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**Interim Report of the  
Independent Consultant  
to American International Group, Inc.**

**April 10, 2008**

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## **I. INTRODUCTION**

Pursuant to the Consent and Undertaking of American International Group, Inc. (“AIG” or “Company”) in Securities and Exchange Commission v. American International Group, Inc., No. 06 Civ. 1000 (LP) filed on February 17, 2006 (the “Consent”), the Agreement between the Attorney General of the State of New York (the “Attorney General”) and AIG and its subsidiaries dated January 18, 2006, and the Stipulation between the Superintendent of the Department of Insurance for the State of New York (the “Superintendent of Insurance”) and AIG dated January 18, 2006, AIG was required, among other things, to retain an Independent Consultant to conduct a comprehensive examination and review of a number of areas related to its operations as described more fully below.

On November 16, 2006, AIG retained James M. Cole, a partner at Bryan Cave LLP (“Bryan Cave”), to serve as the Independent Consultant (the “Independent Consultant” or “IC”). His mandate under the Consent is fourfold: (1) to conduct a comprehensive examination and review of certain areas of AIG’s operations; (2) to issue a report setting forth recommendations regarding best practices in the areas specified in the Consent; (3) to design a procedure for implementing the best practice recommendations; and (4) to oversee AIG’s implementation of the best practice recommendations.

## **II. THE EXAMINATION AND REVIEW**

### **A. Subject Matter and Goals**

Under the Consent, the Independent Consultant is required to conduct an examination and review of eight specific areas of AIG’s operations: (1) AIG’s internal controls over financial reporting; (2) the organization and reporting structure of AIG’s Internal Audit Division (“IAD”) and AIG’s Disclosure Committee; (3) the policies, procedures, and effectiveness of AIG’s

regulatory, compliance, and legal functions, including the operations of any committees established to review and approve transactions or for the purpose of preventing the recording of transactions or financial reporting results in a manner inconsistent with Generally Accepted Accounting Principles; (4) AIG's records management and retention policies and procedures; (5) the adequacy of whistleblower procedures designed to allow employees and others to report confidentially matters that may have bearing on AIG's financial reporting obligations; (6) AIG's training and education program;<sup>1/</sup> (7) corporate governance reforms implemented by AIG's Board of Directors; and (8) the adequacy and effectiveness of AIG's remediation plan relating to its internal controls over financial reporting.

To conduct this examination and review process, as well as to assist him in overseeing the creation of implementation plans and overseeing AIG's implementation of those plans, the Independent Consultant enlisted Bryan Cave attorneys with the expertise in the appropriate subject matter areas and engaged consultants from Eisner LLP, Huron Consulting Group Inc., and Tiller Consulting Group, Inc. Each substantive area was then assigned to one of the following teams to facilitate the examination, reporting, implementation, and monitoring processes required under the Consent: Compliance, Records Management, Corporate Governance, and Remediation (collectively "the IC Teams"). Broadly speaking, the examination and review of each IC Team consisted of three steps. First, the IC Teams obtained an understanding of the current status of AIG operations applicable to their assigned subject matter areas. Second, the IC Teams compared the current status of AIG's operations to industry

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<sup>1/</sup> As specified in paragraph 4.D.2 of the Consent, AIG was to "establish and maintain a training and education program, completion of which will be required for (a) officers, executives, and employees of AIG and its subsidiaries who are involved in the oversight of accounting and financial reporting functions; (b) all employees in 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 . . . ."

standards using guidance such as that prepared by the Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board, and the Committee of Sponsoring Organizations of the Treadway Commission. The IC Teams’ professional experience in each applicable area was also utilized in this process. Finally, the IC Teams developed best practice recommendations. As noted in the Recommendations of the Independent Consultant to American International Group, Inc. dated August 31, 2007 (the “August 2007 Report”), some of the recommendations encompassed policies, procedures, and controls that AIG had stated were already in place. These recommendations were nevertheless included in the IC’s August 2007 Report and in subsequent IC reports to ensure the monitoring of their continued application at AIG.

### **III. BEST PRACTICE RECOMMENDATIONS**

In accordance with timelines that were agreed to by AIG, the SEC, the Attorney General, and the Superintendent of Insurance, the Independent Consultant submitted the first set of best practice recommendations pursuant to the Consent on August 31, 2007. These recommendations covered the structure and process of AIG’s compliance function, the eight remediation work streams identified by AIG in its 2004 year-end audit, a review of the training program AIG implemented as part of the Consent, the organization and reporting structure of AIG’s Disclosure Committee, and the organization and reporting structure of IAD. The August 2007 Report also contained the Independent Consultant’s determination that it was appropriate to rely on the attestation and report of AIG’s independent auditor, PricewaterhouseCoopers, LLP, on management’s assessment of the effectiveness of AIG’s internal control structure and procedures pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.<sup>2/</sup>

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<sup>2/</sup> This was a specific option afforded to the IC by Paragraph 4.A.1.a.i of the Consent.

