

**MARCH 2009 MONITORING REPORT  
OF THE INDEPENDENT CONSULTANT  
TO AMERICAN INTERNATIONAL GROUP, INC.  
MARCH 31, 2009**

## I. INTRODUCTION

Since the fall of 2008, American International Group, Inc. (“AIG” or the “Company”) has been grappling with a crisis of unprecedented proportions that has left the future scope and geographic footprint of the Company’s operations uncertain. In September 2008, the Company announced that the Federal Reserve Bank of New York (“Federal Reserve”) had provided it with a two-year, \$85 billion credit facility to ensure that the Company could meet its liquidity needs. Secured by a pledge of assets of AIG and its various subsidiaries, the revolving credit facility (the terms of which have been renegotiated twice) included a covenant to pay down the facility with the proceeds of asset sales. In October 2008, AIG’s Chief Executive Officer (“CEO”), Edward Liddy, announced AIG’s strategy for repaying the Federal Reserve loan. According to this plan, AIG would continue to operate its United States property and casualty and foreign general insurance businesses and retain a continuing ownership interest in its foreign life insurance operations. The company would wind down AIG Financial Products and AIG’s securities lending program and sell its remaining businesses and assets. On November 10, 2008, AIG announced a series of agreements with the United States Department of Treasury (“Department of Treasury”) and Federal Reserve designed to bolster AIG’s capital structure and resolve its liquidity crisis, thus permitting the Company to complete its sale of assets.

As discussed in our November 15, 2008 Report (“November 2008 Report”), these events profoundly disrupted AIG’s operations and significantly curtailed the Company’s efforts to implement the best practice recommendations; however, AIG continues to have financial reporting and legal obligations. After discussion with the Audit Committee of AIG’s Board of Directors (“Audit Committee”) and AIG’s General Counsel, we determined that, in light of the heightened demands being placed on key employees in the management, regulatory/compliance, and financial reporting areas, it was appropriate for us to review and scale back our recommendations until the Company determined what its future course would be. These scaled-back recommendations, which were discussed with the relevant AIG personnel prior to publication, were set forth in the November 2008 Report.

## II. MEETING WITH REGULATORS AND FEDERAL RESERVE

Subsequent to the issuance of the November 2008 Report, we were informed that AIG had asked the Securities and Exchange Commission, the New York Attorney General’s Office, and the New York Department of Insurance (collectively, the “Regulators”) to put our monitoring of the recommendations on hold for six months. In early December 2008, we met with representatives from the Regulators and with representatives of the Federal Reserve<sup>1/</sup> to discuss the status of our monitoring and the modified recommendations set forth in the November 2008 Report. As a result of those meetings, we provided the Regulators and the Federal Reserve with (1) the fees and expenses incurred for the Independent Consultant project defined in the 2006 Consent, (2) a chart listing the steps we believed that AIG needed to take to implement the recommendations contained in the November 2008 Report and a description of how we intended to monitor AIG’s

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<sup>1/</sup> At the meeting with the Federal Reserve, we provided (1) a full set of recommendations that we had made pursuant to the terms of AIG’s February 2006 settlements with its Regulators (the “2006 Consent”) and (2) the quarterly reports we had submitted to the members of AIG’s Board of Directors and the Regulators.

implementation of those recommendations (“December 2008 Work Plan”),<sup>2/</sup> and (3) an estimate of what it would cost us to monitor AIG’s implementation of our recommendations over a six month period. AIG’s request that the Independent Consultant’s monitoring activities be put on hold for six months has not been granted.

### **III. MODIFICATION OF RECOMMENDATIONS MADE IN THE NOVEMBER 2008 REPORT**

At the December 2008 meeting of AIG’s Audit Committee, we informed the committee that we had met with the Regulators and the Federal Reserve and provided them with the documents described above. AIG’s General Counsel requested a copy of the December 2008 Work Plan and estimated costs to monitor AIG’s implementation of those recommendations, which we provided to the Company after confirming with the Regulators that they did not object to our sharing the information with AIG. In early January 2009, we discussed the compliance and corporate governance components of the December 2008 Work Plan with AIG’s General Counsel, Chief Regulatory and Compliance Officer (“CRO/CCO”), and Deputy Chief Compliance Officer (“DCCO”), Implementation. During the conversation, we were informed that the current plan was to restructure AIG to repay the support it has received from the U.S. government. Such restructuring would incorporate, where possible, a variety of solutions for AIG, which could include the sale of certain assets, preparing other assets for initial public offerings (“IPOs”), and perhaps allowing some assets to be set forth as stand-alone entities, independent of AIG. Any surviving corporate AIG entity would be radically different in size and in function and would control few, if any, of the companies that it controls today. AIG’s General Counsel requested that we further revise our scaled-back recommendations and provide an itemized budget of our monitoring costs based on this projected scenario.

In view of this information, we reviewed the December 2008 Work Plan and the materials we had provided to the Regulators and Federal Reserve. We determined that, until AIG ceases operations, it will still need to implement certain of our recommendations designed to ensure that the Company complies with applicable legal requirements and appropriate corporate governance standards and generates accurate financial statements. However, given the dire predictions about AIG’s future, it did not strike us as an efficient use of the Company’s already stretched human and financial resources to require that it implement all our recommendations as they were set forth in the December 2008 Work Plan or for us to conduct all the monitoring set forth therein.

Thus, in order to balance AIG’s need to have adequate compliance and financial reporting controls within its limited resources, we substantially revised the December 2008 Work Plan, condensing a number of recommendations and eliminating others. With respect to compliance and corporate governance, the January 2009 Work Plan focused in particular on ensuring that:

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<sup>2/</sup> We noted that, since issuing our November 2008 Report, AIG had informed us that two additional recommendations had been moving forward: (1) finalizing the litigation hold and discovery process and (2) developing the basic features of a records management system in the Commercial Insurance Group. The description, therefore, also included implementation steps and monitoring procedures for those recommendations.

- AIG's compliance function has adequate independence and that the need for such independence is communicated to appropriate compliance and business personnel,
- Staffing and resources, appropriate under the current circumstances, are in place to perform the necessary compliance functions,
- An adequate risk assessment process is performed,
- Policies and procedures are developed to address global risks, as well as any other risks identified in the risk assessments,
- Policies are properly tailored to conform to local legal requirements, where appropriate,
- Controls are in place to monitor compliance with AIG policies,
- Processes are established for the escalation of compliance issues within AIG and that a process is put into place for investigating them,
- AIG's CEO sets the tone at the top by reinforcing the need to comply with applicable laws and AIG policies during the restructuring process,
- Revised disclosure controls and procedures for filings other than AIG's Forms 10-K and 10-Q are developed and implemented, and
- FD, Insider Trading,<sup>3/</sup> and BTR policies and procedures are finalized and adopted, including designation of a person or persons responsible for administering the FD and Insider Trading compliance programs.

The revised accounting/remediation work plan focused on evaluating AIG's progress towards:

- Providing accounting, financial reporting, and disclosure training to those mandated to receive it pursuant to the terms of AIG's 2006 Consent with its Regulators,
- Naming Accounting Policy Designees in each of its LOCs,
- Providing additional guidance regarding what transactions are to be considered "significant" and "non-standard" so that they may be referred in a timely fashion to the Office of Accounting Policy ("OAP") for review of the accounting treatment,
- Ensuring that all OAP guidance has been applied to the relevant transactions,
- Revising AIG's Staff Accounting Bulletin ("SAB") 99 policy and procedures, and

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<sup>3/</sup> The Insider Trading Policy was adopted in September 2008, but, as discussed below, the accompanying guidance needs some modifications.

- Ensuring that the scope of AIG's testing for legal contingencies (*i.e.*, the "Two-way Test") is properly memorialized in AIG's policies.

Because AIG had already completed certain accounting and remediation recommendations, subject to two successive quarters of monitoring, the January 2009 Work Plan also included provisions for ongoing monitoring of those recommendations.

A central theme of the scaled-back recommendations was that, even though AIG was in the process of disposing of most, if not all of its business units, the AIG parent still has to maintain some centralized controls over those business units to ensure their compliance with all applicable financial reporting and legal requirements. This is a theme that has been noted by AIG's outside auditor, PricewaterhouseCoopers ("PwC"), and by AIG's Internal Audit Division ("IAD").

In order to reduce the costs and burden on AIG, we also streamlined the monitoring tasks associated with the revised recommendations, particularly regarding the number of interviews we planned to conduct with Business Unit CCOs ("BUCCOs"). According to AIG's CRO/CCO, the BUCCOs and local operating company compliance officers ("LOC COs") were working extraordinarily hard to discharge their core compliance functions while assisting their units to prepare themselves for sale and responding to an increased number of requests for information from their local regulators, the Federal Reserve, and the U.S. Treasury. In her view, requiring these individuals to speak with us placed an undue burden on them, particularly as the Office of Compliance ("OC") could, in most instances, provide us the information we required. Based on this representation, we did not seek to interview those personnel, although we reserved the right to speak with them as needed depending on what we learned during the course of our monitoring. While this necessarily restricts the amount of information we can access to verify the adequacy of AIG's implementation of the scaled-back recommendations, we believe it will be sufficient to rely on the representations made by the CRO/CCO and the DCCO, Implementation.<sup>4/</sup> As a result of the reduced activity required of AIG under the revised work plan and the more streamlined monitoring process, our estimated fees and expenses were further reduced.

We provided AIG with a copy of our January 2009 Work Plan in advance of the meetings of the Company's Audit and Regulatory, Compliance and Legal ("RCL") Committees.<sup>5/</sup> At the January 13, 2009 meeting of RCL Committee ("RCLC"), AIG's CRO/CCO represented that she would work with the IC to try to come to a mutual agreement about what needed to be done to implement the revised recommendations. To that end, we participated in a conference call on January 21, 2009 with AIG's General Counsel, CRO/CCO, and DCCO, Implementation, to discuss how AIG could demonstrate the progress it had made towards implementing our revised work plan. During that discussion, AIG agreed to (and subsequently provided us with) records they believed to be responsive to our monitoring procedures (the "February 2009 Submission"). We agreed that further discussion would take place after we reviewed the materials AIG provided.

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<sup>4/</sup> The OC has confirmed that in the event it was unable to provide the IC with certain requested information, information could be obtained directly from the BUCCOs and LOC COs.

<sup>5/</sup> We also provided this document to the Regulators and the Federal Reserve.

#### IV. MARCH 2, 2009 ANNOUNCEMENTS

As AIG approached the filing of its 2008 Form 10-K, a number of issues – revolving around the impact of deteriorating global economic conditions on AIG’s ability to sell its assets at acceptable prices and the Company’s viability as a going concern – were discussed between AIG and the Federal Reserve. In light of this, we proposed that it would be appropriate to postpone the filing of our quarterly report (due on February 15, 2009) until the end of March so that our report could include not only an analysis of the materials provided by AIG but also reflect any changes in AIG’s operations and approach to the sale of its assets that might be detailed in the 2008 Form 10-K. AIG and the Regulators agreed with our proposal.

On March 2, 2009, in conjunction with the filing of its 2008 Form 10-K, AIG announced a set of actions, taken in cooperation with the U.S. Treasury and Federal Reserve, to enhance AIG’s capital structure, reduce the debt the Company owes the U.S. government, and give AIG sufficient time and flexibility to redirect its divestiture process away from relying solely on immediate sales for cash.<sup>6/</sup> Taken together, these measures were aimed at permitting the Company to use a variety of approaches to realize the maximum value from its assets. Among other things, AIG agreed to place American Life Insurance Company (“ALICO”) and American International Assurance (“AIA”) into a trust for the benefit of the Federal Reserve, which would permit AIG to reduce the outstanding balance on its credit facility. Until subsequent divestment, which could include an IPO, ALICO and AIA will remain wholly owned subsidiaries of AIG, consolidated in AIG’s reported financial statements. The Company also announced that it intended to form a General Insurance holding company, including its Commercial Insurance Group, Foreign General unit, and other property and casualty operations, to be called AIU Holdings, Inc., with a board of directors, management team, and brand distinct from AIG. According to the Company, the establishment of AIU Holdings, Inc. would help AIG to prepare for the potential sale of a minority stake in the business, which ultimately may include a public offering of shares, depending on market conditions. The Company also announced that it was considering combining its domestic life and retirement businesses to enhance their market competitiveness and ultimate sale value. Finally, the Company reaffirmed that those businesses that were already positioned for sale would remain on that track.

Following the March 2, 2009 announcement, we arranged to meet with AIG’s CRO/CCO. Prior to our meeting, we provided the CRO/CCO with written questions about the materials we had received from AIG. In light of the fact that we had agreed to the CRO/CCO’s request that we forego interviewing the BUCCOs and LOC COs as part of our monitoring efforts, this seemed the best way to explore in greater detail what AIG is doing to implement the January 2009 Work Plan. On March 10, 2009, we met with AIG’s CRO/CCO and DCCO, Implementation, to discuss the March 2, 2009 announcement’s impact on the role of the OC and to discuss some of our follow-up questions. Although we received answers to some of our follow-up questions at our March 10, 2009 meeting with AIG, the CRO/CCO informed us that they had not yet developed answers for all the questions we posed and would provide us that information as soon as they were able. We received the OC’s submission on March 19, 2009 (the “March 2009 Submission”).

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<sup>6/</sup> Only a few of AIG’s assets have been sold, and to the extent bids have been made for the major assets, they have been relatively low.

At our meeting, AIG's CRO/CCO informed us that, as a member of the restructuring committee, it was her understanding that after completion of the restructuring plan, the corporate AIG entity would be radically different in size and in function and would control few, if any, of the companies that it controls today. Given this state of affairs, AIG's CRO/CCO viewed her role as ensuring that AIG's business units comply with Company policies until they were no longer part of AIG.

It is against this backdrop, that we assess the progress AIG has made in implementing the January 2009 Work Plan. We set out below each component of our January 2009 Work Plan, AIG's response, and our assessment of that response.

## V. ASSESSMENT OF AIG'S PROGRESS IN IMPLEMENTING THE JANUARY 2009 WORK PLAN

### A. Adequate and Independent Compliance Function

1. "Confirm that compliance function has adequate independence and the need for the independence is communicated to appropriate compliance and business personnel."

**Monitoring:** Review of instructions issued by AIG Corporate Office of Compliance establishing this reporting relationship along with discussions with AIG CCO regarding how it is being implemented and how it is working.

**AIG Response:** AIG provided a memo from its former CEO, Martin Sullivan, to the Group Executive Committee dated April 30, 2008 stating that compliance, legal, risk management, and financial reporting personnel must have a solid line reporting relationship to more senior personnel in their functional area and that such senior professionals are responsible for "managing, leading and developing the professionals in their area[s]" and (2) an email from AIG's General Counsel, Anastasia Kelly, to AIG's CCOs and lawyers dated August 22, 2008 in which Ms. Kelly reiterated that compliance and legal personnel report through the compliance or legal organization in which they reside and that decisions regarding the hiring, firing, and compensation of such personnel reside with compliance and legal supervisors.

Among other things, AIG represented that its CCO reports to AIG's General Counsel, has access to the Company's CEO, and makes regular reports to the RCLC. All AIG compliance professionals report on a solid line basis through the compliance function, and the BUCCOs hire, terminate, and determine compensation for LOC COs with input from local business leaders. According to AIG, its CRO/CCO takes an active role in the year-end evaluations of compliance personnel and requests for new hires and will review the 2009 performance goals of AIG's BUCCOs and LOC COs.

AIG also represented that the CRO/CCO chairs biweekly conference calls with the BUCCOs to address new policies or protocols, share best practices, provide updates regarding issues related to the U.S. government's involvement in AIG and the Company's restructuring, and to discuss other compliance related issues as they arise. In addition, AIG's DCCO, Programs, confers with each BUCCO on a weekly basis. Finally, according to the CRO/CCO, OC personnel are in nearly daily email contact with the BUCCOs who are responsible for overseeing the activities of the LOC COs.

The CRO/CCO reported that AIG was able to deploy its network of compliance and legal personnel throughout the world to contact each of AIG's foreign and domestic regulators to explain the Company's March 2, 2009 announcements. The CRO/CCO expressed the opinion that, but for this outreach effort, a number of AIG's foreign regulators might have responded unfavorably to the Company's announcements and taken restrictive measures against AIG's subsidiaries and affiliates in their regions, which could even have included attempting to seize AIG's assets in the region.

**Assessment and Follow-up:** The CRO/CCO's bi-weekly conference calls with the BUCCOs and AIG's ability to deploy its network of BUCCOs and LOC COs to reach out to its foreign and domestic regulators in a time of crisis suggests that the Company has made progress in establishing more effective reporting relationships between the OC and local compliance operations. These reporting relationships, particularly those between BUCCOs and LOC COs, however, are relatively new and could easily deteriorate. In the recent past, it was not uncommon for LOC COs to report to senior business personnel who ultimately made all decisions regarding the hiring, firing, promotion, and compensation of compliance personnel. This compromised the independence of the compliance function. As business units are reconfigured to be free-standing entities, LOC COs may well be tempted to pay closer attention to the demands of business personnel who were once and might again be their direct supervisors. AIG has made progress in this area, and it is imperative that it maintains that level of corporate involvement and control until the various business units are divested from the Company.

In our November 2008 meeting with compliance personnel, AIG stated that the reporting lines of compliance personnel in some business units had not been formally realigned and that there were no plans to do so during the current crisis. AIG's February 2009 Submission states that, in fact, "[a]ll AIG compliance professionals report on a solid line basis up through the compliance function, and ultimately to AIG's Chief Compliance Officer . . . ." We requested that AIG provide clarification. If some compliance personnel do not report through the compliance structure, we requested that AIG describe what the OC does to ensure that such professionals are able to act with the required degree of independence.



In the March 2009 Submission, AIG informed us that not all compliance professionals report through the compliance function. Since early 2008, the Company has made substantial progress in its efforts to “ensure the complete transformation of reporting lines for each Compliance professional. . .” but AIG has not completed this transformation. AIG informed us that in light of the events of September 2008 and the large number of compliance personnel involved, this project has been put on hold. We understand the difficulty in realigning a large number of people when there is uncertainty about how long they will be with the Company and do not fault AIG for putting the transformation on hold. We also appreciate that the level of interaction AIG described between the OC, BUCCOs, and the LOC COs is an important part of establishing an independent compliance program. However, the Company has not yet provided us with any information regarding the measures it has taken to ensure that compliance professionals, who do not report through the compliance structure, are able to act with the required degree of independence. For example, we do not know if the termination of any compliance person whose reporting relationship has not yet been realigned requires the sign off of the OC. This is an area that we will continue to discuss with AIG.

2. “Confirm that staffing and resources, appropriate under the current circumstances, are in place to perform the necessary compliance functions.”

**Monitoring:** Discussions with AIG Corporate Office of Compliance and review of relevant organization charts.

**AIG Response:** AIG provided us with a (1) Corporate Regulatory and Compliance Organization chart, (2) a “Who to Call” contact list of OC personnel for a number of risk areas, and (3) two charts tracking changes in compliance personnel that are circulated to the BUCCOs on a monthly basis. AIG represented that the CRO/CCO meets regularly with her deputies to review and assess compliance issues as they arise and evolve.

AIG has represented that prior to October 2008 compliance professionals had left the OC, including the Chief Records Officer, the CCO, and the Anti-Corruption Officer. Upon the CCO’s departure, the CRO became AIG’s interim CCO until she was appointed to that position permanently in January 2009. The job responsibilities of the other two professionals were subsequently reassigned. In the fall of 2008, AIG terminated the employment of ten additional compliance professionals in the OC, including the DCCO, Risks,<sup>7/</sup> and the DCCO, Life and Retirement Services. These individuals had responsibilities in the following areas: anti-money laundering (“AML”), Foreign Corruption Practices Act (“FCPA”), code of conduct, employment, investigations, insurance, privacy, training, and risk

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<sup>7/</sup> AIG’s DCCO, Risks, oversaw AIG’s compliance programs for a number of substantive areas, including AML and Foreign Corrupt Practices Act/Anti-Corruption.

assessments. Their responsibilities were subsequently assumed by other compliance professionals in the OC. AIG informed us that no compliance professionals have left the OC since January 2009.

The CRO/CCO reported that OC personnel responsible for overseeing such risk areas as AML, FCPA, privacy, and international trade (including Office of Foreign Assets Control (“OFAC”), anti-boycott, and export controls) have sufficient subject matter expertise in those areas. To the extent that these compliance professionals encounter questions or situations which they believe are beyond their level of competence, they consult with outside counsel, who specialize in particular subject matter areas. The OC relies on outside counsel to provide advice in the antitrust area, rather than identifying in-house personnel to oversee the area.

In addition to their day-to-day responsibilities overseeing compliance at AIG, OC personnel have also been tasked with responding to the significant number of requests from (among others) the Federal Reserve, the U.S. Treasury, and the Congress for documents and information regarding virtually every aspect of the Company’s operations. Because these requests are often very broad and require OC personnel to collect information from a number of business units, we are told that they require substantial time and energy to answer. According to AIG’s CRO/CCO, a number of corporate compliance and regulatory personnel have worked late into the night seven days a week since the fall of 2008 to respond to such requests, while still discharging their day-to-day job responsibilities.

