



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

October 4, 2012

The Honorable Christy L. Romero
Special Inspector General
for the Troubled Asset Relief Program
1801 L Street, NW, 4th Floor
Washington, D.C. 20036

Re: Treasury Response to SIGTARP AIG Recommendation

Dear Ms. Romero:

I am writing in response to your recent letter to Secretary Geithner recommending that the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System (the Board of Governors) recommend to the Financial Stability Oversight Council (the Council) that it designate American International Group (AIG) for supervision by the Board of Governors and enhanced prudential standards under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). We appreciate your interest in the implementation of the Dodd-Frank Act, and we agree that the designation of nonbank financial companies is an important part of that process.

Section 113 of the Dodd-Frank Act sets forth specific standards and considerations for designations by the Council of nonbank financial companies. In evaluating whether a firm meets the standards, the Council is required to consider each of the ten considerations listed in the statute. To establish a uniform and transparent process, the Council issued a rule and interpretive guidance on April 3, 2012, that details the analytic framework that the Council intends to follow. Immediately thereafter, the Council began evaluating nonbank financial companies using the three-stage process described in the rule and interpretive guidance.

In the first stage, the Council applies six quantitative thresholds to a broad group of nonbank financial companies to identify companies that the Council will evaluate further. In the second stage, the Council analyzes the companies identified in Stage 1 using a broad range of available information, primarily through existing public and regulatory sources. In the third stage, the Council contacts each company that the Council believes merits further review in order to collect information that was not available in the prior stages. Each company in the third stage is provided an opportunity to submit material to the Council.

Council members and their staffs are in the process of analyzing an initial set of nonbank financial companies for potential designation. On September 28, 2012, the Council voted to advance certain nonbank financial companies to the third stage of the review process.

The Council is undertaking further analysis of these companies before voting on any proposed or final designations. The Council approaches each designation on a company-specific basis, because each company may present a different type of potential threat to financial stability. As noted in its interpretive guidance, the Council does not intend to announce publicly the names of any nonbank financial companies that are under evaluation prior to final designation. On October 2, however, AIG disclosed on its website that it had received a notice from the Council that it “will be reviewed in Stage 3 of the [designation] process.”

Your letter states that Treasury should recommend that the Council designate AIG “to protect taxpayers who invested TARP funds into AIG.” Your letter also states that taxpayers are still “on the hook for \$3.5 billion in AIG.” As you may know, however, that figure is no longer accurate. On September 14, 2012, Treasury completed a sale of approximately \$20.7 billion of AIG common shares. Given that transaction, the combined \$182 billion commitment by the Treasury and the Federal Reserve to stabilize AIG has now been fully recovered, along with a positive return of \$15.1 billion to date. Treasury still holds AIG common shares worth more than \$7 billion at current market price, the sale of which will provide an additional overall return for taxpayers.

Regardless of Treasury’s stake in AIG, the Council must make its designation determinations based upon the statutory criteria that Congress set forth in the Dodd-Frank Act and in accordance with the process described in the Council’s rule and interpretive guidance. Your letter cites certain public statements regarding AIG, your previous reports, and the company’s financial disclosures. Treasury will consider this information as we continue to evaluate nonbank financial companies for potential designation. Of course, if you have any additional analysis that may be helpful, we urge you to share it.

Thank you for your letter. Please let us know if you would like to discuss these issues further.

Sincerely,



Timothy G. Massad
Assistant Secretary for Financial Stability