On September 14, 2007, the Independent Consultant issued recommendations regarding AIG's records management and retention policies and procedures. On September 30, 2007, the Independent Consultant issued his final set of recommendations concerning the substantive areas of the compliance program, AIG's whistleblower provisions, and corporate governance reforms.

In developing the recommendations, the IC did not write specific policies, procedures, and controls for AIG. Rather, he set forth the basic issues that the Company should consider and the basic components that should be included in its policies, procedures, and controls. In this way, the recommendations provided AIG with guidance on how to proceed in the relevant areas, while still allowing the Company sufficient flexibility to design and implement policies, procedures, and controls that are its own. These policies, procedures, and controls will be subject to the IC Teams' review during their development, but the IC believes that AIG's knowledge and experience should be utilized to develop policies, procedures, and controls that are suited to the industries and countries in which AIG does business.

#### **IV. COMMENT PERIOD**

The Consent requires that, within 45 days of receiving the Independent Consultant's recommendations, AIG advise the IC and the staff of the SEC of any recommendations that it considers unnecessary or inappropriate and to propose in writing an alternative policy, procedure, or system designed to achieve the same objective or purpose as the Independent Consultant's original recommendation. The Consent obliges AIG and the IC to make a good faith effort to reach an agreement regarding disputed recommendations within 90 days of the issuance of the Independent Consultant's recommendations. If AIG and the IC are unable to agree upon an alternative proposal, pursuant to the Consent, AIG is to abide by the Independent Consultant's recommendations.

Starting just before the issuance of the recommendations, the IC provided AIG personnel with a draft of the recommendations and engaged in series of discussions with them about the proposals. This was done to gain the insights and benefit from the experience and perspectives of senior AIG personnel concerning its operations.

Following the issuance of the recommendations, the IC continued these discussions with AIG to make sure that the recommendations were practical and, more importantly, would accomplish the goals set out in each area. Because some of the recommendations represented a significant change from AIG's prior structure and practices, there were numerous discussions between the IC and AIG personnel and management concerning the areas calling for a more centralized reporting structure and the creation of a regional compliance function. These discussions were productive and clarified the rationale for many of the recommendations. Other than a few minor modifications to the recommendations on which the IC and AIG agreed,<sup>3/</sup> AIG accepted all of the recommendations as originally issued.

## **V. IMPLEMENTATION PLANS**

In order to have an orderly process for implementing these recommendations, AIG was asked to submit for the IC's review implementation plans for each set of recommendations. Each plan set forth detailed implementation steps for accomplishing each recommendation. A total of 42 plans were submitted covering the recommendations issued by the IC. Because of the extensive nature of some of the recommendations, a number of these plans required detailed discussions to make sure that the implementation steps would accomplish the objectives set out

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<sup>3/</sup> The language of Paragraph 2 of Corporate Governance Recommendation 1 was revised to now read, "For AIG's Corporate Governance Guidelines, By-laws, Certificate of Incorporation, Charters of the Committees of the Board and all policies and procedures approved by the Board, an office or department shall be designated to periodically evaluate whether it is achieving its intended objectives and whether it is being applied consistently." Accounting Policy Recommendations 15, 16, and 21 have been modified to make clear that they cover accounting not only for transactions, but also for any other type of accounting issue (e.g., valuations) that may not be the result of a specific transaction.

by the recommendations. The IC Teams were also concerned that the implementation steps be specific enough that they could be monitored in a meaningful way. As of the date of this Report, all but five of the implementation plans have been approved by the IC Teams.<sup>4/</sup>

The next step in the process was to have AIG provide a realistic schedule for the completion of the implementation steps. The IC has asked AIG to develop, not only a time frame for completion, but also a time frame for the commencement of the implementation steps. The reason for this is that a number of the recommendations may require the completion of other recommendations before they can be started. Some recommendations may compete for resources with other recommendations and have to be prioritized. Some recommendations may need to be coordinated with other AIG projects that are separate from those covered by the IC's recommendations. The goal is to develop a realistic time table for the implementation of the recommendations that will be effective but avoid disrupting the operations of AIG any more than is necessary. The IC Team is currently in the process of reviewing the proposed commencement and conclusion dates for the implementation plans.

In order to meaningfully evaluate AIG's progress in implementing the recommendations, the IC is working with AIG to assign a relative weight to each of the implementation steps. Some of the steps are perfunctory and, while their accomplishment is necessary, their completion will not materially advance the implementation of the recommendation. Other implementation steps are quite significant and will form the major portion of achieving the recommendation's objective. For example, if an implementation plan contained two steps calling for AIG to (1) develop a policy in a certain area and (2) publish that policy to all of its employees, those two steps were not viewed as having equal weight. Clearly, the development of the policy would be

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<sup>4/</sup> Work is still being done on the Records Management Plan, the Operational Risk Management Risk

a more significant aspect of the implementation and should be accorded more weight. For the IC's monitoring purposes, it will be important to track how much AIG has accomplished in its efforts to implement the recommendations.

## **VI. MONITORING**

Because the areas covered by the recommendations are diverse and the nature of the specific recommendations is varied, the IC's monitoring of their accomplishment will need to be appropriately tailored. Some of the implementation steps are straightforward and easily verified by factual examination. Others are complex and qualitative and will require a level of subjective evaluation to determine whether AIG has adequately addressed that particular component of the recommendation. For example, where AIG is asked to disseminate a policy, it will be a relatively simple matter to determine whether the policy was disseminated by reviewing e-mail records or memorandum addressees. On the other hand, in evaluating whether AIG has successfully realigned certain reporting relationships, the IC's monitoring process may need to include, not only a review of relevant organization charts, but also interviews with AIG personnel in order to determine whether the relevant reporting relationships have, in fact, changed and to evaluate whether the modified reporting relationships are having the intended effect. Similarly, in evaluating AIG's completion of implementation steps, such as those involving the creation of policies, procedures, and controls, the IC will have to ensure that the policies, procedures, and controls adequately deal with the compliance or other risks that they are intended to address.

As discussed in the August 2007 Report, each best practice recommendation is designed to achieve a stated objective. The purpose of linking each recommendation to an objective is to

help ensure that the IC's monitoring processes focus, not only on assessing whether or not AIG has implemented a specific implementation step tied to a specific recommendation, but also on determining whether implementation of the recommendations is, in fact, achieving the desired objectives. If, during the monitoring process, the IC determines that a specific recommendation does not result in achieving the desired objective, the IC reserves to ability to modify, add, or eliminate implementation steps or even specific recommendations. If that happens, the IC will work with AIG to modify the corresponding implementation plan.

## **V. REPORTING**

The IC intends to issue his next report in May 2008. This report will focus on verifying AIG's representations regarding its completion of certain best practice recommendations and implementation steps. As discussed above, AIG has represented, particularly in connection with the eight remediation work streams, IAD, and the Disclosure Committee, that it has already accomplished certain of the Independent Consultant's best practice recommendations. In addition, AIG has informed the Independent Consultant that it has already satisfied some implementation steps related to the Independent Consultant's other best practice recommendations. The Independent Consultant has requested, and AIG has agreed to provide, documentary and other evidence supporting such representations. The IC Teams will evaluate this evidence and, to the extent necessary, conduct additional procedures to verify AIG's assertions. If the Independent Consultant agrees that AIG has satisfied all or a portion of a best practice recommendation, the IC's Report in May 2008 will note the fact.

After issuing the May 2008 Report, the Independent Consultant will then issue reports every three months on AIG's progress towards implementing each of the recommendations. These reports will be made approximately thirty days after AIG files its quarterly and annual

reports on its financial statements with the SEC. This reporting schedule will permit the IC Teams, particularly the Remediation Team, to review AIG's financial reports and the reports of its independent auditors. The Independent Consultant will use the information in these documents to help him evaluate AIG's progress in implementing the recommendations and to assess whether the best practice recommendations are achieving their goals.

The IC's report will provide a *completion score* and a *status indicator* on AIG's progress towards implementing each best practice recommendation. The completion score represents the percentage of the recommendation that AIG has accomplished. It is calculated based on the IC's assessment of whether, and to what extent, AIG has implemented the recommendation. As discussed above, these implementation steps have been individually weighted based on the implementation step's relative importance to satisfying the overall recommendation. The status score will be based on the "commencement" and "target completion" dates of the implementation steps that the Company provided to the Independent Consultant. The Independent Consultant will evaluate whether each implementation step is completed and, if not completed, whether the step is (1) on schedule, (2) not scheduled to start, or (3) behind schedule. The IC's report will also include a comment field that will permit the Independent Consultant to provide additional information, as needed, about the completion score and status indicator accorded to each recommendation.