

Financial Scam? Pressure to reveal major AIG counterparties grows

By [Alistair Barr](#) and [Greg Robb](#)

Global Research, March 05, 2009

MarketWatch 5 March 2009

Region: [USA](#)

Theme: [Global Economy](#)

Some suggest fees for firms that got billions of dollars from insurer's bailout

SAN FRANCISCO (MarketWatch) — *Calls increased Tuesday to reveal the financial institutions that got almost \$40 billion in collateral from American International Group shortly after the government first bailed out the insurer last year.*

[AIG 0.36, -0.07, -15.6%](#)) almost collapsed in September after ratings agency downgrades triggered demands for billions of dollars in extra collateral from firms that had bought derivative-based protection from the insurer on complex mortgage-related products known as collateralized debt obligations, or CDOs.

AIG didn't have that much money and faced bankruptcy. But it was saved by an \$85 billion emergency loan facility from the Federal Reserve.

By Nov. 5, the insurer had paid out \$37.3 billion of that money to counterparties who had purchased a certain type of derivative-based protection from AIG called multi-sector credit-default swaps, according to the company's third-quarter regulatory filing.

Since then, AIG and the Federal Reserve Bank of New York have unwound most of these contracts. To do this, they offered to buy the CDOs that were originally insured by the agreements. The counterparties sold these assets at a discount, but were compensated in full in return for allowing AIG to extricate itself from the obligations. The counterparties also got to keep the \$37.3 billion in collateral, according to The Wall Street Journal.

The counterparties have never been disclosed publicly. However, banks that sought and received collateral from AIG included Goldman Sachs ([GS](#):

GS

Now that the government's bailout of AIG has ballooned to more than \$160 billion, some politicians want to know which financial institutions benefited from taxpayer support provided to the insurer.

"AIG has given the counterparties \$20 billion. Those people could be just about anybody in the world. Why won't the Fed disclose who those are?" Sen. Ron Wyden, D-Ore., asked Fed Chairman Ben Bernanke during congressional testimony on Tuesday.

Bernanke said the counterparties made "legal, legitimate, financial transactions" with AIG

and presumed at the time that the contracts would remain private.
“That is a consideration we have to take into account,” he added.

Sen. Mark Warner, D-Va., suggested that AIG’s counterparties should have to take a “haircut,” rather than be made whole, because some of them probably didn’t do enough due diligence on whether the insurer was financially strong enough to be selling such protection. “In effect, what we’re saying is, consequently, folks who bought these instruments and that, at some point in their process, should have been doing some level of credit analysis of what AIG was selling who didn’t do that credit analysis are going to still come out whole for their lack of appropriate due diligence or responsible behavior,” he said.

“I’m as unhappy as you are about that, senator,” Bernanke replied. “I just don’t know what to do about it.”

Full disclosure of all AIG’s CDS counterparties isn’t needed, but the major counterparties that benefited from government support of the insurer should be disclosed and a fee should be assessed “for the benefit their shareholders received from the U.S. taxpayer,” Joshua Rosner, a managing director at research firm Graham Fisher & Co., said Tuesday.

“If the government’s AIG support provided protection to Goldman to the tune of \$20 to \$25 billion, then shouldn’t they pay the taxpayer something for the utility expense of that protection?” he added.

Goldman has said several times that its exposure to AIG isn’t material and is offset by collateral and hedges. A spokesman for the firm reiterated that on Tuesday, but declined to comment further.

An AIG spokeswoman said Tuesday that the insurer hasn’t disclosed its major CDS counterparties and that the information is confidential.

The insurer’s portfolio of credit default swaps was still notionally worth \$302.2 billion at the end of 2008, despite government-supported efforts to aggressively unwind it during the fourth quarter.

AIG estimated Monday that another downgrade by ratings agencies would trigger \$8 billion in collateral and termination payments to counterparties on these contracts.

Some of AIG’s CDS give counterparties another right to terminate the contracts if the insurer’s ratings fall to BBB or Baa2. The notional value of these derivatives was more than \$38 billion at the end of 2008. [See full story.](#) ■

Alistair Barr is a reporter for MarketWatch in San Francisco. Greg Robb is a senior reporter for MarketWatch in Washington.

The original source of this article is MarketWatch
Copyright © [Alistair Barr](#) and [Greg Robb](#), MarketWatch, 2009

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: **Alistair Barr** and
Greg Robb

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca