

THE COLLAPSE AND FEDERAL RESCUE OF AIG AND WHAT IT MEANS FOR THE U.S. ECONOMY

HEARING

BEFORE THE

COMMITTEE ON OVERSIGHT
AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

FIRST SESSION

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THE COLLAPSE AND FEDERAL RESCUE OF AIG AND WHAT IT MEANS FOR THE U.S. ECONOMY

THURSDAY, APRIL 2, 2009

HOUSE OF REPRESENTATIVES,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The committee met, pursuant to notice, at 10 a.m., in room 2154, Rayburn House Office Building, Hon. Edolphus Towns (chairman of the committee) presiding.

Present: Representatives Kanjorski, Maloney, Cummings, Kucinich, Tierney, Clay, Watson, Lynch, Connolly, Norton, Kennedy, Davis, Cuellar, Welch, Foster, Speier, Driehaus, Issa, Platts, Bilbray, Jordan, Chaffetz, and Schock.

Staff present: John Arlington, chief investigative counsel; Lisa Cody, Kwane Drabo, and Katherine Graham, investigators; Brian Eiler, investigative counsel; Jean Gosa, clerk; Adam Hodge, deputy press secretary; Carla Hultberg, chief clerk; Mike McCarthy, deputy staff director; Leah Perry and Steven Rangel, senior counsels; Jason Powell, counsel and special policy advisor; Joanne Royce, senior investigative counsel; Ron Stroman, staff director; Lawrence Brady, minority staff director; John Cuaderes, minority deputy staff director; Jennifer Safavian, minority chief counsel for oversight and investigations; Frederick Hill, minority director of communications; Dan Blankenburg, minority director of outreach and senior advisor; Adam Fromm, minority chief clerk and Member liaison; Kurt Bardella, minority press secretary; Seamus Kraft, minority deputy press secretary; Howard Denis and Christopher Hixon, minority senior counsels; Ashley Callen, minority counsel; and Brien Beattie, minority professional staff member.

Chairman TOWNS. The committee will come to order. Thank you all for being here today. Let me just say to the committee members, the format will be that we will have an opening statement from the Chair and an opening statement from the ranking member, and then we will go and do the 5-minute questioning. And, of course, if there is need for more than one round, two rounds, three rounds, four rounds or whatever, then we'll be able to do that. I just wanted to make that known to all the committee members here.

We all sense that the current recession is different from any we have known in our lifetime. Too many senior citizens who have worked hard their whole lives now must confront the sad reality that their entire life savings has been wiped out. I can see it in the

eyes of my neighbors in Brooklyn, worried about whether they will have a job next month or not. And yet we have relatively little understanding about what really caused this crisis.

What we do know is that our financial regulatory system has failed the American people. Dangerous and unacceptable levels of risk were allowed to buildup in our financial system, leading to the catastrophic failure of our Nation's economy. But exactly why this happened and who was responsible remains unclear.

It is also unclear what is really happening to the billions of dollars of taxpayers money that is being used to prop up these businesses. We see midnight negotiations taking place behind closed doors with few details released about how decisions were made and why. When questions are asked, the answer coming back is mostly, just trust us, trust us, just wait, trust us.

The American people deserve clear answers to how and why this failure occurred, who was responsible and who benefited, why the existing regulatory system failed, and what steps need to be taken going forward in this regard.

I believe that a comprehensive review of the rise and fall of AIG and the involvement of counterparties like Goldman Sachs can provide a useful vehicle to understanding how inadequate regulations, cheap money, risky business deals and, in some instances, corruption led to the current economic crisis. Today's hearing is the first in a series of hearings this committee will conduct as part of our investigation of AIG. We plan to hold additional hearings on AIG in April and May. It is too soon to announce the witnesses, and we'll do that at a later date, but this will be a comprehensive review of the AIG problem.

We have decided to focus on AIG because it is the largest single recipient of Federal bailout money, \$180 billion so far. In addition, AIG was at the center of the whirlwind as the financial services sector began to crumble. AIG was the largest insurance company in the United States and one of the largest companies in the world. It had operations in virtually every corner of our financial world, and, therefore, we believe it will serve as an excellent illustration of what went wrong and what we need to change and to correct.

Our particular interests are the complex operations of AIG's Financial Products, the overly imaginative and ambitious division of AIG that sold billions of dollars of credit default swaps on over-the-counter derivatives market, all of which are largely exempt from Federal regulation. Hopefully, Mr. Greenberg will be able to shed some light on whether this was a well-managed division of AIG, or whether it was a poorly managed renegade operation.

Today we will hear testimony from the one man who knows more about AIG than anyone in the world, Maurice R. Greenberg, who served as chief executive officer of AIG for over 35 years. Later in April we will hold another hearing, and Edward M. Liddy, the current CEO of AIG, will have an opportunity to testify about current activities at AIG. I understand that Mr. Greenberg and Mr. Liddy may have differing views about AIG and the Federal bailout of the company. I think that's what we might hear today.

We also know that there are lawsuits and other probes associated with the activities of AIG. While the committee intends to conduct oversight of these and other sensitive matters regarding AIG,

it is not the purpose of this hearing to intervene in any ongoing litigation. The purpose of this hearing is to probe Mr. Greenberg about AIG and its operations and obtain a new perspective on what went wrong, how to fix it, and what should be done to prevent similar disasters in the future.

A word of caution. There has been a lot of talk about how to reform regulation of the financial services industry. I would urge my colleagues on this committee and elsewhere not to move too quickly to reform the financial sector without first fully understanding what caused this financial meltdown.

That being said, I look forward to a thorough examination of AIG, and I want to thank our witness today, Mr. Greenberg, for appearing here. Thank you very much.

[The prepared statement of Hon. Edolphus Towns follows:]

**HOUSE COMMITTEE ON
OVERSIGHT & GOVERNMENT REFORM**

**OPENING STATEMENT OF
CHAIRMAN EDOLPHUS TOWNS**

**Hearing: "The Collapse and Federal Rescue of AIG and
What it means for the U.S. Economy?"**

April 2, 2009

Good morning. Thank you all for being here today.

We all sense that the current recession is different from any we have known in our lifetimes. Too many senior citizens, who have worked hard their whole lives, now must confront the sad reality that their entire life savings has been wiped out. I can see it in the eyes of my neighbors in Brooklyn worried about whether they will have a job next month.

And yet, we have relatively little understanding about what really caused this crisis. What we do know is that our financial regulatory system has failed the American people. Dangerous and unacceptable levels of risk were allowed to build up in our financial system leading to the catastrophic failure of our nation's economy. But exactly why this happened and who was responsible remains unclear.

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The American people deserve clear answers to how and why this failure occurred, who was responsible and who benefitted, why the existing regulatory system failed, and what steps need to be taken going forward. In this regard, I believe that a comprehensive review of the rise and fall of AIG, and the involvement of counterparties like Goldman Sachs, can provide a useful vehicle to understanding how inadequate regulations, cheap money, risky business deals, and in some instances, corruption led to the current economic crisis.

Today's hearing is the first in a series of hearings this Committee will conduct as part of our investigation of AIG. We plan to hold additional hearings on AIG in April and May. It is too soon to announce the witnesses at future hearings, but this will be a comprehensive review of the AIG problem.

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Of particular interest are the complex operations of AIG Financial Products (AIG-FP), the overly imaginative and ambitious division of AIG that sold billions of dollars worth of credit-default swaps on over-the-counter derivatives markets, all of which are largely exempt from federal regulation.

Hopefully Mr. Greenberg will be able to shed some light on whether this was a well-managed division of AIG, or whether it was a poorly managed, renegade operation.

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I understand that Mr. Greenberg and Mr. Liddy may have differing views about AIG and the federal bailout of the company.

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While the Committee intends to conduct oversight of these and other sensitive matters regarding AIG, it is not the purpose of this hearing to intervene in any ongoing litigation. The purpose of this hearing is to probe Mr. Greenberg about AIG and its operations and obtain a new perspective on what went wrong, how to fix it, and what should be done to prevent similar disasters in the future.

A word of caution: there has been a lot of talk about how to reform regulation of the financial services industry. I would urge my colleagues on this committee and elsewhere not to move too quickly to reform the financial sector without first fully understanding what caused this financial meltdown.

That being said, I look forward to a thorough examination of AIG, and I want to thank our witness, Mr. Greenberg, for appearing here today.

Chairman TOWNS. At this time I yield to the ranking member, Mr. Issa of California.

Mr. ISSA. Thank you, Mr. Chairman. And I appreciate the time that we're being given to look at the financial crisis from the very beginning.

As I have said in a letter to you and will continue to say, I'm troubled that today we only have one witness, and this witness brings a cloud of some suspicion based on allegations that have been made against him. Notwithstanding that, the assurances that we will complete the entire picture of AIG from start today to finish I think is critical, and we are the only committee that has shown an interest in delving that deeply into this crisis from before it began until today and, as the chairman said in his opening remarks, intend to go beyond to make sure it doesn't happen again.

The witness before us today is a recurring figure in both criminal and civil investigations by the Department of Justice and the Securities and Exchange Commission. The U.S. attorney has identified Mr. Greenberg as a coconspirator in a criminal securities fraud case that has already resulted in five convictions. News reports, whether fair or unfair, indicate the SEC action against Mr. Greenberg on these security fraud charges could come any day, and there are good reasons to believe that he could face even more significant legal challenges.

Mr. Greenberg, I say that because I believe we have to set the record straight. I don't do so in order to assume that those charges are true. That's for others to decide.

Moving forward, I'm confident that this committee will have Edward Liddy and a number of other key people involved both in the operation of AIG before—during the intervening period from the time you left until today.

I also believe the committee, many times not in hearings but in other ways, is going to have to evaluate in depth a number of actions by this administration and its predecessor.

As CEO of AIG, it is clear that for the first 35 years you built a company that the world admired; you built a market capital second to none, the largest in your industry and one of the largest in the world. It is also clear that the crumbling of AIG began on your watch, that there were systemic problems that had occurred. Today I'm sure that we will hear, and perhaps rightfully so, that those problems, if managed correctly, would not have led to the same outcome as we are facing here today and around the world.

As many here know, Mr. Cummings and I both wrote the chairman first in December and then more recently asking for additional investigations. I have received assurances from the chairman that we will have those. And I look forward to working in a bipartisan fashion to ensure that this investigation is the most thorough in Congress.

It is very clear that we will also hear today that TARP funds have been used in a less efficient fashion than they should have been under both the previous administration and the current administration, meaning that rather than using assurances or other instruments that cost little or nothing, we've delivered cold, hard cash in many cases outside the United States. It has been widely reported the millions of dollars paid in bonuses to AIG executives

who were retained as part of a contract, and Congress has attempted to call back those dollars through a number of mechanisms.

Mr. Chairman, I look forward to asking this witness what he would have done had he been faced with the meltdown, and recognizing that the 100,000-plus employees that built this company leave every day, and if they do not return, in fact, all the capital of the company has left and not returned.

So, Mr. Chairman, I recognize that this is just the beginning of what is going to be a thorough investigation into how and why \$180 billion of taxpayers' money so far has been committed to AIG and thus far has not created a stable company. Additionally, Mr. Chairman, I look forward to our staffs working on a bipartisan basis, most often behind the scenes, most often not through public hearings, in order to get to the entire truth. I think both you, Mr. Chairman, and myself agree the reason we have so many investigators is that a lot of what we do is not legislation, but, in fact, investigation. And I look forward to the testimony today and the work beyond and yield back the balance of my time.

[The prepared statement of Hon. Darrell E. Issa follows:]

EDOLPHUS TOWNS, NEW YORK
CHAIRMAN

DARRELL E. ISSA, CALIFORNIA
RANKING MINORITY MEMBER

ONE HUNDRED ELEVENTH CONGRESS
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Statement of Rep. Darrell Issa
Ranking Republican Member
Committee on Oversight and Government Reform
"The Collapse and Federal Rescue of AIG and What it Means for the U.S. Economy"
April 2, 2009

Thank you, Chairman Towns, I appreciate you taking a look at the financial crisis, but I'm concerned this hearing ignores critical questions the American people are asking about the Federal Government's bailout and subsequent management of AIG.

I am troubled that this hearing's only witness brings with him a dark cloud which the majority, in its briefing memo, dismisses as – and I quote – "not the subject of this hearing."

The witness before us today has been a reoccurring figure in criminal and civil investigations by the Department of Justice and the Securities and Exchange Commission. A U.S. Attorney has identified Mr. Greenberg as a coconspirator in a criminal securities fraud case that has already resulted in five convictions. News reports indicate that SEC action against Mr. Greenberg on these securities fraud charges could come at any day and there are good reasons to believe he could face even more significant legal problems.

Moving forward, I hope the Committee will take a more aggressive posture but frankly, I'm worried the Committee is growing out of touch with the contemporary bailout issues. Why are we *not* talking to Edward Liddy, Mr. Liddy's immediate predecessors, Secretary Geithner, other officials at the Treasury Department, officials at the Federal Reserve, and officials at the Securities and Exchange Commission during today's hearing?

I intend to ask Mr. Greenberg about a number of decisions he made during his tenure as CEO of AIG, but it's unclear to me how Mr. Greenberg can enlighten us as to what is going on at AIG presently. I have reviewed his written testimony and found his criticisms of the bailout to be essentially a repackaged version of what many House Republicans were saying last year when we opposed the Paulson/Pelosi bailout. Mr. Greenberg also does not appear to have valuable information about the guaranteed retention program since those contracts were negotiated subsequent to Mr. Greenberg being pushed out of AIG.

*Statement of Rep. Darrell Issa
April 2, 2009
Page 2*

Mr. Cummings wrote the Chairman and me a letter back in December asking us to hold hearings on compensation policies and expenditures. On December 18th and 23rd, before AIG bonuses became a major scandal, Mr. Chairman you and your staff made public statements indicating you would hold such a hearing. Likewise, Mr. Cummings told Bloomberg News on December 17th that you were in complete agreement that a hearing was in order. Finally, in April, we are holding a hearing, but not the hearing that was promised in December. Not a hearing that can answer the critical questions surrounding current operations at AIG.

The Republicans and even some in your own party, Mr. Chairman, have made every effort to exercise real oversight of the TARP funds. In January and in February I asked you to co-sign a letter requesting the Treasury Department provide us documents to conduct oversight into the commitments and initiatives already funded or targeted with TARP funds. AIG was one of the ten companies the letter requested information on. You declined to sign this letter.

Mr. Chairman, this is not the hearing we requested. As you know, on March 25th I wrote to you asking that Mr. Liddy and an Administration official be included as witnesses today. On the same day, Mr. Cummings also called for Mr. Liddy's presence.

Instead, we only have Mr. Greenberg here today. Perhaps he can tell us what he thinks went awry during his tenure as CEO, but I think the chances of him attempting to place blame elsewhere are much higher. Media reports and court filings confirm Mr. Greenberg is embroiled in vast amounts of litigation—approximately nine lawsuits. He's defending against a civil fraud action brought by the state of New York, he's being investigated by the Department of Justice and the SEC, and he is in litigation with AIG over billions of dollars in shares he allegedly misappropriated from a trust for long term equity based compensation for AIG employees. These matters are separate and apart from the 2004 deferred prosecution agreements which necessitated the hiring of Mr. Cole, the independent monitor of AIG. Mr. Greenberg's testimony should be taken with a grain of salt. At the very least, we must acknowledge these biases.

Mr. Chairman, I fear we are giving Mr. Greenberg a forum to perpetuate the blame game and further vilify the company he built, 80% of which is now owned by all of us here today. This forum is not helpful to the American taxpayers.

The Republicans believe it is incumbent upon us to understand the root causes and all possible repercussions of the financial crisis. With more than \$180 billion taxpayer dollars being committed to AIG, we can not relinquish our oversight duties to the Administration. Some would argue the Treasury and the Fed are not up to the task at hand.

Thank you again. We look forward to working with you to ensure accountability and transparency in taxpayer's money being used to bailout AIG, and other companies.

Chairman TOWNS. I would like to thank the gentleman from California, and I look forward to working with you.

It's a longstanding tradition, Mr. Greenberg, that we swear in all of our witnesses. Please stand and raise your right hand. If your counsel is going to answer any questions, he should also be sworn in.

[Witnesses sworn.]

Chairman TOWNS. Let the record reflect that both answered in the affirmative.

Mr. Maurice R. Greenberg, former chief executive officer of AIG, has been an outspoken critic of AIG's bailout. Having presided over the company for nearly four decades, Mr. Greenberg is uniquely qualified to help explain what went wrong at AIG and how best to fix it. Given the complexity of the issue, we invited Mr. Greenberg to extend his oral remarks beyond the usual 5-minute summary. We will give you extra time. Following his testimony we will entertain questions from all of the Members.

At this time, Mr. Greenberg, you may begin.

STATEMENT OF MAURICE R. GREENBERG, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, C.V. STARR & CO., FORMER CHIEF EXECUTIVE OFFICER, AMERICAN INTERNATIONAL GROUP [AIG]

Mr. GREENBERG. Thank you.

Chairman Towns, Ranking Member Issa, and members of the committee, good morning. I'm the chairman and chief executive officer of C.V. Starr & Co., and the former chairman and chief executive of AIG. Thank you for extending me an invitation to appear before you today. I regret that the last time you invited me to testify I was dealing with a bout of pneumonia, so I appreciate this opportunity to present my thoughts and answer any questions you may have.

I want to address at the outset two questions. First, some say that I have been gone from the company for 4 years, so what can I know? Second, I hear that AIG has been telling everyone who will listen that we are engaged in a lot of litigation. The fact is I am still AIG's largest individual shareholder, I care about the company I built, and I care very much about AIG's employees and investors who have been badly hurt. As AIG's largest shareholder, I have kept up to date on what the company is doing.

The litigation that has been pending for 4 years will be resolved in the courts. It involves matters that date back many years, and in some cases many decades, and which, in any event, have nothing to do with the enormous problems that AIG has encountered in recent years under my successors.

The question that was raised by Mr. Issa about the so-called indictment was a threat by Eliot Spitzer when he was attorney general, and he subsequently dropped that charge over a Thanksgiving weekend.

AIG's history demonstrates that its business can be highly successful if properly managed and managed properly. AIG is the only way to ensure that the American taxpayer will be repaid. AIG is deeply diversified, has a deeply diversified earnings base. That was no accident. It was a conscious part of our approach to risk man-

agement when I and like-minded people managed AIG. We diversified in the insurance industry, both domestic and internationally, and within the insurance business, life and nonlife. We were very creative in innovating new products, and then began finance operations to further diversify AIG's earnings base. That led to the creation of AIGFP in 1987. We were then a triple-A-rated company.

From 1987 to 2004, my last full year at AIG, AIG contributed over \$5 billion in AIG's pretax income, was subject to numerous risk controls by AIG senior management——

Chairman TOWNS. Could you pull the mic just a little bit closer? We're having trouble hearing you.

Mr. GREENBERG. Sure.

Is that better.

Chairman TOWNS. Thank you.

Mr. GREENBERG. Let me just repeat, from 1987 to 2004, my last full year at AIG, AIG Financial Products contributed over \$5 billion in AIG's pretax income, was subject to numerous risk controls by AIG senior management, and conducted its business largely on a hedged basis.

Massive losses at AIGFP in 2007 and 2008 resulted significantly from a shift in the way the unit did business after I left the company in the spring of 2004. Here is what happened. AIG continued to write credit default protection after the loss of its triple A rating. Not only did AIG continue doing so, but it massively increased the risk that it took on, reportedly writing more business in the 9 months after I left than the previous 7 years. AIG changed the nature of the business from one focused initially on providing regulatory capital for foreign banks to one focused increasingly on subprime loans. AIG decided not to hedge its risk even after indexes that would have permitted such hedging were available, and even after AIG concluded internally that the business was too risky to continue to write new contracts. And after I left, the management controls that I had in place to limit risk were reportedly weakened or eliminated.

What are the problems with the AIG bailout? I share your concern and the concern of the American people about the terms of the AIG bailout and its tremendous burden on taxpayers. All plans so far advanced by the U.S. Government to date have failed, and the current plan, in my opinion, will not succeed. Major mistakes have been made. The Government imposed unrealistic financing terms on AIG in September 2008, including approximately 14 percent interest in year one, charging interest whether AIG actually drew down funds or not. That was not only different from those that were imposed on any other company, but which fundamentally undermined AIG's continued viability.

The Government also obtained 79.9 percent of the equity in the company. They immediately announced that AIG would be liquidated, which inevitably caused the employees, brokers, customers and other business partners to flee, further undermining the company's continued viability. They began to liquidate the company at fire sale prices in a market which obviously credit was difficult to obtain and was difficult to sell anything. They used AIG to funnel money to other institutions, including foreign banks.

AIG was required to put up collateral after losing the triple A rating. They advanced billions of dollars of taxpayer money to AIG instead of pursuing the opportunity to raise private capital in conjunction with providing government guarantees that would have eliminated the necessity of putting up additional cash collateral. There's a better approach.

What should the Government's policy be with regard to AIG? The primary objective should be to create conditions that allow AIG to repay the taxpayer, of course, and rebuilding AIG is the best way of doing that.

Specifically what should be done to achieve this goal of AIG to pay back the taxpayer? One, wall off AIG Financial Products from the rest of the company and replace as many loans as possible with guarantees. Extend what remains of existing loans for 20 years at possible interest rates of 5 percent. That seems to be the TARP interest rate. Reduce the Government's ownership to 15 percent common equity to allow private capital to be raised over time. At a later date, if necessary, and proper conditions exist, noncore assets could be sold. The current approach of announcing the sale of insurance subsidiaries simply results in people seeking employment elsewhere and taking business with them.

A new senior management team of internationalists with skilled insurance capabilities should be recruited, insurance experience in the lines of business that AIG is engaged in. They must be quick learners to understand AIG's business and culture. You don't buy loyalty, but rather create it through strong but fair leadership. You must have the respect of your employees and the market. This should not be an on-the-job training experience.

AIG's business model did not fail, its management did. AIG's business model has a long track record of success over many decades. AIG can recover from its immediate crisis, continue to be an employer of tens of thousands of hard-working Americans, and repay the assistance it has received from the American taxpayer, but only if both the Government and AIG's management change their approach in dealing with its future. It seems to me that the role of government should be to get a company that's in need of help back on its feet as soon as possible so it can become a taxpayer again and an employer.

Thank you, and I look forward to your questions.

Chairman TOWNS. Thank you very much, Mr. Greenberg, for your statement.

[The prepared statement of Mr. Greenberg follows:]

**Before the United States House of Representatives
Committee on Oversight and Government Reform**

Statement of Maurice R. Greenberg

April 2, 2009

Chairman Towns, Ranking Member Issa, and Members of the Committee, good morning. I am the Chairman and Chief Executive Officer of C.V. Starr & Co., Inc. and the former Chairman and Chief Executive Officer of American International Group, Inc. ("AIG"). I appreciate the opportunity to share with you my thoughts on how best to manage AIG and structure the government's assistance to ensure that tens of billions of dollars are repaid to the American taxpayer.

In the late 1960s, I became both a founder and the first CEO of AIG, which at the time was a brand new company. I led AIG for almost four decades until my retirement in March 2005. During that time, AIG grew from a modest enterprise into the largest and most successful insurance company in the world, and one of the largest companies in the world in any sector. Its market capitalization increased 40,000 percent between 1969, when AIG went public, and 2004, my last full year as Chairman and CEO.

By the time I left AIG, AIG had become one of the most widely held stocks in the United States. It had a market capitalization of approximately \$170 billion and its stock traded at about \$64 a share. AIG's net income per employee was over \$100,000. The company operated in 130 countries and employed approximately 92,000 people. It was a great place to work, and it made significant contributions to the United States and to local communities here and abroad.

AIG had a unique culture when I was its CEO, particularly in comparison with the way many large public companies operate today. We had comprehensive and conservative risk-management structures and procedures. Neither I nor other members of my senior management team had employment contracts. I received no severance package in connection with my retirement, and I never sold a single share of AIG stock during the decades that I served as CEO (although I did contribute tens of millions of dollars in stock I owned to a family foundation to be used for charitable purposes). During my tenure, AIG had a performance-based compensation system that encouraged employees to contribute to the long-term growth of the company.

The Government's Bailout of AIG

Shortly after AIG first received federal assistance in September 2008, former Treasury Secretary Hank Paulson went on "Meet the Press" to reveal that the government's intention was to liquidate AIG. That intention manifested itself through onerous loan terms that included a two-year repayment period and an interest rate in year one of around 14%; the idea was to sell off valuable parts of AIG immediately to pay off the government in full in two short years. The current management of AIG was installed by Secretary Paulson for this purpose.

That plan has failed. A successful liquidation is impossible in the present economic climate, since buyers for AIG assets at fair values simply do not exist at this time. Fire-sale prices will bring taxpayers, who now own almost eighty percent of AIG, only pennies on the dollar for their investment in AIG. The largest asset sale to date took place at a fraction of the asset's purchase price and at a small multiple of book value.

That asset, Hartford Steam Boiler, was sold to a foreign company, meaning that many U.S.-based jobs may ultimately find their way overseas.

Moreover, the failed plan ignored the key value driver of AIG: Its people. AIG is nothing without its people – their drive, intellect, experience, innovation and relationships. There are over 100,000 people globally who make enormous contributions to the firm everyday. Since the day the Treasury announced its plan to liquidate AIG, value has been destroyed because AIG's people and their relationships -- AIG's business -- are leaving. The evidence is overwhelming and indisputable that the American taxpayer is an investor in a steadily diminishing asset.

The plan has also been highly controversial and in some respects downright puzzling. Approximately \$50 billion of taxpayer cash has been paid to U.S. and foreign financial firms who were AIG's counterparties in its credit default swap (CDS) business, and another \$44 billion was paid over to counterparties in the securities lending business. The cash payments to credit default swap counterparties were made to support collateral requirements and to purchase underlying subprime-linked securities at par.

After the payments were made, some of the largest CDS counterparties said that their exposure to AIG was hedged and they would not have incurred material losses if cash payments had not been made. Moreover, the head of the Office of Thrift Supervision testified before the Congress last month that AIG had not realized any losses on its CDS portfolio.

These cash payments to CDS counterparties should never have occurred. It would have been more beneficial for the American taxpayer if the federal government had walled off AIG Financial Products (AIGFP), the unit primarily responsible for the

CDS obligations, and provided guarantees to AIGFP's counterparties rather than putting up billions of dollars in cash collateral to those counterparties. Guarantees would have sufficed. The guarantees would have been similar to those put in place at Citigroup to ring-fence toxic assets destined for Citi's "bad bank."

It is clear that the current approach has not worked, and cannot work in today's environment. The government recognized that its approach was not working when it twice changed the terms and structure of AIG's borrowing arrangements. More changes are needed, starting with the basic premises on which federal assistance rests.

A Better Approach

AIG's problem was a liquidity problem, not a solvency problem. In such circumstances, the goal of government should be to provide temporary liquidity to save jobs and keep the gears of the financial system operating smoothly. The goal of government should not be to liquidate large companies that have demonstrated that they can succeed if properly managed; it should be to restore them so that they can be employers and taxpayers.

We have the opportunity to follow a different course that will both preserve tens of thousands of American jobs and better ensure that U.S. taxpayers are repaid. The way to do this is to abandon the liquidation approach and focus instead on rebuilding AIG so that it is better positioned to pay back the taxpayer.

In contrast to current approach, my approach relies on government guarantees and long-term government-funded debt, and encourages third-party capital rather than relying on government ownership. Most important, it requires AIG to continue operating and building its core insurance businesses as the mechanism for paying back the government

loans over time. To put it more simply, the current, failed approach involved the systematic dismantling of AIG. Among many other problems, that is an insurmountable problem for morale. Employees do not want to remain in a company being liquidated; they will simply move to competitors and take business with them. (AIA and ALICO are good examples.) My approach focuses on reconstructing and sustaining AIG so that it will in the future be a healthy and vibrant company once again -- paying taxes, being a viable employer, and servicing its debt, including its taxpayer-funded debt.

With those broad principles in mind, I would like to offer an alternate proposal. (Having left AIG over four years ago, my proposal is of course based on incomplete information about the current state of the company.) The ten key components of my proposal include:

1. Eliminate taxpayer-funded indebtedness where possible, and replace it with guarantees. This would be particularly relevant for any of AIG's remaining CDS exposure.
2. Where assets are transferred to the Treasury or Federal Reserve (through the government-controlled Maiden Lane entities) in exchange for certain loans that have been made, provide appropriate cancellation of indebtedness for the value of assets transferred, including a reasonable assumption for recovery value.
3. Extend the maturity of all remaining indebtedness to a 20-year term.
4. Reduce the rate on all remaining indebtedness to 5%, consistent with TARP investments made in the banking sector.

5. Reduce the government ownership to 15% common equity, again consistent with TARP investments, and a necessary step to encouraging private capital to replace taxpayer capital over time.
6. Stop all asset sales for core insurance properties, income from which is necessary to pay back taxpayers, including the planned transfer of AIA and ALICO to the federal government.
7. Ring-fence AIGFP and securities lending through a government controlled entity that would manage the run-off of those businesses.
8. Inject new equity capital in the form of newly issued common stock and through a rights offering to existing shareholders, with a minimum of \$30 billion of new capital. The reduction of the government's ownership to 15% would make this possible.
9. Pressure should be applied to CDS counterparties to provide some of this new equity capital. These CDS counterparties should contribute back to AIG a portion of the over \$100 billion in taxpayer money that has been paid out to them since September 2008, and would become shareholders of the newly constituted AIG in return. They would have a keen interest as shareholders in not only paying back the government loans, but in building the value of AIG and running it with proper risk controls -- objectives that are aligned with the interests of the Treasury, the Federal Reserve and American taxpayers.
10. Install a new board and management team with the right incentives to rebuild AIG and repay the taxpayer over the long term. The combination of short-term

oriented managers and advisors hired merely to sell assets has demonstrably failed.

AIG's Prospects

AIG's current CEO testified last month before a House Financial Services subcommittee that AIG's "overall structure is too complex, too unwieldy and too opaque for its component businesses to be well managed as one entity." That statement is meant to provide justification for the failed approach of liquidating AIG, but it is contradicted by the historical record. AIG is not too big to be managed; it is too big to be managed poorly. AIG's history demonstrates that its businesses can be highly successful if properly managed, and managing AIG properly is the only way to ensure that the American taxpayer will be repaid.

AIG has a deeply diversified earnings base. That was no accident; it was a conscious part of our approach to risk management when I and like-minded people managed AIG.

AIG first successfully diversified within the insurance industry. We created innovative products, such as directors and officers liability insurance, kidnap/ransom insurance and environmental protection insurance, and built a team of skilled underwriters who were capable of assessing and pricing risk. No one had offered these products before, so one could not write these policies out of a manual.

AIG then diversified internationally. AIG opened new markets in places like Korea, China and Japan. We operated behind the Iron Curtain in places like Hungary, Romania and Poland long before the Berlin Wall fell. We were the first foreign company to write life insurance policies in Japan and other places in Asia. It was all part of a

strategy to promote diversified growth. Along the way, we helped open new markets for U.S. businesses and created new products that enabled U.S. and multinational companies to grow and prosper.

Following its international expansion, AIG began looking for business opportunities that could take advantage of AIG's presence in many countries and its superior credit rating. To further diversify AIG's earnings base, we began finance operations in places including Switzerland, Hong Kong, Thailand, Argentina, the Philippines and Poland. AIGFP was created in 1987 and the International Lease Financing Corporation (ILFC) was acquired in 1990.

From 1987 to 2004, my last full year at AIG, AIGFP contributed over \$5 billion to AIG's pre-tax income, was subject to numerous risk controls by AIG's senior management, and conducted its business largely on a "hedged" basis. Massive losses at AIGFP in 2007 and 2008 resulted significantly from a shift in the way the unit did business after I left the company in spring 2005. One of the most important changes related to the loss of AIG's AAA credit rating after my retirement. With the loss of that superior rating, AIG was forced to provide new or additional collateral for the benefit of its counterparties in credit default swaps. At that point, it would have been logical to exit or reduce its business of writing credit default swaps, because of the risk AIG then faced of having to post billions of dollars in additional collateral. AIG even disclosed this risk in its SEC filings starting in 2005.

Instead, AIG ramped up its credit default swap business during the remainder of 2005 and into the next year, ignoring its own disclosure to the SEC. AIGFP reportedly wrote as many credit default swaps on collateralized debt obligations, or CDOs, in the

nine months following my departure as it had written in the entire previous seven years combined, and the majority of these credit default swaps were reportedly so-called “multi-sector collateralized debt obligations” – containing toxic sub-prime mortgage exposure. Moreover, it appears that the additional risk that AIG took on through these new, toxic credit default swaps was entirely or substantially unhedged.

Mismanagement of AIG’s securities-lending operation over the same time period compounded AIG’s losses. Insurance companies that lend securities to borrowers in exchange for cash collateral typically invest the cash in low-risk investments. Under my successors’ leadership, however, AIG in 2006 and 2007 reportedly plowed tens of billions of dollars of cash collateral from its securities-lending program into securities with residential mortgage exposure, and stuck with that strategy even as the housing bubble collapsed. In 2008, as these investments lost value, demands for cash by borrowers returning securities AIG had loaned to them intensified the liquidity crisis facing the company as a result of demands for collateral by counterparties to the credit default swaps written by AIGFP for the toxic collateralized debt obligations.

Let me be clear: AIG’s business model did not fail - its management did. AIG’s business model has a long track record of success over many decades. AIG can recover from its immediate crisis, continue to be an employer of tens of thousands of hardworking Americans and repay the assistance it has received from the American taxpayer, but only if both the government and AIG’s management change their approach to dealing with its future.

Thank you. I look forward to answering your questions.

Chairman TOWNS. Let me begin by asking who is responsible for the fall of AIG, and what did they specifically do or not do that caused the failure? Who is responsible?

Mr. GREENBERG. Well, clearly the successor management has to be charged with that.

Let me go back and explain the creation of AIG Financial Products for a moment so I can put that in a better focus. As I indicated, Senator Ribicoff, when he was alive, obviously, called and said I ought to meet a young man, which we did. And the name was Sosen. And he began AIG Financial Products. He was very bright and brought a very good team of Ph.D. type of people with him, and did principally interest rate swaps. It was not a very complex business, but the triple A rating of AIG made it a very efficient business. As I said earlier, it produced, from 1987 until I left, about \$5 billion in profits.

We had a disagreement with Sosen about a year and a half into the relationship, and we terminated, and he left and went elsewhere. And a man by the name of Tom Savage, a very bright Ph.D., became its manager, and business went along quite well. It really was an informal kind of joint venture; 70 percent of the profits were for AIG, and 30 percent went to AIGFP. But of the 30 percent, half of it had to remain in the company, in FP, in their capital account, subject to the same risk that AIG took. In other words, they had their own money in the company as part of the risk capital that we had. So that was another form of risk management on top of the risk management controls that we had.

We were the first company, as far as I know, in the insurance industry to have an enterprise risk management department that covered all areas of AIG globally to ensure that we didn't have concentration in any single area of business. It was very effective. AIG Financial Products could not do a new product without having it climbed over by a number of different areas to ensure that it met our standards. It functioned quite well.

And as I said, when we left the company, there were three of us who left simultaneously that was fairly important people; myself, the chief financial officer and the head of investments. My successor obviously did not pay as much attention to what he should have paid attention to. I think the new chairman who succeeded me must have paid very little attention to it as well, and as a result they went off on a tangent and wrote in 9 months more than double the amount of business that we had put in financial products than we did in the past 7 years, and of a lower quality of business. All of that has been verified. And so clearly, if you don't have controls, and you don't have management oversight, things could go wrong, and they did.

Chairman TOWNS. Well, our purpose, Mr. Greenberg, is to try to get to the bottom of this. The American people are angry over what happened.

Mr. GREENBERG. So am I.

Chairman TOWNS. And, of course, we need to take a look to see what we need to do here in the Congress, in terms of do we look at the regulatory agency. We are trying to find out exactly what went wrong.

Let me just ask this: It looks to me as though much of what went wrong at AIG was centered on the financial products unit, AIGFP. After you left, did AIGFP become a renegade operation?

Mr. GREENBERG. Well, I don't know if I would call it a renegade. I think they got greedy. I think they wrote considerably more business than they should have. I think they should have hedged. When they lost the triple A rating after I left the company, that should have been a signal to discontinue writing credit default swaps and hedge the book, because, by their own admission, in their 10-K filings they said that they would be required to put up more collateral. So they knew that, they disclosed that. And having done that, you would have thought that somebody, whether the president, CEO or the chairman, should have called a halt and said, until we regain a triple A rating, we're either going to slow down materially or discontinue, because if you have to put up more collateral, you got a problem. AIG did not have a solvency problem, it had a liquidity problem.

Chairman TOWNS. On that note I yield to the ranking member, Mr. Issa of California.

Mr. ISSA. Thank you, Mr. Chairman.

One quick question, because many of us are not all as sophisticated. Right now an A rating would be better than the State of California's bond rating, wouldn't it?

Mr. GREENBERG. I don't know what the rating in California is. You're probably more familiar with that than I am.

Mr. ISSA. So an A rating—less than a triple A is not necessarily bad. You're down to a B rating before you sort of get in the junk category. So just for all of us, that downgrade was significant, of course, compared to being sort of blue chip triple A. But the company was still at that point relatively considered to be a well-rated company, not different than GE has been from time to time.

Mr. GREENBERG. But the problem is in the credit default swap agreements, you would be required, once you lost your triple A rating, to be required to put up collateral. And so that became not a question of option, it became a question of—

Mr. ISSA. Right. The call comes in, and in 48 hours you are supposed to deliver?

Mr. GREENBERG. Either that or you have to renegotiate the agreements.

Mr. ISSA. Well, to that extent, one of my concerns was that AIGFP had a balance sheet that was roughly \$80 billion in assets, \$80 billion in liabilities. That 15 percent accumulated retained earnings didn't seem to be on the books. And my folks tell me that a normal capital ratio would have meant there would have been at least \$6.4 billion on the books. Was that part of the problem is that the FP portion of those accumulated earnings was, A, not there, and, B, too small?

You said that there was \$5 billion of accumulated earnings. If I were to take half of 30 percent of that, it doesn't add up to a lot of money. So on \$80 billion worth of outstanding obligations, FP never really got to any kind of—without AIG parent, it never got to any kind of real base of collateral.

Mr. GREENBERG. Mr. Issa, what I've said is that 50 percent of the current earnings of their share went into FP. It came out at the

other end by 20 percent a year. In other words, after 5 years they began—new earnings came in. And I don't have the numbers in front of me as to how much was accumulated, but that's the way it worked.

Mr. ISSA. Sure.

Mr. GREENBERG. They may have changed that when I left, I don't know.

Mr. ISSA. But just using your opening statement, on \$5 billion worth of earnings during that period of time, you take 30 percent of \$5 billion, their share, take half of it and distribute it, basically you got \$1 billion?

Mr. GREENBERG. No; \$5 billion was what AIG's shares was.

Mr. ISSA. What AIG parent share was?

Mr. GREENBERG. Yes.

Mr. ISSA. So it would have been——

Mr. GREENBERG. It would have been about a billion and a half.

Mr. ISSA. A billion and a half. So it is still a relatively small amount of money, if the portfolio was \$80 billion, that they had essentially as real skin in the game.

Mr. GREENBERG. Well, they didn't come with a lot of skin. They came with intellectual—the idea was they had intellectual capital. And if it was properly managed, and if you had the right risk controls in, which we did, it worked fine.

Mr. ISSA. So it's fair to say that from inception through when they had a billion and a half skin in the game, you always were relying on AIG's money, not FP's money, because the growth was far too quick to ever actually have the retained earnings for it to be primarily their capital first; is that right? I realize you shared it, but they started off at zero. So for an insurance company starting off at zero and a triple A rating, it is kind of a good deal, isn't it?

Mr. GREENBERG. But remember, we had about \$71 billion of retained earnings in AIG that accumulated over the years. And it was a good way to use it. We thought that was excellent—a triple A rating was capital, and it had to be preserved.

Mr. ISSA. I agree. I want to just set the record straight on one thing, because in the opening statement—and I told you earlier it had to be tough, and I think it was—I was referring to the *United States v. Ferguson*. This is a Connecticut-based case, which I show is still ongoing, and that you've recently received a Wells notice—your counsel may be able to advise you—but that case hasn't been dismissed; is that correct?

Mr. GREENBERG. The which?

Mr. ISSA. This is *United States v. Ferguson*. It's a Connecticut case.

Mr. BOIES. The Wells notice did not come in that case. The Wells notice is a notice that is issued by the SEC. It has nothing to do with that case.

Mr. ISSA. I show him as a related transaction. But you do have a Wells notice, and the *United States v. Ferguson, et al.*, is still a current case; is that right?

Mr. BOIES. It is a case that has been tried, and it is now on appeal. But that is not a case to which Mr. Greenberg is or ever has

been a party, or where anybody has tried to add him as a party defendant.

Mr. ISSA. And I apologize, because our information from the district in Connecticut shows that Mr. Greenberg is seen as an unindicted coconspirator. And I want to say, look, we're not trying to make a case here, because I just want to make it clear that there's an awful lot of unwinding of these things still going on. And is it fair to say that?

Mr. BOIES. Well, it's fair to say it's unindicted. And unindicted means you're not named a party. By unindicted it means he's not a party to the litigation.

Mr. ISSA. And I didn't mean to end on that note. I just wanted to set the record straight.

Chairman TOWNS. The gentleman's time has expired.

The gentleman from Maryland, Congressman Cummings.

Mr. CUMMINGS. Mr. Chairman, I would like to thank you very much for bringing this hearing to us.

Mr. Greenberg, you were very clear in your written testimony, as you have been in the past public statements, that the problems that led to the downfall of AIG were not of your making. Let me quote a line from your testimony, "let me be clear, AIG's business model did not fail, its management did." And I think you have said something very similar to that at least twice already this morning. When you refer to management, are you including yourself in that category?

Mr. GREENBERG. No. How can I? I'm not in the company, and I haven't been in the company.

Mr. CUMMINGS. So you don't see your role in the company as being a part of its failure; is that what you're saying?

Mr. GREENBERG. Yes.

Mr. CUMMINGS. So you don't.

Mr. GREENBERG. Mr. Cummings, when I left the company, it was a healthy company, and its market cap was \$170 billion. Its earnings were strong, its share price was \$64 a share, we had no problems, we had good risk management that controlled the company.

Mr. CUMMINGS. OK. I got you. And I'm convinced that the systemic problems at AIG go far deeper than the mistakes made in the 4 years since you left the company.

You note in your written testimony that AIG suffered greatly as a result of losing its triple A rating. I think you just were talking about that a moment ago—which occurred, by the way, immediately after you resigned. What you do not mention, however, is that the company lost that rating as a result of the failures that occurred on your watch. You stepped down on March 14, 2005, and Fitch Rating Service downgraded AIG's credit rating to double A the next day. Do you accept any responsibility at all for the events leading up to that critical moment?

Mr. GREENBERG. No, I don't, because what was done, there was a restatement that was made by AIG. Most of the items in the restatement have since been proven to be improper or unnecessary and had nothing to do with me whatever.

Mr. CUMMINGS. Well, I think you had a significant role to play, particularly with regards to the problems with the financial products division that has been largely blamed for the downfall of AIG.

You note in your written testimony, "AIG Financial Products reportedly wrote as many credit default swaps on collateralized debt obligations, or CDOs, in the 9 months following my departure as it had written in the entire previous 7 years." And I think you said that again today.

Mr. GREENBERG. Yes, and that's correct.

Mr. CUMMINGS. Clearly that practice was problematic, and it ultimately led to the company's downfall. But what you fail to mention is that a good portion of those risky bets occurred while you were still at the helm of AIG. By the time the firm stopped writing swaps for CDOs that included subprime mortgages, it had nearly \$80 billion of these products in its portfolio. How many of those swaps were issued under your leadership?

Mr. GREENBERG. First of all, Mr. Cummings, as far as I know, there are no losses whatever on the credit default swap. That was reported to the Senate Banking Committee last month by the head of the Thrift Administration. It wasn't losses that brought AIG down, AIG Financial Products, it was a lack of collateral that they had to put up. And the reason they needed more collateral was because they lost their triple A rating.

Mr. CUMMINGS. So how many of those swaps occurred under your leadership?

Mr. GREENBERG. I can't give you the answer sitting here right now, but whatever—

Mr. CUMMINGS. Would you say \$7 billion?

Mr. GREENBERG. May I finish?

Mr. CUMMINGS. Yeah, I want you to finish, but I want you to give me a straight answer.

Mr. GREENBERG. Well, I'm trying to, if you'll let me answer.

Mr. CUMMINGS. All right. I'm listening.

Mr. GREENBERG. The amount that we wrote was for European banks, their regulatory capital needs. As far as I know, there was never a loss on any of that, No. 1.

No. 2, because we were triple-A-rated, we did not have to put up collateral. So when AIG lost their triple A rating, and they wrote as much in 9 months as we wrote in 7 years, at a lower-quality business with multisector CDOs, that became a different book of business.

Mr. CUMMINGS. I see my time has run out. Thank you, Mr. Chairman.

Chairman TOWNS. Mr. Chaffetz.

Mr. CHAFFETZ. Thank you, Mr. Chairman. I appreciate it.

And thank you, Mr. Greenberg, for being here.

My understanding is when you were AIG's CEO, you also sat atop Starr International Co. [SICO]. You are still the CEO of SICO; is that correct?

Mr. GREENBERG. That's correct.

Mr. CHAFFETZ. And before AIG's collapse, did SICO control about \$20 billion of AIG stock?

Mr. GREENBERG. It was the largest—yeah, the largest shareholder.

Mr. CHAFFETZ. What was the purpose of this organization?

Mr. GREENBERG. Well, that organization predated AIG. In fact, it gave birth to AIG. It owned a lot of the assets that ultimately

became AIG. And when it did so, it got AIG stock in return for the assets that it contributed.

Mr. CHAFFETZ. Now, part of the purpose here of that organization is to provide long-term deferred compensation for current and future generations of AIG employees, correct?

Mr. GREENBERG. No. I think that is a statement that's quite exaggerated. One of the purposes of SICO, Starr International—

Mr. CHAFFETZ. SICO. I'll pronounce it that way.

Mr. GREENBERG. OK. It's better—was that the voting shareholders every 2 years—first of all, it was owned by a charitable trust. SICO is owned—the actual owner is a charitable trust.

Mr. CHAFFETZ. And my understanding is you're the trustee of those assets, correct?

Mr. GREENBERG. No.

Mr. CHAFFETZ. Were you not the trustee for these assets?

Mr. GREENBERG. No, it was a charitable trust.

Mr. CHAFFETZ. I'm sorry, what?

Mr. GREENBERG. It was a charitable trust.

But let me finish, because that's a misunderstanding that has been—and there's litigation on that in the courts.

Mr. CHAFFETZ. Let me jump in there. You're currently being sued by AIG to recoup an estimated \$4 billion in assets that AIG alleges you misappropriated from Starr International Co. [SICO]; is that right?

Mr. GREENBERG. I think there's litigation, but that's totally incorrect.

Mr. CHAFFETZ. That would be what?

Mr. GREENBERG. It's totally incorrect.

Mr. BOIES [Counsel to Greenberg]. There is litigation right now that is pending in Federal court that's going to go to trial on June 15th of this year.

Mr. CHAFFETZ. Now, it was a charitable trust, correct?

Mr. BOIES. There is a charitable trust that is the owner of all the common stock, nonvoting common stock, Starr International.

Mr. CHAFFETZ. And my understanding is that organization over the last 30 years has only donated 0.005 percent of its worth to charity; is that right?

Mr. BOIES. No. I think that probably what you're doing is you're taking that information from what AIG has been disseminating. I think that—

Mr. CHAFFETZ. I just wonder if it's true or not.

Mr. BOIES. I think the information that you have is not accurate. I don't think it takes into account—I mean, for example, it could not possibly take into account the contributions that have been made since the DCPD plans were terminated. I think your numbers probably are simply outdated.

Mr. CHAFFETZ. Is going to be what?

Mr. BOIES. Are simply outdated.

Mr. CHAFFETZ. Let me ask you, Mr. Greenberg, did you turn SICO into your own personal investment vehicle? I just don't understand where the shares are today.

Mr. GREENBERG. No, it's not my personal investment vehicle. I am chairman. I am 1 of 10 voting shareholders, and I'm a director.

Mr. CHAFFETZ. Where are the shares now today?

Mr. GREENBERG. The shares are worth a lot less than they were through no fault—

Mr. CHAFFETZ. Where are the shares, though?

Mr. GREENBERG. The shares are in a—I presume the shares are either in a custody account or in a vault.

Mr. CHAFFETZ. And did you invest them? In a vault?

Mr. GREENBERG. They're not all invested, sir, they're not all invested. Some of them are just not invested. They've made some investments, but not all have been invested.

Mr. CHAFFETZ. But do you know where—

Mr. GREENBERG. And it's been invested to—ultimately, I hope we invest it all. I would hope that some of AIG's value returns, which is what we—which is what it was originally. It started out at \$20 billion. It's down probably to maybe a couple of billion dollars now, through no fault of SICO.

Mr. CHAFFETZ. Would you be willing to give this money back, to go back to the taxpayers?

Mr. GREENBERG. What money? Why would it go back to the taxpayer?

Mr. CHAFFETZ. Because of what's going on. The reason why we're having this whole hearing.

Mr. GREENBERG. Well, you go out in the street and start collecting from them. It's the same thing. This has no connection with that.

Mr. CHAFFETZ. I'm not understanding that whatsoever. Here you have a charitable organization that has really not been a charitable organization, as best I can tell, and that the shares are somehow in some vault. But I appreciate your time and your testimony.

Thank you, Mr. Chairman.

Chairman TOWNS. The gentleman's time has expired.

Let me announce to the committee that we have votes on the floor, and we are going to recess for 1 hour, and we will be back in 1 hour. We have, I think, five or six votes on the floor.

[Recess.]

Chairman TOWNS. The committee will reconvene.

I would like to advise committee members to direct their questions to our witness, Mr. Greenberg, and not to the counsel. I also want to advise counsel that he should only advise his client and not directly respond to the questions on behalf of the witness.

So, on that note, I yield time to the gentleman from Ohio, Mr. Kucinich.

Mr. KUCINICH. Mr. Chairman, thank you very much.

Mr. Greenberg, welcome; and thank you for being present for this questioning.

I want to take you back to the time that there was a discussion about the first bailout and back to Secretary Paulson. Now when Secretary Paulson was involved with the AIG bailout, it's my understanding that there was a meeting that took place at the New York Federal Reserve over the bailout loan and that there was only one firm that had a representative at that meeting, and it was Goldman Sachs. Do you know anything about that at all?

Mr. GREENBERG. No, I don't know who was there.

Chairman TOWNS. Is your mic on?

Mr. GREENBERG. Is that better?

Mr. KUCINICH. Would you discuss the relationship between Mr. Paulson and AIG and the loan and Goldman Sachs?

Mr. GREENBERG. Well, I will tell you what I know about it. I learned of the meeting to be taken—to be held at the New York Fed. I did not know who would be attending, but I called Tim Geithner, who was then president of the New York Fed.

Mr. KUCINICH. You called Tim Geithner?

Mr. GREENBERG. Yes. He was then president of the New York Fed. I knew him. At one point, I chaired the New York Fed.

Mr. KUCINICH. So you were in regular discussions with Mr. Geithner about what was going on?

Mr. GREENBERG. No, not regular discussions.

Mr. KUCINICH. But you talked to him about it.

Mr. GREENBERG. Yeah. And I said that I thought that we deserved a seat at the table. There was going to be a meeting since we were the largest shareholder. And he said, I hear you, but we were never invited to the meeting. So I don't know who was present.

Mr. KUCINICH. Did you have anybody from your firm present at all?

Mr. GREENBERG. No.

Mr. KUCINICH. Even though they were discussing bailing out AIG.

Mr. GREENBERG. No, sir.

Mr. KUCINICH. Tell this committee about your discussions with the New York Fed when you understood that you were having difficulties.

Mr. GREENBERG. Well, remember I was out of the company when all of this had happened.

Mr. KUCINICH. About the discussions that you knew AIG may or may not have been. Did you know anything about those discussions?

Mr. GREENBERG. I knew that AIG was having troubles. You read about it in the press and their 10-K and their earnings reports.

Mr. KUCINICH. But you don't know about any discussions with the New York Fed at the time?

Mr. GREENBERG. No, I didn't know about any discussions until the day that, in fact, the meeting was being held; and that's when I called—

Mr. KUCINICH. OK. I want to move on to talking about the credit rating agencies. On August 2, 2008, Standard & Poor's rating service concluded that, despite apparent losses by AIG and its subsidiaries of \$5.4 billion, the company rating should not be changed. And I find it troubling that S&P essentially decided not to change AIG's ratings despite clear signs the company had a liquidity problem. How much responsibility, Mr. Greenberg, do you think should be placed on ratings agencies for failing to provide consumers with a proper and well-researched rating?

Mr. GREENBERG. Look, I think the rating agencies should be regulated. I think that the rating agencies—at one point, as you know, called some of the real estate assets AAA, these new securities. Then later on withdrew the ratings in a way it was, I thought, not as responsible as it should be. I do think they should be regulated.

Mr. KUCINICH. Well, did you—by the way, did you have a chance to read the Time magazine piece on AIG, how it became too big to fail?

Mr. GREENBERG. I have it in my reading. I haven't gotten to it yet.

Mr. KUCINICH. OK. I want to go to the question about the counterparties, particularly—

Mr. GREENBERG. Back to which?

Mr. KUCINICH. The counterparties, AIG-FP counterparties, the Societe Generale. Many of AIG's counterparties were very sophisticated financial service firms in their own right. At some point, long before the implosion in late 2008, many of them began to understand that AIG was in a vulnerable position. For example, Societe Generale issued a June 2008, sell recommendation of holders of AIG shares.

Now logic dictates that if these firms understood the overall weakness of AIG then they should have known that the company may ultimately not be able to pay out under the terms of the credit default swaps. Yet Societe Generale did little to hedge their investments or further insure their capital in response to this information. To what degree was the counterparties' failure to act part of the problem? And how much blame rests on their shoulders?

Mr. GREENBERG. Well, I think they should have acted, but I think also it goes back to what I was talking about earlier today, about how to try and help the taxpayer with respect to the problems that existed at AIG. If there were guarantees issued rather than cash, it seems to me that would have made a huge difference not only to AIG but to the taxpayer. That was done, as you know, for Citigroup; and I see no reason that I can think of that guarantees were not used.

If the Fed said we are going to stand behind AIG financial products, it would have essentially put an AAA stamp on FP during that period of time, and the counterparties would have had no—I don't think—any recourse but to take a guarantee. That would have made a major difference, not only to AIG but to the taxpayer. They would not have had to put out as much money as they have done so.

Mr. KUCINICH. I just—one final question from a policy standpoint. You've testified generally that you're in favor of transparency.

Mr. GREENBERG. Yes, sir.

Mr. KUCINICH. Have you spoken to the fact that the Fed right now is literally printing trillions of dollars out of thin air and giving it to God knows who in however amounts. Can you tell us, do you see anything problematic with that kind of an approach, to flood money into the market and not really have an understanding of where it might be going or how much?

Mr. GREENBERG. Well, sure I have a concern about that. Obviously, at some point, there is a payday by the U.S. economy. If you flood the economy with trillions of dollars of more cash, at some time you have to pay for that. So, obviously, I'd like to see a little more transparency on where it's going and for what purpose.

Mr. KUCINICH. Thank you, sir.

Chairman TOWNS. The chairman recognizes Mr. Driehaus.

Mr. DRIEHAUS. Thank you, Mr. Chairman.

Thank you, Mr. Greenberg, for your testimony.

I would like to pursue a conversation about systemic risk regulation. We've been talking a lot in the Financial Services Committee about systemic risk, and you mentioned in your testimony—and I'm just paraphrasing you—that the role of government is to get businesses back on track that have fallen aside. I would argue that the role of government is to protect the public good, and I think what we're talking about when we talk about systemic risk is at what point does a product or does an entity because of its potential failure become such a risk that its failure would do considerable damage to the public good? I'd like your assessment of that as it applies to AIG-FP.

And you mentioned that it wasn't a structural problem within AIG, but it was a management problem. Well, regardless if it's a management problem or a problem of the product itself, the result of its failure has had tremendous consequences to the public good. So, in your opinion, what is it we should be focussing on in terms of systemic risk? And where was that systemic risk as it applies to AIG?

Mr. GREENBERG. There are two things that I would say about that.

One, I think credit default swaps probably should be regulated. There could be—there have been indexes. An exchange should be created so that it is transparent. I think that a credit default swap is, in a sense, an insurance policy that's guaranteeing an underlying in a counterparty's investment, either in a bond or other security.

And I think reserves ought to be established, therefore, by those who issue credit default swaps. I believe that was considered by the Congress some time ago and rejected. I believe it should, in fact, be in place.

On a separate issue, there has long been a debate whether insurance per se should be federally regulated or State regulated. I have long personally advocated that there be an option that there are companies who operate in all States and issue many different types of products that would be better served if they had a Federal charter rather than a State charter. Although a State charter is necessary for many companies, I think the option would serve us better.

Mr. DRIEHAUS. But is the issue the regulation of the company itself or the products that company is selling so that, you know, you could have a good regulator but if they are not regulating a line of business that is putting the public at risk and putting the company at risk, then that really doesn't matter. And so it's not so much the regulatory authority as it is the product itself.

I'm curious. When you say credit default swap should be regulated, who do you think should be doing that regulation?

Mr. GREENBERG. Well, first of all, let me say that AIG itself had a Federal regulator; and the Office of Thrift Supervision was the Federal regulator of AIG, in addition to the State regulatory bodies for each of the insurance subsidiaries. So there was regulation.

Now was the regulation adequate? Should it have been broadened? I think that must be reviewed to determine whether or not

it's adequate. And, obviously, in many ways it's not; and so it should be.

And so, you know, I have no problem suggesting that there be more regulation. We've got to be thoughtful in how we do it so we don't regulate ourselves into a position of being so overregulated that nothing happens. We want to have a proper balance.

Mr. DRIEHAUS. So, in your opinion, what is that balance? At what point is it necessary to regulate a product that an insurance company is selling?

Mr. GREENBERG. I think if the Office of Thrift Administration had said, hey, you're overreaching by writing as much credit default swaps as you are and have been doing, it should have been brought to the attention of management. And if management didn't do anything about it, then they should have had the authority to say "stop."

Mr. DRIEHAUS. So do you think then that we should allow the flexibility to the industry to create the products that they deem necessary for business, or should we disallow certain products? When you talk about regulation, is it a matter of transparency and identifying the appropriate risks associated with those products, or is it the products in and of themselves?

Mr. GREENBERG. I think you've got to be careful that you don't stymie innovation. I think product innovation is one of the great things that this country has been good at. But you have to have the other side, the balance of it, to make certain that from the regulatory point of view that they have looked at and agree with what the risk factors are and whether or not they're sufficient in reserves that are being established for a product that needs reserves. And that if it's going to outgrow the capital of the company, they ought to know that and be able to sense that and do something about it.

Mr. DRIEHAUS. Thank you, Mr. Chairman.

Mr. KANJORSKI [presiding]. Thank you very much.

Mr. Greenberg, you know in the Financial Services Committee we're working on both insurance regulation and, of course, overall reform of regulatory activity in the United States. Now it seems to me what you have described to us when you ran the company, you allowed a subsidiary that was unregulated in London to collateralize the credit rating agency's positions of the main company here in the United States and didn't really put much equity or capital into the London FP, is that correct?

Mr. GREENBERG. Not quite—I didn't understand your question. We had a—they had a unit in London, but it was managed—we had oversight of it.

Mr. KANJORSKI. But it had no regulator either—

Mr. GREENBERG. It had no what?

Mr. KANJORSKI [continuing]. In the U.K. or the United States. It had no regulator. It was without regulation.

Mr. GREENBERG. No, that's not true. The Office of Thrift Administration—

Mr. KANJORSKI. That was a bank that was owned in your line. It wasn't that organization.

Mr. GREENBERG. But my understanding is that the Office of Thrift Regulation did go to London and oversee that unit.

Mr. KANJORSKI. You mean because they had a billion dollar thrift organization, they sent this regulator all around the world to regulate and look over and audit multi-hundreds of billions of dollars of assets?

Mr. GREENBERG. I believe that they did look at AIG-FP in its entirety.

Mr. KANJORSKI. I guess it would—if the regulator went over there, it would have made a great trip for a regulator to go over. But certainly there wasn't a full-time seat in AIG-FP in London. We didn't have a representative there watching something that was carrying on \$2.7 trillion.

Mr. GREENBERG. That's notional value.

Mr. KANJORSKI. Yeah. That's what you can lose.

Mr. GREENBERG. Yeah. But that's notional value. It's nothing like the real value. It's notional.

Mr. KANJORSKI. Haven't we lost or had to pay out to counterparties somewhere close to \$80 billion already out of the Treasury?

Mr. GREENBERG. Well, we've talked about that; and I think that—you know, that's not the fault of, I would say, AIG. I think that was part of the bailout, which I think should have been done differently. That's why I'm here.

Mr. KANJORSKI. Well, if we hadn't had failure of that organization, if we hadn't had a failure of AIG, we wouldn't have a bailout, and we wouldn't be here today. And probably there wouldn't be failure of those organizations if the market hadn't turned significantly. Those are all contingencies. But the fact is, nobody was over there doing it.

I want to get more to the essence of what we should do in the future. Do you really think it's reasonable to allow an insurance company in the United States that has normal insurance that it's writing to set up this organization in London that escapes real regulation, real regulation and let them deal in the trillions of dollars of speculation and to some people's comment that they were out of their league, that they just weren't able to do the job, that it was really high risk?

Mr. GREENBERG. I think there are several questions that you have in there that I think need to be answered.

First of all, the insurance subsidiaries of AIG were fully protected—may I finish?

Mr. KANJORSKI. Let's stop there. That's one nice thing to say, they're fully protected. But if they are fully protected and you weren't utilizing their collateral or assets, then that FP was completely without funds to pay off counterparties.

Mr. GREENBERG. No.

Mr. KANJORSKI. Where were they going to meet the call that would occur if there was a failure?

Mr. GREENBERG. AIG parent had capital of its own through retained earnings that had been—

Mr. KANJORSKI. I think you talked about \$5 billion or something.

Mr. GREENBERG. No. No. No. No. AIG parent, in my recollection, had about \$70 billion of retained earnings. So AIG parent—

Mr. KANJORSKI. Well, I don't want to go into all the structure and everything, because I'm really not interested. I'm interested in

what's the principle we have to pass to find out how we should regulate or how we will regulate in the future.

Do you believe we should allow other huge insurance companies such as your former company to engage in this activity without further collateral, without collateral equity, and without certainly more stringent regulation?

Mr. GREENBERG. No. No. I just finished saying that I think there has to be some change.

AIG, for example, owned International Lease Finance, which turned out to be the largest airline leasing company in the world. I mean, would you say you shouldn't do that, also? I think that it's not a question of—

Mr. KANJORSKI. They shouldn't do that, Mr. Greenberg, if they're using the credit rating of their insurance company back in the United States as a collateralization for that business activity. I would say they shouldn't do it. That's not their business. If they want to go into the leasing business, form a corporation that leases planes, totally collateralize it with equity and go into the business.

Mr. GREENBERG. Well—

Mr. KANJORSKI. Why should you have a right to pyramid an insurance company that is operating that way in an unregulated entity?

Mr. GREENBERG. But they weren't doing that. In other words, AIG parent used its own capital, not that of the subsidiary insurance companies. You can't touch those. The insurance company subsidiaries were fully protected.

I'm not suggesting to you that there shouldn't be more regulation or even more capital in relationship to certain types of businesses. I have already said that. I believe that.

Mr. KANJORSKI. But the point I'm trying to make with you is that, where do we end this potential of the use of insurance entities to collateralize other business operations but particularly more risky business operations that obviously weren't too successful in a downturn economy?

I mean, literally, you can say that they had capital but that would have fast disappeared and, in fact, did. And if Treasury hadn't come in with the taxpayers' funds, we would have had a bankrupt situation.

And you can say, well, that happened after your watch. But here's the question I have. Aren't you a substantial stockholder even today of AIG?

Mr. GREENBERG. Yes, I am.

Mr. KANJORSKI. Well, after you left control of the company in 2005 and you knew that they had this unregulated entity in Europe, did you pay attention to how they were dealing in the swaps in Europe?

Mr. GREENBERG. You know, I wasn't getting any information from—

Mr. KANJORSKI. Well, I assumed you weren't. As the largest stockholder, hadn't you ever looked at the potential of a shareholder's lawsuit to determine what was happening to protect your own interest?

Mr. GREENBERG. Yeah. Well, there is a lawsuit pending.

Mr. KANJORSKI. And you started it back then when you no longer had the information? Or have you started a lawsuit now after the fact to protect your interest so the assets aren't wiped out of AIG?

Mr. GREENBERG. Well, if you recall, AIG had an investors' meeting and at that investors' meeting tried to assure everybody.

Mr. KANJORSKI. Again, I'm not getting into this because of you or AIG. I say the principle is that we cannot rely that even large shareholders such as yourself will take on the normal action of watching how the corporation they're so heavily invested in, what they're doing.

Mr. GREENBERG. Well, you can't. You just don't get the same information.

Mr. KANJORSKI. So do you think in our re-regulation we should create additional powers for shareholders to inquire and force disclosure of companies like this so they can no longer in the future operate under cloak?

Mr. GREENBERG. I have no problem with more disclosure.

Mr. ISSA. Mr. Chairman, I would like to ask for unanimous consent at this time to have inserted in the record——

Mr. GREENBERG. In fact, I've asked for more disclosure.

Mr. ISSA. Mr. Chairman, I would like to ask unanimous consent to insert in the record at this point, because of your questioning, the U.S. Securities and Exchange Commission litigation release of February 9, 2006, which is right on point to your question, which talks about 2000 to 2001 AIG entering into a \$1.6 billion settlement related to off-book or sham reinsurance transactions.

Mr. KANJORSKI. Without objection, so ordered.

Mr. ISSA. Thank you, Mr. Chairman.

[The information referred to follows:]

U.S. SECURITIES AND EXCHANGE COMMISSION**LITIGATION RELEASE NO. 19560 / February 9, 2006****ACCOUNTING AND AUDITING ENFORCEMENT RELEASE NO. 2371 / February 9, 2006*****SECURITIES AND EXCHANGE COMMISSION V. AMERICAN INTERNATIONAL GROUP, INC.*, Case No. 06 CV 1000 (S.D.N.Y.)****SEC CHARGES AIG WITH SECURITIES FRAUD**

The Securities and Exchange Commission announced today the filing and settlement of charges that American International Group, Inc. (AIG) committed securities fraud. The settlement is part of a global resolution of federal and state actions under which AIG will pay in excess of \$1.6 billion to resolve claims related to improper accounting, bid rigging and practices involving workers' compensation funds.

The Commission announced the settlement in coordination with the Office of the New York State Attorney General, the Superintendent of Insurance of the State of New York and the United States Department of Justice, which have also reached settlements with AIG.

The settlement with the Commission provides that AIG will pay \$800 million, consisting of disgorgement of \$700 million and a penalty of \$100 million, and undertake corporate reforms designed to prevent similar misconduct from occurring. The penalty amount takes into account AIG's substantial cooperation during the Commission's investigation.

The Commission's complaint, filed today in federal court in Manhattan, alleges that AIG's reinsurance transactions with General Re Corporation (Gen Re) were designed to inflate falsely AIG's loss reserves by \$500 million in order to quell analyst criticism that AIG's reserves had been declining. The complaint also identifies a number of other transactions in which AIG materially misstated its financial results through sham transactions and entities created for the purpose of misleading the investing public.

Specifically, the Commission's complaint alleges that in December 2000 and March 2001, AIG entered into two sham reinsurance transactions with Gen Re that had no economic substance but were designed to allow AIG to improperly add a total of \$500 million in phony loss reserves to its balance sheet in the fourth quarter of 2000 and the first quarter of 2001. The transactions were initiated by AIG to quell analysts' criticism of AIG for a prior reduction of the reserves. In addition, the complaint alleges that in 2000, AIG engaged in a transaction with Capco Reinsurance Company, Ltd. (Capco) to conceal approximately \$200 million in underwriting losses in its general insurance business by improperly converting them to capital (or investment) losses to make those losses less embarrassing to AIG. The complaint further alleges that in 1991, AIG established Union Excess Reinsurance Company Ltd. (Union Excess), an offshore reinsurer, to which it ultimately ceded approximately 50 reinsurance contracts for its own benefit. Although AIG controlled Union Excess, it improperly failed to consolidate Union Excess's financial results with its own, and in

fact took steps to conceal its control over Union Excess from its auditors and regulators. As a result of these actions and other accounting improprieties, AIG fraudulently improved its financial results.

Shortly after federal and state regulators contacted AIG about the Gen Re transaction, AIG commenced an internal investigation that eventually led to a restatement of its prior accounting for approximately 66 transactions or items. In its restatement, AIG admitted not only that its accounting for certain transactions had been improper, but also that the purpose behind some of those transactions was to improve financial results that AIG believed to be important to the market. AIG also conceded in its restatement that certain transactions may have "involved documentation that did not accurately reflect the true nature of the arrangements ... [and] misrepresentations to members of management, regulators and AIG's independent auditors." Furthermore, the restatement summarized several transactions that AIG accounted for improperly, including, among others, two sham reinsurance transactions with Gen Re and certain transactions involving Capco and Union Excess. As a result of the restatement, AIG reduced its shareholders' equity at December 31, 2004 by approximately \$2.26 billion (or 2.7%).

In the Commission's settlement, AIG has agreed, without admitting or denying the allegations of the complaint, to the entry of a Court order enjoining it from violating the antifraud, books and records, internal controls, and periodic reporting provisions of the federal securities laws. The order also requires that AIG pay a civil penalty of \$100 million and disgorge ill-gotten gains of \$700 million, all of which the Commission will seek to distribute to injured investors. AIG has also agreed to certain undertakings designed to assure the Commission that future transactions will be properly accounted for and that senior AIG officers and executives receive adequate training concerning their obligations under the federal securities laws. AIG's remedial measures include, among other things, (i) appointing a new Chief Executive Officer and Chief Financial Officer; (ii) putting forth a statement of tone and philosophy committed to achieving transparency and clear communication with all stakeholders through effective corporate governance, a strong control environment, high ethical standards and financial reporting integrity; (iii) establishing a Regulatory, Compliance and Legal Committee to provide oversight of AIG's compliance with applicable laws and regulations; and (iv) enhancing its "Code of Conduct" for employees and mandating that all employees complete special formal ethics training. This proposed settlement is subject to court approval.

The settlement takes into consideration AIG's cooperation during the investigation and its remediation efforts in response to material weaknesses identified by its internal review. From the outset of the investigation, AIG gave complete cooperation to the investigation by the Commission's staff. Among other things, AIG (i) promptly provided information regarding any relevant facts and documents uncovered in its internal review; (ii) provided the staff with regular updates on the status of the internal review; and (iii) sent a clear message to its employees that they should cooperate in the staff's investigation by terminating those employees, including members of AIG's former senior management, who chose not to cooperate in the staff's investigation.

The Commission acknowledges the assistance and cooperation of the Office of the New York State Attorney General, the Superintendent of Insurance of the State of

New York, the U.S. Department of Justice, Fraud Section, Criminal Division, and the U.S. Postal Inspection Service.

SEC Complaint in this matter

<http://www.sec.gov/litigation/litreleases/lr19560.htm>

Mr. KANJORSKI. The Chair recognizes Mr. Lynch.

Mr. LYNCH. Oh, thank you, Mr. Chairman. I thought I was going to have to wait in line.

Mr. Greenberg, thank you for coming and testifying before the committee.

Our job in some cases is—and in this case is really a forensic investigation of looking back. It's part forensic and part accident reconstruction and some would say part triage as we try to figure out who we can save and who has to be let go.

In your testimony, you indicate that you felt that when you were there in the seat at AIG that you had good risk management practices in place, but, in looking back at this, you certainly were in charge when AIG went from a basic insurance company toward this movement into complex derivatives and credit default swaps. You were there at that time when you made that decision.

And, again, in looking at this and trying to figure out what happened, it appears that, No. 1, a lot of this activity was not leveraged—I'm sorry was not hedged. It was not hedged properly. And, second, in some cases—and in a lot of cases there were not sufficient reserves to justify the true insurance value of some of these instruments.

How do you reconcile those two statements? You say you had the proper risk management policies in place, but you're not hedging and you're not—you're not providing proper reserves. I don't get that.

Mr. GREENBERG. Well, let's take it one at a time. The credit default swaps that we wrote in the beginning were the regulatory swaps for banks in Europe, and I know for a fact that they ran off with no loss whatever. That is first of all.

Mr. LYNCH. Wait a minute. Are you talking about—what are you talking about here? You're saying you haven't—is this the statement you referred to earlier about the head of OTS said—

Mr. GREENBERG. No. No.

Mr. LYNCH. OK. All right.

Mr. GREENBERG. Let me explain what the regulatory capital for banks were.

Basel 1 said to the European banks or the banks, but principally the European banks, you're going to be charged for capital needs even if the credit line is not taken down by your client. And so AIG Financial Products designed a product, the credit default swap, that was more efficient from a pricing point of view than what would have been the charge against the bank's capital had they followed Basel 1 that way. And that was the first credit default swaps that we wrote, and my understanding is that ran off with no losses at all. So that was—nothing improper about that.

I've already—

Mr. LYNCH. But that apparently is—based on the situation today with all the transactions that have been done, that is an exceptional case, though, in terms of what has happened since then.

Mr. GREENBERG. I don't know if it's an exceptional case. I will say I haven't been in the company for 4 years—

Mr. LYNCH. Well, based on what we've had purchased by Maiden Lane, those credit default swaps are in the toilet, so to speak; and

if we had to sell them today we would have massive realized losses, not just paper losses.

Mr. GREENBERG. You know, I'm glad you raised Maiden Lane III. Because I think Maiden Lane III was a terrible, terrible deal from the point of view of the taxpayer and AIG.

Mr. LYNCH. We agree.

Mr. GREENBERG. That was purchased at par, at par, even though the marks on those CDOs was way down.

Mr. LYNCH. I understand. I do want to—I anticipate your point. You are going to say, we should have used guarantees instead of purchasing them outright. Is that the point?

Mr. GREENBERG. That's one of the points. But why would you pay par?

Mr. LYNCH. You are not taking yes for an answer. I agree with you. I agree with you.

I just want to move to one other piece on this, and that is the regulatory piece that you were just talking about with the gentleman earlier. It looks, from my standpoint, that AIG in a sense manipulated the regulatory system here. By chartering thrifts, multiple thrifts, you basically selected your regulator, the Office of Thrift Supervision. And so you basically selected your regulator by your own conduct, and as well, you took advantage, I think, not illegally, but you took advantage of the FDIC guarantee on deposits in light of the bank holding company that—the thrift's holding company that was created at AIG. Was that your strategy?

Mr. GREENBERG. No. No, Congressman. That wasn't the strategy. AIG was—first of all, you have to look at the total company. We had insurance being regulated by the States or by foreign governments, wherever we operated. We had a thrift in the United States that was—that we were growing. Of course, we were in the financial services business, not just a thrift.

As I mentioned earlier, we owned ILFC, an airline leasing company. So we had to pick some regulator, and it appeared that the regulator who would regulate the thrift would be the proper regulator for the rest of the financial services, which would include AIG Financial Products at the time. AIG Financial Products was not a huge company in the beginning. It was a very, very modest company.

Mr. LYNCH. Right. I understand.

Mr. Chairman, I appreciate your courtesy. My time has expired. I yield back. Thank you.

Mr. KANJORSKI. Thank you very much, Mr. Lynch.

The gentleman from Illinois, Mr. Foster.

Mr. FOSTER. Thank you for appearing today.

My questions are going to focus mainly on trying to get at the least intrusive set of rules that would have allowed you to build your business as a healthy insurance company and would have prevented perhaps you and certainly your successors to getting into the risk that they got into, that left the taxpayer in some trouble here.

First off, are you familiar with Alan Greenspan's recent suggestion that capital requirements be turned up as businesses approach the size that they pose a systemic risk? Are you familiar with that suggestion? Do you have a reaction to it?

Mr. GREENBERG. I think I've heard it. And I have no problem with the need to increase capital if there is the belief that a systemic risk would be occurring. It depends on the interpretation of that and to ensure that it's not going to go overboard in one direction.

Mr. FOSTER. OK. I was also a little bit interested in your description of the enterprise-wide risk management that you felt you had in place because that's a very different story, frankly, than I got from Mr. Liddy when I talked to him about this. When I talked to the people at the large investment banks or the corpses of them, they say that—at least the ones that survived had very extensive risk management systems, you know, server farms, dozens of programmers that netted out in realtime their exposure to every risk or pairs of risk that you can imagine. And did you have anything like this in place at AIG?

Mr. GREENBERG. Let me explain what we had. I mentioned a little while ago that I was chairman at the New York Fed for a number of years going back in time and was very impressed with an individual who was responsible for market and risk analysis of the banking structure. He retired, and I hired him and brought him into AIG. So we had a market risk sector, and we had a credit risk sector. Putting them together, it was called enterprise risk. It had a—they were staffed fairly extensively, and they had operations worldwide. It reported to the chief financial officer. And it was a very active and, I believe, very, very efficient organization. Anytime we had an accumulation of risk in different areas in the company that exceeded prudence, it would bubble up, and there would be discussions about it.

That enterprise risk department met on a, I think, biweekly basis. And at the senior staff meetings that I held weekly, there would be reports on their activities that if anything came up that was the least bit suspicious, we would do something about it. You've got to remember—

Mr. FOSTER. Did these ever flag the activities of AIG Financial Products as being—

Mr. GREENBERG. Oh, yes.

Mr. FOSTER [continuing]. As being a systemic risk to the company?

Mr. GREENBERG. Oh, yes. There were products that we said no to.

Mr. FOSTER. You had mentioned that, after the ratings downgrade, that your successors still expanded the CDS book significantly. And what they didn't do was to hedge against these risks and shut down the increase in the books. And so what I was wondering, if they had done that, which I agree would have been the responsible thing to do, what would that have done to the compensation of the executives at the top of AIG? If they had—the costs of those hedgings presumably would have reduced profits, the fact that you are no longer booking the new business, these things, would that have had a positive or negative impact?

Mr. GREENBERG. It would have reduced their earnings.

Mr. FOSTER. In a significant—

Mr. GREENBERG. I don't know about significant, but it would have reduced their earnings.

Mr. FOSTER. So this was a clear example where the incentives for management were not aligned with the incentives that were in the best interest of the company.

Mr. GREENBERG. That's possible. But you know, let me, Mr. Foster, let me go on with that. That happens very often in the insurance sector. You can have, in the insurance sector, you can be writing, for argument's sake, directors' and officers' liability insurance. And there comes a time when rates are inadequate or losses are greater, and you say, we're just slowing down growth in that area, period.

Mr. FOSTER. Certainly, you can imagine general principles that says that your compensation, your bonuses should be paid out only after the risks that you have entered into on your watch have cleared, which is certainly something that didn't happen in this case.

In any case, my time is up. I yield back. Thank you it.

Chairman TOWNS [presiding]. Thank you very much. The gentleman's time has expired.

I yield 5 minutes to Congresswoman Maloney from the great State of New York.

Congresswoman Maloney.

Mrs. MALONEY. I thank the chairman for yielding and for his leadership.

And welcome, Mr. Greenberg. AIG, formerly a great American company, has taught us some very expensive lessons. We now know how dangerous an unregulated market for financial derivatives, in the case of AIG credit default swaps, can be. We now know that lax oversight of large financial institutions like AIG can threaten the very financial fabric of America, and we now know that our regulators need stronger tools to put large financial institutions into receivership when their failure threatens the economy of our country.

Just last week Secretary Geithner testified before Congress and put forward a plan that would allow the government to handle big firms that are failing. Chairman Bernanke testified that he believed a receivership would have been better for AIG than the present mess that we're in, and he testified in support of this legislation.

And I'd like to ask you, do you believe if we had that process in place, a receivership would have been better for AIG and the American taxpayer and the economy?

Mr. GREENBERG. Thank you for that question.

Given the terms, the original terms that the government gave AIG for \$85 billion of a loan, which funneled money almost immediately out the back door to counterparties, charged 14 percent interest and took 79.9 percent of the company, clearly, everybody would have been better off, in my judgment, if they had declared chapter 11.

Mrs. MALONEY. And can you explain to us, how would AIG be better now if they had been in a receivership or chapter 11?

Mr. GREENBERG. Well, there probably would have been dip financing. There would have been a restructuring of the company. I presume that AIGFP would have been walled off. You would have—all the counterparties would have been general creditors.

They would not have gotten anything like the collateral that they did get.

Remember that the CDOs that were underlying the credit default swaps were not in default. It was the collateral that was required and the fact that they may have had lower marks on the CDOs, but they would have been general creditors.

Mrs. MALONEY. Well, thank you for that testimony. It's very important coming from someone with the experience that you have.

Could you also comment on a very important plan that is before Congress now, the Treasury's toxic structures and toxic securities plan, the so-called buying the toxic assets with government financing provided with very generous terms so the threat may be, some say, that we'll end up handing big gains to private investors at taxpayers' expense? What is your feeling of the toxic asset plan?

Mr. GREENBERG. Well, you know, what I do know about it so far, it hasn't seemed overwhelming to the market. It's only going to be successful, A, if there's an awful lot of buyers who are going to buy in, and yes, it will provide the banks with getting rid of toxic assets presumably at a better value. But so far, it hasn't really stirred up a great deal of buying interest. That may be early days. But there's no question that the banks will be the beneficiary.

Mrs. MALONEY. Some have said that the many challenges we're confronting in getting our economy moving forward are lack of liquidity, lack of credit, lack of movement. And some have said maybe it would be better if our dollars, our Federal dollars, taxpayers' dollars went into institutions that will lend, community banks, regional banks, small business banks, whatever, and get that money out into the community and help the economy moving.

What would happen if the dollars went in that direction and the toxic assets were just allowed to remain on the books? Why can't we just leave the toxic assets on the books? What would be the better approach, to put our dollars into buying up toxic assets or put our dollars into pushing credit out into the communities across America?

Mr. GREENBERG. Well, I think we have to—I think we have to solve both problems. I do think that credit, the availability of credit is, or the lack thereof, is a major problem. And I think getting funds to the small regional banks and community banks that would lend would be very, very desirable.

But I do think we need the large banks as well. I don't think it's an either/or. I think it's important to do both.

Mrs. MALONEY. And we cannot leave the toxic assets in the banks' books. Why can we not just leave them there until they've matured to the value that they say they're really worth?

Mr. GREENBERG. I think it depends on what you do with mark to market. If the bill that is now—not a bill, but if the FASB, who is considering mark to market as we sit here today, modifies mark-to-market accounting, it will have an impact on the value of the so-called toxic assets and not have to carry them at these low marks.

The same is true, incidentally, for the life insurance industry. Mark to market has had, is what you would call fair value accounting, has had a very, very dramatic effect on our financial system.

Chairman TOWNS. The gentlewoman's time has expired.

Mrs. MALONEY. Thank you.

Chairman TOWNS. I now yield 5 minutes to the gentleman from Virginia, Mr. Connolly.

Mr. CONNOLLY. Thank you, Mr. Chairman. And Mr. Chairman, I would ask, without objection, that my prepared statement be entered into the record.

Chairman TOWNS. So ordered.

[The prepared statement of Hon. Gerald E. Connolly follows:]

Opening Statement of Gerald E. Connolly
House Committee on Oversight and Government Reform
“The Collapse and Federal Rescue of AIG and What it Means for the US Economy”
April 2nd, 2009

Thank you, Chairman Towns, for convening this hearing on the rescue of AIG. In the context of the severity of the present economic crisis, it is understandable that we would look for policy measures that could restore economic growth immediately while protecting taxpayers whose money was exposed by ill-conceived bailouts executed by the prior administration.

However, the bonuses granted to many in AIG, among other recent financial controversies, are among the more superficial incarnations of systemic problems with the management of this nation’s financial system. As we bear witness to the behavior of individuals who have benefitted from bonuses, I would suggest that we remember it was not the avarice of a few but rather a comprehensive failure to regulate that has endangered or erased the savings of many Americans.

Much of today’s discussion will undoubtedly focus on the role of credit default swaps (CDSs) in undermining AIG’s solvency. Several years ago a previous Congress explicitly prohibited our regulatory bodies from regulating credit default swaps, despite a dramatic expansion in trading and complexity of credit default swaps during the 1990s. Some may express outrage that AIG management risked investors’ money on credit default swaps whose profitability hinged on a perpetually expanding housing market, yet that behavior may have been inevitable in an environment where investor money flows to the source that produces the highest yields. Relying on long term vision of private investors clearly failed.

According to Mr. Greenberg’s testimony, AIG was well managed until his departure in 2005. Let us conclude that AIG’s failure was the responsibility of a few bad apples, we should recall that AIG is not the only company that has needed a government bailout to avoid collapse. Ten years ago ambitious students dreamed of working for one of many prestigious investment banks, from Merrill Lynch to Bear Stearns. Today only Goldman Sachs remains, suggesting that it was not the individual mistakes of isolated individuals but rather a collective regulatory failure that precipitated the recent economic collapse.

In the present I do not think we can expect to avoid casting blame on the prominent individuals to whom we can easily assign responsibility for this crisis, whether it is the CEO of AIG or some other bailed out firm. Recent history suggests that it will be more difficult to impose or maintain a comprehensive, transparent, functional regulatory structure when a new class of profitable companies comes to Congress to claim that markets are self regulating, and that government regulation will only quash innovation and growth. I hope we may use these hearings to consider and build support for a sensible and transparent regulatory framework that will not only enable short term profit making but also long term economic growth, in which we as a society create not just new forms of paper debt but also new jobs and more efficient systems of production.

Mr. CONNOLLY. Thank you, Mr. Chairman.

And Mr. Greenberg, thank you for joining us here today. If I understand your testimony correctly, one of the financial instruments you consider to be a main culprit in this great drama are credit default swaps. Is that correct?

Mr. GREENBERG. Well, yes, but I think that, as I just mentioned a moment ago, I think the change in accounting rules played a role.

Mr. CONNOLLY. Right. Right.

Mr. GREENBERG. And the rating agencies as well. And there were a number of things that came together. Credit default swaps, per se, were not evil. But if you write them or you have certain ratings and you lose those ratings, you have to have a different business strategy.

Mr. CONNOLLY. Sure. But credit default swaps originally started out sort of as almost an insurance mechanism and kind of then got traded and speculated upon and grew astronomically, did they not?

Mr. GREENBERG. They did. Throughout the whole industry.

Mr. CONNOLLY. Yeah. In 2000, the decision was made explicitly to preclude credit default swaps from Federal regulation. Did you personally or did AIG have a position on that decision at that time as to the regulation of these instruments?

Mr. GREENBERG. No. No, sir.

Mr. CONNOLLY. In retrospect, I gather also from your testimony you would consider that to have been a mistake.

Mr. GREENBERG. I'm not even sure we knew about it at the time. I think that if we had known about it, I can't tell you what we would have done, because in 2000, I think the amount of credit default swaps that we were involved with was fairly modest in relationship to AIG. But it is an insurance product. And if it had been debated, I think we probably would have come down I think on treating it like insurance.

Mr. CONNOLLY. But if I gather from your answers to Mrs. Maloney and others, you now think there should be some kind of regulatory regime to reign in these instruments.

Mr. GREENBERG. Absolutely.

Mr. CONNOLLY. What's your guess to how the potential value one might put on the aggregate of these instruments? I've heard as high as \$45 trillion.

Mr. GREENBERG. Yeah. But that's notional value.

Mr. CONNOLLY. It's still a lot of notional value.

Mr. GREENBERG. It's a lot of notional value, yeah. I can't answer that. I don't know.

Mr. CONNOLLY. One of the concerns one might have, let's pick a number. Let's say it's half that, just for the sake of argument. It would still—it could still sink a big battleship.

Mr. GREENBERG. Yeah. But it seems to me, you can't do one thing without the other. You're going to have reserves. You've got to have an index. You've got to have an exchange. They're going to be traded. So it will seek its own level. You'll find out after working with it for a year or two how much reserves are really adequate and necessary, and how much are not.

Mr. CONNOLLY. Well, let me pick up on that point. What kind of reserves are we talking about? If you're company x and, for good or ill, however you got here, you've got—you're carrying several

trillion dollars worth of CDS, what kind of reserve would we require of such a company? And what are the consequences of doing that in a sense in the middle of the game?

Mr. GREENBERG. Well, it would be very difficult. You'll have to have an actuarial study as to what the default rate really is. What's going to happen to mark to market as it applies to that, because remember, the amount of actual losses in the credit default area as of now, has not been huge. It's the marks that have been a problem. If that's modified, it will change the outlook very considerably. So you must consider all aspects. You can't just look at, in my judgment, yes, we need reserves. But reserves in relationship to what?

Mr. CONNOLLY. I thank the gentleman.

My time is up. Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much.

I now yield time to Congressman Welch.

Mr. WELCH. Thank you very much, Mr. Chairman.

I'm going to follow up on some of the questions of my colleagues. It's an astonishing thing. We've heard this, this incredible company, Lehman Brothers was here earlier—it goes back to the Civil War—Bear Stearns, AIG. I guess you started in the 1890's, hundreds of thousands of people who work there, millions of shareholders; it's all blown up. An absolute catastrophe for the taxpayer.

We're not here to talk about that and ask you specific questions about it. You are going to be able to answer those in lawsuits and with regulators. But you are experienced, and you were successful. And a couple of things we were asking is about going forward. No. 1, it is your opinion, as I understand it, that credit default swaps, credit default obligations, should in fact be regulated by the Federal Government.

Mr. GREENBERG. Yes.

Mr. WELCH. No. 2, should the sellers of credit default swaps be required to have a reserve against the loss? I believe you've indicated yes. And what would that be?

Mr. GREENBERG. I can't answer the second part yet without knowing the—

Mr. WELCH. Well, we're \$180 billion into the bailout. So when do you think you might have an answer for that?

Mr. GREENBERG. Well, I think it depends on the bailout. And I'd like to come back to the bailout in a minute.

Mr. WELCH. Well, the bailout is the bailout, \$180 billion and rising.

Mr. GREENBERG. Let me go back to that in a minute. The question is, should that have been the way to bail out?

Mr. WELCH. I'm not asking you that. There is a question that the regulators are going to have to ask and answer. And if they agree with you or we agree with you that there should be regulation to credit default swaps, one of the questions is, what's a reserve that should be required?

Mr. GREENBERG. I can't answer how much reserves yet because there's a lot of other factors that have to go in. But if you reserve yourself out of business, you're not going to have any credit default swap business, obviously.

Mr. WELCH. Well, you have dealt with reserves and insurance, obviously, and done it quite successfully, so you have some profile of reserves.

Mr. GREENBERG. But we didn't do that by sitting and talking this way. We had actuarial studies. We had a long history, and you have to make that kind of study.

Mr. WELCH. So absent actuarial studies and given recent experience, on the basis of what you know, what you have seen happen, what reserve would you recommend be required in order if your objective is to protect taxpayers and innocent shareholders—

Mr. GREENBERG. I think you have to have different reserves for different companies that have different ratings, No. 1. I think that would play a role in it. I think you would have to tell me if mark to market—

Mr. WELCH. I don't have a lot of time. I understand you can't answer that question.

Let me ask you this. There was an immense explosion in leveraged borrowing in order to buy assets.

Mr. GREENBERG. Well, there was—

Mr. WELCH. Do you believe that the Federal Government, as a result of this catastrophe, has to start regulating the amount of leverage that financial companies can use and put at risk not only shareholder value but taxpayer dollars?

Mr. GREENBERG. Yes, I think the leverage did get out of hand. I think, for example, that investment banks were leveraging their capital 30 and 40 times what their capital was. I think that got out of hand. But that was approved by the SEC, is my understanding.

Mr. WELCH. Well, there's a lot of blame to go around. And the question I asked, I think you have answered; we have to put a limit on leverage.

Mr. GREENBERG. Yes.

Mr. WELCH. All right. The next question. If a company is too big to fail, and that's the argument that has been presented by the Fed, Treasury, Treasury Secretary, and the chairman of the Federal Reserve, to justify this extraordinary action of taxpayer intervention, if the company is too big to fail, is it too big to exist?

Mr. GREENBERG. Well, I don't quite follow that. Why is it too big to exist?

Mr. WELCH. Well, the question is really pretty simple. AIG, the fear of AIG failing was that a lot of innocent people would be collateral damage to the collapse. And the Federal Government did not want innocent people who knew nothing about CDOs or CDSs to go down with the ship.

Mr. GREENBERG. Yeah, it depends on how you bail out. We went through this. And I think if AIG had used guarantees and didn't use cash, it would have been different. You could have renegotiated with the counterparties. There are many things that should have and could have been done and wasn't. So to make a statement that what was done was the only way, I just happen to disagree with that.

Mr. WELCH. You know what? I don't get that part. It should not be the risk of the taxpayers to know all the details of how a company is being run. A company should be run according to rules that

limit the risk to the taxpayers. And obviously, that wasn't the case here.

Mr. GREENBERG. Well, I understand that. But when the company went to the government for assistance, I think the way the assistance was offered, simply in my judgment, complicated the problem.

Mr. WELCH. Do you think it is a proclamation of collapse and defeat if a private company with a proud tradition, that has made billions of dollars, issued billions of dollars in dividends to its taxpayers—to its shareholders, has to come hat in hand to the U.S. taxpayer and ask for a bailout?

Mr. GREENBERG. I think it was terrible.

Mr. WELCH. Well, I would agree with that.

Chairman TOWNS. The gentleman's time is expired.

Mr. WELCH. Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much.

I now yield to the gentlewoman from Washington, DC, Ms. Eleanor Holmes-Norton.

Ms. NORTON. Thank you, Mr. Chairman, for yielding.

And I certainly thank you for holding this very important hearing as we try to get our arms around, our brains around what happened at AIG.

Now, most people perhaps haven't heard of C.V. Starr & Co., but that's what attracted my attention. It's the company you continue to run that has come under fire as a tax haven for top AIG executives. I want to ask you about a court suit that you have since settled, *Teachers Retirement System of Louisiana v. Greenberg*, against AIG and C.V. Starr & Co., a suit that stems from the relationship that C.V. Starr had with AIG and various executives of whom I think you would have to include yourself.

It alleged that half of the \$2 billion that AIG paid C.V. Starr between the years 2000 and 2005 represented sham commissions for work that, in some cases, it was said or alleged was done by AIG employees. So the suit essentially questioned why executives were allowed to serve simultaneously as officers of C.V. Starr, which, of course, is a closely held insurance company. C.V. Starr also gave the defendants who were named bonuses on fees from AIG. The suit was settled on September 8th, just short of trial, as I understand it, when four of the defendants, including you, settled for about \$115 million.

I would like you to comment on the role C.V. Starr had in providing AIG executives these commissions.

Mr. GREENBERG. I will be glad to do that. You have to go back to the beginning of the history of AIG. As I said earlier, C.V. Starr & Co. predated AIG by probably two decades. And when we were assembling AIG, there were several insurance general agencies, a marine agency, an energy agency, and aviation agency, that were too small to, at that time, put into a company that was going public. So we retained them in C.V. Starr & Co. but continued to underwrite on behalf of AIG business that they otherwise would not have gotten. The board of directors of AIG knew all about this, and there was an investigation or an examination to determine each year whether the commissions were fair that were being paid by AIG.

Ms. NORTON. Who did that examination?

Mr. GREENBERG. The outside auditors.

Ms. NORTON. Who is that?

Mr. GREENBERG. Price Waterhouse. As far as I'm concerned, there was nothing improper about it. It went on for I don't know how many years, for as long as AIG from the very beginning was in business.

Ms. NORTON. If you didn't defend the lawsuit, do you believe the settlement was the correct thing to do?

Mr. GREENBERG. May I finish first?

Ms. NORTON. Certainly.

Mr. GREENBERG. If AIG didn't get that business from these agencies, they would have had to go out and get it someplace else. And our judgment was that they would have done worse, not better.

It was settled because the ongoing litigation would be more costly than it was to settle. That's unfortunate, but that is the way it is right now in our country. You can have litigation that will cost millions and millions of dollars.

Ms. NORTON. If something is going to be paid by C.V. Starr, why is it that you should not be personally liable in putting up some of the money for the settlement given the role you played here and the fact that a settlement was done in the first place?

Mr. GREENBERG. Well, I don't think we did anything improper.

Ms. NORTON. Well, somebody had to pay it. And that's going to come out of the company you own, who are going to contribute between \$20 million and \$30 million, as we understand, for the settlement. But you're not personally contributing anything to the settlement.

Mr. GREENBERG. Most of it came from directors' and officers' liability insurance.

Ms. NORTON. Well, the insurers are, which is to say people who paid into the insurance company.

Chairman TOWNS. The gentlewoman's time is expired.

Mr. GREENBERG. Outside insurance paid for it mostly because it would have been in their interest to settle because, to go on and on and on, the cost would be greater and greater.

Chairman TOWNS. What I would like to suggest is that we do another round.

But before we do that, I would like to recognize that Montclair Kimberley Academy, who are in the room, indicated to me at lunch that they're going to make certain that whatever is wrong, they're going to fix it.

Thank you so much. I'm delighted to have them here.

Mr. ISSA. Mr. Chairman, I might suggest that we yield to them. They probably could fix it quicker than we have, too. They've got more at stake.

Chairman TOWNS. Carolyn, a second round.

I'm sorry, I have to yield to the ranking member.

Mr. ISSA. No, no, go ahead.

Chairman TOWNS. Why don't you take the Chair?

Mr. ISSA. You know, the questions get harder when they come up here.

Chairman TOWNS. Let me correct something.

I understand that Mr. Clay is here, and of course, he has not done his first round, so before we go to the second round, I think it's only fair that we have Mr. Clay do the first round.

Thank you.

Mr. CLAY. Thank you so much, Mr. Chairman.

Welcome, Mr. Greenberg, and to your counsel, also.

I want to talk a little about your tenure as chairman and CEO at AIG. Times were mostly good. And you indicate in your written testimony that AIG was a great place to work and that employees adhered to a performance-based compensation system. I see no problem with that. Employees should be treated well and rewarded for their success.

I am a bit concerned however that the culture of compensation at AIG was allowed to run amuck. During your tenure, the company threw lavish conferences, retreats and parties at a level that my constituents have never seen. That's fine when the company was doing well.

But as you know, the American taxpayer now owns an estimated 80 percent of the company, and the landscape should be far different. That is why I was appalled to learn that, after the Federal bailout, AIG and its subsidiaries were still holding these events. Folks were getting their pedicures and manicures and their facials all on the taxpayers' dime. Were you equally disturbed to learn this?

Mr. GREENBERG. I was.

Mr. CLAY. And that culture began on your watch. There is a difference between rewarding people for excellence, performance, and fostering a culture of extravagance that people come to expect even after their company has failed miserably. Why do you think it never changed? Was it just out of habit?

Mr. GREENBERG. No, I don't know if it was habit. I think that you have to break that down. In the life insurance industry, you have agency meetings. These are meetings where you have agents who have been successful in developing a certain amount of life insurance for the company. They have prizes. They have awards. And generally, they gather at some resort as both a reward but also as kind of rah-rah to produce more going forward.

That's historic in the life insurance business and has been. But, obviously, when a company is essentially owned by the government and using taxpayer money, there has to be more restraints put on. People understand that. That's not a difficult thing to communicate. And if that needed to be done, it should have been done.

Mr. CLAY. You indicate in your written testimony that AIG is not too big to be managed. It is too big to be managed poorly. You go on to recommend that a new board and management team be installed. Further, during a March 3rd interview with CNBC, you expressed that Mr. Liddy is simply not qualified to run a global company like AIG. And in a March 20th AP interview, you said, I think he should be replaced, you can call it what you want, just so that we are absolutely clear. Are you calling on him to resign?

Mr. GREENBERG. Look, what I've said, and I think the record speaks for itself, AIG is a global company, operates in 130 countries. There is no company like it in the world. You have to understand the culture of different countries. You have to understand

how business is done in these countries. It is not an on-the-job training program. You have to communicate to people who understand how things are being done in different countries.

And if the leader doesn't understand, it causes not only confusion but sometimes chaos. Liddy is a nice person. I have nothing against Liddy as an individual. He ran a domestic insurance company, and he's a good man. I have no problem with that. But he doesn't have the background for the job that needs to be done. But he also came in with a mission of liquidating AIG.

Now, how do you think that gets interpreted around the world where AIG does business when the new leader comes to the company with the instructions to liquidate the company? He's not the most popular guy in town. And in any event, it's very difficult to manage something to go forward, growing it, if you're there to liquidate it.

Mrs. MALONEY [presiding]. The gentleman's time is expired.

Mr. Chaffetz is recognized for 5 minutes.

Mr. CHAFFETZ. Thank you. I appreciate it.

And thank you, Mr. Greenberg, again. Do you know Robert Mundell, the Nobel Prize winning economist, do you happen to know him?

Mr. GREENBERG. No, I don't think so.

Mr. CHAFFETZ. He had written, "What Caused the Crisis and the Way Out," and he listed five causes of the crisis. And named you saying, Maurice Greenberg, AIG founder, for conducting vast business and credit default swaps in mass multiples of derivatives. What would you say to Mr. Mundell?

Mr. GREENBERG. I think he's wrong.

Mr. CHAFFETZ. Let me go somewhere else here. Have you hired any former AIG employees? Have you coaxed any away?

Mr. GREENBERG. I haven't coaxed them away. I can't beat them off fast enough. They're calling, and they come. We've hired some, yes.

Mr. CHAFFETZ. Do you have any sense of how many you've hired?

Mr. GREENBERG. Not many.

Mr. CHAFFETZ. Have you enticed others to leave AIG to come work for you?

Mr. GREENBERG. No, of course not.

Mr. CHAFFETZ. Paid anybody any sort of bonuses or recruitment bonus, that sort of thing?

Mr. GREENBERG. No. If they come to work for us, they come probably at, possibly even less money than they're making now.

Mr. CHAFFETZ. But are they—your primary goal is the success of AIG, correct? Why would you entice them away?

Mr. GREENBERG. I'm not enticing them away. Those are your words, not mine.

Mr. CHAFFETZ. So if you want the success of AIG, why would you want them to leave that company and come work for you?

Mr. GREENBERG. If they don't come to us, they're going someplace else.

Mr. CHAFFETZ. So you think they would—

Mr. GREENBERG. There's an exodus of people from AIG.

It doesn't take a rocket scientist to figure out, Congressman, that if you're going to liquidate a company, and they're being offered

jobs with other insurance companies, and many are, as we speak—I just came back from Asia. AIG had a great position in China, as an example, which it took me years and years to open that market. And we were the only company, AIG, to have 100 percent ownership, and we were very proud of that fact and had a great growing business.

Look at it now. People are leaving and going to every other company. Why? AIG has said, they're going to be selling the AIA, American International Assurance Co., a life company. But why would the people stay there?

Mr. CHAFFETZ. Let me move to another area. My time is short.

As we understand it, in 2003, the SEC and the Department of Justice were investigating AIG for basically helping two companies, PNC Financial and Brightpoint. And the reason they were investigating is there were some questions about their bookkeeping and whatnot. Are these two investigations that led AIG's board to call for your resignation or were these just the tip of the iceberg?

Mr. GREENBERG. Well, I wouldn't say either one of them is correct. That's like saying when did you stop beating your mother. That's not correct. Brightpoint was a tiny little transaction that was done in the bowels of the domestic insurance companies. The individual underwriter was a junior underwriter. He thought what he was doing was issuing a kind of a pension type of product. It turned out to be improper. I think AIG paid a \$10 million fine for that. We had engaged Sullivan & Cromwell to do all the investigative work on it. And in fact, they had failed, my recollection is with Sullivan & Cromwell, to turn up all of the advertising material that had been developed. But it was not a—it was a minor transaction.

Mr. CHAFFETZ. My understanding is it cost AIG in excess of \$120 million.

Mr. GREENBERG. No, that was in PNC. That was not Brightpoint.

Mr. CHAFFETZ. Not Brightpoint.

Mr. GREENBERG. That's incorrect.

PNC, there was a separate board for AIG Financial Products. People such as Martin Feldstein was and is on that board. There was a transaction with PNC that my recollection, that AIG Financial Products got clearance from an outside accounting firm and law firm and said that the transaction was proper from AIG Financial Products' point of view. And they told the counterparty, PNC, you got to get your own opinions as to whether or not this is proper or not.

Mr. CHAFFETZ. Now, my understanding is, part of this, what happened, is they hired a Mr. Cole, an independent monitor, as required in the settlement. What actions did you take to reform the corporate culture?

Mrs. MALONEY. The gentleman's time is expired.

You may respond to his question.

Mr. CHAFFETZ. What actions did you take to reform the corporate culture at AIG, in addition to the hiring of Mr. Cole that happened?

Mr. GREENBERG. When Mr. Cole arrived, I was leaving the company.

Mrs. MALONEY. Thank you.

And Mr. Kennedy from Massachusetts is recognized for 5 minutes.

Mr. KENNEDY. Thank you, Madam Chair.

I have been struck today mostly by the interest in this committee to get a picture of what it is that we need to do to make sure this doesn't happen again and, obviously, to get a feeling from you as to what happened that led us into this debacle. I mean, I think that there are people who are anxious to learn from our mistakes. And I think that there's certainly plenty of blame to go around. One thing that I think is maybe one of the many causes of this is, and that I will hold myself accountable for, is the voting for the Glass-Steagall reform. And I, for one, am going to introduce legislation to repeal that repeal, because I don't believe we ought to be having, as has played itself out, AIG, insurance companies doing banking business and banking businesses doing insuring business; and having apples over here and oranges over here, and everybody is getting these financial products all mixed and matched.

You've got derivatives and debt swaps, and what are these things happening, you've got people taking loans out and then taking insurance out on the loans because of another part of the company. I mean, it just seems we're rife with conflicts of interest. So what I would like to hear from you is, what was your perspective when that bill was going on through the Congress years ago? And did you support it? And why did you support it? And would you still support it today? And would you support its repeal?

Mr. GREENBERG. First, I was fairly neutral. We had no intention—

Mr. KENNEDY. Can I just stop there? We can't get to this feeling of everybody is neutral here. We've got to get answers.

Mr. GREENBERG. I'm about to answer if you permit me. We were neutral because we never had any intention of buying a major bank. It was never our intention as part of our strategy to buy a major bank.

Mr. KENNEDY. Well, what's your perspective? Should we repeal it?

Mr. GREENBERG. Well, given the experience that has occurred—but if you look at what has happened, take Citigroup, for example, that I think was the moving party on that; they wanted to buy Travelers. Travelers has not been a problem company, and certainly Citigroup didn't get in trouble because of Travelers.

Mr. KENNEDY. But do you not see the inherent issues regulatorily that the Federal Government, when it's trying to micromanage—we're trying to put together bills now in Congress to come in and do regulatory reform. Rather than try to micromanage a business that's very complex, why not go back to making sure that banks that just do savings and loans, do savings and loans; investment banks that do investment banking do investment banking; and insurance companies that do insurance do insurance. What's such a big problem with that?

Mr. GREENBERG. I'm not saying there's a problem, but you know, things don't stand still. Things evolve. They grow. They change. And it seems to me, if you have a structure that doesn't permit change at any time, that's just as bad as having too much change at one time. You know, you can't change—I don't think you can fix

a structure by regulation. It's management that goes bad many times, not regulation. And so I think if you're going to make changes in the regulatory environment, I wouldn't rush, because generally when we rush, we do it the wrong way, and then we regret it.

We are competing in a global world, and we've got to be sure that we're not going to tie our hands before we've thought through what exactly we want to do. And I think, for example, you've taken Glass-Steagall, and the moving party in that didn't cause the problem because of Travelers, the acquisition of Travelers. There were other things that may have gone sour. And I think that I come back to that mark-to-market accounting was one of the issues. And I think that you can go back, and you can say that leverage was another issue. Low interest rates may have been another issue. The abandonment of good risk management was another issue. There are many issues to be considered. It wasn't just Glass-Steagall.

Mrs. MALONEY. The gentleman's time has expired, and we are going to a second round. Everyone is very eager to learn more from you, Mr. Greenberg. And the Chair recognizes herself for 5 minutes. Your testimony that AIG would have been better off if going into Chapter 11. At this point, taxpayers have put \$180 billion into AIG. And you're telling me AIG would have been better off. My question is, would the taxpayers have been better off if AIG had gone to Chapter 11. The taxpayers would have their \$180 billion. It would be part of our Treasury, but what would have happened to our economy, in your judgment, if AIG had gone to Chapter 11?

Mr. GREENBERG. If AIG went to Chapter 11 at the very beginning and didn't have access to the \$85 billion at those generous terms of 14 percent interest and 79.9 percent of the company, what would have happened? There would have been a bankruptcy. A bankruptcy court would have taken hold of it. The counterparties would have been general creditors. It would not have affected the insurance subsidiaries. They're insulated from that bankruptcy. State laws protect them. And they were adequately capitalized. So it wouldn't have affected the insurance subsidiaries. It would have affected AIG Financial Products, but that's about the major issue that would have occurred.

Mrs. MALONEY. But the impact on the overall economy, we're told if the AIG had failed, the whole economy would have come down. There was a report that AIG prepared for Treasury that made it sound like the world was going to come to an end if AIG had gone into Chapter 11. I have asked several times for the Treasury's analysis of why it was critical for the financial stability of our country to save AIG. I am waiting for that to come forward.

But my main point is, what would have happened to the overall economy? And you are basically saying, nothing would have happened to the American economy. The critical insurance arm, which is so critical for finance in our country, would have been independent and saved, and the risky products over in London, who got the majority of the bonuses, by the way, and caused all the problems, they would have lost their jobs. It would not have tumbled the markets. It would not have brought down the housing market. It would not have brought down insurance. It would basically, are you

saying, it would not have impacted in any major way the American economy? Am I correct in what you're saying?

Mr. GREENBERG. Well, I think there would have been a ripple, but it wouldn't have been catastrophic. The insurance companies would have continued doing business. They were protected. They were adequately capitalized. And that capital couldn't be moved around.

Would it be that some business leaves AIG and goes to another company? Possibly. Competitors would have fed on the fact that AIG parent became bankrupt, and so competitors would have tried to move some business. But I don't think it would have been disastrous, any more than it is right now.

The government has nationalized, essentially, AIG. It's owned 80 percent, roughly, by the government. That hasn't caused a revolution or earthquake, except that business is leaving the company as we sit here and speak.

Mrs. MALONEY. And we have \$180 billion of taxpayer money at risk or lost or whatever, and now they're asking, I'm told, for an additional \$30 billion money. Should we just stop right now and put them into receivership? What should we do now?

I wish you had been in that room. Maybe we would have averted a financial problem and \$180 billion and growing tax liability or debt on the American taxpayers. What should we do going forward? Should we give them another \$30 billion or put them in Chapter 11 now? What should we do?

Mr. GREENBERG. Well, I thought that's the reason I came down here, was to make some suggestions. And I did submit a paper. It does tell you, at least what my opinion is how to save AIG and pay back the taxpayer. It does require using more guarantees than cash. It does require that you have to go to some of the counterparties and get some back. It does require changing from 79.9 percent to something less and raising private equity, by doing that, private capital. There are many things in the plan.

And that's the reason I came down to discuss, was there's an alternative to doing what's currently being done. I don't agree with the plan that the government has proposed. I think the plan is causing the taxpayer enormous pain. What we're trying to do is, at least trying hard, to find a way to find a better way and a better solution.

Mrs. MALONEY. Former Fed Chair Volker has testified that he believes, going forward, we should have functional regulation. Insurance should just be insurance. Commercial banking should be just commercial banking. We should not be mixing risky financial products with basic services, that firewalls do not work. What is your opinion of that statement?

Mr. GREENBERG. Well, you know, I have great respect for Paul Volker. He's a terrific person. And a lot of what he says makes a lot of sense.

But I have learned from experience, when something goes wrong and we jump to a conclusion as to what we ought to do to fix it, we generally overdo it the wrong way. So we ought to be giving it some thought and examine all of the aspects of what kind of regulation we want. We need more—we need a different regulatory system; we agree on that. But let's also agree, let's think it through.

Mrs. MALONEY. But to be clear, he also calls for a long deliberative process, but for certain key things being key.

My time has been expired. It's been fascinating to learn from you.

And the Chair recognizes the ranking member, Mr. Issa, from the great State of California.

Mr. ISSA. Thank you, Madam Chair.

Mr. Greenberg, this has been helpful today, and I appreciate your time. Let me just sort of wind up a lot of questions we've been asking here.

First of all, you've never been privy to any conversations at Treasury or at the Federal Reserve, is that true, as to AIG bailout?

Mr. GREENBERG. No, that's correct.

Mr. ISSA. They haven't called you for advice or even acknowledged that they're listening to you, is that correct?

Mr. GREENBERG. I've had several talks with Tom Baxter at the New York Fed and had two talks with Tom Geithner; one when he was Secretary of the Treasury, and one when he was with the New York Fed.

Mr. ISSA. Tim Geithner.

Mr. GREENBERG. Tim Geithner.

Mr. ISSA. I'm glad to hear that they have included you some. The decision of whether or not to take Federal money or to file bankruptcy, that's a decision that the chief executive officer and the board made, is that correct? Nobody can stop you from filing bankruptcy.

Mr. GREENBERG. No, I would assume that was their decision.

Mr. ISSA. So would you say that there was a lack of a fiduciary responsibility on the part of the board in that, rather than protecting many of the operations, they entered into these huge taking of money at a 14 percent rate, mostly preferred stock and other instruments?

Mr. GREENBERG. I don't know what they knew at the time, Congressman, I just don't know what they knew at the time. But, from a distance, it seemed to me that—I don't know whether they would have done it today given what they know now and the amount of funds that they've had to take.

Mr. ISSA. Mr. Greenberg, I voted against the TARP, and I felt that, as you did or as you say here today, that guarantees where appropriate should be used; bankruptcy where appropriate should be used. And I'm finding myself agreeing with you that AIG should have been put into bankruptcy. Guarantees where appropriate should have been put in, but that's too late now.

I've got a couple more questions, though, that I think because of your 35 years of building a company and your knowledge of what is existing in the way of regulation, what might be necessary, let me just ask you a question. I've got a bill, H.R. 74, it calls for a commission similar to the 9/11 Commission after, obviously, 9/11, that calls for a bipartisanly appointed Blue Ribbon Panel to look into the causes of, and any additional regulations for. Do you think that's a better solution than Congress having bill after bill sometimes just taking back people's bonuses?

Mr. GREENBERG. Absolutely.

Mr. ISSA. Thank you. I guess the last question—oh, and Mr. Chairman, I would ask unanimous consent my closing statement be put into the record at this time.

Chairman TOWNS [presiding]. Without objection.

Mr. ISSA. Thank you.

The last question is, we've gone this far; we've gone \$700 billion into this process. Would we be better off evaluating the worth of various banks and using assurances, not with AIG but with the entire financial community, using government assurances to, if you will, guarantee as what we see the value of the going concern, rather than giving out money and thus displacing other private sector money?

Mr. GREENBERG. Well, you've done that with Citigroup. You've guaranteed \$300 billion of assets, and that's a pretty good—

Mr. ISSA. We've done it with some of it. Of course, they ran out of the \$700 billion. When they ran out of money, they began doing the right thing some may say.

Mr. GREENBERG. Maybe it would have been better to run out quickly so you can get some guarantees out. I think guarantees are a good way to go.

Mr. ISSA. Last, I just want to follow up on what Mrs. Maloney said because I think it is critical. Had AIG filed bankruptcy, a substantial, and correct me if I'm wrong, a substantial portion of the money that was delivered to AIG, which then went to foreign banks, would have not gone if they had simply said file bankruptcy and there's a default, and to the extent that somebody wants to make you whole, great, but otherwise you lose; we would have preserved \$40 billion or so dollars of U.S. Treasury money.

Mr. GREENBERG. They would have become a general creditor. At the end of the day, if AIG was wound up, would have made whatever, \$0.20 on the dollar, an agreement of \$0.30 on the dollar, there would be some negotiation and some settlement.

Mr. ISSA. Mr. Chairman, if I can sort of close this question because I think it's critical to what you've given us here today. Had the Federal Government allowed AIG to go bankrupt, tens or hundreds of billions of dollars would have been preserved of Federal Treasury money by simply allowing foreign banks to accept the risk which they made when they allowed a private entity to insure on their behalf with a public statement that they were able to evaluate.

Mr. GREENBERG. That's correct.

Mr. ISSA. Thank you, Mr. Chairman.

And again, thank you for giving me the extra time.

Chairman TOWNS. Thank you very much.

I yield to Mr. Cummings of Maryland.

Mr. CUMMINGS. Again, Mr. Chairman, I want to thank you for this hearing. It's been quite informative.

Mr. Greenberg, thank you for your testimony. And I just—you know, I'm sitting here and I'm trying to—I'm listening to you, and I'm thinking about my constituents. I got constituents as old as you are. And I'm not saying you're old, but you're 80, you know.

Mr. GREENBERG. Thank you very much.

Mr. CUMMINGS. And do you know what? They retired, but they got to go back to work, working at McDonald's, flipping ham-

burgers. Do you know why? Because when they look at their investment portfolios, they've disappeared. And can I tell you something? That ain't coming back. That money is not coming back. And then I read here in *Pro Publica* a piece by Sharona Coutts. It's April 1st; you're not familiar with this, I'm sure.

But do you know what it says here? It says, AIG launched a preemptive—and I want to be fair to you—strike Wednesday, putting out a 4-page dossier attacking Greenberg's credibility, "given that Hank Greenberg led AIG into the credit default swap business, has repeatedly refused to testify under oath about a transaction he initiated when he was still AIG's CEO, and is being investigated by the SEC and the Justice Department, we don't understand how he can be viewed as having any credibility on any issue."

Now, the reason why I raise that is not to attack you, but to understand there are some forces going on here that, apparently, AIG, I get the impression that the folks at AIG now and you, you don't have, there ain't too much love going on there.

Mr. GREENBERG. That's I would say a good statement.

Mr. CUMMINGS. That's an accurate statement?

But the problem still remains, no matter what is happening between you and them, my constituents are still suffering. And so I want to just ask you this. I want to pick up where I left off and ask again about the \$80 billion in toxic credit default swaps that ultimately, whether directly or through a collateral clause, led to AIG's demise, the public wants to know—those people I talked about that are going back to work—in an article that appeared in the *Washington Post* on December 30th, you are credited with saying that \$7 billion of those swaps were issued during your tenure. But AIG spokesman Mark Herr refused that claim, saying it was \$40 billion.

When I asked you this question earlier, you said you didn't know. Is that your testimony today, that you don't know how many of those swaps were issued during your tenure? And can you please tell us what the deal is?

Mr. GREENBERG. Very simple. AIG has not made available the information.

I don't carry that knowledge around in my head, Congressman.

They have not made the information available. They haven't reported it. It's not in any of the 10-K filings.

Mr. CUMMINGS. Well, if you get it, will you submit it to us?

Mr. GREENBERG. We've asked for the information.

Mr. CUMMINGS. Well, if you get it, will you submit it to us?

Mr. GREENBERG. I would be glad to.

Mr. CUMMINGS. I also want to get some clarification on the part of your written testimony where you talk about whether swaps issued while you were CEO were hedged. Specifically, you state that the financial products were subject to numerous risk controls by AIG senior management and conducted its business largely on a hedge basis. Yet AIG spokesman Mark Herr said these swaps were written without hedges. What's the deal?

Mr. GREENBERG. As I said earlier, you may not have been in the room, the original swaps were for the European banks. They were not hedged. And there were no losses that ever were reported on that amount of business. AIG was a triple-A rated company, and

as such, hedging, at that point for what we were writing, was not necessary.

We hedged other parts of the business where we thought it was necessary. The risk management department, which was very extensive in AIG, would make recommendations. But it was a well-run organization that changed. When I left, it changed.

Mr. CUMMINGS. One of your recommendations is that we get money back from the counterparties, is that right?

Mr. GREENBERG. Say that again.

Mr. CUMMINGS. You said we should be getting money back from the counterparties; is that what you said?

Mr. GREENBERG. What I'm saying to you is, you have to look at the whole program of what changed.

Mr. CUMMINGS. Do you think there should have been some discount with regard to those counterparty debts?

Mr. GREENBERG. Absolutely. Not only discount, I think, in some cases, I'd have used guarantees.

Mr. CUMMINGS. Very well.

Thank you, Mr. Chairman.

Chairman TOWNS. Thank you very much.

And let me do my second round. I have not had mine.

Mr. Greenberg, as you're aware, Joseph Cassano took over as chief of AIGFP in 2001. And of course, you were there. Essentially, he was known amongst some of your friends as your favorite because of his drive. According to a recent report, Mr. Cassano basically told senior management, you know insurance, I know investment, so you do what you do and I'll do what I do, leave me alone. Of course, I understand he used stronger language than that. Is that true?

Mr. GREENBERG. No.

Chairman TOWNS. Was Mr. Cassano essentially given a free hand within the company to set up AIGFP across the pond in London?

Mr. GREENBERG. Not a free hand. Doing business in London was very convenient because you're halfway on the phone conversation between the United States and Asia, and that's why a lot of firms set up offices in London. It was a—it's the best place to do a financial services business if you're doing business in Asia and the United States.

Chairman TOWNS. Was it true that no one could control Mr. Cassano?

Mr. GREENBERG. No, that's not true at all. I don't know what happened.

Chairman TOWNS. Well, when did he go astray?

Mr. GREENBERG. Look, I can't answer what happened after I left. I had no problem controlling Cassano.

Chairman TOWNS. When did this happen? I mean, I understand you've been out now, what, 4 years?

Mr. GREENBERG. Four years.

Chairman TOWNS. But it's hard for me to believe that some of this didn't happen before you left.

Mr. GREENBERG. Well, I'm sorry if you can't believe it, but I'm telling you, we had no problem controlling Cassano.

Chairman TOWNS. And I know you indicated early on that you talked about, in terms of possible bankruptcy, which I must admit, I was shocked. Let me ask you, what should the Treasury do now? What should we do? And you indicated you came to help us.

Mr. GREENBERG. I submitted a plan. It's in my paper. I'll be glad to repeat it if you would like. I think that you have to use more guarantees. You've got to reduce the 79.9 percent, so you can raise private capital.

Chairman TOWNS. You know, I would hope that your plan would have timeframes in it. For instance, what should the Treasury do in the next 30 days, 60 days, 90 days, 6 months? You know that's the kind of help we need.

Mr. GREENBERG. Well, somebody has to take hold of it and do it. That's not my job. That's somebody else's job. I've given you an outline of what I think will work. I can't, I'm not here to execute it for you.

Chairman TOWNS. No. And the point is that we need to have—if you want to help us—timeframes.

Mr. GREENBERG. Well, Mr. Chairman, I would love to see it done. I would be glad to work with anybody that's authorized to do this. I've offered to help several times. I've offered when I spoke to Tom Bass at the New York Fed to help. I've offered two CEOs of AIG to help, Willumstad and Liddy. I've offered twice now to help. I'm not going to force myself on them.

Chairman TOWNS. Let me ask this question, was there any other unit besides AIG's FP that led to the downfall?

Mr. GREENBERG. Say that again.

Chairman TOWNS. I think the question is, did any other unit contribute to the AIG failure besides AIGFP?

Mr. GREENBERG. I think the security lending program caused a problem. It was manageable if that was all there was, but they got too exuberant in what they were doing.

Chairman TOWNS. Mr. Greenberg, you understand what we're trying to do here. We're trying to get as much information as possible to be able to look and to see and to make certain that this kind of situation doesn't exist, doesn't come about again. That's the reason why we want to talk to you. That's the reason why we want you to be forthcoming to us, to try and assist us. We're not sure what happened here. Was it the regulators that went to sleep? Were they Rip Van Winkle? I don't know. I mean, what happened here? Something happened. You have to acknowledge that.

Mr. GREENBERG. Mr. Chairman, I don't think it was the regulators who fell asleep. Whether they did or not, I don't know. But I do know that management fell asleep after I left the company. There's no question about it that management took their eye off the ball, and risk management was not getting the right instructions, and that's what led to the downfall.

Chairman TOWNS. Thank you. I see my time is expired.

Congressman Foster is recognized for 5 minutes.

Mr. FOSTER. Thank you.

I have a couple of questions on your securities lending business, which I take it was responsible for a significant fraction of the difficulties. And first off, who owned the securities that were being loaned, which business entity?

Mr. GREENBERG. Probably the life companies.

Mr. FOSTER. The life companies, OK. And so now, and now, who was actually performing the loaning and making the decisions?

Mr. GREENBERG. I think that was done by Win Neuger, the head of investments.

Mr. FOSTER. So this was done individually for each one of the life business units.

Mr. GREENBERG. I think he was the overall head of investments. And who was carrying out that day to day on his instructions, I can't tell you. I'm not there.

Mr. FOSTER. I'm trying to understand if these were sort of tunnelling through the ring fence that was supposedly around—

Mr. GREENBERG. Normally what happens in security lending, an insurance company, a life company, has a huge amount of assets that's been invested, securities. A lot of banks and investment banks want to borrow them, say, for 30 days. And they give you cash. And you normally invest the cash in short-term receivables that will earn you 3 to 5 or 6 basis points. Somebody got exuberant and were investing in for 30 base points, as I understand it, and a lot of it had toxic subprime assets involved. And so when the banks wanted back their cash, AIG couldn't sell the securities at that amount to cover that. And the Fed set up—

Mr. FOSTER. Could you explain why this wasn't picked up by the individual insurance regulators?

Mr. GREENBERG. I don't know. I wasn't there.

Mr. FOSTER. So this you would view as a failure of the individual insurance regulator, the fact that this was allowed to occur?

Mr. GREENBERG. I would say that's probably right, unless the amount involved was not considered by the regulator to be of such amount as to impair the solvency of the company.

Mr. FOSTER. Are there regulations that you think or new forms of or better enforcement of existing regulations that could prevent this sort of thing in the future?

Mr. GREENBERG. I think, before you get to that, though, in all fairness, a life company invests to cover its liability, and it gets an asset to match that. So if you've got a guarantee of, say, 3 percent, and you're invested at 4.5 percent, you really don't care during the 10 or 15 years whether that security sells at a discount, as long as it's paying its interest or dividend, a cash-flow approach to it. Changing mark to market destroyed all of that. And the life insurance industry today in our country is suffering as a result of that. That affected somewhat the security lending program.

Mr. FOSTER. Now, the other—I would like to touch on the issue of the complexity as well as the size of organizations. From the point of view of the regulator, would you consider that a regulator for the AIG holding company would have to be an expert on each of the business units? They would have to be an expert on airplane leasing, credit default swaps, securities lending, property and casualty, life insurance and so on and so forth? I mean, is there a regulator you know that is actually expert in those areas?

Mr. GREENBERG. Probably working for me.

Mr. FOSTER. Right. But it's a serious thing, because we're faced all the time with the problems that regulators are outgunned, salary-wise, manpower-wise, and intellectually, frankly.

Mr. GREENBERG. That's true.

Mr. FOSTER. Well, this is a fundamental problem, because the obvious answer to that is simply to say, what would have been the evolution of AIG if you had been allowed to play in only one sandbox; that you essentially have said, OK, you can be an insurance company, you can be a big successful insurance company, but when you get successful, return your dividends to your shareholders, and they will invest in some diversified enterprise? That would have limited, but the market would have eventually distributed assets to all of the relevant industries without putting one regulator in a position where they have to be experts on all this stuff.

Mr. GREENBERG. Well, that's one way. I'm not sure that's the best way.

Mr. FOSTER. What would you suggest to not have to depend on a regulator?

Mr. GREENBERG. You have very good State regulation on the insurance side, which was the biggest part of AIG's business. The airline leasing company is not regulated per se, besides which, AIG did not guarantee the debt of its airline leasing company. So that did not cause a problem from that point of view. The question of AIGFP was regulated by the—

Mr. FOSTER. So you believe that the holding company needs no regulator because all the individual pieces—

Mr. GREENBERG. No, I think you can have a regulator. It could be the FDIC, or it could be—I don't care which one it is.

Mr. FOSTER. And would that regulator need to be an expert on each of these?

Mr. GREENBERG. No, he would call on the regulators that had the other areas, which is done in, I think, many other countries.

Chairman TOWNS. The gentleman's time has expired.

I now yield 5 minutes to the gentlewoman from California, Diane Watson.

Ms. WATSON. Thank you so much, Mr. Chairman.

And I want to thank Mr. Greenberg and the counsel for being so patient with our questioning.

So, directed to Mr. Greenberg, at least five of the credit risk committee members who were in part responsible for failing to properly assess the dangers of heavily investing in credit default swaps remain in place at AIG. This means that at least 50 percent of the individuals at the top, the same people that performed shoddy risk assessments, are still at the helm, and those same five were there when you were CEO.

So during your tenure, did any members of the credit risk committee ever perform a risk exempt of AIGFP, and specifically, were there limits on the amount and type of risk that the AIGFP were allowed to undertake? And how did it change after you left AIG? Can you comment, please?

Mr. GREENBERG. There were limits. First of all, the credit committee or the enterprise committee, because it had both market risk and credit risk, met on a regular basis with very senior people responsible for the various areas that the credit committee and the market risk and credit risk committee covered. They would meet regularly to make sure that each one of them knew what the total exposure was, for example, say to real estate. And that number,

they would stress test; they would determine whether or not we were getting overloaded in a particular area. If any of the operating divisions were resisting changing, it would go to the chief financial officer, who would bring the head of the risk management committee and the department that they were concerned with into my office and we would resolve it right then.

There was control, and there was a recognition and a culture in the company that risk management was important. It has to start from the top. If the organization does not believe that the CEO is concerned with risk management, nobody else will.

Ms. WATSON. And that was you.

Mr. GREENBERG. That was me.

Ms. WATSON. Well, is the continued employment of the same five credit risk committee members who failed to see the writing on the wall concerning credit default swaps a good management decision?

Mr. GREENBERG. Well, the same people are there. It stuns me that they are. It stuns me that they're still there.

Ms. WATSON. Now, Robert Lewis, who was the chief risk officer, has been with AIG since 2004, 1 year before you left as CEO.

