Joseph W. St. Denis

October 4, 2008

Henry A. Waxman, Chairman
Thomas M. Davis III, Ranking Member
House of Representatives
Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Waxman and Ranking Member Davis:

I am providing this letter in response to the Committee's subpoena in lieu of a deposition per agreement with Committee staff. The staff has provided questions, which are addressed below.

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<u>Question 1:</u> *Briefly describe your professional history.*

I received a B.A. and M.B.A. from the University of Colorado at Boulder, and have been a licensed Certified Public Accountant in Colorado since 1993. I began my career as an auditor in the Denver office of Coopers & Lybrand. I served as a Staff Accountant and later as an Assistant Chief Accountant in the Division of Enforcement of the United States Securities and Exchange Commission from 1998 to 2004.

<u>Question 2:</u> *What was your position at AIG?*

I served as Vice President of Accounting Policy at AIG Financial Products ("AIGFP") from June 2006 through October 1, 2007. My responsibilities included documenting the accounting for AIGFP's proposed transactions, and building consensus around that proposed accounting with my accounting policy counterparts at AIG's Financial Services Division ("FSD") and Corporate Office of Accounting Policy ("OAP"). Additionally, I served initially as a resource, and ultimately as a member, of AIGFP's Transaction Review Committee, which was responsible for evaluating and documenting the accounting for proposed transactions by customers of AIGFP[1].

[1] My understanding was that the Transaction Review Committee, or TRC, was formed in response to the Interagency Statement on Sound Practices Concerning Complex Structured Finance Activities. The TRC

My understanding was that the position was created 1) as part of an entity-wide effort to address material weaknesses cited by AIG's auditor, 2) to address the desire on the part of FSD and OAP for greater visibility and control with respect to the operations and accounting policy process of AIGFP and, 3) to provide an on-site resource for AIGFP business people as they developed proposed transactions.

<u>Question 3:</u> *What were your duties as Vice President for Accounting Policy?*

My duties as Vice President for Accounting Policy were to research and document AIGFP's accounting policy issues and conclusions through a rigorous process of consensus building with my corporate counterparts at AIG, Inc.'s Financial Services Division ("FSD") and Office of Accounting Policy ("OAP"). The process of building consensus around AIGFP's complex accounting issues followed the progression below for material and/or unusual transactions:

a) Meet with business people at AIGFP responsible for the proposed transactions to gain an understanding of the transaction and identify potential accounting and financial reporting issues:

b) Prepare a memorandum describing the proposed transaction and documenting the analysis and disposition of accounting and financial reporting issues;

c) Share the memorandum with the CFO of FSD. Discuss and clear any review comments and resolve any new issues identified at this level of review, and update the draft to reflect FSD's review;

d) Share the updated draft with OAP. Discuss and clear any review comments and resolve any new issues, and update the draft to reflect OAP's review and signoff. Upon signoff by OAP, the documentation was complete, unless AIG's auditor, PricewaterhouseCoopers ("PwC") identified new issues or suggested changes that all the parties agreed should be made;

e) Provide relevant conclusions to appropriate operational personnel within AIGFP for implementation;

f) Share the final memorandum with the PwC auditors; and

g) Revisit previous conclusions arrived at through the above process and update related documentation as necessary.

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included Joseph Cassano, President; Doug Poling, General Counsel and later head of the Transaction Development Group; Pierre Micottis, Chief Risk Officer; and others at various times.

The above process did not necessarily involve intermediate review of accounting analyses by AIGFP personnel. The CFO of AIGFP generally did not review my work product unless he had specifically requested it, nor, to my knowledge, did Joseph Cassano, president of AIGFP. My understanding of my role, as noted above, was in large part to provide a control point and window for FSD and OAP into the operations and accounting policy process for AIGFP transactions. This understanding was confirmed through numerous conversations with senior managers within FSD and OAP.

Question 4: *What dates were you employed by AIG?*

I was employed at AIGFP from late June of 2006 through September 30, 2007. During this entire period, I worked out of the Wilton, CT office of AIGFP.

Question 5: *To whom did you report?*

I initially reported to Mark Balfan. Upon Mr. Balfan's transfer to the consulting position of "Transitional CFO" in January 2007, I reported to William Kolbert, Executive Vice President and Chief Administrative Officer. Mr. Balfan's successor as CFO started on September 10, 2007, and I reported to her briefly prior to my resignation on October 1, 2007[2].

Functionally, I reported to the leaders of the Marketing and Transaction Development groups at AIGFP, and to the senior financial managers of FSD and OAP.

Question 6: *What was your relationship with Joseph Cassano?*

My relationship with Mr. Cassano was one of employer and employee. Until the late summer of 2007, I had very minimal contact with Mr. Cassano. Beginning in early 2007, I replaced Mark Balfan on AIGFP's Transaction Review Committee, which met briefly twice per month to, as noted above, review the accounting by AIGFP's customers in proposed transactions. Mr. Cassano also participated in this committee.

Question 7: *How was your performance rated and when?*

I received two "formal" performance evaluations at AIGFP. The first was in mid-December of 2006, in connection with the awarding of my 2006 bonus. This evaluation

[2] As detailed below, I resigned on September 9, 2007, but withdrew that resignation on September 10. My final resignation was effective at 8 a.m. on October 1, 2007.

was with Doug Poling, then Chief Administrative Officer; and Mark Balfan, then CFO of AIGFP. During this evaluation I was told that senior management of AIGFP thought that I was a "fantastic hire," and they were "thrilled" to have me as an employee. I was awarded a bonus that exceeded the guaranteed amount by $50,000, or 15%. According to Mr. Poling, "this [was not] supposed to happen," but my outstanding performance had warranted it.

I received the second evaluation in June of 2006, from AIGFP President Joseph Cassano and William Kolbert, then Chief Administrative Officer. During this evaluation, Mr. Cassano told me that I was "doing a great job," and that I "should continue to work closely with [FSD] and OAP." Mr. Cassano told me that AIGFP's relationship with AIG was AIGFP's "most important asset," and that my position was "critical" to that relationship.

<u>Question 8:</u> *Prior to your departure, did AIG initiate a review of the valuation of AIG's Super Senior Credit Default Swaps portfolio? What was your role? Did you have any concerns about this?*

Historically, my understanding was that the Super Senior Credit Default Swaps ("SSCDS") portfolio had been accounted for at market value, in conformity with Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives and Hedging Activities* ("SFAS 133"), as amended. Prior to the credit market turbulence in the late summer of 2007, it was my understanding that AIGFP's SSCDS portfolio was in an aggregate unrealized gain position. However, as there was no active market for these bespoke instruments, recognition of a day-one gain on these instruments would not have been in conformity with FASB Emerging Issues Task Force Issue No. 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* ("EITF 02-3"). Therefore, no mark-to-market adjustments were made to these instruments through the quarter ended June 30, 2007. My understanding was that the instruments were monitored for significant *deterioration* through the use of a "value at risk" ("VaR") model that tracked movements in credit ratings for the underlying collateral.

As the credit crunch began to unfold in July and August of 2007, and with the planned implementation of SFAS 157, *Fair Value Measurements* (which superseded parts of EITF 02-3), effective January 1, 2008, the attention of the senior financial management in AIG, Inc.'s FSD and OAP turned to the valuation of AIGFP's SSCDS portfolio.

Upon returning from a vacation in early September of 2007, I learned that AIGFP had received a multi-billion dollar margin call on certain SSCDS. I was gravely concerned about this, as the mantra at AIGFP had always been (in my experience) that there could *never* be losses on the SSCDS. I was questioning this mantra in light of the margin call, as were the professionals in FSD and OAP, in my belief. I am not an expert in the valuation of derivatives, but I was concerned that the valuation model of at least one of AIGFP SSCDS counterparties apparently indicated that AIGFP was in a potentially material liability position.

Despite my position and FSD's and OAP's interest in the issue, I had no involvement with efforts to value AIGFP's SSCDS portfolio. This was, in my understanding, due to the actions of Mr. Cassano to exclude me from the SSCDS valuation process. During the final week of September of 2007, the final week of my employment at AIGFP, in a meeting with Mr. Cassano, the newly hired CFO of AIGFP, and an AIGFP quantitative risk expert, Mr. Cassano made the following statement to me:

"I have deliberately excluded you from the valuation of the Super Seniors because I was concerned that you would pollute the process."

My belief is that the "pollution" Mr. Cassano was concerned about was the transparency I brought to AIGFP's accounting policy process.

My understanding is that sometime during the late summer or early fall of 2007, AIGFP executive and Credit Risk personnel began an effort to develop a so-called "Binomial Expansion Technique" ("BET") model to provide valuations for the SSCDS portfolio that would reflect ongoing credit market developments. I had no involvement in this process whatsoever, other than attending a meeting held during the last week of September of 2007, a few days before I resigned, during which the BET model was discussed. My knowledge of the process was gained solely from my attendance at this meeting. AIG's Controller, Director of Internal Audit, and Director of OAP attended this meeting, held at AIGFP's Wilton office. During this meeting, Mr. Cassano had one of the Risk Management people distribute a PowerPoint presentation that purported to show the application of the BET model to AIGFP's SSCDS portfolio and represented to the assembled group that the SSCDS portfolio continued to be in an aggregate unrealized gain position.

<u>Question 9:</u> *What precipitated your resignation?*

I resigned because on multiple instances beginning in the late summer of 2007, Mr. Cassano took actions that I believed were intended to prevent me from performing the job duties for which I was hired. One such instance involved AIGFP's investment in Tenaska, a natural gas storage and distribution operation in Omaha, NE.

In December 2006, I traveled to Omaha to perform pre-transaction accounting due diligence and immediately identified errors in Tenaska's hedge accounting. I communicated these findings to AIGFP's senior management, specifically Doug Poling and Mark Balfan, and to Tenaska. Tenaska told me that it would fix these problems prior to the effective date of the merger. In June of 2007, I went back to Tenaska and found that it had not corrected the problems. Again I reported these findings to Poling and

Balfan. At the time I left AIGFP, it was my understanding that Tenaska had indeed corrected the issues, but I left before I was able to verify this.

During August of 2007, Mark Balfan pulled me out of a meeting with Doug Poling and brought into AIGFP's HALO room where Mr. Cassano was on from London. Mr. Cassano berated me for several minutes for going to Tenaska and finding the problems. He shouted obscenities at me, and seemed especially angry with Elias Habayeb, the CFO of FSD, whom he repeatedly referred to in disparaging language. The source of Cassano's anger was, in my understanding, a list of "closing issues" that Mr. Habayeb had prepared relating to third quarter issues. At one point Mr. Cassano held up the list and shrieked, "I've bent over backwards for this [expletive deleted] and still I get these [expletive deleted] lists!!" Mr. Habayeb had expressed interest in my findings at Tenaska, which was not surprising to me given that it was his job to make sure that AIGFP's accounting followed GAAP, and an error in Tenaska's financial results would be carried through to AIGFP's financial statements through the equity pickup. Mr. Habayeb had included the item "Tenaska hedge accounting" on the list, apparently to prompt him to follow up. Mr. Cassano told me in no uncertain terms during this session that I worked for him, not FSD or OAP. Doug Poling, Mark Balfan, and William Kolbert also attended this meeting.

This was the first time Mr. Cassano had expressed criticism of any of my close working relationships with FSD or OAP. As previously noted, during my evaluation with Mr. Cassano in June of 2007 two months earlier, Mr. Cassano had told me that I was "doing a great job," and that I should "work closely with [AIG]." He also volunteered during this meeting in June 2007, which was also attended by William Kolbert, that he had "no desire to be promoted, because it would separate [him] from the money," and that AIG's corporate management was "scared to death" of him.

Another instance occurred in early September of 2007. While on vacation in Puerto Rico, I began receiving emails from the credit traders in London asking me for assurances that AIGFP would not have to consolidate the Nightingale structured investment vehicle ("SIV") if AIGFP were to purchase all of the outstanding debt of the vehicle. This was the beginning of the Credit Crunch, and the SIV could not roll its paper. I said no; I could not make such assurances, as this would likely be a reconsideration event under FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* ("FIN 46(R)"), and the expected gain/loss model, originally formulated in late 2006,would have to be revisited. Upon return from my vacation, I began conversations with one of the quantitative risk experts at AIGFP and an accountant in OAP to evaluate this reconsideration event.

Also upon return from my vacation, I found a new organizational chart on my desk. It indicated that I would report to the controller of AIGFP going forward. I felt this to be a change that was designed to isolate me from OAP and FSD accounting policy personnel, as I believed that the controller would require all communications with OAP and FSD to go through him. The change also represented a substantial demotion, as I had previously been a peer to the controller. This, in addition to the episode described above regarding Tenaska, placed me in a conflicted position in that I believed that there was a rapidly escalating level of interference in my communications with OAP and FSD. Further, I believed that this interference represented a fundamental departure from the terms of the position I had agreed to undertake in June of 2006.

For these reasons, I resigned on Sunday, September 9, 2007. I was contacted on Sunday by William Kolbert and told that the organizational chart was the result of a "clerical error[3]" and that I would report to the new CFO, who was to start on Monday, September 10, 2007. I was also told that no one was trying to control or interfere with my communications with FSD and OAP. I agreed to meet and discuss potentially staying at AIGFP on Monday morning, September 10.

I came into AIGFP on Monday morning and discussed the situation with Mr. Cassano, again in AIGFP's HALO room. Mr. Cassano assured me during this meeting that I would have unfettered access to corporate going forward, although he insisted that going forward I should skip the step involving Elias Habayeb and go straight to OAP. "Elias is NOT an accounting policy person," he said. I decided to give it one more chance. I had moved my wife and myself from Washington, DC to Connecticut and now had a substantial investment of time in AIGFP. I had also put a lot of effort into building relationships with the business people at AIGFP and the accounting policy people at OAP and FSD. Given Mr. Cassano's assurances that I would have unfettered access to AIG, Inc. going forward, as well as the fact that by resigning, I was potentially walking away from a substantial guaranteed bonus (which was never paid to me), I agreed to return to work.

Two weeks later, on the morning of Tuesday, September 25, 2007, I was at my desk on a conference call when Mr. Cassano walked up. He appeared to be agitated. He asked me where the "SIV analysis" was, and told me that he had been asking for it for three weeks. I did not recall his ever having asked for the SIV analysis, although, as indicated above, I had been working on it with the AIGFP business people and with OAP. I indicated to Mr. Cassano that I was to have a conference call with an accountant in AIG's OAP at 10:30 that morning to discuss it. Mr. Cassano glared at me and walked off.

At 10:30 I had the call with OAP as planned. Also on the call at AIGFP were an AIGFP quantitative expert and the new CFO of AIGFP. The call went well, and we agreed that the quantitative expert would rerun the Monte Carlo analysis for the SIV with the new assumptions implied by the reconsideration event. (I had found out after I returned from vacation that AIGFP had already purchased much of the outstanding debt of the SIV.) At the time of my resignation, the evaluation of the SIV reconsideration event had not been signed off by OAP.

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[3] I spoke later in the day to Mark Balfan, who told me that he had "told those guys that when Joe sees the org [organization] chart, he's going to resign." This indicated to me that the organization chart was not a "clerical error."

The instant the call was over, Mr. Cassano burst into the conference room we were in. He appeared to be highly agitated. "What the [expletive deleted] is going on here?" he asked. I replied: "We've just finished a call with OAP, they agree with our approach…" Mr. Cassano cut me off and shouted several expletives regarding the OAP person we had spoken to on the call.

This was after I had told him earlier about the call with this individual, one of the highly experienced accountants in OAP. Mr. Cassano shouted at me for several minutes, and then said, as previously noted: "I have deliberately excluded you from the valuation of the Super Seniors because I was concerned that you would pollute the process."

I finished out a very busy week that included attending the meeting referenced above with the controller of AIG during which the topic of AIGFP's SSCDS valuation was discussed.

Over the weekend I had time to reflect, and determined that I believed Mr. Cassano's actions to be inconsistent with the terms we had agreed to in our HALO room meeting on September 10. I could not continue in light of what I perceived to be Mr. Cassano's efforts to isolate me from OAP and FSP personnel, and in light of Mr. Cassano's decision to exclude me from the valuation of the SSCDS portfolio.

On Monday morning, October 1, 2007, I called Bill Shirley, general counsel of AIGFP, and re-submitted my resignation. My message to Mr. Shirley was that I had lost faith in the senior-most management of AIGFP and could not accept the risk to AIG and myself of being isolated from corporate accounting policy personnel, especially given the situation with the SSCDS.

<u>Question 10:</u> *Did you speak to anyone within AIG about the reasons for your departure? Describe these communications?*

Subsequent to my resignation, in October of 2007, AIG's Chief Auditor, Michael Roemer, contacted me. Mr. Roemer told me that he wanted to understand the reasons for my departure, and that he would report those reasons to AIG, Inc.'s Audit Committee. I had intended to write a detailed memorandum to AIG, Inc's Audit Committee, but decided to speak to Mr. Roemer in lieu of writing the detailed memorandum. I spoke telephonically to Mr. Roemer for approximately an hour during the latter half of October. I related the events described above to Mr. Roemer, including the proximate cause of my resignation – e.g. Cassano's statement that he had excluded me from discussions relating to the valuation of AIGFP's SSCDS.

When I related this to him, Mr. Roemer stated that I had been "painted into a corner" by Mr. Cassano and had no choice but to resign. In addition to Mr. Roemer, the PwC engagement partner on AIGFP also contacted me to inquire as to my reasons for leaving AIGFP. I had a similar, though much higher-level conversation with him. I did not get into specific conversations with the PwC engagement partner. I did, however, relate to him that I had left because of what I perceived to be Mr. Cassano's efforts to impede my communications with my counterparts at the parent organization.

<u>Question 11:</u> *How were bonuses awarded in AIG Financial Products? What is your understanding of the arrangement between AIG Corporate and AIG FP regarding the calculation of AIG FP's annual bonus pool?*

I had no access to payroll records or any compensation-related materials. The following is based on my experience and conversations with other AIGFP employees. My understanding is that bonuses were paid in cash in late December of each year, based on results through November 30. For "highly compensated" employees, my understanding is that salaries were capped at $125,000 per year, and that bonuses could be substantial – in some cases running to eight figures. It was also my understanding that certain portions of some employee's bonuses were deferred.

My bonus for 2006 was $375,000, and I never received my contractually guaranteed bonus for 2007 of $325,000.

My understanding of the arrangement between AIGFP and AIG regarding the bonus pool was derived wholly from conversations with other AIGFP employees. This understanding was that for each dollar of AIGFP's operating earnings – which excluded certain GAAP accruals, such as mark-to-market adjustments on derivative positions – AIGFP received 30 cents, which went to AIGFP's bonus pool.

<u>Question 12:</u> *Do you have any concerns about the accuracy of AIG's public disclosures regarding its swaps portfolio?*

I have not reviewed all of AIG's public disclosures regarding its SSCDS portfolio subsequent to my departure from AIGFP, and do not feel that it would be appropriate to comment on their accuracy.

That said I have been shocked at the speed at which the losses in AIGFP's SSCDS portfolio have apparently developed. There are two things that I would note:

1. In my understanding and experience, AIG has always been a staunch defender of its assets. As an outside observer, it has struck me as odd throughout the SSCDS crisis that AIG was apparently unable to defend itself from claims on those portions of the SSCDS that were written on subprime collateral. It is common knowledge that underwriting standards on subprime loans had deteriorated dramatically, even going back to the earlier vintages. Given this, I have been surprised that AIGFP apparently either did not write the SSCDS contracts to provide exclusions for collateral that was

non-compliant with prudent underwriting standards, or has been ineffective at enforcing such exclusions. Having never reviewed a SSCDS agreement, I cannot answer the question, but I would ask management, "how did this happen?"

2. I believe that certain statements made by Mr. Cassano and other senior AIG managers in the early stages of the SSCDS crisis were ill-advised. Specifically, statements made at the December 5, 2007 Investor Meeting that characterized margin calls that AIGFP had received from its SSCDS counterparties as lacking a legitimate basis, especially given the apparent state of AIGFP's valuation models, were statements that I would not have made or condoned. I believed at the time of the Investor Meeting and continue to believe that full disclosure of margin calls by, and resulting collateral postings to, AIGFP's SSCDS counterparties was of critical importance.

Sincerely,

Joseph St. Denis