The OC began formally tracking departures of business unit and LOC compliance professionals in November 2008. It is our understanding that the DCCO, Programs, circulates a list of compliance staff changes to the BUCCOs and requests that they inform her of any staffing changes in their operations and identify who will assume the departing compliance professional’s responsibilities. According to the information that AIG has provided to us, eight business unit and LOC compliance professionals have left AIG to date.

Although they have not yet experienced widespread defections in their compliance organizations, AIG’s BUCCOs are working long hours. According to AIG’s CRO/CCO, AIG’s BUCCOs serve as the OC’s main interface with business and compliance professionals in the field and are responsible for ensuring that core compliance functions are performed on a day-to-day basis. Like their counterparts in corporate compliance, AIG’s BUCCOs are also involved in responding to document requests. In addition, they and LOC compliance professionals play a significant role in preparing their business units for sale.

The CRO/CCO expressed the opinion that, although the crisis confronting AIG had forced compliance personnel to work harder than ever before, they had largely risen to the occasion. In her assessment, one of the byproducts

of the crisis, and the scrutiny that accompanies it, has been to heighten BUCCOs' and LOC COs' awareness of the compliance risks that their businesses encounter. She observed this heightened sensitivity during the bi-weekly conference calls with the BUCCOs and in an increased number of inquiries to the OC from the field regarding compliance risks. Despite the fact that AIG's compliance personnel carry a heavy burden, the CRO/CCO expressed the opinion that they were getting the job done.

At the present time, AIG has not provided the following information about business unit and LOC compliance personnel:

- a. the qualifications and training of business unit and LOC personnel,
- b. the extent to which business unit and LOC compliance personnel are tasked with assignments outside their core compliance responsibilities,
- c. the subject matter expertise that may reside at each of the business units or LOCs, and
- d. the OC's assessment of the adequacy of compliance staffing at the business units and LOCs.

According to the OC, subject to the status of AIG's restructuring, the OC will "look to the third or fourth quarter [of 2009] to initiate . . . appropriate survey[s]" to gather this information.

**Assessment and Follow-up:** This is an important and difficult issue. In the course of our initial review of AIG's compliance program in 2007, we found that in a number of locations the compliance staff was assigned duties other than compliance work and as a result did not effectively fulfill their compliance roles. Because of this, we made a specific recommendation that all compliance staff be assigned to do only compliance work.

As AIG has gone through its difficulties, we realize that, both from a recruiting aspect and a work load aspect, satisfying this recommendation will be very difficult. However, the issue remains that AIG needs to have qualified compliance staff in its LOCs to ensure that its basic legal requirements are fulfilled. In our meetings, the CRO/CCO has stated that in some places AIG's compliance staff is qualified and performing very well. However, in some instances, there may be compliance professionals who are not as experienced as, or who have less training than, compliance staff in other regions. Therefore, they need more support from the OC in order to perform at the level expected by the OC. Accordingly, the OC has dedicated significant time and resources, including telephone calls and emails, to supplement the work of compliance staff at those offices. In light of the extraordinary demands already placed on the OC staff, this additional work load creates further strain on AIG's compliance resources.

We have requested that the OC continue to provide us with updates on departures of compliance personnel in the OC and the business units and the LOCs. However, until we receive additional information about the (1) qualifications and training of business unit and LOC personnel; (2) the extent to which business unit and LOC compliance personnel are tasked with assignments outside their core compliance responsibilities; (3) the subject matter expertise that may reside at each of the business units or LOCs; and (4) the OC's assessment of the adequacy of compliance staffing at the business units and LOCs, are unable to assess the adequacy of AIG's compliance staffing at the business unit and LOC level and what, if anything, can be done to remedy any shortfalls.

## **B. Risk Assessment Process**

1. "Confirm that adequate risk assessment process has been performed."

**Monitoring:** Discussion with AIG Corporate Office of Compliance on description of process and review of work product produced from the risk assessment. If necessary, interviews of business unit or local operating company COs about selected issues raised by the risk assessment work product.

**AIG Response:** In response to the January 2009 Work Plan, AIG provided us with, among other things, (1) communications from senior AIG compliance and risk management personnel regarding the OC's and business units' participation in the Risk and Control Self-Assessment ("RCSA") process, (2) excerpts from reports made to the RCLC regarding the interim risk assessment process, (3) materials used in connection with the review of business units with potentially elevated risks for money laundering, FCPA, privacy, and international trade law violations, and (4) risk assessment and subject matter guidance used in the compliance component of the 2008 RCSA process.

The Company represented that as of March 19, 2009 all of its business units and LOCs had submitted compliance risk assessments concerning antitrust, AML, FCPA, international trade, and privacy. Business Unit and LOC compliance officers were responsible for completing the compliance component of the risk assessment and may have received assistance from business, legal, or other groups, such as Human Resources, as needed. According to AIG's CRO/CCO, some compliance personnel, particularly those whose business units were offered for sale during the fall of 2008, expressed consternation and a sense of futility about being required to complete risk assessments. In light of this fact and given the increased demands placed on compliance personnel by the restructuring, the OC is currently evaluating the completeness of the risk assessments and will seek supplemental information from the BUCCOs as necessary. Once the OC has ensured that the risk assessment are complete, it will begin analyzing them.

To the extent that a business unit identifies an area of high risk that has a deficient control, the BUCCO is required to develop a remediation plan to mitigate the identified risk. The OC will “provide support and guidance during the remediation process, as requested.”

**Assessment and Follow-up:** In the course of our review of the RCSA process starting in the Fall of 2008, we found it to be a good process, although, as was noted by AIG, it was a new process and it needed to mature over the next few years. The materials ultimately developed for the compliance portion of the RCSA gave guidance to the people executing the risk assessment to help them discern the nature and level of risks present in their LOCs. We sympathize with the challenges AIG has encountered in getting its LOCs to participate in this process under the current circumstances, but a risk assessment is the foundation of any basic compliance program and has to be done properly.

Based on the information we currently have, we cannot determine the extent to which business personnel participated in the compliance component of the risk assessment and the nature of any such participation. This is an important aspect of the process. Similarly, the information that we have received to date does not permit us to determine whether OC personnel will play an active role in reviewing remediation plans or whether their role will be more reactive, providing guidance to the BUCCOs only when the BUCCOs request it. Our initial recommendations in this area contemplated that the OC would be an active participant in fashioning remediation plans so that there could be subject matter expertise and consistency brought to the remediation plans.

We have requested that AIG provide us with copies of the completed risk assessments. Once we have reviewed the risk assessments, we anticipate the further discussions with OC personnel on this topic.

### C. Compliance Plans

1. “Confirm that policies and procedures have been developed to address global risks as well as any other risks identified in the risk assessments.”

**Monitoring:** Review policies and procedures, determine the scope of dissemination through interview with AIG Corporate Office of Compliance and review of source documentation used to disseminate policies and procedures.

**AIG Response:** In response to the January 2009 Work Plan, AIG provided us with a “screen shot” of the compliance policies and procedures that are maintained on the corporate compliance group’s page on AIG’s intranet. AIG also listed the ten policies that it has issued or revised since our retention in November 2006, the nine policies it believes were close to being finalized prior to the events of September 2008, and the interim compliance

policies that AIG has posted on AIG's intranet. AIG also provided copies of the emails AIG sent to (1) all its domestic employees explaining and providing a link to the Company's Lobbying Policy, (2) its domestic and international employees explaining and providing the Company's Insider Trading Policy and Guidance, and (3) AIG's General Counsel, BUCCOs, and other members of the Global Legal, Compliance and Regulatory Group ("GLCR") announcing the availability of AIG's interim compliance policies and Charitable and Membership Contribution Protocol. The latter email dated January 15, 2009 (the "January 15 Email") provided a link to the policies on the compliance group's page on AIG's intranet and asked the recipients to share the policies with their teams "if possible."

