-C - Underwriting Results by Line of Business

Line of Business Breakdown - Similar to the lines of business proposed above for Schedule IRC-I, Section I, Part A, we suggest the following breakdown of the Property and Casualty Insurance Underwriting Results by lines of business:

- Long Tail Commercial Lines
- Short Tail Commercial Lines
- Personal Insurance Lines
- Accident and Health Lines

- Mortgage Guarantee
- Other

These groupings disclose the products by different underwriting risks and valuation methods and enable the Federal Reserve to aggregate the property and casualty products by risk profile. AIG believes the above presentation would enhance comparability while mitigating implementation burden.

- **Run-off Line of Business** - We suggest including Run-off lines for both domestic and international to capture legacy business that currently does not generate revenue for a company. The lack of a category to present run-off lines would distort core business underwriting performance.

- **P&C Insurance Underwriting Results (gross and net)** - AIG currently reports P&C insurance underwriting results for U.S. GAAP and U.S. statutory on a net basis quarterly; we suggest elimination of the gross reporting from Schedule IRI-C. Given the nuance of reinsurance contracts and related accounting and variety of business processes tailored to each reinsurance treaty, the settlement statements/reinsuranee accounting is performed in aggregation quarterly. We strongly believe that the net activity retained by the company is the better indicator of the financial results of a company. AIG and other larger insurers manage on a net basis. The credit exposure from reinsurance could be more effectively handled through different means.

  The gross product allocation in statutory financial statements is performed annually. The legal entity U.S. statutory financial statements are prepared 60 days after year-end, and the combined property casualty statutory annual statement is filed by May 1 following year-end (nb, statutory reporting differs from U.S. GAAP reporting - accordingly, additional processing and reconciliation would be required to provide a similar level of detail for proposed FR 2085 on a quarterly basis within the reporting timeframes). The combined annual statutory statement includes the underwriting results by lines of business for the 23 AIG entities included in the AIG Combined Annual Statement. The development of accounting and reinsurance processes and systems to calculate the underwriting results (loss, expense and combined ratios) on a gross basis would require significant changes to business processes and accounting systems.

  Since no other P&C companies file this form, there is no basis for the Board to benchmark with industry peers (unlike current quarterly filings with our State Regulators, which can be compared to our peers). While our state insurance regulators do not require gross information by line of business information on a quarterly basis, they do receive information on an annual basis for rate making purposes, a use which is not part of the Federal Reserve's prudential objectives. Net results serve as a better indicator of underwriting performance and overall operations of the Company. We primarily manage our reinsurance exposure by counterparty, rather than by line of business. The Company's credit exposure from reinsurance would be more effectively handled separately.

  Therefore, we believe that the significant efforts required to implement the proposed Schedule IRI-C on a gross basis do not provide useful visibility into financial results and risk exposure. We propose that the suggested IRC-I schedule be revised to include underwriting results on a net basis (and that the gross presentation be eliminated). As an alternative to the gross presentation for underwriting results, we suggest an additional schedule that concentrates on external reinsurers and entity exposure to each. We believe that the schedule will provide better visibility into counterparty risk, overall capital liquidity, and the impact in an event of a reinsurer default.

  In summary, we would like to highlight that there is limited practical utility for gross underwriting results presentation due to the following reasons:

- **The gross presentation by statutory lines of business is rarely used in the industry** for business management decisions. Due to the complexity of the affiliated and unaffiliated reinsurance treaties for multi-national companies and the limited benefits of the information, the net presentation is used for quarterly analysis, supplemented with reinsurer credit exposure analysis.

- The implementation of the proposed FR 2085 will require **significant IT infrastructure, human and capital investments** and there is limited practical utility for entity capital liquidity analysis.

- **There are currently no requirements that gross underwriting results** be prepared under SEC or NAIC guidance due to the limited value that data would provide in evaluating the financial health of a company and the nature of the affiliated and unaffiliated reinsurance treaties. NAIC amended the quarterly reporting requirements for insurance companies and now requires reporting of mainly the underwriting results for only direct business.

- **Other Direct Expenses (Column F and Column G)** - We suggest the following changes to the underwriting ratios:

  - We suggest a combination of Acquisition and Other Direct Expenses into one category '*Acquisition and General Operating Expensed* (Columns F and G) that is used for the calculation of the expense ratio. The expense ratio presented on AIG's 10-K financial statements equals the sum of acquisition expenses and general operating expenses, divided by net premiums earned.

  - We suggest the expense ratio at Schedule IRI-C disclose acquisition expenses and acquisition costs that are not incremental and directly related to successful sales effort. The acquisition expenses should include the amortization of DAC and VOBA.

  - We also suggest the general operating expenses related to the respective lines of business be combined with acquisition expense for the calculation of the expense ratio. The proposed FR 2085 instructions for Schedule IRI-C require the reported acquisition expenses to include costs that are related directly to the successful acquisition of new and renewal insurance contracts during the calendar year-to-date; however, it is silent for acquisition related costs. AIG proposes that the acquisition expense definition be modified to include the amortization of DAC and VOBA consistent with the discussion above. AIG believes that the proposed change will allow consistent disclosure of expense ratios among all reporting, including SEC and regulatory reporting for insurance nonbank financial companies.