AIG's auditor, PricewaterhouseCoopers, expressed concern about Mr. Lewis' unit in January 2008; and the Office of Thrift Supervision also informed AIG of the mismanagement risk by Mr. Lewis' unit. And do you believe that Mr. Lewis has the necessary skill sets and expertise to continue to handle this AIG—

Mr. GREENBERG. You know, he had those skill sets when I was there. It's hard for me to understand what happened. It's hard to understand. So I would like to—you know, I think, before he is condemned, somebody ought to find out whether or not he was told not to enforce the rules that he believed needed to be enforced.

Ms. WATSON. You know we are holding this hearing to try to get to the bottom of this. The failure of AIG has had a ripple effect, as you know, almost universally around the globe. And we are trying to gather information. We appreciate you coming and the time you are taking to try to explain. But if you were there now as the current CEO what steps you would take to improve the credit risk committee and its performance? Give us some help so we can advise.

Mr. GREENBERG. Well, there are several things.

If I found out that Lewis either did not enforce the rules or was told not to enforce the rules, I'd find out why; and whoever was responsible for that would have an exit interview very quickly. There's no question that if he took that on himself, he'd be gone very quickly.

But in order to save AIG, you've got to do more than deal with the risk management area. I repeat what I said earlier. I proposed a plan that I think ought to be considered to help save the taxpayer a great deal of money. It will—AIG will not be—in my judgment, the current plan will not pay the taxpayer back. You have to rebuild AIG, rebuild it, try and get as much as we can back from the counterparties, use guarantees as much as possible in order to conserve cash, and then raise capital from the private sector after you reduce the 79.9 percent. Make AIG a taxpayer again and an employer, not destroying it. How is that going to pay anybody back and create jobs?

Ms. WATSON. Right. My time has expired.

Chairman TOWNS. The gentlewoman's time has expired.

I recognize the gentleman from Illinois, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman.

Thank you, Mr. Greenberg.

It is my understanding that AIG-FP, the entity that is apparently at the core of AIG's collapse, had its own board of directors that was separate from the parent company's board. My question is, does the fact that AIG-FP has a separate board prevent or hamper the parent company from exercising proper oversight?

Mr. GREENBERG. No. Because most of them—in fact, all of the members of the AIG-FP separate board came from the main board of AIG.

Mr. DAVIS. They came from the main board?

Mr. GREENBERG. Yeah. In fact, the day we used to hold the AIG board meetings late that afternoon there'd be an AIG Financial Products board meeting, and several of the same members on the main board would attend.

Mr. DAVIS. Let me ask you this, since April 2004, AIG-FP has had its own transaction review committee which was comprised of Joseph Cassano, the CEO of AIG-FP, and senior executives from the unit's business, legal, finance, and risk management groups. Amongst other responsibilities, this committee assesses AIG-FP's compliance with regulatory and accounting standards in structured finance transactions. And Mr. Frank Zarb was the chairman of the executive committee of the AIG's board of directors but was also on the board of directors of AIG-FP as of November 2004, while you were the CEO.

Did Mr. Zarb ever raise any reservations concerning AIG-FP's investments or derivative risk, or did Mr. Zarb or anyone else to your knowledge raise the issue of the potential conflict of interest in having the same person serve on both the board of AIG-FP and the parent company?

Mr. GREENBERG. No, that was never raised.

Mr. DAVIS. And it was never raised. It was never perceived then to be—

Mr. GREENBERG. No, it was never raised. You know, we had Sullivan & Cromwell at that point as outside counsel to the board. In fact, one of Sullivan & Cromwell's people who had been connected with AIG for many, many years and had been a partner of Sullivan & Cromwell was on the board of Financial Products.

Mr. DAVIS. Well, let me ask you one other question. Of course, we just passed the Pay for Performance Act in the House yesterday; and, essentially, this act will restrict compensation and bonuses for institutions that have received and not paid back funding from the TARP or the Housing and Economic Recovery Act. Could you comment on this bill and whether you consider it to be a step in the right direction in terms of properly regulated executive compensation?

Mr. GREENBERG. Well, I haven't read the bill. But, you know, my own sense is that over any period of time it would be best to not have the government setting compensation rules for business.

Now I recognize when you take a great deal of money from the government, the government has to have a say in the compensation

of a company. But if you—if the compensation is not competitive with the marketplace generally, it doesn't help to have people who will not perform at the level that you want that company to perform, because they are not being compensated adequately.

Now, having said that, I would agree with anyone that compensation in the financial sector got out of hand in our country.

Mr. DAVIS. Well, let me just say and ask this, under the concept of pay for performance, if assets are not being protected, if the public's resources are not being adequately protected, would you see new opportunity to enhance one's pay based upon their performance relative to the protection of those assets?

Mr. GREENBERG. No, if they haven't protected the assets, obviously, they should not be compensated. They probably ought to be fired.

Mr. DAVIS. Which means then that the bonuses that individuals have been awarded in some instances, where it's clear that the assets were not protected, then those bonuses would not be warranted?

Mr. GREENBERG. They should not be. They should not get bonuses.

Mr. DAVIS. Thank you very much, Mr. Chairman; and, Mr. Greenberg, thank you.

Chairman TOWNS. Thank you very much.

Mr. Greenberg, you know, I really want to thank you for coming today and sharing with us. However, you know when we asked you a little bit about the plan, I felt that you didn't realize how important it is for us. The point is, I want you to know that your plan is important to us, and we will look at it, and we will take it and share it with the other members of this committee and make certain that they look at it.

So let me just close by saying, I appreciate your being here; and I appreciate the interest of all the Members who attended this hearing today.

And before we adjourn, let me state that this committee intends to continue its examination of the financial crisis until we get a much better understanding of what caused it. As the old saying goes, the past is prologue. Until we can explain what went wrong, how can we chart the best course for reform? Today's hearing was just the first in a series of hearings where we will explore the roots of the financial crisis that grips our country.

While it appears to be a conglomeration of problems that brought us to this point of economic crisis, one thing is clear: The so-called magic of the marketplace created more misery than good. Market self-regulation, discipline, and efficiency can no longer be relied upon to serve the good of the American people. Appropriately, regulation is no longer a dirty word.

I look forward to working with this administration and my colleagues, the ranking member, Mr. Issa, and Members on both sides of the aisle to fashion meaningful financial regulations to stem the tide of financial ruin now and in future generations.

Finally, please let the record demonstrate my submission of a binder with documents relating to this hearing. Without objection, I enter the binder in the committee record.

[The information referred to follows:]

EXHIBIT BOOK

INDEX

A. Pg. 1

Credit Rating Agencies Distorting the True Stability of AIG

How much responsibility should be placed on the rating agencies for failing to provide consumers with a proper and well researched rating?

[Display – AIG FP Counterparties – Societe Generale]

B. Pg. 4

Counterparties: Distorting the Value of Securities

[Display -- Maiden Lane II Counterparties]

C. Pg. 24

Did the Audit Committee Fail to Do Their Job?

[Display Audit Committee Charter]

D. Pg. 37

Why Did Greenberg Flip-Flop on Purchasing AIG?

[Display 13-D file]

E. Pg. 41

Why the Board of Directors Ousted Greenberg?

[Display - Wall Street Journal, May 20, 2008, quotation from Richard Beattie, then Chairman of Simpson, Thacher & Bartlett, who was legal counsel for certain members of the AIG Board of Directors.]

F. Pg. 47

The Fly on the Wall: the James Cole Reports

[Display – 2004 Agreement with Highlighted Text]

[Display – 2006 Agreement with Highlighted Text]

Credit Rating Agencies: Distorting the True Stability of
AIG

On August 7, 2008, Standard and Poor's (S & P) Rating Service concluded that, despite apparent losses by AIG and its subsidiaries of \$5.4 billion, the company rating should not be changed. I find it troubling that S & P essentially decided not to change AIG's rating, despite clear signs that the company had a liquidity problem.

Q: How much responsibility should be placed on the rating agencies for failing to provide consumers with a proper and well-researched rating?

[Display – AIG FP Counterparties – Societe Generale]

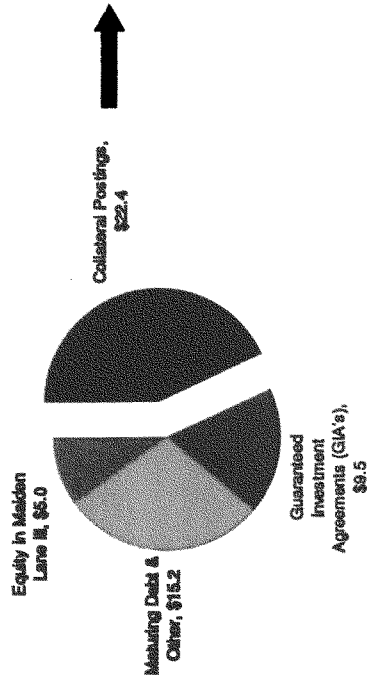
Q: Many of AIG's counterparties were very sophisticated financial service firms in their own right. At some point, long before the implosion in late 2008, many of them began to understand that AIG was in a vulnerable position. For instance, Societe Generale issued a June 2008 "sell" recommendation to holders of AIG shares. Logic dictates that if these firms understood the overall weakness of AIG, then they should have known that the company may ultimately not be able to pay out under the terms of these credit-default swaps. Yet, Societe Generale did little to hedge their investments or further insure their capital in response to this information. To what



Attachment A - Collateral Postings Under AIGFP CDS (1)

Direct Support to AIG from 9/16/08-12/31/08

AIG FP Related: \$52.0 bn



Counterparty	Amount Posted (\$ bn)
Societe Generale	64.1
Deutsche Bank	2.6
Goldman Sachs	2.5
Merrill Lynch	1.8
Calyon	1.1
Barclays	0.9
UBS	0.8
DZ Bank	0.7
Wachovia	0.7
Paribas	0.5
KfW	0.5
JP Morgan	0.4
Banco Santander	0.3
Danske	0.2
Reconstruction Finance Corp	0.2
HSBC Bank	0.2
Morgan Stanley	0.2
Bank of America	0.2
Bank of Montreal	0.2
Royal Bank of Scotland	0.2
Top 20 CDS Total	118.3
Other	4.1
Total Collateral Postings	122.4

1) The collateral amounts reflected in Schedule A represent funds provided by AIG to the counterparties indicated after September 16, 2008, the date on which AIG began receiving government assistance. The counterparties received additional collateral from AIG prior to this date, and AIG's SEC report relating to ML III reflects the aggregate amount of collateral that counterparties were entitled to retain pursuant to the terms of the ML III transaction.

Counterparties: Distorting the Value of Securities

[Display -- Maiden Lane II Counterparties]

Mr. Greenberg, there have been reports that Maiden Lane II, the Federal Reserve Bank of New York fund that was created to hold mortgage liabilities from an AIG securities lending portfolio, has been utilized by AIG to mark down collateral debt obligations (CDOs), in some instances, to less than half of the face value. As a result, counterparties are walking away as fat cats, while taxpayers are being cheated out of the money that we entrusted to AIG. I understand that you wrote to AIG's current CEO, Mr. Edward Liddy, about this exact issue.

- Q: What key concerns did you raise in your letter? Have you received a response back from Mr. Liddy or anyone at AIG? If so, what was it? If not, why do you believe you have not a response?
- Q: Last Wednesday, New York Attorney General Andrew Cuomo subpoenaed AIG for data relating to credit swaps and specific banks. As the former CEO of AIG for nearly four decades, do you know whether there is any way AIG could distort this information?
- Q: Can you tell us whether you believe that AIG's credit-default contracts have essentially become a



Attachment D – Payments to AIG Securities Lending Counterparties

9/18/08-12/12/08
(\$ billions)

Institution	Payments to Counterparties by U.S. Securities Lending
Barclays	\$7.0
Deutsche Bank	6.4
BNP Paribas	4.8
Goldman Sachs	4.8
Bank of America	4.5
HSBC	3.3
Citigroup	2.3
Dresdner Kleinwort	2.2
Merrill Lynch	1.9
UBS	1.7
ING	1.5
Morgan Stanley	1.0
Societe Generale	0.9
AIG International Inc.	0.6
Credit Suisse	0.4
Paloma Securities	0.2
Citadel	0.2
Total	\$43.7 ⁽¹⁾

Sources of Funding

Maiden Lane II	\$18.5
FRBNY Senior Secured Facility	17.2
AIG Funded	7.0
Total Related to Securities Lending	\$43.7

⁽¹⁾ Amounts may not total due to rounding

Did the Audit Committee Fail to Do Their Job?**[Display Audit Committee Charter]**

Within the AIG Audit Committee charter, it states that the committee is directly responsible for the appointment, compensation, retention, and oversight of the work of the independent auditor.

- Q: Does this charter provide its independent auditor with the needed tools to conduct adequate oversight? While you served as CEO how many independent auditors worked with the audit committee?
- Q: Did the Audit Committee ever make any recommendations concerning the structure or investments of AIG FP during your tenure?
- Q: In light of the nation's outrage over executive compensation, did the audit committee, or any other AIG board committee, file any recommendations concerning executive compensation standards while you served as CEO?
- Q: What actions did the Audit Committee take in its oversight of the integrity of AIG's financial statements and compliance with legal and regulatory requirements while you were CEO?

**AMERICAN INTERNATIONAL GROUP, INC.
AUDIT COMMITTEE CHARTER
(Effective March 25, 2009)**

II. Responsibilities

AIG's business is managed under the oversight of the Board and the various committees of the Board, including the Committee...

The preparation of AIG's financial statements in accordance with generally accepted accounting principles is the responsibility of management. The independent auditor is responsible for ...whether the financial statements present fairly in all material respects AIG's financial position and results of operations.

* * *

V. Relationship with Independent Auditor

- A. ...The Committee...shall be directly responsible for work of the independent auditor ... and the independent auditor shall report directly to the Committee.

* * *

- C.The Committee shall review with the independent auditor....including (1) all critical accounting policies and practices to be used, (2) all alternative treatments of financial information within generally accepted accounting principles...

Why Did Greenberg Flip-Flop on Purchasing AIG?

In a letter you wrote to then CEO, Robert Willumstad, dated September 16, 2008, you noted that you did not “know whether or not it [was]...too late to save AIG.” It was during this exact time that the company was literally teetering on the edge of bankruptcy, and pleading with the Federal Reserve for a lifeline. Despite your pessimism, on that same date you filed a 13-D form with the SEC indicating that you, CV Starr, and its affiliates had some interest in purchasing AIG, placing a member on the company’s board of directors, or doing a ‘take-private’.

[Display 13-D file]

[Note: A take-private is when an entity that is not a listed company buys a listed company, often taking its stock off of capital markets.]

Q: Mr. Greenberg, why would you suggest in your letter to Mr. Willumstad that it may be “too late to save AIG” when in reality you were clearly in the mind set of taking it over?

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

SCHEDULE 13D
Under the Securities Exchange Act of 1934
(Amendment No.)(1)

American International Group, Inc.

(Name of Issuer)

Common Stock

(Title of Class Securities)

026874-107

(CUSIP Number)

September 16, 2008

Item 4. Purpose of Transaction

**“Reporting Persons may take...such
actions...as they deem appropriate,
including...seeking to acquire control of the
Issuer...”**

Dated: September 16, 2008

MAURICE R. GREENBERG

/s/Maurice R. Greenberg

Why the Board of Directors Ousted Greenberg

Q: If AIG was healthy when you were running the company, why did the Board of Directors of AIG ask you to step down in 2005?

[Note: Greenberg will likely say that he was asked to resign because then Attorney General Eliot Spitzer threatened to indict AIG as a corporate entity if Greenberg was not fired. Greenberg will claim that the Board wanted him to leave so they could avoid a corporate indictment.]

[If Greenberg does answer in this manner, follow up with the below question:]

[Display - Wall Street Journal, May 20, 2008, quotation from Richard Beattie, then Chairman of Simpson, Thacher & Bartlett, who was legal counsel for certain members of the AIG Board of Directors.]

THE WALL STREET JOURNAL

LETTERS

• MAY 20, 2008

**AIG's Board Was Right to Remove
Hank Greenberg****Richard I. Beattie***Chairman**Simson, Thacher & Bartlett**New York, Mr. Beattie's firm represents AIG's independent directors.*

Mr. Greenberg was asked to step down for two principal reasons. First, in light of the information uncovered in AIG's internal financial review, AIG's auditors had determined that they could no longer rely on Mr. Greenberg's certification of the company's financial statements...

...a jury found the transaction to be a crime. That crime was committed on Mr. Greenberg's watch as CEO and necessitated the investigation and restatement that negatively impacted AIG's shareholders.

The Fly on the Wall: the James Cole Reports

Mr. Greenberg, the Securities and Exchange Commission (SEC) and the Department of Justice settled charges against AIG in November of 2004 related to an allegation that AIG sold financial products that helped companies manipulate their earnings. Part of the deferred-prosecution agreement called for AIG to install an independent monitor at the company to review certain financial transactions.

[Display – 2004 Agreement with Highlighted Text]

AIG brought in an attorney named James Cole, along with his law firm, Bryan Cave LLP, to perform this function and report back to the SEC and the Justice Department.

[Display – 2006 Agreement with Highlighted Text]

After subsequent settlements, Mr. Cole's authority was expanded in 2006 directing him to examine AIG's financial reporting, regulatory compliance, retention practices and corporate governance.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

SECURITIES AND EXCHANGE COMMISSION,
Plaintiff,
v.
AMERICAN INTERNATIONAL GROUP, INC.,
Defendant.

RECEIVED

NOV 30 2004
CHAMBERS OF
JUDGE KESSLER

04 2070

Civ. Act. No. _____

CONSENT OF DEFENDANT AMERICAN INTERNATIONAL GROUP, INC.

November 30, 2004: AIG agrees to retain an independent consultant.

The independent consultant shall:

- Examine AIG transactions that were designed to obtain a specific accounting result and determine if those transactions violated generally accepted accounting principals ("GAAP").
- Conduct a review related to the policies and procedures of a newly established Transaction Review Committee
- Submit a written report with findings and conclusions to the SEC Director of Enforcement and the USDOJ Fraud Section.

*Please Return to Cashiers
Room, 10th Floor, Courtroom 10*

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

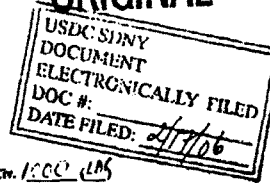
Plaintiff,

v.

AMERICAN INTERNATIONAL GROUP, INC.,

Defendant.

96 Civ. 1000 (LB)



FINAL JUDGMENT AS TO DEFENDANT

AMERICAN INTERNATIONAL GROUP, INC.

February 17, 2006: AIG agrees to expand independent consultant's scope of authority.

The independent consultant shall conduct a "**comprehensive review**" of AIG policies and procedures and make recommendations to AIG's board of directors and SEC staff.

Areas of specific inquiry are to include:

- Financial reporting procedures
- Regulatory compliance practices
- Employee retention policies
- Whistleblower protections
- Training and education programs
- Corporate governance reforms

Chairman TOWNS. This concludes our hearing. The committee is now in recess for 2 minutes to prepare for the business meeting. [Whereupon, at 2:18 p.m., the committee proceeded to other business.]