AIG represented that, beginning in the fourth quarter of 2009, mobile training units will conduct onsite training on AIG's interim compliance policies.

**Assessment and Follow-up:** Since our retention, AIG drafted and we commented upon and approved the following:

- a. AIG Code of Conduct,
- b. AIG Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics,
- c. Insider Trading Policy,
- d. Litigation Hold Policy,
- e. Anti-Corruption Policy (FCPA),
- f. Economic Sanctions Policy (OFAC), and
- g. Related Party Transaction Approval Policy.

Prior to the events of September 2008, AIG was working on the following policies, none of which were finalized, but were at various levels of completion:

- a. Regulation BTR Compliance Policy,<sup>8/</sup>
- b. Third Party Engagement Policy,
- c. AML Policy,
- d. Anti-Boycott Policy,

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<sup>8/</sup> It is our understanding that AIG's policies concerning Regulations FD and BTR were substantially complete and close to being adopted as of September 2008. See Section H for further discussion of these policies.

- e. U.S. Export Control Policy,
- f. Global Information Handling Policy,
- g. Antitrust Policy,
- h. Corporate Information Disclosure Policy (relating to compliance with Regulation FD), and
- i. AIG Records Retention Policy.<sup>9/</sup>

AIG has made substantial progress in developing global compliance policies since we began our work in 2006. Prior to that time, many of the areas covered by the list above were not addressed on a global level in any meaningful way by AIG, and the efforts by the LOCs were uneven. It can take significant time to properly develop a global compliance policy in any given area. As AIG was developing its formal global policies, and also when work on those policies was postponed in September 2008, we urged AIG to develop interim policies in key areas to provide some basic guidance to its employees on those topics. AIG drafted interim policies for the areas of export control, AML, antitrust, and anti-boycott. We reviewed those drafts; AIG incorporated our comments, and then posted the interim policies on AIG's website in late December 2008. We find these policies to be adequate controls on an interim basis, particularly if supplemented by local tailoring and implementation controls.

We discussed with AIG the need to disseminate these policies so that all AIG employees are aware of their existence. We cannot determine from the January 15 Email how broadly these policies were distributed beyond AIG's General Counsels, BUCCOs, and other members of the GLCR Group.

To the extent that the OC amends its current policies or develops additional policies or procedures to address a risk identified as a result of the risk assessment or as an outgrowth of an internal investigation into a compliance concern, we have requested the opportunity to review and comment upon them in advance of their being finalized and made available to AIG's personnel.

- 2. "Confirm that policies and procedures are tailored to conform to local legal requirements, where appropriate."

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<sup>9/</sup> Prior to the events of September 2008, we had reviewed and made comments on a Records Retention Policy that was close to finalization. It is our understanding that AIG intends to complete a records retention policy for the Commercial Insurance Group and to provide training on that policy. It is not clear what affect, if any, the creation of AIU Holding, Inc. will have on those plans.

**Monitoring:** Discuss with AIG Corporate Office of Compliance process for determining whether local legal requirements differ from global policies and review tailored policies and procedures.

**AIG Response:** Among other things, AIG provided us with three emails from former OC personnel soliciting comments from BUCCOs, business unit general counsel, and members of the GLCR Group and the IAD regarding AIG's draft AML, anticorruption, and records management policies.

AIG has represented that BUCCOs or LOC COs are responsible for tailoring AIG corporate compliance policies to ensure that they comply with local legal requirements and as appropriate address the needs of particular businesses and product lines. AIG explained that it provided us with its "localized" compliance policies during the course of the review we conducted of AIG's compliance function in preparation for issuing our recommendations in August 2007. The CRO/CCO anticipates that local compliance personnel will find it extremely difficult to tailor global compliance policies given the daily demands placed on personnel and the current corporate environment where divestiture of businesses is either underway or planned in the near future. During the fourth quarter of 2009, the OC intends to evaluate whether, in light of AIG's restructuring, it is necessary for business unit and LOC compliance personnel to continue their efforts to "localize" global compliance policies.

Finally, AIG reported that since September 2008, it has been in weekly and in some cases daily contact with its foreign and domestic regulators and has not received "any feedback regarding material violations of law or material inadequacies of compliance policies or controls."

**Assessment and Follow-up:** We reviewed the locally tailored policies that AIG provided in 2007 as part of our examination and review of its compliance program. Some of the policies, particularly in the AML area, were well-conceived and robustly executed. Other local policies in the AML area and in most other areas were not well done or simply did not exist.

Since the time of our 2007 review, AIG has developed and adopted a number of global policies. While those policies deal for the most part with U.S. legal requirements, it is important for AIG to be aware of and comply with the local legal requirements in the other countries in which it operates. An important aspect of the process of tailoring a global policy to a business unit's local needs is to make sure that the tailored policy does not conflict with the requirements of the global policy. This is part of the important function performed by the OC, the BUCCOs and the LOC COs and helps to ensure that AIG is in compliance not only with US laws but also with the local laws in the jurisdictions where it operates.



While we recognize that AIG has had extensive contact with its regulators since September 2008, it cannot place too much reliance on the regulators' silence as assurance that it has adequate policies in place. Just because no issue has yet arisen since September 2008 does not mean that there is no need for locally tailored policies that are designed to prevent violations of local laws. It is possible that the regulators' silence is merely the product of the fact that no relevant issue has yet arisen that implicates the policy. Once such an issue arises, it would be too late to implement the tailored policy, if it does not already exist.

We are quite mindful of the challenges and demands facing AIG's compliance personnel all over the world. We also understand that it can be difficult to convince employees who are physically removed from AIG's headquarters that these are important issues. However, until AIG has completed its reorganization and divestiture of assets, the Company continues to have an obligation to ensure that its personnel comply with all corporate compliance policies and that those policies are appropriately tailored to comply with applicable local legal requirements.

#### **D. Monitoring of Compliance**

1. "Confirm that controls are in place to monitor compliance with AIG policies."

**Monitoring:** Discussion with AIG Corporate Office of Compliance on how this is accomplished. If necessary, discussions with selected BUCCOs or LOC COs.

**AIG Response:** In its response to our January 2009 Work Plan, AIG provided us with an email and memorandum that accompanied the Global Regulatory and Compliance Group's weekly compliance report (the report itself was not provided). AIG represented that compliance controls are "managed at the Corporate, business unit and local levels to ensure compliance with policy." As an example of corporate monitoring of compliance throughout the organization, AIG pointed to the fact that the OC's AML Program Manager receives and reviews approximately 40 Suspicious Activity Reports each month for "trends and issues" and provides his findings to the business units and LOCs. Prior to the events of September 2008, the AML Program Manager was in the process of obtaining software that would have improved AIG's AML screening; however, that project is currently on hold. The OC's AML Program Manager also provides support, training, and guidance regarding OFAC issues to business unit and LOC personnel.