- **Catastrophes (current accident year), Column D** - Based on review of the proposed FR 2085 instructions, insurance nonbank financial companies would be required to report losses from catastrophe occurring during the current accident year, where industry-wide insurance losses are expected to be above $1 billion dollars for the events. We believe that the definition would result in diversity in practice, and suggest the instructions be modified to include weather and seismic events having a net impact on the insurance nonbank financial company's pre-tax income in excess of $10M each. We believe that the revised definition will improve the comparison of underwriting ratios among the insurance nonbank financial companies.

APPENDIX C - Investments Related Schedules and Financial Statements and Related Items

Schedule IRC-L - Derivatives and Off Balance Sheet Items

- **Line 6, Embedded Derivatives** - AIG suggests that embedded derivatives presented in Schedule IRC-L include only aggregate net fair values, deleting the disclosure of gross positive fair values, gross negative fair values and non-performance risk adjustments. Currently, AIG's actuarial fair value measurement of these embedded derivatives is calculated on blocks of business, not at a seriatim contract level. As a result, we are not currently able to break out the fair value of embedded derivatives in liability host contracts into Column A vs. Column B, gross positive vs negative values.

  The non-performance adjustment (NPA) component of the fair value is an internally generated calculation which may include unobservable inputs; therefore there is inconsistency across the industry in the assumptions and discount rates used to calculate the NPA. This component is not recorded separately in the general ledger or in derivative valuation systems, and would require an additional process to accumulate and report.

Schedule IRC - Consolidated Balance Sheet and IRC-M Memoranda

- **IRC M, Line 4 and Line 5** - AIG suggests this schedule should include the following lines: 4.a - Deferred policy acquisition cost (DAC), 4.b - Value of business acquired (VOBA) and 5. Sales Inducement Assets (SIAs). We also suggest the proposed FR 2085 instructions exclude SIAs from IRC Line 14, consistent with the comments summarized above. The suggested changes will ensure consistency for SIAs disclosures among the insurance nonbank financial companies for SEC and Federal Regulatory filings.

Schedule IRI - Consolidated Income Statement

- **Fair Value Option (FVO) Securities** - There is currently mixed industry practice on the presentation of revaluation adjustments to the carrying value of securities for which the fair value option has been elected. AIG currently records such fair value gains and losses in net investment income, as we deem this to be proper reporting under U.S. GAAP. The instructions to the proposed FR 2085 Schedule IRI Line 4 and Memorandum Line M(l) appear to direct these gains and losses to Net Investment Gains (Losses). Please note that following this presentation would result in significant variances between AIG's GAAP/SEC reporting and the proposed FR 2085.

Schedule IRC-V - Variable Interest Entities

- **Line l.e, Loans and leases held for sale** - We believe there is an error in the instructions for this line as the instructions indicate that loans and leases held for sale by consolidated VIEs should be included in Schedule IRC, Line 4. However, Schedule IRC, Line 4 specifically excludes loans and leases held for sale. Instead, loans and lease held for sale should be reported in Schedule IRC-B Part B, Line 3 and hence as Other Invested Assets in Schedule IRC Line 6.

APPENDIX D - Comments on Information Collection Proposal

a. Whether the proposed collection of information is necessary for the proper performance of the Federal Reserve's functions, including whether the information has practical utility

b. The accuracy of the Federal Reserve's estimate of the burden of the proposed information collection, including the validity of the methodology and assumptions used

A full in-depth analysis is necessary to assess the changes and implementation required in processes and procedures, staffing and expertise, systems infrastructure, along with the associated costs, in order to capture and provide the level of granularity and categorization of data to comply with the proposed requirements on a quarterly and annual basis. We have initiated the assessment with our various business units domestically and internationally, and, based on a high level review, management estimates the time needed for the initial implementation of the proposal would meaningfully exceed the Board's estimates. The current industry consensus is that it likely will require a multi-year timeframe for compliance, which would involve updating systems and processes to provide data at this level of granularity with effective controls on a basis consistent with that of other companies.

Part of the challenge and burden for compliance is from the fact that our reporting and operating regime under the current U.S. GAAP and U.S. statutory reporting framework is different from the Board's requirements as proposed. The level of granularity and categorization of data required under the proposed FR 2085 is significantly different from our internally-defined segment reporting and general ledger and code block account structure. Underlying actuarial assumptions and methodologies related to FPB roll forwards as mentioned in Appendix A, for example, are typically proprietary and based on industry or entity experience, hence not captured in the general ledger based on the level of detail as defined in the proposal. Another example is the gross presentation by lines of business from Schedule IRI-C, noted in Appendix B. Consequently, the implementation of the required break-down will represent substantial investment and change efforts for the actuarial and accounting business reporting processes.

c. Ways to enhance the quality, utility, and clarity of the information to be collected

d. Estimates of capital or startup costs and costs of operation, maintenance, and purchase of services to provide information

We are unable to provide these estimates at this time. As noted in our answers to question b above, we are at an early stage in the process of assessing the change requirements in order for us to capture and provide the level of granularity and categorization of data to comply with the proposed requirements on a quarterly basis. As we continue our gap analysis and better understand the change requirements, we might be able to provide better estimates of capital or startup costs and other costs that are necessary for compliance.

e. Ways to minimize the burden of information collection on respondents, including through the use of automated collection techniques or other forms of information technology

Please refer to the letter and the other attached appendices for our proposed changes or suggestions. We also welcome open dialogue with the Board if the suggested solution is not satisfactory for the purpose of the proposed FR 2085.