According to AIG, it is the BUCCOs responsibility to ensure that compliance controls are adequate. For its part, the OC reviews information submitted to it via the "Monthly Reporting Database" on a regular basis. As

discussed above, the CRO/CCO also conducts bi-weekly conference calls with the BUCCOs.

AIG also represented that since 2005 it has undertaken monitoring initiatives and has utilized external consultants and experts “to facilitate as necessary.” In 2006, the OC hired a compliance officer responsible for creating a monitoring program and conducting onsite reviews. This compliance professional, assisted by a compliance professional with experience as a bank examiner, conducted onsite reviews until both individuals left AIG in 2007. In 2008, AIG retained Deloitte to conduct reviews in certain of AIG LOCs. Deloitte conducted one such review before the program was put on hold shortly after the departure of AIG’s former CCO in July 2008. Subsequently, AIG’s CRO/CCO retained PwC to conduct compliance reviews of AIG’s operations of Bermuda and Hong Kong. Although the OC planned additional compliance reviews, such reviews were put on hold in September 2008. AIG will review the need to resume such reviews in the fourth quarter of 2009.

**Assessment and Follow-up:** We appreciate that in the current environment monitoring may need to be a truncated process at the business unit and LOC level. Nevertheless, there is a need to establish some contemporaneous monitoring controls for the key compliance issues at these levels. The onsite monitoring that AIG describes as starting in 2005, only began at some point in 2006 and ended at some point in 2007. It is our understanding that Deloitte’s Rapid Response Team was tasked with conducting in-depth risk assessments at LOCs identified as being at potentially high risk for violations of AML, anti-corruption, OFAC, and privacy laws. While a necessary process, a risk assessment is different than contemporaneous monitoring for compliance with policies and procedures. In any case, AIG has not adequately described the nature or extent of any of these or PwC’s monitoring activities.

It is quite possible that adequate monitoring may be contained in the local controls instituted by the BUCCOs and the LOC COs. These could include, for example, procedures around hiring and managing consultants in foreign countries to ensure compliance with the FCPA or procedures for screening to preventing OFAC violations. However, from the materials provided, it is not clear what business units and LOCs do to monitor compliance. This is an area we will continue to pursue with AIG in order to find a practical solution.

## **E. Escalation of Compliance Issues**

1. “Confirm process for escalation of compliance issues within AIG and process for investigating them.”

**Monitoring:** Review Global Escalation Policy and Investigative Protocols. Interview with Deputy CO for Investigations.

**AIG Response:** In response to the January 2009 Work Plan, AIG stated that it has put the drafting of a Global Escalation Policy and Investigative Protocols on hold. AIG represented that it uses a compliance database to manage the escalation of compliance issues and provided us with (1) the instruction manual for the OC compliance reporting database and (2) emails inviting the BUCCOs to a series of meetings to discuss how matters were to be escalated in the compliance database. The Company also maintains a global regulatory database which it uses to document its interactions with its regulators.

In addition to the information that it receives through the compliance and global regulatory databases about potential compliance issues, AIG receives allegations of potential wrongdoing through (1) reports by business unit personnel, (2) letters to AIG's Board of Directors, (3) the compliance Help Line, and (4) designated email address, mailing address, or facsimile number for making complaints. Since September 2008, approximately 400 complaints were received by the OC's Investigation Group. According to AIG, the vast majority of these matters were customer complaints that were subsequently referred to the appropriate business unit for disposition. Since September 2008, fifteen matters have been investigated by the Investigative Group. According to AIG, the majority of these investigations have been closed, although there are issues open in some investigations that must be resolved before those matters can be closed.

AIG has not appointed a Deputy CCO for Investigations. AIG's DCCO, Implementation, with oversight from AIG's CRO/CCO, evaluates incoming allegations and determines whether an allegation of wrongdoing should be investigated, what the scope of the investigation should be, and who should conduct it. Once responsibility for conducting an investigation has been assigned either to a corporate group within AIG, including AIG's Investigation Group, or to outside counsel, the DCCO, Implementation, and the CRO/CCO receive frequent updates regarding the status of the investigation. Upon completion of an investigation, a report may be prepared, and, if appropriate, AIG's Investigation Group will make recommendations about whether and how the wrongdoer should be disciplined.

As an initial matter, the root cause of a compliance issue is entered into the Monthly Reporting Database by business unit and LOC compliance personnel. The LOC COs may address the root cause of a compliance issue as part of their plan to remediate the problem.

2. **Assessment and Follow-up:** The process that AIG has set out appears to be sound. As described by the CRO/CCO, it provides for the escalation of significant compliance issues to the OC, an independent assessment of whether an investigation needs to be done into the issue, and a determination as to the appropriate resources to be used to accomplish any investigation. We will ask for more clarification concerning whether there is a requirement

to determine the root cause of any significant compliance incident once an investigation has been completed. We may also further discuss the nature and frequency of the various complaints that have merited investigations.

## **F. Implementation of Compliance Program**

1. “Email from Ed Liddy to AIG re-enforcing the need to comply with applicable laws and AIG policies during the reorganization process.”

**Monitoring:** Review email and process for dissemination.

**AIG Response:** AIG stated that it has already “dedicated significant time and resources to satisfying the IC’s requirement that the CEO communicate his commitment to fostering a culture of compliance” through the development of a video and related materials featuring then CEO Martin Sullivan. The Company, however, provided us with a draft of an email from Mr. Liddy and has indicated that it will distribute it within approximately sixty days of March 19, 2009. AIG noted that this communication could be postponed depending on Mr. Liddy’s schedule.

**Assessment and Follow-up:** The publication of the draft email from Mr. Liddy, with a brief addition encouraging employees to contact their compliance officer with any questions, will satisfy this recommendation.<sup>10/</sup> While we recognize that the current crisis has made extensive demands on Mr. Liddy’s time and energy, it is still quite important for him to set the tone at the top of AIG that compliance with all applicable legal requirements, even and especially during these stressful times, is a high priority for the Company. Mr. Liddy has put out a number of communications to the AIG employees since he has come to the Company, covering a range of topics other than compliance. We look forward to the publication of his communication on this topic and hope that it can be done in less than sixty days.

## **G. Disclosure Controls and Procedures**

1. “Develop revised disclosure controls and procedures for filings other than 10Ks and 10Qs.”

**Monitoring:** Review revised disclosure controls and procedures and provide comments as appropriate.

**AIG Response:** AIG has represented that “[t]he revised controls and procedures have been implemented.” According to the Company, however, “formal documentation” will not be available until some time after AIG has filed its 2008 Form 10-K. We look forward to receiving and reviewing this documentation.

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<sup>10/</sup> The video that AIG refers to had a number of production issues which caused AIG to decide not to use it.

## H. Adoption of FD, Insider Trading, and BTR Policies and Procedures

1. “Finalize and adopt policies and procedures, including designation of person or persons responsible for administering programs.”

**Monitoring:** Review policies, procedures, guidance and roll out materials and provide comments as appropriate.

**AIG Response:** AIG provided us with a copy of the Company’s Insider Trading Policy and associated guidance and stated that it has been adopted and posted on the Compliance intranet as of September 2008. According to AIG, its Regulation FD policy, including appropriate procedures, and Regulation BTR policy have been drafted. AIG stated that it has made preparations to provide training to designated individuals on AIG’s Regulation BTR policy. AIG’s Corporate Secretary is responsible for administering AIG’s Insider Trading policy and its FD compliance program.

**Assessment and Follow-up:** We have discussed with AIG the need to revise certain portions of the guidance for its Insider Trading Policy. Specifically, the guidance should (1) include a discussion of the prohibition against trading on material, non-public information about third parties, such as AIG customers and counterparties to potential sales of AIG assets, (2) address the prohibition against “tipping,” and (3) provide clarity regarding certain prohibited and restricted transactions. Although AIG’s Insider Trading Policy discusses the prohibition against trading on material, non-public information about third parties to potential AIG asset sales, we believe that providing this guidance is particularly important under the current circumstances.

We have also advised AIG that given the current situation, it is important that the Company adopt and disseminate a Regulation FD Policy. As we noted above, drafts of both the FD policy and the BTR policy have been completed. It should not be a significant expenditure of resources to adopt and roll-out these policies and related procedures.

## I. Accounting and Financial Reporting Training

1. Ensure that training in accounting, financial reporting, and disclosure obligations is provided for appropriate AIG employees.

**Monitoring:** Review the training materials and methodology for designating trainees and provide comments as appropriate.

**AIG Response:** On August 12, 2008, AIG provided the IC with a memo from its Chief Financial Officer (“CFO”) dated July 25, 2008 (the “Mandatory Participants’ Memo”), designating the following three categories of AIG personnel who are required to participate in accounting, financial reporting, and disclosure training:

- a. Officers, executives, and employees of AIG and its subsidiaries who are involved in accounting and financial reporting functions,
- b. All employees of AIG's legal division with responsibility for or oversight of AIG's accounting, financial reporting, or disclosure obligations, and
- c. Other senior officers and executives of AIG and its subsidiaries, as proposed by AIG and approved by the Consultant.

The Mandatory Participants' Memo also provides that new hires who fall into one of the categories set forth above complete training within 90 days of hire. Existing employees, whose job responsibilities change so that they meet the definition of mandatory participant, must complete training within 90 days of assuming their new job responsibilities. The February 2009 Submission explained that Senior Human Resources and Segment CFOs will be responsible for identifying which new hires and transfers must participate in training.

In November 2008, AIG personnel represented that the Company intends to roll-out web-based training in this area in the first quarter of 2009. They have recently advised us that the date has been changed to the third quarter of 2009.

**Assessment and Follow-up:** The process that AIG has developed to identify the mandatory participants appears to be appropriate, and we assume that it includes all members of the Complex Structured Finance Transaction Committee ("CSFTC").<sup>11/</sup> With the changes that are taking place in the executive ranks of AIG, it will present challenges to keep the lists current as people move to different jobs assignments. In the course of monitoring the process, we should be able to determine whether it can meet the challenges of the changing climate at AIG.

While the process for identifying the mandatory participants has been developed, we have not received a draft of the actual training materials for review. Once we receive them, we can provide our views on their adequacy.

## J. Accounting Policy

1. "Designate Accounting Policy Designees."

**Monitoring:** Review list of designees, their qualifications and instructions.

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<sup>11/</sup> AFRT 01.1 recommends that AIG "ensure that mandatory participants, including members of the Complex Structured Finance Transaction Committee, periodically receive effective training in AIG's Accounting Financial Reporting, and Disclosure Obligations.

**AIG Response:** AIG represented that its restructuring initiative and subsequent sale or other disposition of its assets will result in higher-than-normal staff turnover in every area of the Company including financial reporting. Accordingly, the Company has decided that it will not implement this recommendation until its restructuring and asset sales are complete. AIG stated, however, that there are Accounting Policy personnel in each major business and geographic region. In addition, the Company pointed to additional mitigating controls in place to ensure that these individuals are current on new accounting developments and are able to identify and timely communicate “significant” and “non-standard” transactions, including Quarterly Standard Setter Updates, GAAP Alerts, quarterly global Comptrollers Conferences, and monthly global OAP conference calls.

**Assessment and Follow-up:** This is a topic that we have discussed with AIG on several occasions. While we recognize the mitigating factors AIG has identified and the fact that AIG has an unstable employee base, we nevertheless believe that it should designate a person in each LOC to be responsible for raising issues to the OAP that need that office’s level of review. It will not require AIG to hire anyone or significantly increase the work load of any current employees. It will merely be a process of tasking a person with an accounting/financial reporting background in each office to be a part of a control process to ensure proper accounting treatment of “significant” and “non-standard” transactions. If that person leaves AIG, someone else can be designated to take their place.

2. “Provide additional guidance for the terms “significant” and “non-standard.”

**Monitoring:** Review the guidance and provide comments as appropriate.

**AIG Response:** AIG provided a list of transaction types that are deemed to be “significant” and “non-standard” that is set forth in the Policy and Procedures Statement found at the beginning of AIG’s Accounting Policy Manual. In addition, AIG identified the mitigating controls that are in place to define transactions as “significant” and “non-standard.” These controls include the presence of OAP personnel in various regions throughout the world and in the Company’s significant business operations, Quarterly Standard Setter Updates and Comptrollers Conferences, and monthly OAP conference calls. In addition, OAP participates in “Sunrise” and “Sundown” meetings with senior financial management and PwC. According to the Company, these measures are sufficient to ensure that “significant” and “non-standard” transactions are identified and brought to the attention of OAP in a timely fashion.

**Assessment and Follow-up:** While the basic scope of AIG’s efforts in this area are good, we recognized a gap that we recommended be closed. AIG informed us that the financial reporting for credit default swaps (“CDS”) had been viewed as very standard and thus was not identified as the kind of “significant” and “non-standard” transaction that needed to be reviewed by

OAP. AIG ended up having a material weakness in its valuation process for its CDSs that had an impact on its financial reporting. In normal times, with normal, active markets, CDSs were easily valued, and therefore were not viewed as “non-standard” transactions. However, when that market fell apart, and there were no readily available marks to use to value the CDSs and the underlying instruments, this became very “non-standard,” and the valuation process related to those instruments that affected financial reporting should have been reviewed by OAP. Given the magnitude of harm that can occur if “significant” and “non-standard” transactions are not correctly identified, we continue to believe that it is important that AIG provide additional guidance in this area. The Company has agreed to discuss this matter with us.

3. “Develop revised Sarbanes-Oxley Certification to include language that all OAP guidance has been recorded.”

**Monitoring:** Review revised certification and provide comments as appropriate.

**AIG Response:** AIG revised its Sarbanes-Oxley (“SOX”) Section 302 certification in the third quarter of 2008 to include language that all OAP guidance has been recorded.

**Assessment and Follow-up:** The language added to the SOX Section 302 certification is consistent with the language we discussed with AIG’s CFO and is sufficient as an assertion of Standard Internal (“SI”) reporting management. As a result, AIG has completed this interim recommendation subject to two consecutive quarters of monitoring.

Depending on the future course of AIG, a more pro-active control may be appropriate at some point in the future.

## **K. Control Environment**

1. “AIG has indicated that it is revising its SAB 99 policy and procedure.”

**Monitoring:** Review revised policy and provide comments as appropriate.

**AIG Response:** AIG provided a copy of its revised SAB 99 policy and procedure, dated January 22, 2009.

**Assessment and Follow-up:** The Company’s original policy was that all SAB 99 issues must be reported to Corporate regardless of materiality. During the 2Q/2008 Comptrollers Quarterly Meeting (“2Q Meeting”), changes were proposed to streamline the SAB 99 reporting process. These changes included applying a materiality threshold for certain SIs before



reporting corrections up to Corporate.<sup>12/</sup> AIG originally intended that this revised reporting threshold apply only to those SIs that did not have local material weaknesses or significant deficiencies, however, in December 2008 it decided to apply it to all SIs.

We believe these materiality thresholds are appropriate for a corporation the size of AIG and will now monitor this policy for two consecutive quarters.

#### L. Legal Contingencies

1. AIG indicated that it planned to memorialize its process for performing the “Two-way Test” for completeness in its policy.

**Monitoring:** Review procedures and provide comments as appropriate.

**AIG Response:** AIG represented that the Corporate Litigation Department reviews the Company’s Schedule 53s and prepares a memorandum based upon its review. This memorandum is subsequently forwarded to Corporate Comptrollers which conducts its own review of the Schedule 53s, thereby conducting the “Two-way Test.” This process is memorialized in every quarterly Schedule 53 memo prepared by the Corporate Litigation Department.

2. **Assessment and Follow-up:** Since commencement of our monitoring phase and even prior to that, we have recognized that the Company was performing the “Two-way Test” for completeness. Our best practice recommendation and monitoring focused on memorializing in Company policy the process involved in performing the “Two-way Test.” In light of the current resource constraints on AIG, we are satisfied that the Company is properly applying the “Two-way test,” and it need not engage in a memorialization of this in its policy at this time.

#### M. Monitoring Completion of Accounting Policy (“AP”) Recommendations

1. **AP 2.1** Review documentation to verify that the Director of Accounting Policy (“DAP”) continues to be a voting member of the CSFTC, the Financial Statement Disclosure (“FSD”) Committee, and the AIG Derivatives Committee.

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<sup>12/</sup> Under the revised SAB 99 policy, business units should report SAB 99 entries to Corporate based on the following dollar limits, if a

- Misstatement changes the pre-tax income by \$2 million and over;
- Misstatement changes a balance sheet or income statement ECO journal entry line for an individual quarter by \$25 million and over.

**AIG Response:** AIG represented that at least one representative from OAP is present at meetings of the CSFTC, FSD Committee, and AIG Derivatives Committee. In the case of the CSFTC, Finance reviews the pre-meeting materials and attends if there are accounting policy issues.

**Assessment and Follow-up:** Since at least May 2008, AIG's Accounting Policy Manual has required that the DAP be a voting member of the CSFTC, FSD Committee, and the AIG Derivatives Committee. AIG has represented that an OAP representative attends all of these committee meetings. More specifically, with respect to the DAP's participation at CSFTC meetings, it is our understanding that the DAP reports to AIG's CFO. Pursuant to the CSFTC's Policy and Procedures, "[t]ransaction approval requires a simple majority of the entire committee that must include the Chief Risk Officer, the General Counsel, and Chief Financial Officer." Although the DAP does not attend all meetings of the CSFTC, we believe that in light of these safeguards and given the current constraints on AIG's resources, this recommendation may be considered complete.

2. **AP 12.1** Review Accounting Policy Manual to determine if the "Investments in Cost & Equity Method Investments" Policy has been updated.

**AIG Response:** AIG is in the process of updating the entire Accounting Policy Manual. The revised manual will update AIG's "Investments in Cost & Equity Method Investments" Policy. AIG will provide the revisions once they are complete.

**Assessment and Follow-up:** The Company has noted that they are in the process of updating the Accounting Policy Manual and will complete this process after the filing of the 2008 Form 10-K. We will wait for completion of this process to review the Accounting Policy Manual to ensure that the "Investment in Cost & Equity Method Investments" policy has been updated.

3. **AP 14.1** Holding of quarterly comptrollers meeting

**Assessment and Follow-up:** AIG held a Quarterly Comptrollers meeting in December 2008. We have reviewed the content of the meeting and have determined that AIG has satisfied this recommendation for two consecutive quarters, and it is completed.

4. **AP 21.3** Evaluation of issues to the Audit Committee – Review documentation and determine its sufficiency.

**AIG Response:** The OAP provided a summary of the process used to elevate issues to the Audit Committee.

**Assessment and Follow-up:** Based on the materials provided by AIG, it appears that OAP has a good procedure for disseminating the Tracking List to all members of the OAP for comment.

We have not received documentation that demonstrates that, after OAP comments have been reflected in the Tracking List, it is circulated to Segment CFOs, extended Accounting Policy personnel, Corporate Tax, IAD, and key Comptrollers personnel in the business units and certain functional departments for review as a final control for completeness. We will discuss this further with AIG.

**N. Monitoring Completion of Control Environment (“CE”) Recommendations**

1. **CE 1.2** Review documentation evidencing training on the SAB 99 policy and procedures.

**AIG Response:** AIG held webcast training sessions on the revised SAB 99 policy and procedures on December 16 and 17, 2008. The SAB 99 training manual, posted on the Comptrollers Information Portal, was updated to reflect the new policy and procedures.

**Assessment and Follow-up:** The Company provided an email supporting that two web-cast training sessions were offered on December 16 and 17, 2008 and provided us with access to Comptrollers Information Portal which permitted us to determine that the SAB 99 training manual had been made available to the appropriate personnel. AIG has satisfied this recommendation for two consecutive quarters and is completed.

**O. Monitoring Completion of Derivative Hedge Accounting (“D”) Recommendations**

1. **D 7.1** Monitor that for purposes of performing the prospective and retrospective assessments of hedge effectiveness, the risk management strategy requires historical changes in fair values of the hedged item and hedging instrument obtained from a data sample that is consistent with the intended duration of the hedge.

**D 7.2** Confirm that the prospective and retrospective tests for effectiveness are stated in the Company’s accounting for derivatives and hedging activities policy.

**D 8.1** Confirm that AIG still has in place a centralized function that is responsible for overseeing that the application of FAS 133 by non-AIG-FP entities is performed in a controlled manner that is consistent with GAAP.

**Assessment and Follow-up:** Based on our review, AIG continues to have in place the policies and controls that existed in our last two reports. Accordingly, these recommendations have been satisfied for two consecutive quarters and are completed.

**P. Monitoring Completion of Logical Access Controls (AC) Recommendations**

1. **AC 2.1** Establish a Project Management Office to oversee the implementation of the Logical User Access Policy

**Assessment and Follow-up:** AIG continues to have a Project Management Officer in place to oversee the implementation of the Logical User Access Controls. Therefore, this recommendation has been satisfied for two consecutive quarters and is completed.

**Q. Monitoring Completion of Income Tax (IT) Recommendations**

1. **IT 1.1** The Company's corporate Tax Department should be a centralized tax oversight function that operates in both a compliance and control capacity.
2. **IT 5.1** The corporate Tax Department should have a pre-approved list of qualified income tax service providers from which LOC CFOs can choose.

**Assessment and Follow-up:** AIG continues to have in place the policies and controls that existed in our last two reports. Accordingly, these recommendations have been satisfied for two consecutive quarters and are completed.